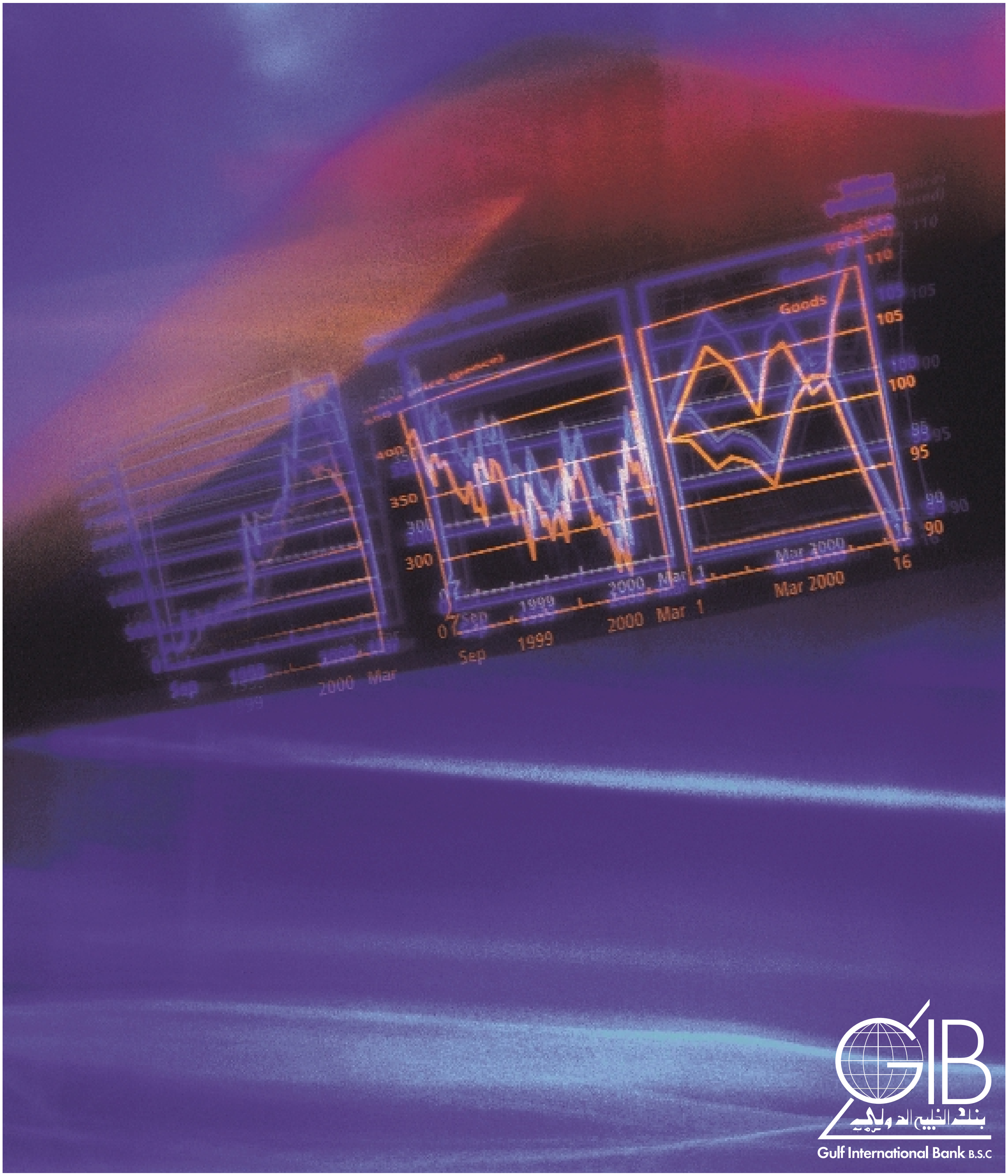
Gulf International Bank



Gulf International Bank is a wholesale commercial and investment bank based in Bahrain. It is majority owned by Gulf Investment Corporation (GIC) [the international investment banking corporation owned equally by the governments of the six member states of the Gulf Cooperation Council (GCC) – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates], the Saudi Arabian Monetary Agency (SAMA) and J.P. Morgan Overseas Capital Corporation.

The Bank's primary focus is on the GCC market and the associated trade and financial flows between this region and the rest of the world. Target clients include major indigenous private-sector corporations, Gulf-based financial institutions, multinational companies active in the region and the governments of the GCC states themselves. Its subsidiary, Saudi International Bank, the branches in London, New York and Riyadh, and representative offices in Abu Dhabi, Beirut and Singapore assist in servicing this client base. GCC market knowledge, expertise in its industries, extensive product skills, international reach and a commitment to excellence are distinguishing features of the Bank.

2 Financial Highlights

	1999	1998*	1997*
Earnings (US$ millions)			
Net Income after Tax	**67.6**	82.1	86.4
Net Interest Revenue	**139.6**	115.3	109.6
Other Income	**77.4**	49.2	54.0
Operating Expenses	**109.9**	52.9	46.7
Financial Position (US$ millions)			
Total Assets	**15,679.4**	10,209.0	9,523.9
Loans	**4,038.0**	4,000.7	3,478.7
Trading Securities	**535.8**	139.6	192.1
Investment Securities	**5,451.4**	3,229.6	3,047.0
Shareholders' Equity	**1,137.7**	731.0	693.9
Ratios (%)			
Profitability			
Return on Average Shareholders' Equity	**6.5**	11.2	12.5
Return on Average Assets	**0.5**	0.8	0.9
Capital			
BIS Risk Asset Ratio			
- Total	**12.2**	11.9	12.7
- Tier 1	**10.9**	10.7	11.4
Shareholders' Equity as % of Total Assets	**7.3**	7.2	7.3
Loans as a multiple of Equity (times)	**3.5**	5.5	5.0
Asset Quality			
Loans as % of Total Assets	**25.8**	39.2	36.5
Securities as % of Total Assets	**38.2**	33.0	34.0
GCC Country Risk as % of Total Assets	**24.4**	34.0	25.8
GCC & OECD Country Risk as % of Total Assets	**92.6**	86.6	84.4
Liquidity			
Liquid Assets Ratio	**71.3**	59.1	61.6
Deposits to Loans Cover (times)**	**3.0**	2.2	2.3

** Deposits include Term Financing

Long-Term Debt Ratings			
BankWatch	**A -**	A -	A -
Moody's	**Baa2**	Baa2	Baa2
Standard & Poor's	**BBB+**	BBB+	BBB+

*** GIB only**

Net Income After Tax	95	96	97	98	99
US$ millions	**89.8**	**94.5**	**86.4**	**82.1**	**67.6**

Total Assets	95	96	97	98	99
US$ millions	**8,433**	**8,983**	**9,524**	**10,209**	**15,679**

Shareholders' Equity	95	96	97	98	99
US$ millions	**603**	**653**	**694**	**731**	**1,138**

4 Board of Directors

H.E. Abdulla H. Saif
Chairman
Minister of Finance & National Economy
State of Bahrain

Dr. Khaled Al-Fayez
Vice Chairman
Chief Executive Officer
Gulf Investment Corporation
State of Kuwait

Bader Abdullah Al-Rushaid Al-Bader *
Chairman & Managing Director
Kuwait Investment Company
State of Kuwait

Saker Dhaher Al-Moraikhi
Consultant
Office of the Minister
Ministry of Finance, Economy & Commerce
State of Qatar

Dr. Hamad S. Al-Bazai *
Deputy Minister for Economic Affairs
Ministry of Finance & National Economy
Kingdom of Saudi Arabia

Saud Nassir Al-Shukaily
Acting Director General of Revenue & Investments
Ministry of Finance
Sultanate of Oman

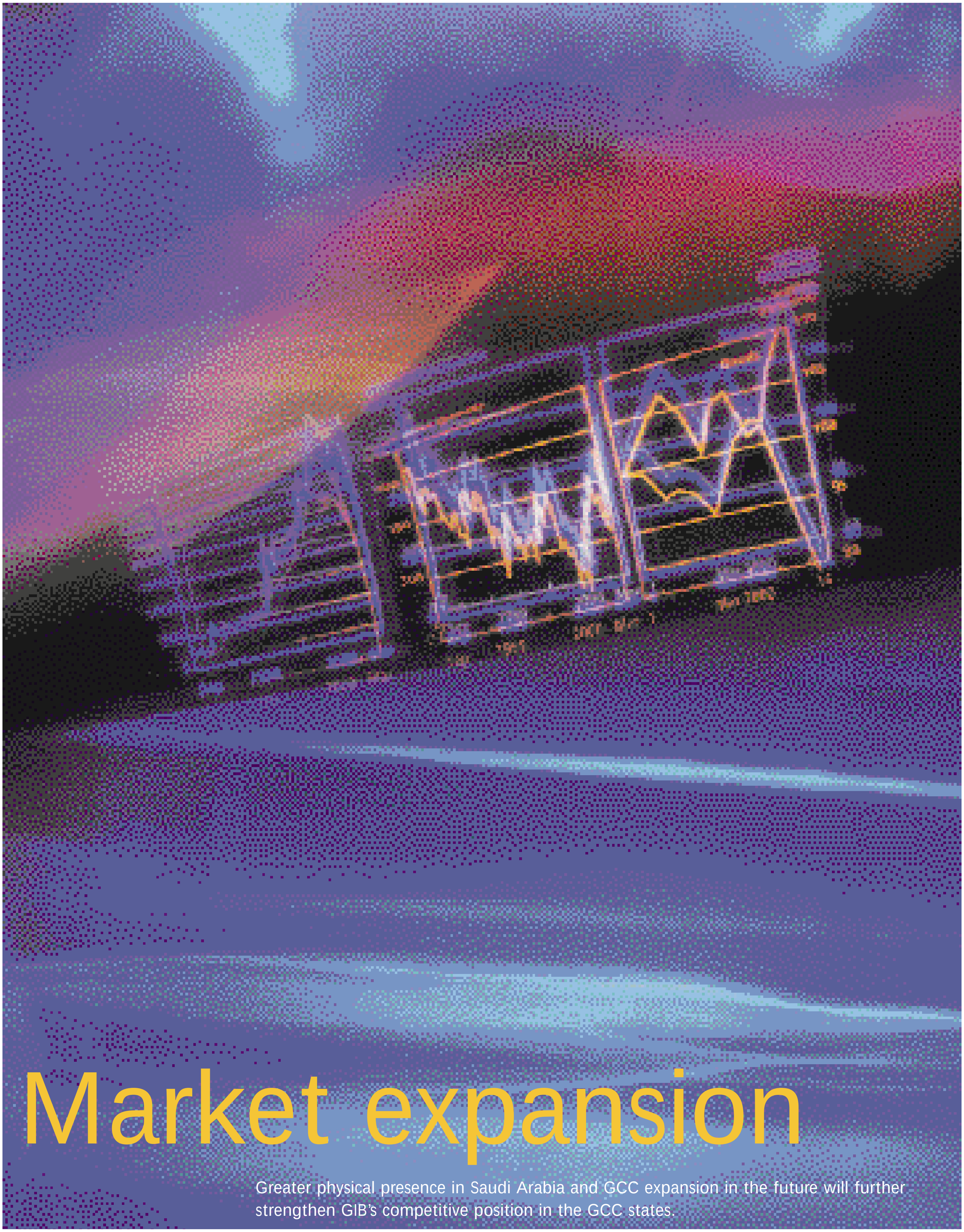
Mohammed Bin Saif Al Shamsi *
Industrial Property Directorate
Ministry of Finance & Industry
United Arab Emirates

Dr. Yahya A. M. Al-Yahya
Advisor
The Governor's Office
Saudi Arabian Monetary Agency
Kingdom of Saudi Arabia

Rashid Ismaeel Al-Meer *
Assistant Under-Secretary for Financial Affairs
Ministry of Finance & National Economy
State of Bahrain

Robert J. McGinn
Managing Director
J.P. Morgan Overseas Capital Corporation
United Kingdom

* Audit Committee Members



Market expansion

Greater physical presence in Saudi Arabia and GCC expansion in the future will further strengthen GIB's competitive position in the GCC states.

6 Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the twenty-third annual report of Gulf International Bank (GIB) for the year ended 31st December 1999. In 1999, Gulf International Bank acquired Saudi International Bank (SIB). We are now a Banking Group, and this is our first opportunity to report consolidated year-end results.

Abdulla H. Saif
Chairman

During the year, the GIB Group generated a consolidated operating profit before exceptional charges of $93.8 million, representing a 15.0 per cent increase over the 1998 comparable result for GIB only. However, consolidated net income after deduction of restructuring costs in connection with the integration with SIB and an exceptional charge arising from the harmonisation of an accounting policy following the SIB acquisition was $67.6 million compared to prior year income for GIB alone of $82.1 million. Consolidated Total Assets rose to $15.7 billion in 1999 from $10.2 billion at the end of 1998. The substantial year-on-year increase was principally attributable to the merger with SIB. Shareholders' Equity increased to $1.1 billion to represent 7.3 per cent of Total Assets. The Bank's consolidated BIS and BMA capital adequacy ratios of 12.2 per cent and 13.1 per cent respectively were well above the regulatory minimum requirements. Consistent with our prudent approach towards financial management, the estimated financial costs of the acquisition were fully incorporated in the 1999 financial results.

Following the completion of the merger on 8th April 1999, the Bank's shareholder structure comprises, Gulf Investment Corporation with a shareholding of 72.5 per cent, and the Saudi Arabian Monetary Agency and J.P. Morgan Overseas Capital Corporation with shareholdings of 22.2 per cent and 5.3 per cent respectively. Since the merger, there has been a high level of activity. Not only has GIB been planning for the physical and operational integration of the two institutions, but has also implemented a number of joint initiatives with SIB to develop customer-related business – with positive results.

The integration of two highly successful institutions is a challenge. It is much more than just combining organisational charts. It is about bringing people together and combining resources to make this new entity greater than the sum of its parts. Our goal is to have one bank that feels, acts and looks as one bank. The change will not be dramatic but will lead to realignment of the structure of certain business units in GIB and SIB during the first half of 2000. We are dedicated to ensuring that GIB and its customers reap all the benefits that can be expected from combining a rich portfolio of commercial and investment banking products and services. The combined resources of GIB and SIB will enhance the Bank's position as the leader in the financial services sector in the region. The ability to provide an effective service to meet our customers' needs will be enhanced by the opening of GIB's first GCC branch in Riyadh, Saudi Arabia during the second quarter of 2000. These strategic initiatives will provide GIB with a stronger platform for growth than it has ever had before and will enable the Bank to effectively address the challenges of the future.

Our core business activities continue to be linked with the main economic activities of the Gulf region. GIB provides lending to public bodies and private sector institutions, medium-term project finance, corporate finance, asset management, international trade finance, Islamic banking and treasury operations. As a result of its diversified business portfolio the Bank will benefit significantly from the many opportunities anticipated in the GCC economies. The GCC states continue to diversify their economies. Privatisation strategies are being implemented, particularly within the telecommunications, transportation and power industries. In addition, many family-owned companies are making plans that will require restructuring and funding. GIB is determined to take the fullest advantage of the available opportunities and continue to build and strengthen its relationships with customers in the region and internationally.

A number of deals were undertaken during 1999, which underline GIB's expertise in arranging project finance transactions in all sectors of the economy. Two major deals in which GIB was lead arranger and underwriter were awarded projects of the year by Project Finance International. These were a $750 million financing for Q-Chem in Qatar and a $578.5 million landmark Taweelah A-2 facility in the United Arab Emirates. GIB's leading role in these substantial transactions further confirms the Bank's position as the leading indigenous bank for project finance in the Middle East.

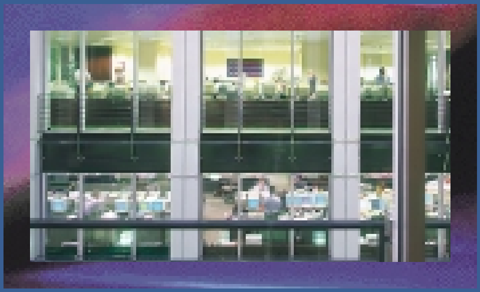
Internally, much was achieved in 1999. GIB has significantly enhanced its banking and risk management systems. These enhancements, coupled with the Y2K issue (that, happily, was not an issue), have meant much upgrading of our IT systems. Since IT is such an indispensable tool for everything we do, these upgrades bode well for our future activities.

As a result of all this, the main international rating agencies have reaffirmed GIB’s position and reputation. Indeed, GIB was assigned a new long term investment grade rating of BBB+ by Fitch IBCA in the early part of 2000, affirming the high ratings assigned by the other international rating agencies. The ratings reflect the Bank’s strong business franchise within the GCC, asset quality, capitalisation and strong financial condition.

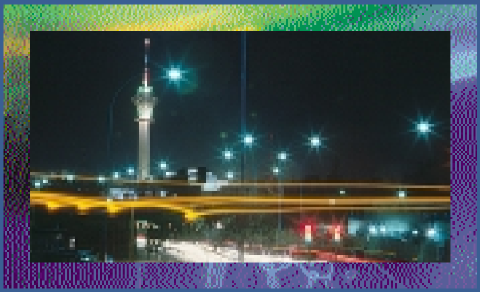
In conclusion, I extend my gratitude to the Board for their unfailing support and far-sighted guidance. The impressive progress made by the Bank in many areas and the successful merger with SIB is a tribute to GIB’s highly skilled, hard-working management and staff.

On behalf of the Board of Directors, I would like to express sincere thanks to my predecessor as chairman, Mr. Ibrahim Abdul-Karim, and to our previous Board Members, Mr. Saleh A. Alnaim, Mr. Hussain M.H. Al Saleh and Mr. Hisham A. Razzuqi, in appreciation for their contributions throughout their term of office which led to the positioning of GIB as one of the leading banks in the Arab world. We are well set to meet the challenges and opportunities of the third millennium.

Abdulla H. Saif
Chairman



Saudi International Bank
A London-based investment bank.



Riyadh Branch
The first non-local bank operation in Saudi Arabia

Arab Maritime Petroleum Transport Company
Innovative financing schemes are continuously developed not only in shipping but also in the fields of oil and gas, power and water, aviation, and petrochemicals.

Emirates CMS Power Company
The Taweelah A-2 facility in the United Arab Emirates is the first privatised independent power and water project in the Gulf region.

1999 was a historic year for Gulf International Bank (GIB) in its continuing growth as a robust and innovative financial institution. It witnessed the merger of GIB and Saudi International Bank (SIB), which has presented the GIB Group with exciting opportunities for the new millennium. Following the capital restructuring and issuance of new shares, the GIB Group's issued and fully paid share capital has increased from $450 million to $1.0 billion, and as a result of the acquisition of SIB, the shareholding structure has changed.

Gulf Investment Corporation continues to be the majority shareholder with two new shareowners, the Saudi Arabian Monetary Agency and J.P. Morgan Overseas Capital Corporation.

The Bank has an excellent record of success, and with its high profile involvement in government and private sector projects, it is ideally placed to take full advantage of the opportunities arising from significant investment in a variety of projects in the Gulf region and internationally.

With the opening of the Riyadh branch in Saudi Arabia, GIB has further enhanced its reputation. This demonstrates the strong support for the Bank from the GCC governments and the continued high level of confidence with GIB, which in turn reinforces the trust of its many clients with whom it has developed close and supportive professional relationships.

Corporate Banking

Project Finance and Syndications

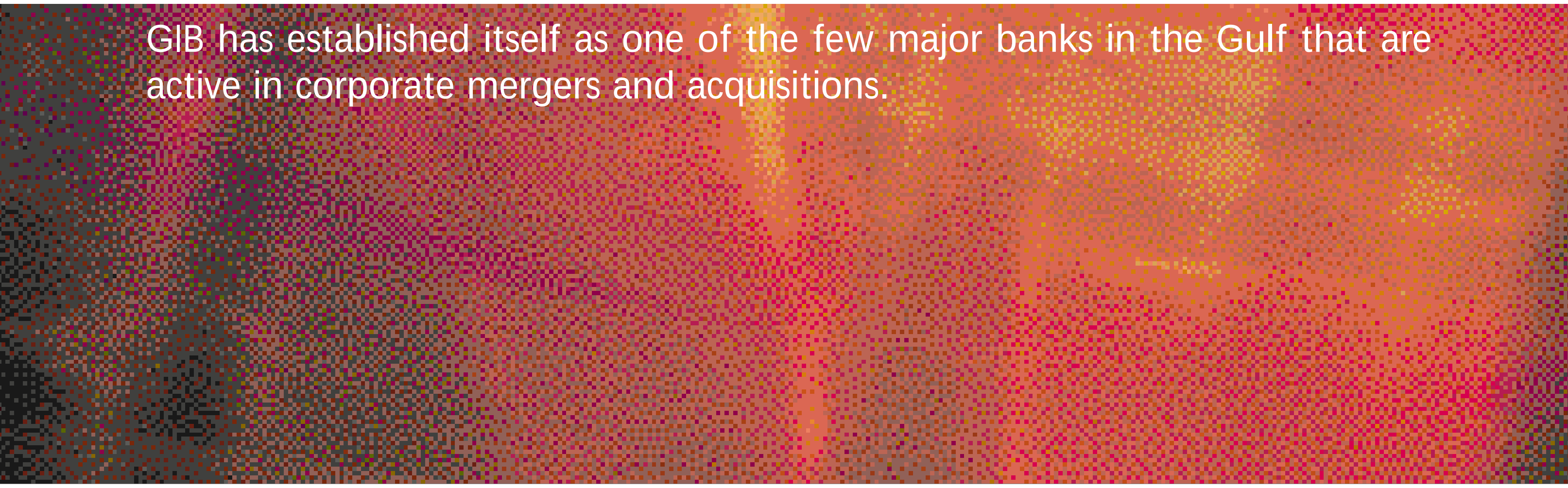
GIB has earned a well-deserved reputation as the leading player in project finance and syndications in the Gulf. Its sizeable capital base and expertise have enabled the Bank to lead many major project finance transactions as well as arrange and lead manage a number of high profile syndicated transactions. During the year, the Bank was successful not only in expanding its corporate customer base, capturing large contract-related transactions in the fields of oil and gas, power and water, aviation, shipping and petrochemicals but was also successful in syndicating these deals. This healthy expansion was achieved within strict credit guidelines and selectivity, further enhancing the quality of GIB's corporate loan portfolio.

The Bank has again featured as a major facilitator of regional oil exports through its documentary credit confirmation and refinancing activities. It has increased its corporate lending role to prime Gulf borrowers and has participated in new syndicated borrowings by banks in Egypt, Turkey and South Africa.

While corporate mergers and acquisitions (M&A) in the Gulf have recently become more common, GIB has already established itself as one of the few major banks that are active in this area. GIB has structured M&A deals in Saudi Arabia and Qatar and is looking at similar deals in other GCC states.

GIB was a lead arranger in a $350 million syndicated transaction providing general financing for the government of Oman. Year-end was notable for a valuable contract with Singapore Aircraft Leasing Enterprise for the purchase of a B-777 aircraft which was leased to Emirates Airlines, the national flag carrier of the United Arab Emirates (UAE).

In 1999, GIB was one of a group of lead arrangers and underwriters that collectively arranged two of the major deals of the year in the petrochemical and power and water industries. The "Power Deal of the Year", as



GIB has established itself as one of the few major banks in the Gulf that are active in corporate mergers and acquisitions.

awarded by Project Finance International (PFI), was the Taweelah A-2 facility in the UAE, a $578.5 million financing for the Emirates CMS Power Company. This was the first Build, Own, Operate and Transfer (BOOT) limited recourse independent power and water project in the Gulf region with a power generating capacity of 710 megawatts and water production levels of 50 million gallons a day. The "Industrial Deal of the Year", also awarded by PFI, was the $750 million petrochemical Q-Chem plant and the associated $400 million NLG4 (Natural Liquefied Gas) plant in Qatar. This was another challenging deal with a 12-year tenor in which GIB has once again strongly reinforced its leadership position in the region.

The Bank has developed considerable expertise and necessary judgement in syndications, especially in negotiating and structuring deals, identifying and controlling banking risks, pricing and in committing significant underwriting resources. Its high level of professionalism and exceptional distribution capabilities has enhanced the Bank's position as the preferred counterparty for regional and international financial institutions, when large and meaningful deals emerge in the region.

GIB anticipates that the next decade will create greater economic opportunities in the region particularly in the privatisation of government projects and the increasing role of the private sector and transferring huge family businesses into publicly-held companies.

Trade and Contract Finance

Trade and contract finance continue to be a focus of GIB's support for its corporate customers worldwide. The Bank offers a wide range of documentary credit products for both importers and exporters with timely and accurate service, in addition to providing advice to customers on ways to expand and protect their businesses.

In 1999, GIB financed the import of 2000 model cars for several of Saudi Arabia's major dealerships. It also participated in a large facility to finance a contractor in the performance of the Shoaiba Power Plant fuel jetty contract and a medium-term financing facility for a state-of-the-art coldstore facility in Dammam for a large fresh food importer. Another prestigious deal concerned the granting of working capital to one of Saudi Arabia's largest companies engaged in trading, construction and supermarket operations.

Islamic Banking

Demand for Islamic banking products has risen substantially in the last decade and has become increasingly attractive to many of the Bank's clients. During 1999, GIB has experienced a major growth in deposits from Islamic financial institutions. In addition, the Bank has strengthened its Islamic financing activities and was responsible for arranging a number of deals including a mandate to arrange an $84 million syndicated Murabaha facility for Islamic Development Bank.

The tangible benefits of the merger with SIB are expected to be seen in the future years as the merger broadens the product offering in the capital markets area.

The Bank's customer base has expanded not only in the GCC, but also in a number of other countries in the Middle East. The Bank continues to foster relationships with its customer base of Islamic banking and financial institutions. This has provided an opportunity for the Bank to diversify the Islamic banking products offered to its customers through the provision of successful asset backed project and trade finance deals. A variety of Islamic investment instruments are to be launched in 2000 and the Bank anticipates an increased involvement in the corporate sector which has major growth potential for the future.

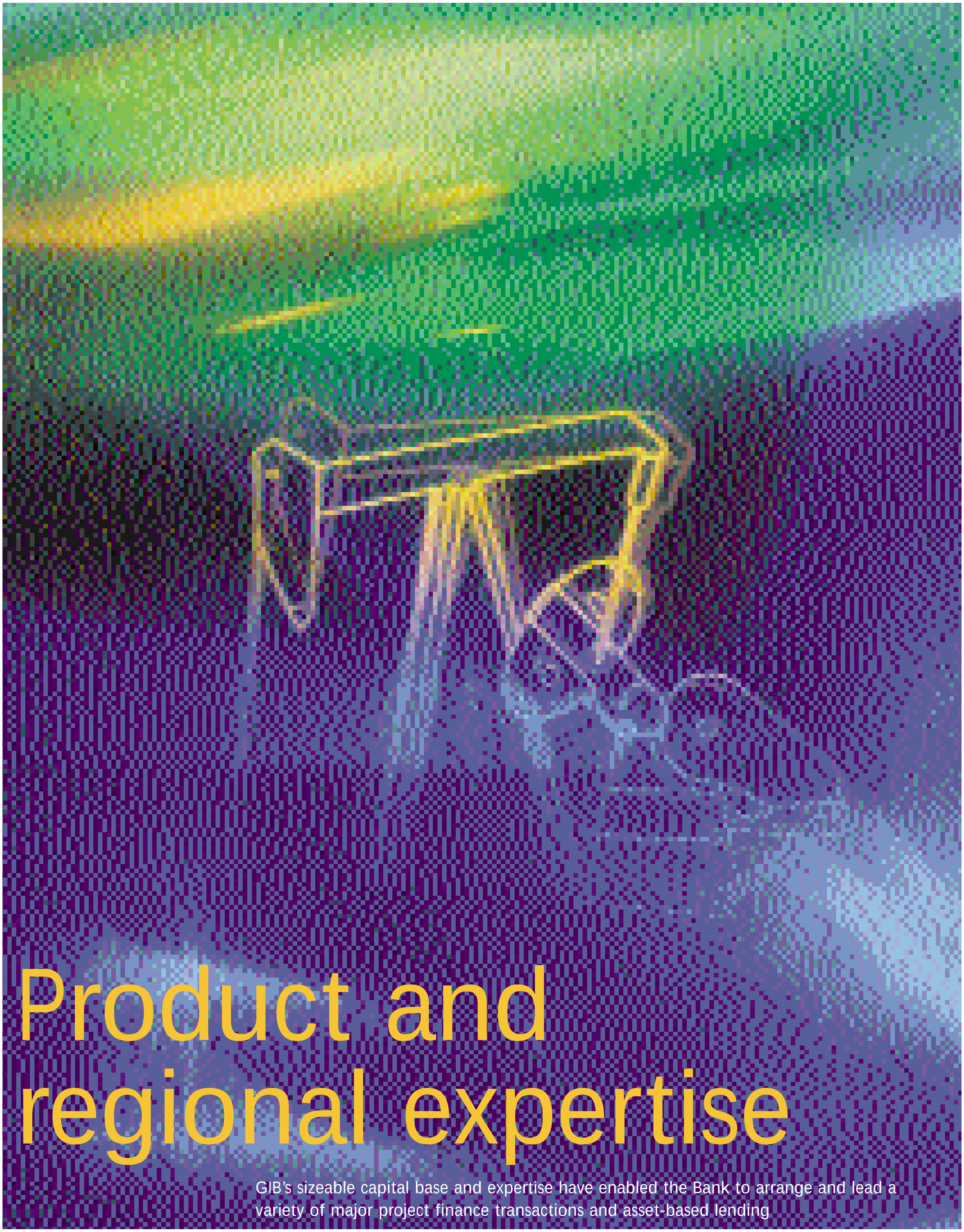
Treasury and Capital Markets

The Assets & Liabilities Group (ALG), which is responsible for the Bank's treasury and capital markets activities, maintained its strong revenue performance in 1999. ALG's revenue profile includes recurring income streams from money market and investment activities that are enhanced by proprietary and client-driven trading profits. The foreign exchange, fixed income and derivatives trading desks performed strongly. During the year, the margins on the Bank's investment securities were enhanced through effective security selection without any concurrent credit deterioration. Investments in external funds, particularly emerging market debt funds, reported a good year. External funds provide useful diversification through investment in specialised markets which have a low correlation with the Bank's in-house activities.

In preparation for the year 2000, one of ALG's main tasks during the second half of 1999 was the securing of funding. A contingency plan was drawn up well in advance and proactively implemented. This included the arrangement of collateralised borrowing facilities although as it transpired, a substantial portion of these facilities was not utilised, thereby demonstrating the stability of the Bank's depositor base.

During the year, the Bank has enhanced its treasury risk management infrastructure and skills. The implementation of a new front-office system was completed as planned. The enhanced systems infrastructure provides a platform for the scope of the Bank's financial markets activities to be widened. Dealer support and risk management capabilities, particularly derivatives, were enhanced. In this respect, the Bank has continuously held its position as a leader within the regional market in implementing state-of-the-art technology solutions.

In the year 2000, sustainable and broad-based global growth is anticipated to continue – a scenario that is positive for the oil-based economies. Against this background, the Bank is confident of a strong contribution from its financial markets activities. From the asset and liability management standpoint, the Bank will continue to widen and extend its depositor base. The tangible benefits of the merger with SIB are expected to be seen during 2000 and the future years as the merger broadens the product offering in the capital markets area.



Product and regional expertise

GIB's sizeable capital base and expertise have enabled the Bank to arrange and lead a variety of major project finance transactions and asset-based lending

International Network

Correspondent banking and related documentary credit activities continue to provide GIB with a profitable, diversified stream of short-term business opportunities and fee income across the Bank's network. By drawing on the various specialisations within the Group, GIB is able to structure tailor-made solutions to suit its clients' requirements.

Based in Bahrain, GIB is supported internationally by its wholly owned subsidiary, Saudi International Bank, branches in London and New York, and soon in Riyadh, and representative offices in Lebanon, Singapore and the United Arab Emirates (UAE).

Subsidiary

Saudi International Bank (SIB) operates in the international financial markets, with trading and longer term investment activities on its own account and for clients. The financial markets in which SIB operates have continued to demonstrate volatility but income from core businesses was much improved over 1998. There was, however, a reduction in fee income and weaker net interest income.

Financial markets activities enjoyed a successful year, with revenue up by nearly 50 per cent and profit more than doubled. This good performance was achieved where tough conditions in the interest rate and currency markets were overcome by the diversity of the bank's risk taking businesses. Fixed income trading and investment achieved positive returns despite difficult credit markets and rising default rates. SIB's emerging markets and equities and convertibles activities enjoyed a record year, with equities and convertibles taking advantage of strong equity markets and high levels of merger and acquisition activity.

Corporate finance business continued to develop in 1999 in a year of significant activity and a growing pipeline of work. A major completion in the year was an $85 million private placement and conversion into a joint stock company of one of the largest dairy companies in Saudi Arabia. Demand continues at a high level for merger and acquisition services and the range of products and services provided to clients is expanding.

It was also a year of innovation for the asset management business. Two new funds were launched and further funds are planned for 2000. New mandates were won in 1999 to manage Islamic equity funds and funds under management remained broadly unchanged at $5 billion.

SIB is working with GIB on a number of initiatives to develop client-related business, with positive results, building a strong foundation for the future.

Branches

Treasury and trade finance remains a major source of business for the London branch. The Branch treasury experienced a good year with a satisfactory financial contribution. A number of joint initiatives have been

The quality and professionalism of its staff is one of the unique strengths of GIB, and the Bank constantly strives to introduce new human resource concepts to ensure the on-going development of its most important asset.

made with SIB to strengthen the Group's counterparty relationships. The London branch's commercial activities during the year demonstrated excellent progress in strengthening the Bank's position in selective markets, particularly in North Africa. It played a significant support role to the oldest correspondent relationship in Morocco in its acquisition of the country's largest insurance company.

During 1999, the New York branch participated in several transactions involving bilateral trade finance and syndicated credit facilities. The New York branch is well positioned to undertake a major role in financing the deal with Lockheed Martin Corporation for the sale of F-16's to the UAE in the year 2000.

As a premier bank in the Arab world, it is important for the Bank to have a physical presence in its main core market. GIB's new Riyadh branch, which is expected to start operations in the second quarter of 2000, is the first non-local bank operation in the Kingdom of Saudi Arabia. Riyadh branch will primarily focus on expanding the Bank's customer base and increasing its existing involvement with government institutions and top-tier corporations. A major role of the branch is to enhance SIB's corporate finance business. Future plans are to target the upper quartile of the mid-sized corporates in Saudi Arabia. The Bank's shareholders' support, high quality of service, wide range of products, strong capital base as well as better local knowledge and wide access to international financial markets provide GIB with a competitive advantage in this key market. The Bank is committed to providing excellence in customer service and by proximity to its customers, the Riyadh branch will significantly enhance and strengthen client relationships. Other branches, in Jeddah and the Eastern Province of Saudi Arabia, as well as other major GCC financial centres, are planned in the future.

Representative Offices

The Lebanon representative office participated in a number of syndicated transactions and has extended credit to various financial institutions and corporate clients. Active treasury relationships with GIB's branches and head office including Lebanese and institutional clients continue to be enhanced.

The Singapore representative office contributed significantly to market research development and monitoring and managing GIB's exposure in the Asian region.

The United Arab Emirates representative office continues to focus on developing relationships and business locally with a range of multinationals.

Technology and operations

During 1999, GIB continued to upgrade its technology to meet the ever-changing demands of the business and to ensure that the Bank can provide an enhanced professional service to its customers and counterparts. In addition, new concepts have been introduced that allow for faster throughput of transactions and processing in a more cost efficient manner.

The new centralised core banking system and MIS reporting module were successfully implemented by the end of March 1999 at all the three main GIB locations, and a new treasury deal capture and risk management system went live at head office in the last quarter of the year. Simultaneously, the Bank upgraded its treasury information distribution network to a digital platform, which has resulted in the wider dissemination of financial information. Internal PC networks were also subject to a complete upgrade.

Throughout the year, the Bank worked to ensure that all necessary actions were taken to eliminate any adverse effect from the Year 2000 problem, and all systems transited to the new millennium without incident.

Moving forward, the Bank plans to introduce a new trade finance system in the coming year, and will be examining the potential uses of e-commerce.

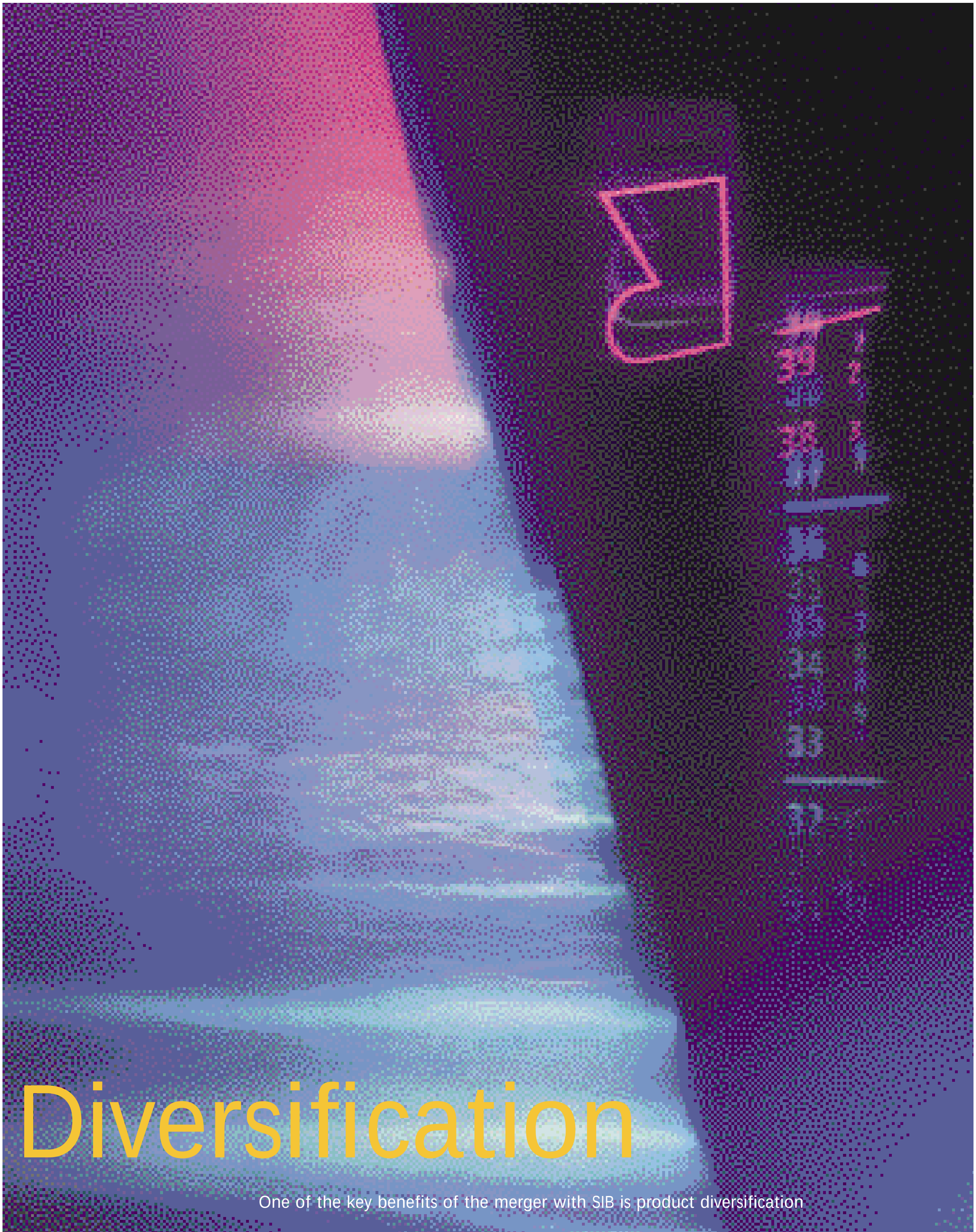
The Bank continues to be recognised as having strong controls and procedures, and to reinforce these, a new operational risk department was established to ensure that the Bank is adequately protected. A database of risks has been compiled using a risk assessment process, and the controls required to mitigate these risks have been identified. The various business units in the Bank review the risk indicators on a regular basis and a reporting methodology to senior management is currently being developed.

Human Resources

The quality and professionalism of its staff is one of the unique strengths of GIB, and the Bank constantly strives to introduce new human resource concepts to ensure the on-going development of its most important asset.

During 1999, a job evaluation project was completed and implemented at the head office. This has enabled the Bank to rationalise the work that staff do as well as restructure its rewards system. It represents the first step of several that the Bank is undertaking to develop a management information system about GIB’s human resources. The ultimate goal is a human resources system geared to rewarding staff and supporting their development in ways that will help the Bank achieve its long-term aims and enable staff to further their careers.

Training and career development continue to occupy a central role in the Bank’s drive to recruit, encourage and retain quality staff at all levels. In pursuit of this objective, career enhancing programmes are regularly conducted in-house, within Bahrain and overseas.



Diversification

One of the key benefits of the merger with SIB is product diversification

Consolidated Net Income after Provisions and Tax was $67.6 million for the year. The consolidated result incorporated the profit of Saudi International Bank (SIB) for the nine months since the date of acquisition in April.

Consolidated Net Income was negatively impacted by one-off restructuring costs in connection with the streamlining of support functions and the realignment of certain business activities following the acquisition of SIB and also a non-recurring charge arising on the harmonisation of an accounting policy for interest rate-related derivative financial instruments subsequent to the acquisition. Consolidated operating profit before the two exceptional charges amounted to $93.8 million, representing a $12.2 million or 15.0 per cent increase over the comparable prior year result for GIB alone. At the operational level, the Group generated strong interest and non-interest revenues from its diversified commercial and investment banking business activities.

Net Interest Revenue

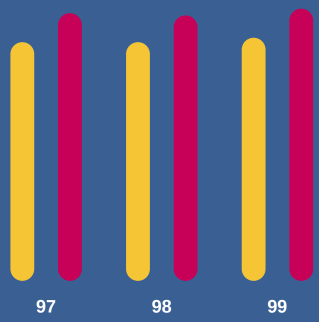
Net Interest Revenue at $139.6 million was $24.3 million or 21.1 per cent up on prior year income for GIB alone. A significant increase was recorded in interest earnings from the core commercial banking portfolio reflecting a further improvement in margins combined with a higher average volume of performing loans. In addition, margin income derived from the floating rate investment security portfolio benefited from both higher average volumes and also a widening in credit spreads with maturing assets being replaced at higher margins. During the year under review there was a continued increase, on a selective basis, in investments in externally managed funds from which income is derived in the form of dividends and capital gains. The increased funding cost associated with the higher average volume of these non-interest bearing investments contributed to a dilution in the overall net interest margin. The net interest margin was also negatively impacted by prudent measures adopted in advance of the year-end as part of the Group's Year 2000 liquidity contingency planning. This included the cost of a $1.3 billion collateralised borrowing facility that was not ultimately utilised due to the availability of substantial surplus liquidity over the year-end. Net interest earnings generated by the money book were also negatively impacted by the maintenance of an exceptionally high level of liquidity over the year-end to ensure that funds were readily available for all eventualities.

Other Income

Other Income at $77.4 million for the year compared to $49.2 million for GIB alone in the prior year. An analysis of Other Income with prior year comparatives is set out in Note 16 to the Consolidated Financial Statements. Dividend Income of $26.8 million was received from equity investments of a structured finance nature and from externally managed funds. A 15.0 per cent year-on-year increase in dividend income reflected a higher level of investment in 1999. Trading activities recorded a $23.6 million profit for the year. Trading activities include trading in fixed income, equity, interest rate derivative and emerging markets. Encouraging performances were recorded across all product lines despite difficult market conditions in the fixed income markets. Trading profits benefited in particular from strong perfomances in the equity and

BIS Risk Asset Ratio

Per cent	97	98	99
Total	12.7	11.9	12.2
Tier 1	11.4	10.7	10.9



emerging markets. Fee and Sundry Income of $7.9 million compared to marginal income of $0.7 million in 1998. The very substantial increase reflected asset management, fund management and corporate finance fees generated by SIB. Commissions on letters of credit and guarantees continued to make an important contribution to income, representing almost 10 per cent of non-interest revenue. Profits on Foreign Exchange of $5.5 million reflected a continued emphasis on customer-driven business and strong customer demand across all products. Profits on Investment Securities of $3.9 million represented profits realised on the sale or early maturity of investment security holdings. Longer term security holdings are generally only liquidated in anticipation of a potential deterioration in the credit quality of the security issuer. Loan recoveries of $2.2 million represented amounts received in relation to old loan facilities which had previously been written off. The amounts were recovered as a result of the successful outcome of ongoing litigation.

Operating Expenses

Operating Expenses at $109.9 million included an exceptional pre-tax charge of $11.7 million in respect of restructuring costs associated with the SIB acquisition. The restructuring process commenced in late 1999. The restructuring charge included a $10.0 million provision for costs that are anticipated to be incurred on the basis of a formal plan approved by the Board of Directors. These costs relate to planned staff reductions and the write-off of certain fixed assets. The full amount of the costs estimated to be incurred has been incorporated in the restructuring provision. Excluding this exceptional charge, Operating Expenses were $45.3 million up on the prior year. This was almost entirely due to the inclusion of SIB's expenses for the nine months since acquisition. On a comparable pro-forma basis, operating expenses recorded an 11.0 per cent year-on-year increase. This principally reflected increases in technology-related expenditure resulting from an ongoing enhancement of computer systems in both GIB and SIB and costs associated with preparing systems in advance of the millennium date change.

Capital Strength

Shareholders' Equity increased to $1,137.7 million at 31st December 1999. During the year, 254 million new shares were issued in consideration for shares and subordinated debt acquired in SIB. The new shares were issued at a total premium of $85.1 million thus contributing to an increase in capital of $339.1 million. At the same time $218.5 million of Reserves and $77.5 million of Share Premium were capitalised in the form of new shares thereby resulting in a total increase in Issued Share Capital to $1.0 billion. At the 1999 year-end, Shareholders' Equity and Tier 1 Capital both represented 7.3 per cent of Total Assets, ratios that are high by international comparison. The average Tier 1 capital to total assets ratio of the top 1,000 banks in 1999 was 4.6 per cent according to a survey published in The Banker in July 1999.

Asset Mix by Category

Per cent	97	98	99
Other	2.8	2.2	3.0
Placements and Other Liquid Assets	26.7	25.6	33.1
Securities	34.0	33.0	38.2
Loans and Advances	36.5	39.2	25.7
Total	100.0	100.0	100.0

With a total regulatory capital base of $1,268.1 million and total risk-weighted exposure of $10,428.9 million, the risk asset ratio calculated in accordance with the guidelines of the Basel Committee on Banking Supervision was 12.2 per cent. The risk asset ratio at the 1999 year-end incorporates market risk-weighted exposure. Exposure to general market risk has been calculated utilising a Value-at-Risk model in accordance with the provisions of the Amendment to the Capital Accord to Incorporate Market Risk. The use of the internal model approach for the calculation of the capital requirement for general market risk has been approved by the Bank's regulator, the Bahrain Monetary Agency (BMA). The high proportion of Shareholders' Equity within the total capital base resulted in a Tier 1 ratio of 10.9 per cent. This ratio is particularly high by international standards. Note 24 to the Consolidated Financial Statements provides further details on capital adequacy. The risk asset ratio calculated in accordance with the guidelines of the Bank's regulatory authority, the BMA, was 13.1 per cent at the 1999 year-end (1998: 12.8 per cent). Under the BMA guidelines, GCC governments and government-owned entities are accorded the same risk weighting as for OECD governments. The BMA applies a minimum risk asset ratio of 12 per cent compared to a minimum of 8 per cent prescribed by the Basel Committee.

Factors which contribute to the favourable capital adequacy position are the strong capital base, the level of general provisions and significant exposure to major OECD country governments and to the banking community.

Asset Quality

The Bank's principal strategic focus is on the GCC states and their major trading partners in the industrialised world. Geographical diversification of risk therefore occurs to a significant degree naturally. Geographical diversification was, however, further enhanced as a result of the acquisition of SIB. SIB's risk exposures are predominantly in North America and Europe. An assessment of the geographical diversification of risk assets may be made by reference to Note 19 to the Consolidated Financial Statements. Further assessment of asset quality can be facilitated by reference to Note 27 to the Consolidated Financial Statements on the fair value of financial instruments. Based on the valuation methodology set out in that note the net fair values of all on- and off-balance sheet financial instruments exceeded their net book values at 31st December 1999 by $42.7 million (1998: $27.8 million).

At the 1999 year-end Loans and Advances represented 25.8 per cent of Total Assets while Investment Securities accounted for 34.8 per cent.

Loans and Advances

Loans and Advances increased marginally to $4,038.0 million at the 1999 year-end. Based on contractual maturities at the balance sheet date, 42.9 per cent of the portfolio was due to mature within one year while 72.9

Loan Maturity Profile

	Per cent	US$ millions
Year 1	42.9	1,732.5
Years 2 and 3	29.9	1,210.2
Years 4 and 5	15.6	628.8
Over 5 years	11.6	466.5
Total	100.0	4,038.0

per cent was due to mature within three years. Details of exposure within the portfolio to GCC and OECD country governments are contained in Note 7 to the Consolidated Financial Statements while the geographic distribution of Loans and Advances is set out in Note 19 to the Consolidated Financial Statements. 58.0 per cent, or a little over half, of the portfolio represented lending within the GCC states while the balance was largely made up of exposure to the GCC countries' major trading partners in Europe, North America and Asia. The portfolio contained no significant concentrations by industrial sector. As discussed in Note 27 the net fair value of loans and advances exceeded their net book value by $38.0 million.

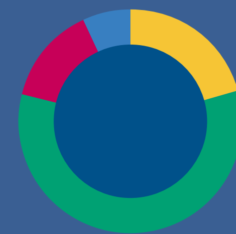
Total loan loss provisions at 31st December 1999 amounted to $838.5 million. Country and counterparty specific provisions amounted to $643.7 million while general provisions were $194.8 million. The loan loss provision charge for the year of $24.6 million comprised increases in the specific and general provisions of $23.1 million and $1.5 million respectively. The specific provision charge largely related to an exposure to a Korean conglomerate which is undergoing an extensive restructuring programme. The provision against this exposure reflects the full extent of the level of debt forgiveness which has been agreed with the foreign bank steering committee subsequent to the year-end. A $3.5 million increase in specific provisions resulting from exchange rate movements was offset by an equivalent increase in the related loan exposures. The general provision at the year-end represented 4.6 per cent of loans net of specific provisions.

Specific provisions in respect of troubled sovereign exposures are determined with reference to the guidelines of the relevant regulatory authorities. Specific provisions in respect of other loans are made to the full extent of the estimated potential loss while general provisions are maintained to cover possible future losses which as yet have not been specifically identified. Loans are written off only after all reasonable restructuring and collection activities have taken place and the possibility of further recovery is considered to be remote.

The gross and net book values of non-performing loans amounted to $595.2 million and $60.8 million respectively. The average provisioning coverage for non-performing loans was therefore 89.8 per cent. An ageing analysis of non-performing loans is set out in Note 7(c) to the Consolidated Financial Statements. $507.6 million, or 85.3 per cent, of gross non-performing loans were overdue by more than five years and are therefore historical in nature. These are all fully provided against. Only $56.6 million of non-performing loans at 31st December 1999 had been placed on non-accrual status during the preceding twelve months. This represented only 1.2 per cent of gross loans. The gross volume of non-performing loans also continued to be substantially below the total of specific and general

Investment Securities Rating Profile

	Per cent	US$ millions
AAA/Aaa rated debt securities	20.6	1,122.6
Debt securities of other investment grade issuers	58.5	3,188.0
Other debt securities	14.0	765.3
Equities and equity funds	6.9	375.5
Total	100.0	5,451.4



provisions. Total provisions for loan losses exceeded the gross volume of non-performing loans by $243.3 million. This means that rather than earnings being impaired by the funding cost of the net book value of non-performing loans, there is a positive earnings enhancement. Non-performing loans at their net book value of $60.8 million represented just 1.5 per cent of net loans. Non-performing loans at their net book value also represented only 5.3 per cent of Shareholders' Equity. Loans on which interest or principal is 90 days or more overdue are without exception placed on a non-accrual basis and all unpaid and accrued interest is reversed from income. Interest on non-accrual loans is accounted for only when received.

Investment Securities

Investment Securities totalled $5,451.4 million at 31st December 1999. The investment securities portfolio is used as a means of providing effective geographical diversification of the Group's risk assets with 81.8 per cent of the portfolio comprising securities of North American and European issuers.

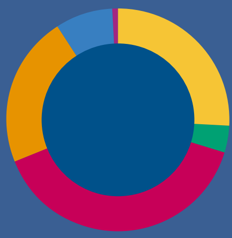
Investment Securities principally comprise two types of debt security portfolios and a more limited investment in equities and equity funds. The larger debt security portfolio comprises floating rate securities or fixed rate securities that have been swapped to floating to yield constant spreads over LIBOR. These accounted for 81.4 per cent of the total investment portfolio. The smaller debt security portfolio is made up of fixed income securities, principally OECD government or government-guaranteed bonds. This portfolio amounted to $637.9 million at the 1999 year-end.

An analysis of the investment securities portfolio is contained in Note 6 to the Consolidated Financial Statements. $1,122.6 million or 20.6 per cent of the portfolio at the 1999 year-end represented AAA-rated securities. Based on the rating of the issuer a further $3,188.0 million or 58.5 per cent of the portfolio represented investment grade debt securities. Thus 79.1 per cent of the total portfolio comprised investment grade securities. Other Debt Securities at the end of 1999 amounted to $765.3 million. These securities are largely of a loan substitution nature and as such are not necessarily rated. The credit risk associated with these securities is rigorously monitored within the overall credit risk management process. The securities are therefore subject to the same stringent credit requirements as standard lending and contingent transactions. Equities and equity funds at 31st December 1999 amounted to $375.5 million. The equity and equity fund portfolio is principally invested in equity investments of a structured finance nature and also a wide range of externally managed fund-type investments which provide a diversified exposure to equity, debt and real estate markets.

Total investment security provisions at 31st December 1999 amounted to $49.6 million. Specific provisions, which comprise provisions in respect of both

Risk Asset and Commitment Exposure

	Per cent	US$ millions
GCC Countries	26.0	4,670.1
Other Middle East & North Africa	3.8	677.0
Europe	39.2	7,039.1
North America	22.1	3,969.4
Japan and Other Asia	8.2	1,469.2
Latin America	0.7	141.5
Total	100.0	17,966.3



permanent diminutions in value and also troubled sovereign exposures as determined with reference to regulatory authority guidelines, amounted to $27.4 million while general provisions were $22.2 million. During the year, specific investment security provisions of $10.4 million were transferred to loan provisions on the reclassification of the related exposure following the completion of a formal refinancing agreement. Under the agreement, the relevant securities were replaced with a formal loan facility. At 31st December 1999, the market value of the investment security portfolio exceeded the book value by $4.7 million.

Other Interest-bearing Asset Categories

Cash and Other Liquid Assets, which amounted to $502.1 million at the 1999 year-end, are analysed in Note 3 to the Consolidated Financial Statements. In addition to Cash and Balances with Banks, which were at a particularly high level at the 1999 year-end due to Year 2000 considerations, Other Liquid Assets included Certificates of Deposit and Treasury Bills of $169.2 million and $123.0 million respectively. These are held for Balance Sheet management purposes.

Placements with Banks totalled $4,694.6 million at the 1999 year-end and were well diversified by geography as illustrated in Note 19 to the Consolidated Financial Statements. Placements were at an exceptionally high level over the 1999 year-end reflecting the placement of a substantial volume of additional funds raised prior to the year-end as part of the Group's Year 2000 contingency plan. As demonstrated in the Average Balance Sheet set out in Note 31 to the Consolidated Financial Statements, Placements with Banks averaged $3,152.8 million during 1999.

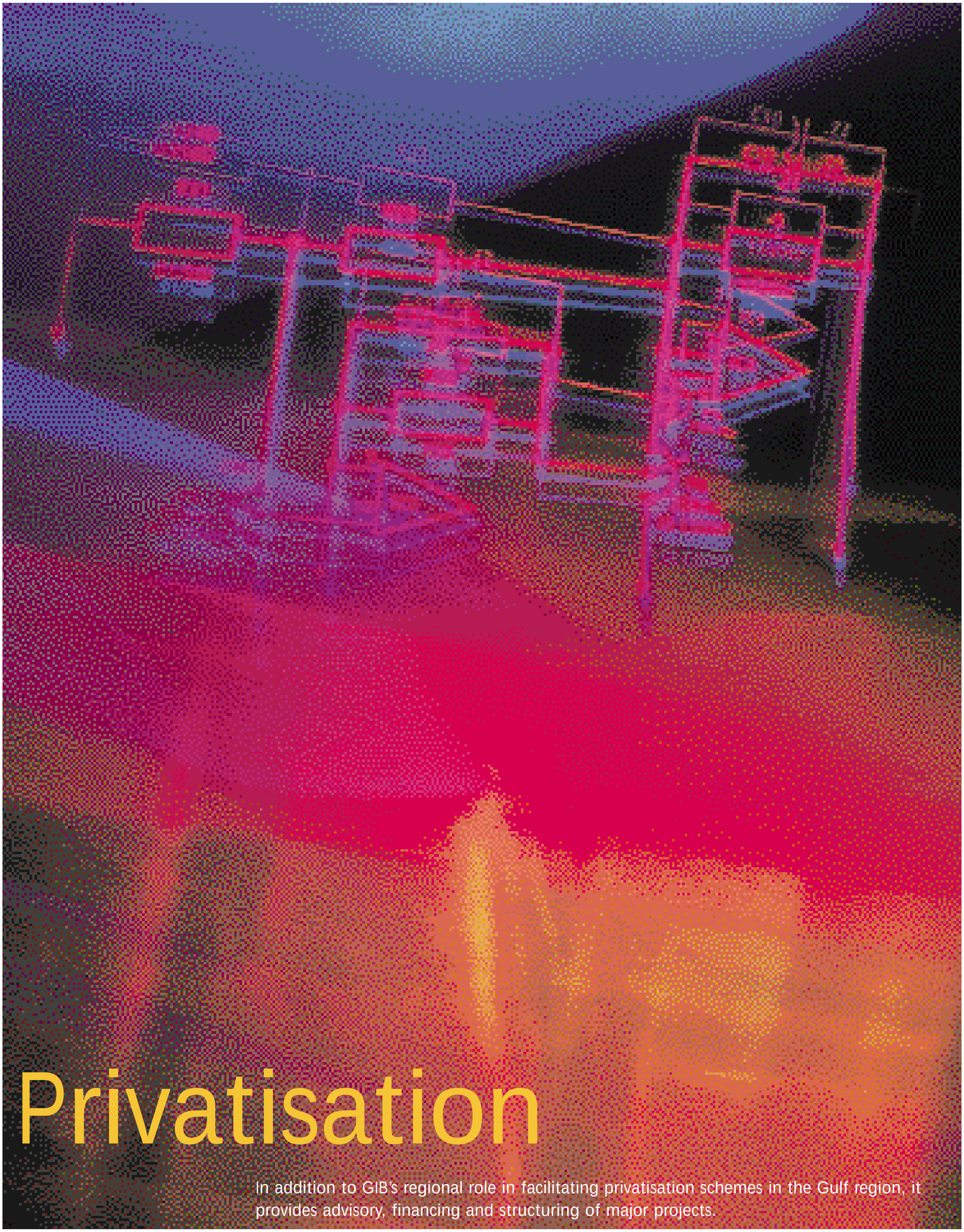
Trading Securities at $535.8 million largely comprised listed debt securities. Trading Securities at the 1999 year-end also included $86.8 million of managed funds. The funds, which are managed by international institutions with acknowledged expertise in their field, provide diversified exposure to foreign exchange and international debt markets. Trading Securities are accounted for at market value.

Risk Asset and Commitment Exposure

Risk assets and commitments at 31st December 1999 amounted to $17,966.3 million. Risk assets and commitments comprise all assets included in the balance sheet (with the exception of Fixed and Other Assets) and Credit-related Contingent Items. As alluded to earlier, an analysis of risk asset and commitment exposure by category and geography is contained in Note 19 to the Consolidated Financial Statements. An analysis of derivatives and foreign exchange products is set out in Note 22(a) while a further analysis of Credit-related Contingent Items together with their risk-weighted equivalents is contained in Note 22(b).

Funding

The acquisition of SIB has resulted in an substantive improvement in the deposit profile with the Consolidated



Privatisation

In addition to GIB's regional role in facilitating privatisation schemes in the Gulf region, it provides advisory, financing and structuring of major projects.

Asset Mix by Geography

Per cent	97	98	99
Other Countries	13.9	11.9	7.4
GCC Countries	26.3	34.6	24.4
OECD Countries	59.8	53.5	68.2
Total	100.0	100.0	100.0

Balance Sheet at 31st December 1999 reflecting a significantly higher level of customer deposits. Customer deposits at the 1999 year-end represented 48.0 per cent of total deposits compared to 36.0 per cent at the end of 1998. Customer deposits were, however, at an exceptionally high level over the 1999 year-end. Following the SIB acquisition, customer deposits represent in the region of 40 per cent of total deposits as demonstrated by the Average Balance Sheet set out in Note 31 to the Consolidated Financial Statements. Securities Sold under Agreements to Repurchase (Repos), at $1,707.7 million at 31st December 1999, were used to generate additional liquidity over the 1999 year-end to ensure that sufficient funds were available to meet all eventualities. The ability to borrow such a significant volume of funds on a collateralised basis clearly demonstrates the high quality of the securities held in the investment portfolio. Further commentary on liquidity and funding is provided in the Risk Management section of the Financial Review.

Credit Ratings

During the year under review, GIB's investment grade ratings were reaffirmed by Standard & Poor's, Moody's and BankWatch. In addition, immediately subsequent to the year-end GIB's ratings were further enhanced by the assignment of investment grade ratings by Fitch IBCA. As a result, GIB was the first GCC bank to be assigned long term debt ratings by all four major international credit rating agencies. Global Issuer, Individual and Financial Strength ratings, which are specific to BankWatch, Fitch IBCA and Moody's respectively, are awarded on a scale from A to E. GIB's credit ratings are set out in the following table.

	BankWatch	Fitch IBCA	Moody's	Standard & Poor's
Long-term	A-	BBB+	Baa2	BBB+
Short-term	TBW-1	F2	P3	A2
Global Issuer	B/C	-	-	-
Individual	-	C	-	-
Financial Strength	-	-	D+	-

Standard & Poor's ratings reflect *'the bank's franchise in the Gulf region, its adequate capitalisation at both the bank and shareholder level, and sound financial performance'*. In addition, Standard & Poor's state *'GIB's conservative loan loss provisioning policy enhances the bank's credit standing'*. According to BankWatch *'GIB remains a well run bank with exceptional management reporting systems that enable proper enforcement of prudent lending, investing and asset and liability management policies'* and conclude *'GIB remains a very solid financial institution'*. Moody's ratings *'reflect a strong wholesale commercial banking franchise in the Arabian Gulf'* and *'take account of the strong shareholding and high likelihood of support in case of need'*. Fitch IBCA state that their ratings reflect *'GIB's regional expertise and client relationships'*. It is an objective of GIB to manage itself in such a manner as to retain and enhance the assigned ratings.

Risk Management

The GIB Group maintains a prudent and professional approach to risk-taking. A risk management culture is actively promoted that accords high value to disciplined and effective risk management and employs professionally qualified people with appropriate risk management skills. Comprehensive risk management processes have been developed which effectively identify, measure, monitor, and control risk exposures and that are subject to oversight by senior management and the Board of Directors. The Group is constantly seeking to strengthen these processes, particularly through investment in technology and training. Periodic review by internal and external auditors and regulators subject these processes to additional scrutiny and help to further strengthen risk management practices. GIB is also fully supportive of the risk management recommendations of the Basel Committee on Banking Supervision and the actions taken by national supervisory authorities with respect to the application of appropriate and adequate risk management principles.

The risk management control process is based upon a detailed structure of policies, procedures and limits, a comprehensive risk measurement process and a strong management information system for the control, monitoring and reporting of risks. All significant policies are approved by the Board of Directors. Policies are consistent with corporate strategy, capital strength and management expertise, and together with procedures, are reviewed regularly in order to ensure their continued appropriateness. An integrated limit structure is an essential component of the risk management process. This permits management to control exposures and to monitor the assumption of risk against predetermined approved tolerances. Global limits are established for each major type of risk. These are generally sub-allocated to individual business units.

A Group Risk Committee is the senior authority within the integrated risk management hierarchy and oversees the active management of all risks involved in the Group's business. The committee comprises the organisation's most senior professionals and is chaired by the Group Chief Executive. The role of the committee includes the strategic management of the overall risk profile, ensuring the adequacy of the risk management infrastructure, the coordination of the various specialist risk control areas and assessing solutions for specific risk issues. The Group Risk Committee provides a forum for the discussion of risk issues by senior management as well as ensuring that the Group is aware of the latest developments in risk management practice within the financial services industry.

A fundamental risk management tenet within GIB is the clear segregation of duties and reporting lines between personnel transacting business and personnel processing that business. Key elements of the processing environment are clearly defined procedures, adequate systems infrastructure and a comprehensive system of internal controls.

An independent market risk management function possessing market risk management skills and capable of informative interpretation of management information contributes positively to the overall effectiveness of the risk management process. It is ensured that all risks associated with a product or line of business are clearly understood and are monitored and reported to senior management by professionally qualified and experienced personnel outside the business unit responsible for transacting that business.

A strong internal audit function is also of particular importance. The internal audit function conducts periodic reviews of the adequacy and integrity of the risk management process. Auditing procedures are designed to ensure the integrity of the measurement, control and reporting systems and compliance with approved policies and procedures. The Chief Auditor reports regularly to the Audit Committee of the Board of Directors. Recommendations from both the internal and external auditors are considered positively by senior management. In cases where remedial action is deemed appropriate, such action is undertaken promptly.

The Asset and Liability Committee (ALCO), which comprises members of senior management, provides a forum for treasury risk management. ALCO meets on a weekly basis to review matters relating to both the asset and liability management function and trading strategies.

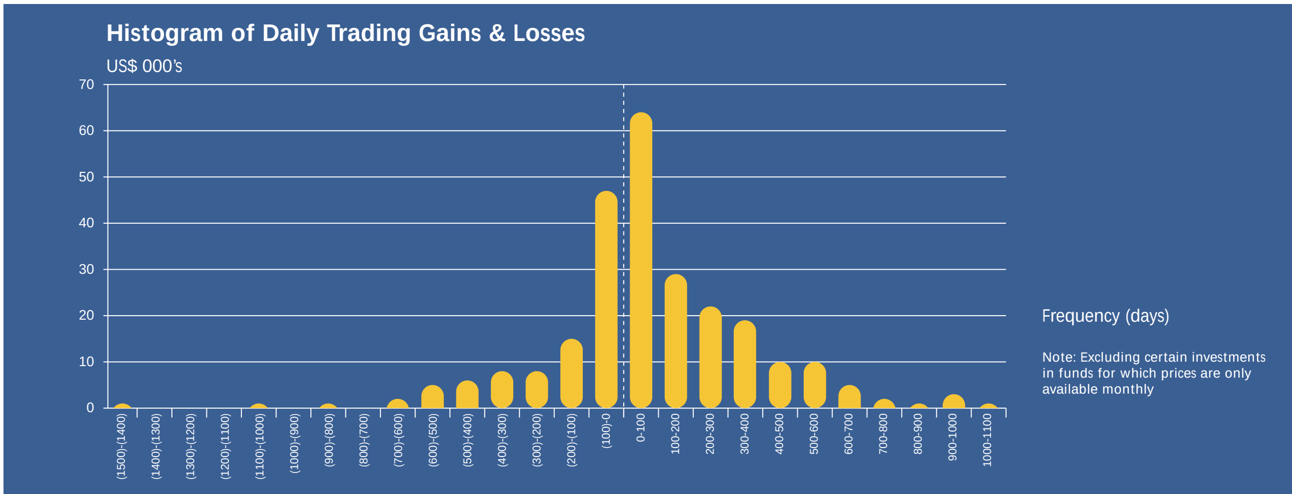
Risks associated with off-balance sheet derivative instruments are managed as part of the overall risk management framework. Financial and risk management disclosures with respect to off-balance sheet financial instruments are set out in Note 22 to the Consolidated Financial Statements. The disclosure provides details of derivative and foreign exchange transactions at 31st December 1999 analysed by type of product, counterparty and maturity.

The major risks associated with GIB's business are credit, market, liquidity and operational risks. These are discussed in more detail in the following sections.

Credit Risk

Credit risk represents the risk that a counterparty may fail to perform according to agreed terms and conditions, thus causing the bank to suffer a loss in terms of cash flow or market value. This risk is measured in relation to banking and treasury products both on and off the balance sheet.

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. The credit-worthiness of each counterparty is assessed, and appropriate credit limits are established within delegated authority by the Credit Committee. Credit limits are also established for countries, utilising



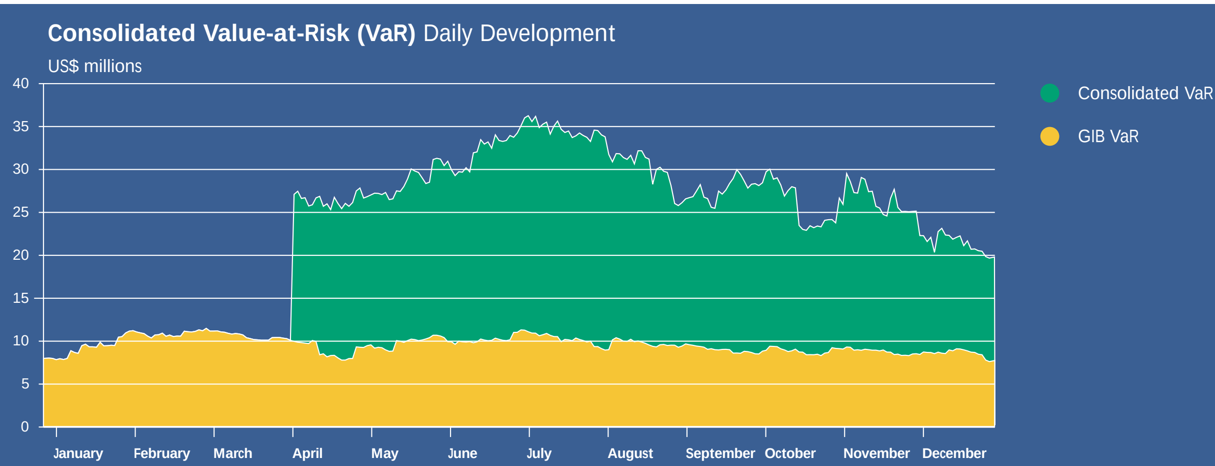
a country risk review system. Overall exposures are also evaluated to ensure a broad diversification of credit risk. Potential concentration risks by product, industry, single obliger, risk grade and geography are regularly assessed with a view to improving overall portfolio diversification. Established limits and actual levels of exposure are regularly reviewed by the Chief Credit Officer and senior management. Credit policies and procedures are designed to identify, at an early stage, exposures which require more detailed monitoring and review. A credit risk rating system together with an associated watch list and classification system are used in the determination of the appropriate level of specific and general provisions for credit losses.

The credit risk associated with foreign exchange and derivative investments is assessed in a manner similar to that associated with on-balance sheet activities. However, unlike on-balance sheet products where the principal amount and interest generally represents the maximum credit exposure, the notional amount relating to a foreign exchange or derivative transaction typically exceeds the credit exposure by a substantial margin. The measure of credit exposure for foreign exchange and derivative instruments is therefore more appropriately considered to be their replacement cost at current market rates, should the counterparty default prior to the settlement date. The gross positive market values or credit risk amounts of foreign exchange and derivative transactions are set out in Note 22 to the Consolidated Financial Statements. The total credit risk amount in respect of all such transactions outstanding at the 1999 year-end amounted to $351.3 million before taking account of the risk-reducing benefits of any collateral held or legally enforceable netting agreements. The note highlights that 88.7 per cent of the total credit risk was concentrated on major OECD-based banks and was predominantly short-term in nature with 71.2 per cent of transactions outstanding at the end of 1999 due to mature within one year. Transactions maturing beyond one year either represented hedging transactions entered into for asset and liability management purposes or fully offset customer transactions.

Market Risk

Market risk is the risk that the value of a financial instrument or a portfolio of financial instruments will change as a result of a change in market prices and rates. This risk arises from the Group's trading, asset and liability management and investment activities in the interest rate, foreign exchange, security and equity markets. Limit structures incorporate both VaR-based and non-VaR-based limits with respect to market risk. There are a variety of non-VAR-based constraints. These relate, inter alia, to positions, volumes, concentrations, maximum allowable losses and maturities. Exposures are monitored against the range of limits and regularly reported to, and reviewed by, senior management.

A key element in the Group's market risk management framework is the estimation of potential losses that may



arise from adverse market movements. GIB utilises Value-at-Risk (VaR) to estimate such losses. VaR takes account of variables that may cause a change in portfolio value. These include interest rates, foreign exchange rates, security and equity prices, their respective volatilities and the correlations between these variables. GIB uses exponentially weighted historical one-day movements in these variables from the DataMetrics™ data set in estimating potential future losses from its trading and asset and liability activities as well as from its investment portfolios. These estimates assume normal market conditions and take account of potential diversification benefits of different positions both within each and across different portfolios.

For internal risk management purposes GIB measures losses that are anticipated to occur within a 95 per cent confidence level. This implies that there is a 5 per cent or 1 in 20 chance of a loss exceeding the VaR over the prescribed time horizon or holding period. A 1-day horizon is relevant for trading activities while a longer horizon is more appropriate for both asset and liability management and investment activities. GIB consolidates VaR utilising a 25-working day holding period.

The graph above sets out the total Value-at-Risk of all activities for the Group in both the banking and investment books at the close of business each day throughout the year. The figures are calculated at the 5 per cent risk level (1.65 standard deviations) and at the 25-working day horizon based on the DataMetrics™ data set. On this basis, VaR over the year averaged $23.5 million and varied within the range of $7.8 million to $36.3 million. (At a 1-day rather than a 25-day horizon but at the same 5 per cent risk level average VaR was $4.7 million and varied between $1.6 million and $7.3 million.) At the 1999 year-end VaR at the 25-day horizon amounted to $19.8 million.

GIB conducts daily VaR backtesting for both regulatory compliance with the Basel Committee on Banking Supervision market risk capital rules and for internal evaluation of VaR against actual trading revenues. During 1999, a daily trading loss exceeded that day's VaR on only four occassions. This is within the maximum of five excesses permitted under the Basel Committee's guidelines on backtesting beyond which the multiplication factor determined by the regulator must be increased.

GIB believes that the stability of revenues from market risk activities is enhanced through the measurement, control and management of risk exposures to extreme stress events. Whereas VaR captures exposures in normal market conditions, stress testing is used to determine the risk of unlikely but plausible events in abnormal markets. Portfolio stress testing is an integral market risk measurement and control tool. Stress tests are built around changes in market rates and prices that result from pre-specified economic scenarios, including both actual historical and hypothetical market events. Historical scenarios include the 1994 bond market sell-off and the 1995 Mexican Peso crisis. Stress test

calculations are performed for all material trading and investment portfolios.

A major objective of asset and liability management is the maximisation of net interest income through the proactive management of the asset and liability repricing profile based on anticipated movements in interest rates. Nominal gap and VaR-based limits are utilised to control fluctuations in interest earnings resulting from changes in interest rate levels. The asset and liability repricing profile and details of the effective interest rates prevailing at the year-end on the various asset and liability categories are set out in Note 21 to the Consolidated Financial Statements. The repricing profiles of securities and loans incorporate the effect of interest rate swaps used to modify the interest rate characteristics of specific transactions. By contrast interest rate swaps and forward rate agreements that have been used for asset and liability management purposes to hedge overall exposure to interest rate risk are included separately as Off-Balance Sheet Items. As illustrated in Note 21, the substantial majority of assets and liabilities reprice within one year. The volume of net interest-bearing assets repricing over one year amounted to $980.3 million or 6.3 per cent of Total Assets. This largely represented the fixed rate investment securities portfolio which had a modified duration of 2.47 at the year-end.

VaR is viewed as an effective risk management tool and a valuable addition to the non-statistically based limit structure. It permits a consistent and uniform measure of market risk across all applicable products and activities based on the assumption of normal market conditions. Market risk is therefore assumed on a prudent basis in recognition of the fact that market shocks may result in losses in excess of those anticipated from VaR. A broad mix of limits are thus employed. This notwithstanding limits in themselves are recognised as an aid to – rather than a substitute for - sound judgement. Sound judgement is recognised as the cornerstone of effective market risk management.

Liquidity Risk and Funding

Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Group.

GIB's liquidity management policies are designed to ensure that it has access to adequate funds to meet its obligations, even under adverse conditions. In normal conditions the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to provide the flexibility to capitalise on opportunities for business expansion. These objectives are met through the application of a prudent mix of liquidity controls. These controls provide security of access to liquidity without undue exposure to increased costs from the liquidation of assets or the aggressive bidding for deposits. The liquidity controls ensure that over the short term the future profile of cash flows from

Deposits - Geographic Profile

	Per cent	US$ millions
GCC Countries	64.7	7,413.5
Other Countries	35.3	4,048.9
Total	100.0	11,462.4

maturing assets is adequately matched to the maturity of liabilities. Liquidity is managed and monitored on a daily basis at the parent company and subsidiary levels, enabling senior management to identify changes and to react accordingly to fluctuations in market conditions. Liquidity controls also provide for the maintenance of a stock of liquid and marketable assets and also an adequately diversified deposit base in terms of both maturities and range of counterparties. The funding base is enhanced through term financing of $750 million. Deposits from Customers provide a further stable source of funding. Contingency plans also exist and could be implemented on a timely basis to minimise the risk associated with dramatic changes in market conditions.

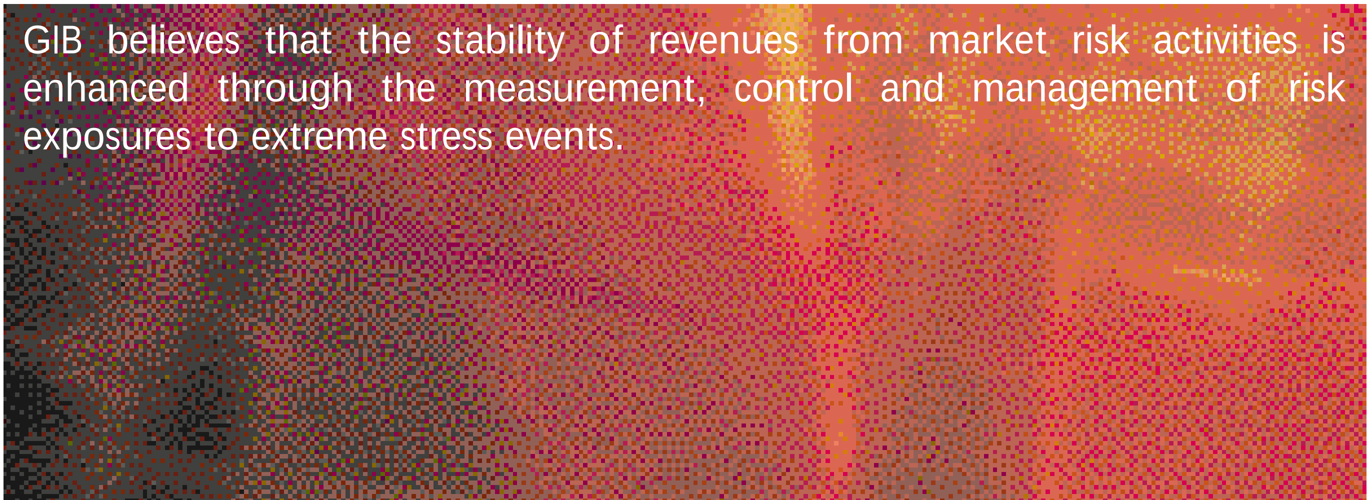
The asset and liability maturity profile by individual asset and liability category based on contractual repayment arrangements is set out in Note 20 to the Consolidated Financial Statements. At the 1999 year-end 47.6 per cent, or almost half, of Total Assets were due to mature within three months. A significant portion of assets with longer term maturities comprised readily realisable securities. With regard to deposits, retention records demonstrate that there is considerable divergence between their contractual and effective maturities. By way of example, average deposits in 1999 from those counterparties with deposits over $10 million at the 1999 year-end amounted to $8,171 million. Thus, these deposits of a core nature together with Shareholders' Equity and Term Financing were two and a half times, and thus more than adequately funded, the least liquid asset category, Loans and Advances. The loan portfolio is also comfortably exceeded by the more stable deposits from the GCC region. Deposits from GCC country governments and central banks and other institutions headquartered in the GCC states at 31st December 1999 amounted to $7,413.5 million. GCC deposits to total loans cover was therefore 1.8 times. Total deposits and term financing coverage to loans was 3.0 times compared to the previous year's level of 2.2 while the liquid assets ratio, which expresses bank balances, money market instruments, placements with banks and securities as a percentage of total assets, was 71.3 per cent compared to 59.1 per cent at the end of 1998.

Operational Risk

The bank views operational risk as the risk of loss resulting from inadequate or failed internal policies or processes, systems failures, internal or external criminal acts, business interruption, compliance breaches, human error, management failure or inadequate staffing.

While operational risk cannot be eliminated in entirety, the Group endeavours to minimise it by ensuring that the appropriate infrastructure, controls, systems and trained and competent people are in place throughout the organisation. The various procedures used to manage operational risk include segregation of duties, effective training, performance management, communication of risk tolerance, risk monitoring and

GIB believes that the stability of revenues from market risk activities is enhanced through the measurement, control and management of risk exposures to extreme stress events.



financial management and reporting. The Group also possesses back-up capabilities to support ongoing business operations in the event of adverse conditions.

To reinforce the comprehensive controls and procedures in place, a new department was established during the year to ensure adequate protection against operational risk. A database of risks has been compiled using a risk assessment process and the controls required to mitigate these risks are constantly under review. Business units monitor risk indicators on a regular basis and a reporting methodology to senior management is currently being developed.

In addition, the Group has a strong Internal Audit function which makes regular, independent appraisals of the actual functioning of the controls in all the identified risk areas.

Accounting Philosophy

Gulf International Bank is committed to the ongoing enhancement of its financial reporting. The Bank's objective is to provide clear, comprehensive and relevant disclosure in order to facilitate financial appraisal and risk assesment. Accounting and reporting policies comply with the requirements of International Accounting Standards and conform with best practice in the banking industry.

Contents

We have audited the consolidated financial statements of Gulf International Bank B.S.C. and its subsidiaries ("the Group") as at, and for the year ended, 31st December 1999 as set out on pages 35 to 61.

Respective responsibilities of directors and auditors

These consolidated financial statements are the responsibility of the directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

We conducted our audit in compliance with the Bahrain Audit Law 26/1996 and in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31st December 1999, and the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards.

Other regulatory matters

In addition, in our opinion, the Group has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying Chairman's Statement and confirm that the information contained therein is consistent with the consolidated financial statements.

To the best of our knowledge and belief, no violations of the provisions of the Bahrain Commercial Companies Law 1975 (as amended), or the Bahrain Monetary Agency Law 1973 (as amended), or the terms of the banking licence or Agreement of Establishment and Articles of Association have occurred during the year that might have had a material adverse effect on the business of Gulf International Bank B.S.C. or on its financial position. Satisfactory explanations and information were provided by management in response to all our requests.

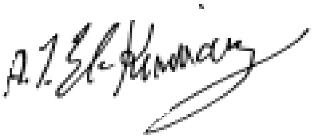
KPMG
Public Accountants
Manama, Bahrain
12th February 2000

Consolidated Balance Sheet

	Note	At 31.12.99 US$ millions	At 31.12.98 US$ millions
Assets			
Cash and Other Liquid Assets	3	**502.1**	361.6
Placements with Banks	4	**4,694.6**	2,306.4
Trading Securities	5	**535.8**	139.6
Investment Securities	6	**5,451.4**	3,229.6
Loans and Advances	7	**4,038.0**	4,000.7
Fixed Assets	8	**29.5**	16.2
Other Assets	9	**428.0**	154.9
Total Assets		**15,679.4**	10,209.0
Liabilities			
Deposits from Banks	10	**5,959.0**	5,122.6
Deposits from Customers	10	**5,503.4**	2,881.6
Securities Sold under Agreements to Repurchase		**1,707.7**	486.9
Securities Sold but not yet Purchased		**107.1**	30.8
Other Liabilities	11	**514.5**	161.1
Term Financing	12	**750.0**	750.0
Total Liabilities		**14,541.7**	9,433.0
Shareholders' Equity			
Share Capital	14	**1,000.0**	450.0
Reserves	14	**137.7**	326.0
Shareholders' Equity		**1,137.7**	776.0
Total Liabilities & Shareholders' Equity		**15,679.4**	10,209.0

The consolidated financial statements were approved by the Board of Directors on 12th February 2000 and signed on their behalf by:-

Abdulla Hassan Saif
Chairman



Dr. Abdullah I. El-Kuwaiz
General Manager

The notes on pages 38 to 61 form part of these consolidated financial statements.

36 Consolidated Statement of Income

	Note	Year ended 31.12.99 US$ millions	Year ended 31.12.98 US$ millions
Interest Revenue			
Interest and Fees on Loans		**285.2**	287.6
Interest on Securities		**293.4**	197.6
Interest on Placements and Other Liquid Assets		**180.7**	131.4
		759.3	616.6
Interest Expense		**619.7**	501.3
Net Interest Revenue		**139.6**	115.3
Provision for Investment Securities	6	**(0.4)**	(22.0)
Provision for Loan Losses	7	**(24.6)**	(8.0)
Net Interest Revenue after Provisions		**114.6**	85.3
Other Income	16	**77.4**	49.2
Net Interest and Other Income		**192.0**	134.5
Operating Expenses			
Staff	9	**60.1**	35.1
Premises		**9.5**	4.8
Restructuring Costs	13	**11.7**	–
Other		**28.6**	13.0
		109.9	52.9
Net Income before Tax and effect of change in accounting policy		**82.1**	81.6
Net effect of change in accounting policy	17	**(13.9)**	–
Net Income before Tax		**68.2**	81.6
Taxation on Overseas Activities	18	**(0.6)**	0.5
Net Income after Tax		**67.6**	82.1
Earnings per share	28	***US$0.07***	*US$0.12*

The notes on pages 38 to 61 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	**Year ended 31.12.99 US$ millions**	Year ended 31.12.98 US$ millions
Operating Activities			
Net Income		**67.6**	82.1
Adjustments to reconcile Net Income to Net Cash Inflow from Operating Activities:			
Provision for Loan Losses		**24.6**	8.0
Provision for Investment Securities		**0.4**	22.0
Restructuring Provision	13	**10.0**	–
Profit on Investment Securities		**(3.9)**	(25.1)
Amortisation of Investment Securities		**9.6**	1.6
Depreciation of Fixed Assets		**7.8**	2.3
(Increase) / decrease in accrued interest receivable		**(77.8)**	4.1
Increase in accrued interest payable		**84.3**	2.4
Decrease in other net assets		**58.7**	19.1
Net (increase) / decrease in Trading Securities		**(19.9)**	52.5
Net Cash Inflow from Operating Activities		**161.4**	169.0
Investing Activities			
Net increase in Placements with Banks		**(1,318.7)**	(25.0)
Net decrease / (increase) in Loans and Advances		**396.2**	(530.0)
Purchase of Investment Securities		**(1,764.0)**	(1,625.6)
Sale and maturity of Investment Securities		**1,215.6**	1,444.5
Acquisition of Subsidiary	29	**52.1**	–
Purchase of Fixed Assets		**(11.6)**	(4.9)
Net Cash Outflow from Investing Activities		**(1,430.4)**	(741.0)
Financing Activities			
Net (decrease) / increase in Deposits from Banks		**(604.6)**	665.8
Net increase in Deposits from Customers		**979.1**	106.8
Net increase / (decrease) in Securities Sold under Agreements to Repurchase		**1,220.8**	(169.3)
Net (decrease) / increase in Securities Sold but not yet Purchased		**(140.8)**	28.7
Dividends paid		**(45.0)**	(45.0)
Net Cash Inflow from Financing Activities		**1,409.5**	587.0
Increase in Cash and Cash Equivalents		**140.5**	15.0
Cash and Cash Equivalents at 1st January		**361.6**	346.6
Cash and Cash Equivalents at 31st December		**502.1**	361.6

Cash and Cash Equivalents comprise Cash and Other Liquid Assets.

The notes on pages 38 to 61 form part of these consolidated financial statements.

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 State of Bahrain by Amiri Decree Law No. 30 dated 24th November 1975 and is registered as an offshore banking unit with the Bahrain Monetary Agency. The registered office of the Bank is at Al-Dowali Building, 3 Palace Avenue, Manama, 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. The total number of staff employed by the Group at the end of the financial year was 624.

The ultimate parent company of the Group is Gulf Investment Corporation G.S.C. ("GIC"), an international investment company registered in the State of Kuwait and owned equally by the governments of the six member states of the Gulf Cooperation Council ("GCC") - Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. GIC owns 72.5 per cent of the issued share capital of the Bank.

2 Accounting Policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:-

2.1 Basis of Presentation

The consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") and interpretations issued by the Standing Interpretations Committee of the International Accounting Standards Committee. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of trading instruments as explained in more detail in the following accounting policies. The accounting policies have been consistently applied by the Bank and its subsidiaries and are consistent with those of the previous year, except for a change in the accounting policy for off-balance sheet interest rate-related derivative financial instruments applied by a subsidiary acquired during the year. Details of the change are provided in Note 17.

The following International Accounting Standards have been adopted in the consolidated financial statements in advance of their effective dates:-

- IAS 10 (Revised): Events Occurring After the Balance Sheet Date
- IAS 22 (Revised): Business Combinations
- IAS 28 (Revised): Accounting for Investments in Associates
- IAS 36: Impairment of Assets
- IAS 37: Provisions, Contingent Liabilities and Contingent Assets

2.2 Consolidation Principles

The consolidated financial statements include the accounts of Gulf International Bank B.S.C. and its subsidiaries. A subsidiary is an entity in which the Bank holds, directly or indirectly, more than one half of the voting rights, or in which it otherwise exercises effective control. The results of subsidiaries acquired during the year are consolidated from the effective date of acquisition. The acquisition of subsidiaries are accounted for using the purchase method. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies applied by the Bank. All intercompany balances and transactions, including unrealised gains and losses on transactions between Group companies, have been eliminated.

The financial effect of the acquisition of subsidiaries is set out in Note 29. A listing of the principal subsidiaries is set out in Note 30.

2.3 Associated Companies

Investments in associated companies which are intended to be held for the long term are accounted for by the equity method. The Group's share of the retained earnings of associated companies is determined with reference to the most recent audited financial statements and the latest unaudited financial information available to shareholders. Investments in associated companies which are not intended to be held for the long term are stated at cost less provision for diminution in value which is other than temporary.

2.4 Foreign Currencies

The reporting currency of the Group is the US Dollar. The share capital of the Bank and its principal subsidiaries are also denominated in US Dollars. Transactions in foreign currencies are converted to US Dollars at the market rates of exchange prevailing at the date of the transaction. Foreign currency monetary assets and liabilities are converted into US Dollars at market rates of exchange prevailing on the balance sheet date. Realised and unrealised foreign exchange profits and losses are included in Other Income.

2.5 Offsetting

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.6 Derivative Financial Instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying financial instruments or indices. They include futures, forwards, swaps and options in the interest rate, foreign exchange and equity markets. Derivative financial instruments are used to satisfy the requirements of customers, for proprietary trading purposes and to hedge exposures to interest rate, currency and other risks. In order for a derivative instrument to be classified as a hedge it must match or eliminate the market risk inherent in the asset or liability being hedged. Details of the Group's risk management policies in respect of derivative financial instruments are set out in Note 22.

Derivative financial instruments entered into for trading purposes or to hedge other trading positions are marked-to-market with associated gains and losses included in Other Income. Market values are derived from quoted market prices, discounted cash flow models or option pricing models, as appropriate.

Gains and losses on derivative financial instruments entered into for hedging purposes, other than those referred to above, are deferred and recognised in Interest Income or Interest Expense on an amortisation basis over the lives of the hedged assets or liabilities.

2.7 Interest Income and Expense

Interest Income and Expense are recognised on an accruals basis. Interest income is suspended when interest or principal on a credit facility is overdue by more than 90 days, whereupon all unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities are restored to accrual status only after all delinquent interest and principal payments have been brought current and future payments are reasonably assured.

2.8 Securities Financing Arrangements

Securities Purchased under Agreements to Resell ("reverse repurchase agreements") and Securities Sold under Agreements to Repurchase ("repurchase agreements") are treated as collateralised lending and borrowing transactions and are recorded in the Balance Sheet at the amounts the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are included in Interest Income and Interest Expense respectively. Securities Purchased under Agreements to Resell are reported in Cash and Other Liquid Assets.

2 Accounting Policies continued

2.9 Securities

Trading Securities and Securities Sold but not yet Purchased are stated at fair value. Realised and unrealised gains and losses are reported in Other Income. Interest earned on Trading Securities and interest incurred on Securities Sold but not yet Purchased are included in Interest Income and Interest Expense respectively.

Investment Securities, which comprise debt and equity securities which are intended to be held for the long term, are stated at cost, adjusted for the amortisation of premiums and accretion of discounts, less provisions for credit losses. Premiums and discounts on debt securities are amortised and accreted respectively to Interest Income over the period to the maturity of the related securities.

Dividends received on Trading and Investment Securities are included separately in Other Income.

Bonds received in settlement of sovereign debt interest and principal claims are capitalised at the same net book value as other debt obligations of that country. The capitalised amount of bonds received in settlement of interest claims is included in Interest Income.

2.10 Loans and Advances

Loans and Advances are stated net of provisions for credit losses.

Loans are written off after all restructuring and collection activities have taken place and the possibility of further recovery is considered to be remote. Subsequent recoveries are included in Other Income.

2.11 Provisions for Credit Losses

Provisions for credit losses comprise both specific and general provisions. Specific provisions are maintained to cover identified potential losses and diminution in the value of investments which is other than temporary. Specific provisions in respect of troubled sovereign exposures are determined with reference to relevant regulatory authority guidelines. Specific provisions in respect of other credit exposures are made to the full extent of the estimated potential loss or diminution in value which is other than temporary. General provisions are maintained to cover potential losses which are considered to be present in the credit portfolio although as yet have not been specifically identified. Provisions for credit losses are deducted from the relevant asset category.

2.12 Other Provisions

Other provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.13 Fixed Assets

Land is stated at cost. Other fixed assets are stated at cost less accumulated depreciation. Depreciation is computed on a straight line basis over the estimated useful life of each asset category as follows:-

Buildings	–	Ten years
Installations	–	Four years or period of lease if longer
Office Furniture	–	Six years
Office Equipment	–	Four years
Motor Vehicles	–	Three years

Generally, costs associated with the maintenance of existing computer software, including modifications to ensure Year 2000 compliance and in respect of the introduction of the Euro, are recognised as an expense when incurred. However, expenditure that enhances and extends the benefits of computer software programs beyond their original specifications and lives is recognised as a capital improvement and capitalised as part of the original cost of the software.

2.14 Post-Retirement Benefits

The majority of the Group's employees are eligible for post-retirement benefits under either defined benefit or defined contribution pension plans which are provided through separate trustee-administered funds or insurance plans. The Group also pays contributions to Government defined contribution pension plans in accordance with the legal requirements in each location.

Contributions to defined contribution pension plans are charged to income in the year to which they relate.

The contributions in respect of defined benefit pension plans are assessed using the projected unit credit method. The cost of providing pensions is charged to income so as to spread the regular cost of pensions over the service lives of the employees. The contributions are determined by a qualified actuary on the basis of a full valuation of the plan conducted every three years. Net balance sheet assets, representing the excess of the fair value of the plan assets over the present value of the defined benefit obligation, are limited to the present value of the estimated reductions in future contributions to the plan.

2.15 Deferred Income Taxes

Deferred income taxes are provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Currently enacted tax rates are used to determine deferred income taxes.

2.16 Fiduciary Activities

The Group administers and manages assets owned by clients which are not reflected in the Consolidated Balance Sheet. Asset management fees are earned for providing investment management services and mutual fund products. Asset administration fees are earned for providing custodial services. Fees are recognised as the services are provided and are included in Other Income.

2.17 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Cash and Other Liquid Assets

	31.12.99 **US$ millions**	31.12.98 US$ millions
Cash and Balances with Banks	**156.6**	51.1
Certificates of Deposit	**169.2**	20.0
Treasury Bills	**123.0**	250.0
Securities Purchased under Agreements to Resell	**47.3**	40.5
Money Market Funds	**6.0**	–
	502.1	361.6

4 Placements with Banks

Placements with Banks at 31st December 1999 included placements with non-bank financial institutions amounting to US$154.9 million (1998: US$106.7 million).

5 Trading Securities

	31.12.99	31.12.98
	US$ millions	US$ millions
Listed debt securities	**338.1**	61.9
Unlisted debt securities	**84.9**	–
Managed funds	**86.8**	69.9
Equities	**16.0**	7.8
Government bonds	**10.0**	–
	535.8	139.6

The externally managed funds provide a diversified exposure to foreign exchange and international debt markets.

6 Investment Securities

a) Classification of Investment Securities

	31.12.99		31.12.98	
	Book Value	**Market Value**	Book Value	Market Value
	US$ millions	**US$ millions**	US$ millions	US$ millions
AAA/Aaa rated debt securities	**1,122.6**	**1,111.6**	587.0	588.0
Debt securities of other investment grade issuers	**3,188.0**	**3,183.4**	2,104.7	2,104.0
Other debt securities	**765.3**	**768.9**	266.1	273.3
Equities and equity funds	**375.5**	**392.2**	271.8	283.8
	5,451.4	**5,456.1**	3,229.6	3,249.1

The market value of Investment Securities at 31st December 1999 included net unrealised losses on securities of US$23.5 million (1998: US$44.6 million gain) and net unrealised gains of US$28.2 million (1998: US$25.1 million loss) on interest rate swaps used to convert fixed rate securities to a floating rate basis.

Equities and equity funds at 31st December 1999 included investments in associated companies of US$4.9 million (1998: US$5.0 million).

b) Provisions for Investment Securities

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

		1999			1998	
	Specific	**General**	**Total**	Specific	General	Total
	US$ millions	**US$ millions**	**US$ millions**	US$ millions	US$ millions	US$ millions
At 1st January	**37.5**	**22.1**	**59.6**	15.9	21.7	37.6
Transfer to loan provisions	**(10.4)**	**–**	**(10.4)**	–	–	–
Charge for the year	**0.3**	**0.1**	**0.4**	21.6	0.4	22.0
At 31st December	**27.4**	**22.2**	**49.6**	37.5	22.1	59.6

Specific investment security provisions of US$10.4 million were transferred to specific loan provisions on the reclassification of the related exposures following the finalisation of a formal refinancing agreement.

7 Loans and Advances

	31.12.99	31.12.98
	US$ millions	US$ millions
Gross Loans and Advances	**4,876.5**	4,780.1
Provisions for Loan Losses	**(838.5)**	(779.4)
Net Loans and Advances	**4,038.0**	4,000.7

a) Concentrations of Loans and Advances

Net Loans and Advances at 31st December 1999 included exposure to GCC country governments of US$753.5 million (1998: US$655.6 million) and OECD country central government and agency risk of US$262.5 million (1998: US$193.4 million).

There were no significant concentrations by industrial sector at 31st December 1999 and at 31st December 1998.

b) Provisions for Loan Losses

The movements in the provisions for loan losses were as follows:-

		1999			1998	
	Specific	**General**	**Total**	Specific	General	Total
	US$ millions	**US$ millions**	**US$ millions**	US$ millions	US$ millions	US$ millions
At 1st January	**601.8**	**177.6**	**779.4**	615.5	174.1	789.6
Arising on acquisition	**5.9**	**15.3**	**21.2**	–	–	–
Exchange rate and other movements	**3.5**	**0.4**	**3.9**	12.9	(0.1)	12.8
Amounts utilised	**(1.0)**	**–**	**(1.0)**	(31.0)	–	(31.0)
Transfer from investment security provisions	**10.4**	**–**	**10.4**	–	–	–
Charge for the year	**23.1**	**1.5**	**24.6**	4.4	3.6	8.0
At 31st December	**643.7**	**194.8**	**838.5**	601.8	177.6	779.4

Specific investment security provisions of US$10.4 million were transferred to specific loan provisions on the reclassification of the related exposures following the finalisation of a formal refinancing agreement.

c) Non-Performing Loans

The gross and net book values of loans on which interest was not being accrued were as follows:-

	31.12.99		31.12.98	
	Gross	**Net Book Value**	Gross	Net Book Value
	US$ millions	**US$ millions**	US$ millions	US$ millions
Sovereign	**461.5**	**3.3**	474.2	15.5
Corporate	**121.5**	**54.5**	43.5	17.4
Financial Institutions	**12.2**	**3.0**	16.9	6.1
	595.2	**60.8**	534.6	39.0

7 Loans and Advances continued

The overdue status of non-performing loans based on original contractual maturities was as follows:-

	31.12.99 US$ millions	31.12.98 US$ millions
Within 6 months	**48.1**	46.5
Month 7 to 1 year	**8.5**	5.3
2 to 5 years	**31.0**	–
Over 5 years	**507.6**	482.8
	595.2	534.6

d) Interest in Suspense

The movements in interest in suspense were as follows:-

	1999 US$ millions	1998 US$ millions
At 1st January	**379.0**	398.4
Arising on acquisition	**1.3**	–
Net interest suspended	**39.3**	29.2
Interest written off	**(1.7)**	(44.3)
Exchange rate movements	**(3.3)**	(4.3)
At 31st December	**414.6**	379.0

8 Fixed Assets

	Freehold Land US$ millions	**Buildings US$ millions**	**Premises and Equipment US$ millions**	**Total US$ millions**
At 31st December 1999				
Cost	**8.9**	**27.2**	**58.1**	**94.2**
Accumulated Depreciation	**–**	**26.7**	**38.0**	**64.7**
Net Book Value	**8.9**	**0.5**	**20.1**	**29.5**
At 31st December 1998				
Net Book Value	8.9	0.7	6.6	16.2

9 Post-Retirement Benefits

The Group contributes to defined benefit and defined contribution pension plans which cover substantially all employees. The Bank maintains defined contribution pension plans for the majority of its employees. Contributions are based on a percentage of salary. The amounts to be paid as retirement benefits are determined by reference to the amounts of the contributions and investment earnings thereon. The total cost of contributions to the defined contribution pension plans for the year ended 31st December 1999 amounted to US$3.5 million (1998: US$3.5 million).

The Bank's principal subsidiary, Saudi International Bank ("SIB"), maintains a defined benefit pension plan for substantially all its employees. The assets of the plan are held independently of the subsidiary's assets in a separate trustee-administered fund. The pension contributions are charged to the income statement so as to spread the regular cost of the pensions over the service lives of the employees. The contributions are determined on the basis of a full valuation of the plan conducted by an independent, qualified actuary every three years using the projected unit credit method. The latest actuarial valuation was carried out at 1st January 2000.

The amount recognised in the Consolidated Balance Sheet is analysed as follows:-

	1999 US$ millions	1998 US$ millions
Fair value of plan assets	**86.0**	–
Present value of fund obligations	**53.5**	–
	32.5	–
Unrecognised actuarial gain	**(11.2)**	–
Net asset in the Consolidated Balance Sheet	**21.3**	–

The net asset recognised in the Consolidated Balance Sheet is limited to the present value of the estimated benefits available in the form of reductions in future contributions to the plan.

The movement in the net asset recognised in the Consolidated Balance Sheet was as follows:-

	1999 US$ millions
At 1st January	**–**
Arising on acquisition	**21.3**
At 31st December	**21.3**

The amounts recognised in the Consolidated Income Statement were as follows:-

	1999 US$ millions	1998 US$ millions
Current service cost	**3.6**	–
Interest cost	**2.0**	–
Expected return on plan assets	**(5.1)**	–
Net actuarial gains recognised in year	**(0.9)**	–
Total included in Staff Expenses	**(0.4)**	–

The principal actuarial assumptions used for accounting purposes were as follows:-

	1999
Discount rate	**5.5%**
Expected return on plan assets	**7.0%**
Future salary increases	**4.5%**

10 Deposits

The geographic composition of total deposits was as follows:-

	31.12.99 US$ millions	31.12.98 US$ millions
GCC countries	**7,413.5**	5,387.8
Other countries	**4,048.9**	2,616.4
	11,462.4	8,004.2

GCC deposits comprise deposits from GCC country governments and central banks and other institutions headquartered in the GCC states.

Deposits from central banks are included in Deposits from Customers.

11 Other Liabilities

Other liabilities at 31st December 1999 included outstanding trading security purchase settlements amounting to US$124.0 million (1998: nil).

12 Term Financing

	31.12.99	31.12.98
	US$ millions	US$ millions
US$ Floating rate loan due in 2000	**300.0**	300.0
US$ Floating rate loan due between 2001 and 2003	**250.0**	250.0
US$ Floating rate note due in 2002	**200.0**	200.0
	750.0	750.0

13 Restructuring Costs

Restructuring Costs were comprised as follows:-

	1999
	US$ millions
Costs incurred during the year	**1.7**
Restructuring provision	**10.0**
	11.7

Net Income for the year ended 31st December 1999 included a pre-tax charge of $11.7 million in connection with initiatives to reorganise and streamline support functions and realign certain business activities following the acquisition of Saudi International Bank. The restructuring process commenced in 1999. The charge included a US$10.0 million provision in respect of the costs that are anticipated to be incurred on the basis of a formal plan approved by the Bank's Board of Directors. These costs relate to planned staff reductions and the write-off of certain fixed assets. The full amount of the costs estimated to be incurred has been recognised as a restructuring provision in the current year. The restructuring provision is included in Other Liabilities in the Consolidated Balance Sheet.

14 Shareholders' Equity

The movements in Shareholders' Equity were as follows:-

	Share Capital US$ millions	Share Premium US$ millions	Compulsory Reserve US$ millions	Voluntary Reserve US$ millions	Retained Earnings US$ millions	Total US$ millions
At 1st January 1998	**450.0**	**–**	**54.3**	**54.3**	**180.3**	**738.9**
Dividends for 1997	**–**	**–**	**–**	**–**	**(45.0)**	**(45.0)**
Net Income for the year	**–**	**–**	**–**	**–**	**82.1**	**82.1**
Transfers from Retained Earnings	**–**	**–**	**8.2**	**8.2**	**(16.4)**	**–**
At 31st December 1998	**450.0**	**–**	**62.5**	**62.5**	**201.0**	**776.0**
Dividends for 1998	**–**	**–**	**–**	**–**	**(45.0)**	**(45.0)**
Capitalisation of Reserves	**218.5**	**–**	**–**	**(62.5)**	**(156.0)**	**–**
Issue of new shares	**254.0**	**85.1**	**–**	**–**	**–**	**339.1**
Capitalisation of Share Premium	**77.5**	**(77.5)**	**–**	**–**	**–**	**–**
Net Income for the year	**–**	**–**	**–**	**–**	**67.6**	**67.6**
Transfers from Retained Earnings	**–**	**–**	**6.9**	**6.9**	**(13.8)**	**–**
At 31st December 1999	**1,000.0**	**7.6**	**69.4**	**6.9**	**53.8**	**1,137.7**

The Authorised Share Capital at 31st December 1999 comprised 3.0 billion shares of US$1 each (1998: 450 million shares of US$1 each). The Issued Share Capital at 31st December 1999 comprised 1.0 billion shares of US$1 each (1998: 450 million shares of US$1 each). All issued shares are fully paid.

On 8th April 1999 the Bank acquired all the issued shares in Al-Bank Al-Saudi Al-Alami Limited (Saudi International Bank – "SIB"), a bank incorporated in the United Kingdom. In conjunction with the acquisition, 224.1 million shares of US$1 each were issued in exchange for SIB's shares held by the Saudi Arabian Monetary Agency and J.P. Morgan Overseas Capital Corporation. The remaining shares in SIB were acquired for cash. An additional 29.9 million shares of US$1 each were also issued in consideration for the transfer of a subordinated loan extended to SIB by one of its previous shareholders. The 254.0 million new shares were issued at a premium of US$0.335 per share, amounting in total to US$85.1 million. Immediately prior to the acquisition, the Voluntary Reserve and Retained Earnings at 1st January 1999, amounting to US$62.5 million and US$156.0 million respectively, were capitalised in the form of 218.5 million shares of US$1 each. Following the acquisition, US$77.5 million of the premium arising on the issue of the new shares was capitalised in the form of 77.5 million shares of US$1 each.

In accordance with the Bank's Articles of Association, 10 per cent of the Bank's net profit for the year is required to be transferred to each of the Compulsory and Voluntary Reserves. No transfers are made in respect of the net profit of the Bank's principal subsidiary, SIB. Transfers to the non-distributable Compulsory Reserve are required until such time as this reserve represents 25 per cent of the issued share capital of the Bank. The Voluntary Reserve may be utilised at the discretion of the Board of Directors.

15 Dividends

Dividends are not accounted for until they have been ratified at the General Assembly meeting. Any dividend in respect of 1999 will be accounted for in Shareholders' Equity as an appropriation of Retained Earnings in the year ending 31st December 2000.

16 Other Income

	1999 US$ millions	1998 US$ millions
Dividend Income	**26.8**	23.3
Profit/(Loss) on Trading Securities	**23.6**	(10.6)
Fee and Sundry Income	**7.9**	0.7
Commissions on Letters of Credit and Guarantee	**7.5**	6.8
Profit on Foreign Exchange	**5.5**	3.9
Profit on Investment Securities	**3.9**	25.1
Loan Recoveries	**2.2**	–
	77.4	49.2

17 Change in Accounting Policy of Subsidiary

During the year a newly acquired subsidiary, Saudi International Bank ("SIB"), changed its accounting policy in respect of interest rate-related derivative financial instruments in order to conform with the policy applied by the Bank. Under the previous policy applied by SIB, the net interest on interest rate-related derivative financial instruments entered into for longer-term investment objectives was recognised in Interest Income or Interest Expense over the life of the instruments. Following the change in policy, all derivative financial instruments, other than those utilised for hedging purposes, are marked-to-market. The change in accounting policy was applied retrospectively. The impact of the change, had it been adopted prior to the date of acquisition on 8th April 1999, would not have been material to the results of operation or financial position of SIB as at that date. The cumulative net effect of the change since the date of acquisition, which is reported as a separate component in the income statement, has been to reduce the pre-tax operating profit for the year by US$13.9 million.

18 Deferred Income Taxes

Deferred income tax assets are recognised for tax loss carry forward purposes only to the extent that the realisation of the related tax benefit is probable. A subsidiary company has tax losses carried forward to apply against future taxable income. The benefit of these tax losses has not been recognised in the consolidated financial statements due to the uncertainty of their recovery.

19 Geographic Distribution of Risk Assets

	31.12.99					31.12.98
	Placements & Other Liquid Assets US$ millions	Securities US$ millions	Loans and Advances US$ millions	Credit-related Contingent Items US$ millions	Total US$ millions	Total US$ millions
GCC	**956.1**	**531.3**	**2,344.0**	**838.7**	**4,670.1**	4,353.5
Other Middle East & North Africa	**97.3**	**95.4**	**320.7**	**163.6**	**677.0**	690.1
Europe	**3,136.3**	**2,738.8**	**509.4**	**654.6**	**7,039.1**	3,083.1
North America	**454.1**	**2,160.3**	**381.7**	**973.3**	**3,969.4**	3,429.7
Japan & Other Asia	**552.9**	**348.0**	**454.1**	**114.2**	**1,469.2**	1,196.6
Latin America	**–**	**113.4**	**28.1**	**–**	**141.5**	90.8
Total	**5,196.7**	**5,987.2**	**4,038.0**	**2,744.4**	**17,966.3**	12,843.8

An analysis of derivative and foreign exchange instruments is set out in Note 22(a).

20 Maturities of Assets and Liabilities

The maturity profile of assets and liabilities based on the remaining period to the contractual maturity date was as follows:-

	Within 3 months US$ millions	Month 4 to 1 year US$ millions	Years 2 and 3 US$ millions	Years 4 and 5 US$ millions	Over 5 years and other US$ millions	Total US$ millions
At 31st December 1999						
Cash and Other Liquid Assets	**433.0**	**69.1**	**–**	**–**	**–**	**502.1**
Placements	**4,406.6**	**278.0**	**10.0**	**–**	**–**	**4,694.6**
Securities	**1,417.5**	**457.2**	**770.3**	**1,109.5**	**2,232.7**	**5,987.2**
Loans and Advances	**1,027.7**	**704.8**	**1,210.2**	**628.8**	**466.5**	**4,038.0**
Fixed & Other Assets	**175.4**	**47.0**	**6.4**	**4.8**	**223.9**	**457.5**
Total Assets	**7,460.2**	**1,556.1**	**1,996.9**	**1,743.1**	**2,923.1**	**15,679.4**
Deposits	**10,076.0**	**1,284.6**	**101.8**	**–**	**–**	**11,462.4**
Securities Sold under Agreements to Repurchase	**1,507.7**	**200.0**	**–**	**–**	**–**	**1,707.7**
Securities Sold but not yet Purchased	**107.1**	**–**	**–**	**–**	**–**	**107.1**
Other Liabilities	**343.1**	**38.9**	**–**	**–**	**132.5**	**514.5**
Term Financing	**–**	**300.0**	**200.0**	**250.0**	**–**	**750.0**
Shareholders' Equity	**–**	**–**	**–**	**–**	**1,137.7**	**1,137.7**
Liabilities & Shareholders' Equity	**12,033.9**	**1,823.5**	**301.8**	**250.0**	**1,270.2**	**15,679.4**
At 31st December 1998						
Total Assets	3,847.8	1,096.4	1,738.1	1,350.4	2,176.3	10,209.0
Liabilities & Shareholders' Equity	7,302.6	1,187.6	637.8	350.0	731.0	10,209.0

The asset and liability maturities are based on contractual repayment arrangements and as such do not take account of the effective maturities of deposits as indicated by the Group's deposit retention records. Counterparties each with deposits over US$10 million at 31st December 1999 had average deposits throughout 1999 amounting to US$8,171 million (1998: US$6,423 million). Formal liquidity controls are nevertheless based on contractual asset and liability maturities.

21 Interest Rate Risk

The repricing profile and effective interest rates of the various asset and liability categories were as follows:-

	Within 3 months US$ millions	Months 4 to 6 US$ millions	Months 7 to 12 US$ millions	Over 1 year US$ millions	Non-interest bearing items US$ millions	Total US$ millions	Effective interest rates %
At 31st December 1999							
Cash and Other Liquid Assets	**432.9**	**20.0**	**49.2**	**–**	**–**	**502.1**	**4.82**
Placements	**4,056.6**	**217.0**	**61.0**	**360.0**	**–**	**4,694.6**	**6.23**
Trading Securities	**433.0**	**–**	**–**	**–**	**102.8**	**535.8**	**4.75**
Investment Securities:-							
-Fixed rate	**–**	**–**	**24.8**	**613.1**	**–**	**637.9**	**6.19**
-Floating rate	**3,570.3**	**859.5**	**30.4**	**–**	**(22.2)**	**4,438.0**	**6.50**
-Equities & equity funds	**–**	**–**	**–**	**–**	**375.5**	**375.5**	**–**
Loans and Advances	**2,974.5**	**1,203.1**	**48.0**	**7.2**	**(194.8)**	**4,038.0**	**7.44**
Fixed & Other Assets	**–**	**–**	**–**	**–**	**457.5**	**457.5**	**–**
Total Assets	**11,467.3**	**2,299.6**	**213.4**	**980.3**	**718.8**	**15,679.4**	
Deposits	**10,277.8**	**627.9**	**556.7**	**–**	**–**	**11,462.4**	**5.91**
Securities Sold under Agreements to Repurchase	**1,507.7**	**200.0**	**–**	**–**	**–**	**1,707.7**	**5.64**
Securities Sold but not yet Purchased	**107.1**	**–**	**–**	**–**	**–**	**107.1**	**5.55**
Other Liabilities	**–**	**–**	**–**	**–**	**514.5**	**514.5**	**–**
Term Financing	**750.0**	**–**	**–**	**–**	**–**	**750.0**	**6.49**
Shareholders' Equity	**–**	**–**	**–**	**–**	**1,137.7**	**1,137.7**	**–**
Liabilities & Shareholders' Equity	**12,642.6**	**827.9**	**556.7**	**–**	**1,652.2**	**15,679.4**	
Balance Sheet Items	**(1,175.3)**	**1,471.7**	**(343.3)**	**980.3**	**(933.4)**	**–**	
Off-Balance Sheet Items	**(472.3)**	**124.1**	**348.2**	**–**	**–**	**–**	
Interest Rate Sensitivity Gap	**(1,647.6)**	**1,595.8**	**4.9**	**980.3**	**(933.4)**	**–**	
Cumulative Interest Rate Sensitivity Gap	**(1,647.6)**	**(51.8)**	**(46.9)**	**933.4**	**–**	**–**	
At 31st December 1998							
Cumulative Interest Rate Sensitivity Gap	(1,156.6)	(83.1)	155.9	646.9	–	–	

The repricing profile is based on the remaining period to the next interest repricing date. The repricing profiles of securities and loans incorporate the effect of interest rate swaps used to modify the interest rate characteristics of specific transactions. The repricing profile of Placements incorporates the effect of interest rate swaps used to lock-in a return on the Group's net free capital funds. Interest rate swaps and forward rate agreements that have been used for asset and liability management purposes to hedge overall exposure to interest rate risk are included separately as Off-Balance Sheet Items. Their impact on effective interest rates is reflected in Deposits. The general provisions for securities and loans are deducted from non-interest bearing assets.

The substantial majority of assets and liabilities reprice within one year. Accordingly, there is a limited exposure to interest rate risk. The fixed rate investment securities portfolio is the principal asset or liability category to reprice over one year. At 31st December 1999 the modified duration of this portfolio was 2.47 (1998 : 3.19). Modified duration represents the approximate percentage change in the portfolio value resulting from a 100 basis point change in yield. More precisely, in dollar terms the price value of a basis point of the portfolio was US$349,000 (1998 : US$93,000).

The market risk relating to derivative and foreign exchange trading instruments is set out in Note 22 (a).

22 Off-Balance Sheet Financial Instruments

a) Derivative and Foreign Exchange Instruments

The Group utilises derivative and foreign exchange instruments to meet the needs of its customers, to generate trading revenues and as part of its asset and liability management (ALM) activity to hedge its own exposure to market risk. Derivative instruments are contracts whose value is derived from one or more financial instruments or indices. They include futures, forwards, swaps and options in the interest rate, foreign exchange and equity markets. Derivative and foreign exchange instruments are subject to the same types of credit and market risk as other financial instruments. The Group has appropriate and comprehensive Board-approved policies and procedures for the control of exposure to both market and credit risk from its derivative and foreign exchange activities.

In the case of derivative transactions, the notional principal typically does not change hands. It is simply a quantity which is used to calculate payments. While notional principal is a volume measure used in the derivative and foreign exchange markets, it is neither a measure of market nor credit risk. The Group's measure of credit exposure is the cost of replacing contracts at current market rates should the counterparty default prior to the settlement date. Credit risk amounts represent the gross unrealised gains on non-margined transactions before taking account of any collateral held or any master netting agreements in place.

The Group participates in both exchange traded and over-the-counter ("OTC") derivative markets. Exchange traded instruments are executed through a recognised exchange as standardised contracts and primarily comprise futures and options. OTC contracts are executed between two counterparties who negotiate specific agreement terms, including the underlying instrument, notional amount, maturity and, where appropriate, exercise price. In general, the terms and conditions of these transactions are tailored to the requirements of the Group's customers, although conform to normal market practice. Industry standard documentation is used, most commonly in the form of a master agreement. The existence of a master agreement is intended to provide protection to the Group in the event of a counterparty default.

The Group's principal foreign exchange transactions are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign exchange on a specified future date at an agreed rate. A currency swap involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a specified future date. Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a specified future date. As compensation for assuming the option risk, the option seller (or writer) receives a premium at the start of the option period.

The Group's principal interest rate-related derivative transactions are interest rate swaps, forward rate agreements, futures and options. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount for an agreed period.

22 Off-Balance Sheet Financial Instruments continued

a) Derivative and Foreign Exchange Instruments continued

The settlement, which generally occurs at the start of the contract period, is the discounted present value of the payment that would otherwise be made at the end of that period. An interest rate future is an exchange traded contract for the delivery of a standardised amount of a fixed income security or time deposit at a future specified date. Interest rate options, including caps, floors and collars, provide the buyer with the right, but not the obligation, either to purchase or sell an interest rate financial instrument at a specified price or rate on or before a specified future date.

The Group's principal equity-related derivative transactions are equity and stock index options. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock or index at a specified price or level on or before a specified future date.

The table below summarises the aggregate notional and credit risk amounts of foreign exchange, interest rate and equity contracts.

Product Analysis

	Notional Amounts			Credit Risk
	Trading	ALM	Total	Amounts
	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 1999				
Foreign Exchange Contracts:-				
Unmatured Spot, Forward and Futures contracts	**5,100.3**	**1,235.8**	**6,336.1**	**62.4**
Options purchased	**41.5**	**–**	**41.5**	**2.1**
Options written	**20.1**	**–**	**20.1**	**–**
Total	**5,161.9**	**1,235.8**	**6,397.7**	**64.5**
Interest Rate Contracts:-				
Futures and Forward Rate Agreements	**11,852.4**	**179.4**	**12,031.8**	**0.5**
Interest Rate Swaps	**18,415.5**	**2,851.0**	**21,266.5**	**209.5**
Options, Caps and Floors purchased	**18,775.8**	**27.0**	**18,802.8**	**76.8**
Options, Caps and Floors written	**26,530.4**	**5.0**	**26,535.4**	**–**
Total	**75,574.1**	**3,062.4**	**78,636.5**	**286.8**
Equity Contracts:-				
Options purchased	**1.6**	**–**	**1.6**	**–**
Options written	**–**	**–**	**–**	**–**
Total	**1.6**	**–**	**1.6**	**–**
Total	**80,737.6**	**4,298.2**	**85,035.8**	**351.3**
At 31st December 1998				
Total	10,653.6	3,393.9	14,047.5	75.4

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 December 1999 the Value-at-Risk of the foreign exchange and interest rate-related derivative trading contracts analysed in the table above, as calculated in accordance with the basis set out in Note 24, was US$0.1 million and US$3.0 million respectively. Value-at-Risk is a measure of market risk exposure and is accordingly separate and in addition to the credit risk exposures represented by the Credit Risk Amounts in the table above.

Counterparty Analysis

Credit Risk Amounts	31.12.99 Banks US$ millions	Other US$ millions	Total US$ millions	31.12.98 Total US$ millions
OECD countries	**311.7**	**20.3**	**332.0**	68.1
GCC countries	**16.4**	**2.9**	**19.3**	7.3
Total	**328.1**	**23.2**	**351.3**	75.4

Credit risk is concentrated on major OECD-based banks.

Maturity Analysis

Notional Amounts	Year 1 US$ millions	Years 2 & 3 US$ millions	Years 4 & 5 US$ millions	Over 5 years US$ millions	Total US$ millions
At 31st December 1999					
Foreign Exchange contracts	**6,271.2**	**41.1**	**83.8**	**1.6**	**6,397.7**
Interest Rate contracts	**54,272.3**	**12,389.2**	**7,650.4**	**4,324.6**	**78,636.5**
Equity contracts	**1.6**	**–**	**–**	**–**	**1.6**
Total	**60,545.1**	**12,430.3**	**7,734.2**	**4,326.2**	**85,035.8**
At 31st December 1998					
Total	12,376.0	872.7	386.6	412.2	14,047.5

The Group's derivative and foreign exchange activities are predominantly short-term in nature. Transactions with maturities over one year either represent hedging transactions entered into for asset and liability management purposes or fully offset customer transactions.

Significant Net Open Positions

At 31st December 1999 the Group had a US$26.2 million long (1998: US$26.5 million long) Omani Riyal net open currency position. This related to Omani Government investment security holdings.

There were no other significant derivative trading or foreign currency net open positions at 31st December 1999 and at 31st December 1998.

22 Off-Balance Sheet Financial Instruments continued

b) Credit-related Financial Instruments

Credit-related financial instruments include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the financing requirements of customers. The credit risk on these transactions is generally less than the contractual amount. The table below sets out the notional principal amounts of outstanding credit-related contingent items and the risk-weighted exposures calculated in accordance with the capital adequacy guidelines of the Basle Committee on Banking Supervision.

	31.12.99		31.12.98	
	Notional Principal Amount US$ millions	**Risk-Weighted Exposure US$ millions**	Notional Principal Amount US$ millions	Risk-Weighted Exposure US$ millions
Direct credit substitutes	**65.7**	**47.4**	13.7	13.7
Transaction-related contingent items	**1,031.1**	**448.2**	923.7	429.7
Short-term self-liquidating trade-related contingent items	**366.7**	**44.0**	334.8	59.6
Undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	**1,280.9**	**467.3**	1,533.7	510.6
Total	**2,744.4**	**1,006.9**	2,805.9	1,013.6

23 Other Contingent Liabilities

Litigation

The Bank and its subsidiaries are engaged in litigation in various jurisdictions. The litigation involves claims by and against Group companies which have arisen in the ordinary course of business. The Directors of the Bank, after reviewing the claims pending against Group companies and based on the advice of relevant professional legal advisors, are satisfied that the outcome of these claims will not have a material adverse effect on the financial position of the Group.

24 Capital Adequacy

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Basle Committee on Banking Supervision was as follows:-

		31.12.99 US$ millions	31.12.98 US$ millions
Capital Base			
Tier I Capital			
Shareholders' Equity		**1,137.7**	776.0
Tier II Capital			
General provision subject to 1.25% risk-weighted exposure limitation		**130.4**	90.7
Total Capital Base	(a)	**1,268.1**	866.7

Risk-weighted Exposure

		31.12.99 Notional Principal Amount US$ millions	31.12.99 Risk-weighted Exposure US$ millions	31.12.98 Notional Principal Amount US$ millions	31.12.98 Risk-weighted Exposure US$ millions
Credit Risk					
Balance Sheet Items:					
Cash and Other Liquid Assets		**502.1**	**87.2**	361.6	12.1
Placements		**4,694.6**	**1,031.6**	2,306.4	534.9
Securities		**5,987.2**	**3,985.7**	3,369.2	2,120.9
Loans and Advances		**4,038.0**	**3,336.3**	4,000.7	3,057.3
Fixed & Other Assets		**457.5**	**160.3**	171.1	112.4
		15,679.4	**8,601.1**	10,209.0	5,837.6
Off-Balance Sheet Items:					
Credit-related Items		**2,744.4**	**1,006.9**	2,805.9	1,013.6
Foreign Exchange-related Items		**6,397.7**	**33.5**	6,155.4	13.6
Interest Rate-related Items		**78,636.5**	**100.1**	7,892.1	5.9
		87,778.6	**1,140.5**	16,853.4	1,033.1
Credit Risk-weighted Exposure			**9,741.6**		6,870.7
Market Risk					
General market risk			**412.2**		273.9
Specific market risk			**275.1**		115.0
Market Risk-weighted Exposure			**687.3**		388.9
Total Risk-weighted Exposure	(b)		**10,428.9**		7,259.6
Risk Asset Ratio [(a)/(b) x 100]			**12.2%**		11.9%

The Group calculates the capital requirement for general market risk using a Value-at-Risk model in accordance with the provisions of the Amendment to the Capital Accord to Incorporate Market Risks issued by the Basle Committee in January 1996. The use of the internal model approach for the calculation of the capital requirement for general market risk has been approved by the Bank's regulator, the Bahrain Monetary Agency ("BMA"). The minimum multiplication factor to be applied to the Value-at-Risk calculated by the internal model has been set at four by the BMA.

24 Capital Adequacy continued

Value-at-Risk is calculated based on a 99 per cent confidence level, a ten-day holding period, a twelve-month historical observation period of unweighted data from the DataMetrics™ data set. Correlations across broad risk categories are excluded. Prescribed additions in respect of the specific risk of Trading Securities and Securities Sold but not yet Purchased are made to the general market risk calculated using the internal model. The resultant measure of market risk is multiplied by 12.5, the reciprocal of the 8 per cent minimum capital ratio, to give Market Risk-weighted Exposure on a basis consistent with Credit Risk-weighted Exposure.

With regard to credit risk, the risk-weighted exposures for foreign exchange and interest rate-related off-balance sheet items in both the trading and ALM portfolios are determined using the current exposure method. A credit conversion factor as determined by the Basle Committee is applied to the replacement cost of these contracts. The resultant amounts are then risk-weighted according to the classification of the counterparty.

25 Related Party Transactions

Banking transactions are conducted with the Group's ultimate parent company, Gulf Investment Corporation("GIC"), in the normal course of business. These comprise standard wholesale money market and foreign exchange transactions that are conducted on an arm's length basis on commercial terms and conditions and at market rates.

	1999 **US$ millions**	1998 US$ millions
The following transactions were outstanding at 31st December of each year:-		
Placements with GIC	**3.8**	81.8
Deposits from GIC	**32.8**	71.6
Floating rate notes held by GIC	**10.0**	10.0
Forward foreign exchange transactions	**20.0**	10.6
Interest on transactions during the year was as follows:-		
Interest on Placements with GIC	**2.3**	3.9
Interest on Deposits from GIC	**0.9**	0.8
Interest on floating rate notes held by GIC	**0.6**	0.8

26 Fiduciary Activities

The Group conducts investment management and other fiduciary activities on behalf of its clients. Assets held in trust or in a fiduciary capacity are not assets of the Group and accordingly have not been consolidated. The aggregate amount of the funds concerned at 31st December 1999 was US$5,498.9 million (1998: nil).

27 Fair Value of Financial Instruments

The table set out below compares the estimated fair values of all on- and off-balance sheet financial instruments with their respective book values. The Group's financial instruments are accounted for principally under the historical cost method. By contrast, the fair value represents the amount at which an asset could be exchanged, or a liability settled, in a transaction between knowledgeable, willing parties in an arm's length transaction. Differences can therefore 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 market prices or to the pricing prevailing for similar financial instruments and the use of estimation techniques such as discounted cash flow analysis.

	Book Value US$ millions	Fair Value US$ millions	Excess over Book Value US$ millions
At 31st December 1999			
Assets			
Cash and Other Liquid Assets	**502.1**	**502.1**	**–**
Placements with Banks	**4,694.6**	**4,694.6**	**–**
Trading Securities	**535.8**	**535.8**	**–**
Investment Securities	**5,451.4**	**5,456.1**	**4.7**
Loans and Advances	**4,038.0**	**4,076.0**	**38.0**
Other Assets	**428.0**	**428.0**	**–**
Liabilities			
Deposits	**11,462.4**	**11,462.4**	**–**
Securities Sold under Agreements to Repurchase	**1,707.7**	**1,707.7**	**–**
Securities Sold but not yet Purchased	**107.1**	**107.1**	**–**
Other Liabilities	**514.5**	**514.5**	**–**
Term Financing	**750.0**	**750.0**	**–**
Off-Balance Sheet Financial Instruments	**–**	**–**	**–**
Excess of Net Fair Values over Net Book Values			**42.7**
At 31st December 1998			
Excess of Net Fair Values over Net Book Values			27.8

Based on the valuation methodologies outlined below, the net fair values of all on- and off-balance sheet financial instruments exceeded their net book values at 31st December 1999 by US$42.7 million (1998: US$27.8 million).

a) Securities

The fair value of securities was based on quoted market prices with the exception of investments in associated companies and unquoted equity investments, the fair values of which were estimated at attributable net asset value determined with reference to the most recent audited financial statements and the latest unaudited financial information available to shareholders.

27 Fair Value of Financial Instruments continued

b) Loans and Advances

The fair value of floating rate loans was principally estimated at book value less attributable specific provisions and the general provision for loan losses. The fair value of troubled sovereign debt was based on market bid prices. The fair value of fixed rate loans was 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. The repricing profile of Loans and Advances is set out in Note 21. All but US$7.2 million (1998: US$5.9 million) of Loans and Advances reprice within one year.

c) Term Financing

The fair value of term financing was based on book value as the financing is on a floating rate basis and the applicable margins approximate the current spreads that would apply for borrowings with similar maturities. The term financing reprices at least semi-annually.

d) Other On-Balance Sheet Financial Instruments

The fair values of all other on-balance sheet financial instruments approximated their respective book values due to their short term nature.

e) Off-Balance Sheet Financial Instruments

Derivative financial instruments utilised for asset and liability management purposes were valued based on market prices and incorporated in the fair values of Placements, Securities, Loans and Advances and Deposits. The net unrealised loss on these contracts at 31st December 1999 amounted to US$2.4 million (1998: US$30.3 million).

The fair values of derivative trading and foreign exchange instruments were based on market prices. The market values of derivative trading and foreign exchange instruments are included in the book values of Other Assets and Other Liabilities.

No fair value adjustment was made with respect to 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 materially reflect contractual fees and commissions actually charged at the balance sheet date for agreements of similar credit standing and maturity. Specific provisions have been made in respect of individual transactions where a potential for loss has been identified. Such provisions are included in provisions for loan losses.

28 Earnings per Share

Basic earnings per share is calculated by dividing the net profit attributable to the shareholders by the weighted average number of shares in issue during the year.

	1999	1998
Net Income after Tax (US$ millions)	**67.6**	82.1
Weighted average number of shares in issue (millions)	**911.9**	668.5
Basic earnings per share	**US$0.07**	US$0.12

29 Acquisition of Subsidiary

a) Acquisition

On 8th April 1999 the Bank acquired all the issued shares of Al-Bank Al-Saudi Al-Alami Limited (Saudi International Bank – "SIB"), a bank incorporated in the United Kingdom, for a total consideration of US$397.9 million. The purchase consideration was satisfied by the issue of US$299.1 million of new shares and cash paid of US$98.8 million. The acquisition cost equated to the fair values of the identified net assets acquired and accordingly, no goodwill arose on the acquisition.

b) Cash Flow on Acquisition

The fair values of the assets and liabilities acquired were as follows:-

	US$ millions
Cash and Cash Equivalents	150.9
Placements with Banks	1,069.5
Trading Securities	376.3
Investment Securities	1,679.5
Loans and Advances	458.1
Fixed and Other Assets	127.2
	3,861.5
Deposits from Banks	(1,441.0)
Deposits from Customers	(1,642.7)
Securities Sold but not yet Purchased	(217.1)
Other Liabilities	(82.8)
Subordinated Loan	(80.0)
Total Purchase Consideration	397.9
Less:	
Shares Issued	(299.1)
Cash and Cash Equivalents acquired	(150.9)
Cash inflow on acquisition	**(52.1)**

c) Consolidation

SIB's income and expenses for the period beginning 8th April 1999 have been included in the Consolidated Income Statement for the year ended 31st December 1999. The amounts incorporated in respect of SIB in the Consolidated Income Statement were as follows:-

	US$ millions
Net Interest and Other Income	62.9
Operating Expenses	46.1
Net effect of change in accounting policy	(13.9)
Net Income after Tax	2.8

30 Principal Subsidiaries

The principal subsidiary companies were as follows:-

	Country of Incorporation	Ownership Interest 31.12.99 %	31.12.98 %
Al-Bank Al-Saudi Al-Alami Limited (SIB)	United Kingdom	100	–
GIB Investments Limited	United Kingdom	100	100
GIB Export Finance Limited	United Kingdom	100	100
SIB Financial Advisory Services Limited	United Kingdom	100	–
SIB Investment Holdings Limited	United Kingdom	100	–
GIBINVEST E.C.	Bahrain	100	100

31 Average Consolidated Balance Sheet

The average Consolidated Balance Sheet was as follows:-

	1999 US$ millions	1998 US$ millions
Assets		
Cash and Other Liquid Assets	**331.1**	155.1
Placements with Banks	**3,152.8**	2,234.7
Trading Securities	**513.4**	162.4
Investment Securities	**5,170.8**	3,349.7
Loans and Advances	**4,299.7**	3,685.4
Fixed and Other Assets	**425.2**	161.2
Total Assets	**13,893.0**	9,748.5
Liabilities & Shareholders' Equity		
Deposits from Banks	**6,320.5**	4,664.8
Deposits from Customers	**4,381.4**	2,769.2
Securities Sold under Agreements to Repurchase	**834.0**	657.2
Securities Sold but not yet Purchased	**174.2**	21.0
Other Liabilities	**396.2**	136.5
Term Financing	**750.0**	750.0
Total Liabilities	**12,856.3**	8,998.7
Shareholders' Equity	**1,036.7**	749.8
Total Liabilities & Shareholders' Equity	**13,893.0**	9,748.5

32 Parent Company

The condensed unconsolidated Balance Sheet of Gulf International Bank B.S.C. was as follows:-

	At 31.12.99 US$ millions	At 31.12.98 US$ millions
Assets		
Cash and Other Liquid Assets	**199.6**	361.6
Placements with Banks	**2,454.6**	2,306.4
Trading Securities	**236.9**	139.6
Investment Securities	**3,649.9**	3,229.6
Investment in Saudi International Bank	**400.2**	–
Loans and Advances	**3,915.2**	4,000.7
Fixed and Other Assets	**227.7**	171.1
Total Assets	**11,084.1**	10,209.0
Liabilities & Shareholders' Equity		
Deposits from Banks	**4,263.9**	5,122.6
Deposits from Customers	**3,102.0**	2,881.6
Securities Sold under Agreements to Repurchase	**1,563.6**	486.9
Securities Sold but not yet Purchased	**45.3**	30.8
Other Liabilities	**220.3**	161.1
Term Financing	**750.0**	750.0
Total Liabilities	**9,945.1**	9,433.0
Shareholders' Equity	**1,139.0**	776.0
Total Liabilities & Shareholders' Equity	**11,084.1**	10,209.0

The investment in Saudi International Bank is stated at cost.

62 Group Corporate Directory

Gulf International Bank B.S.C.

General Management

Dr Khaled Al-Fayez
Group Chief Executive Officer

Dr Abdullah El-Kuwaiz
General Manager, GIB

Matthew Snyder
Managing Director &
Chief Executive Officer, SIB

Mohannad T. Farouky
Deputy Managing Director, SIB

Assets & Liabilities Management (GIB)

Bachir A. Barbir
Head of Assets &
Liabilities Management

Anthony James
Global Treasurer

Adel Al-Dosseri
FX & Money Markets

Sunil Dattani
Investment and Fixed Income &
Derivatives Trading

Salman Al-Zayani
Treasury Sales

Financial Markets (SIB)

Mohab Mufti
Head of Financial Markets

Stephanie Gallone
Money Markets & FX

John Benfield
Derivatives

Chris Baker
Corporate Debt

Woody Patnaik
Emerging Markets

Simon English
Equities

Corporate & Institutional Banking (GIB)

Andrew L.I. Pocock
Head of Corporate &
Institutional Banking

Corporate Banking

Abbas Ameeri
Area Head

Mark A. Yassin
Project Finance

Richard Armerding
Saudi Corporate

Cherif Malik
Gulf Corporate

Srinivas Vemparala
Multinational Unit

GCC Branching & Syndications

Hassan Abdul-Ghani
Area Head

Munawar Ihsan
Syndications

Institutional Banking

Abdul Karim Bucheery
Area Head

Hafedh Maamouri
Islamic Banking

Najah Al-Aali
Near East

Shariar Khoshabi
Gulf Governments &
Financial Institutions

Investment Banking (SIB)

Gregga Baxter

Michael Parkhouse
Heads of Investment Banking

Salman Al-Deghaither
Senior Manager, Riyadh

Asset Management (SIB)

Geoffrey Hilliard
Head of Asset Management

David Waite
Head of Portfolio Management

Shared Services

Dr Fouad Al Sinan
Group Administrative Officer &
Head of Group Shared Services

GIB

Antony Maw
Head of Operations &
Administration

Ahmed Saleh
Head of Human Resources

Abdulla Janahi
Administrative Services

Ali Buhejji
Product Processing

Jameel Al-Sairafi
Information Technology

SIB

Gordon Brooker
Operations

Jane Langley
Business Information

Declan Horan
Premises

Leslie Shepherd
Information Technology

Staff Functions

Audit
Masood Zafar
Group Chief Auditor

Julian Anthony
Chief Auditor, SIB

HR Policy
Gareth Hughes
Group HR Policy

Credit & Risk Control
Atef Sakr
Chief Credit Officer, GIB

Mohammed Al-Barwani
International Credit, GIB

K. Venkataraman
Middle East Credit, GIB

Peter Robinson
Head of Credit, SIB

Kwesson Quarshie
Head of Risk Control, SIB

Corporate Centre

S.M. Nadeem Mujtaba
Head of Corporate Centre

Financial Control
Stephen D. Williams
Group Financial Controller

John Bridger
Financial Controller, SIB

Risk Management
Fouad Masrieh
Group Risk Manager

Corporate Communications
Abdul Elah Al-Amer
Group Corporate Communications &
Secretary to the Board

Contact Details

Head Office

Address
P.O. Box 1017
Al-Dowali Building
3 Palace Avenue
Manama, Bahrain

Telephone
General: (+973) 534000
FX & Money Markets:
(+973) 534300,530030
Treasury Sales: (+973) 522622
Fixed Income/ Derivatives:
(+973) 522521, 533188
Investments: (+973) 522574

Telex
General: 8802 DOWALI BN

Telefax
General: (+973) 522633
Treasury: (+973) 522530
Investments: (+973) 522629
S.W.I.F.T. GULFBHBM

Reuter Direct Dealing
Forex Unit & Options: GIBB
International Money Market
Unit/
Middle East Currency: GIBF

E-Mail
gibmktg@batelco.com.bh

Internet
http://www.gibonline.com

Branches

London Branch

Mohannad T. Farouky
Branch Manager

Address
75 King William Street
London EC4N 7DX

Telephone
General: (+44) 20 7815 1000
Treasury: (+44) 20 7283 8111/8

Telefax
General: (+44) 20 7220 7733
Treasury: (+44) 20 7815 1088
S.W.I.F.T. GULFGB2L

E-Mail:
marketing@gibank.co.uk

New York Branch

Issa N. Baconi
Branch Manager

Address
380 Madison Avenue
New York, NY 10017

Telephone
General: (+1) 212 922 2300
Treasury: (+1) 212 922 2450

Telefax
General: (+1) 212 922 2309
S.W.I.F.T. GULFUS33

E-Mail:
hhdgibny@interramp.com

Cayman Islands Branch
C/o New York Branch

Riyadh Branch

Address
P.O. Box 93413
Abraj Atta'awuneya
King Fahad Road
Riyadh 11673
Saudi Arabia

Telephone
General: (+9661) 2180888
Treasury: (+9661) 2181188
Investment::(+9661) 2180555

Telefax
General: (+9661) 2180088
Treasury: (+9661) 2181155
Investment: (+9661) 2180055
S.W.I.F.T. GULFSARI

Representative Offices

Lebanon Representative Office

Hassan A. Yaseen
Chief Representative

Address
Gefinor Centre, Block B
Office Number 1401
P.O. Box 113/6973
Beirut, Lebanon

Telephone
(+961) 1 739505
(+961) 1 739507
(+961) 1 739509

Telefax:
(+961) 1 739503

E-Mail:
gibbey@inco.com.lb

Singapore Representative Office

Peter Smith
Senior Representative, Asia

Address
50 Raffles Place #11-06
Singapore Land Tower
Singapore 048623

Telephone:
(+65) 224 8771

Telefax:
(+65) 224 8743

E-Mail:
gibsin@singnet.com.sg

United Arab Emirates Representative Office

Galal A. G. Kulaib
Chief Representative

Address
P.O. Box 27051
Arab Monetary Fund Building
Corniche Road
Abu Dhabi
United Arab Emirates

Telephone:
(+971) 2 6318080

Telefax:
(+971) 2 6311966

E-Mail:
gibetiem@emirates.net.ae

Principal Subsidiary

Saudi International Bank

Matthew C. Snyder
Managing Director &
Chief Executive Officer

Address:
One Knightsbridge
London SW1X 7XS
United Kingdom

Telephone:
(+44) 20 7259 3456

Telefax:
(+44) 20 7259 6060

Telex:
8812261/2

Cables:
Saudibank London SW1

Parent Company

Gulf Investment Corporation GSC

Dr. Khaled Al-Fayez
Group Chief Executive Officer

Hisham Abdulrazzak Razzuqi
General Manager

Address
P.O. Box 3402
13035 Safat, Kuwait

Courier Address
Gulf Investment Corporation
Joint Banking Centre
Kuwait Real Estate
Bank Building, Kuwait

Telephone:
(+965) 243 1911

Telefax:
(+965) 244 8894/ 240 8006

Cable Address:
GICORP KT
S.W.I.F.T. GCOR KWKW

Treasury Dealing Room:
(+965) 243 1900 to 07

Reuter Direct Dealing:
GICK

E-mail:
gic@gic.com.kw

Designed and produced by Intergraphic, London and Bahrain. Abstract photography by Zafer & Barbara Baran. Printed by Empress Litho. Registration Number FGIB 143

GULF INTERNATIONAL BANK

HEAD OFFICE

P.O. Box 1017
Al-Dowali Building
3 Palace Avenue
Manama, Bahrain

Tel: (+973) 534000

Tlx: 8802 DOWALI BN

Telefax: (+973) 522633

S.W.I.F.T. GULFBHBM

E-Mail
gibmktg@batelco.com.bh

Internet
http://www.gibonline.com

BRANCHES

London
75 King William Street
London EC4N 7DX

Tel: (+44) 171 815 1000

Telefax: (+44) 171 220 7733

S.W.I.F.T. GULFGB2L

E-Mail
marketing@gibank.co.uk

New York
380 Madison Avenue
New York, NY 10017

Tel: (+1) 212 922 2300

Telefax: (+1) 212 922 2309

S.W.I.F.T. GULFUS33

E-Mail
hhdgibny@interramp.com

Cayman Islands

c/o New York Branch

REPRESENTATIVE OFFICES

Singapore
50 Raffles Place #11-06
Singapore Land Tower
Singapore 048623

Tel: (+65) 224 8771

Telefax: (+65) 224 8743

E-mail
gibsin@singnet.com.sg

United Arab Emirates
P.O. Box 27051
Arab Monetary Fund Building
Corniche Road
Abu Dhabi
United Arab Emirates

Tel: (+971) 2 318080

Telefax: (+971) 2 311966

E-mail
gibetiem@emirates.net.ae

Lebanon
Gefinor Centre, Block B
Office number 1401
P.O. Box 113/6973
Beirut, Lebanon

Tel: (+961) 1 739505
(+961) 1 739507
(+961) 1 739509

Telefax: (+961) 1 739503

E-mail
gibbey@inco.com.lb

SUBSIDIARY

SAUDI INTERNATIONAL BANK

البنك السعودي العالمي المحدود
Saudi International Bank
AL-BANK AL-SAUDI AL-ALAMI LIMITED

HEAD OFFICE

One Knightsbridge
London SW1X 7XS

Tel: (+44) 171 259 3456

Telefax: (+44) 171 259 6060

Tlx: 8812261/2

Cables Saudibank London SW1

بنك الخليج الدولي
Gulf International Bank B.S.C.

Gulf International Bank B.S.C.

1999 Interim Financial Statements (Extracts)

Consolidated Balance Sheet

	At 30.6.99 US$ millions	At 31.12.98 US$ millions
ASSETS		
Cash and Balances with Banks	79.2	51.0
Money Market Instruments	181.4	310.6
Placements with Banks	2,718.8	2,306.4
Trading Securities	535.1	139.6
Investment Securities	5,080.1	3,229.6
Loans and Advances	4,261.0	4,000.7
Fixed Assets	29.2	16.2
Other Assets	381.7	154.9
TOTAL ASSETS	13,266.5	10,209.0
LIABILITIES		
Deposits from Banks	5,921.0	5,122.6
Deposits from Customers	4,182.8	2,881.6
Securities Sold under Agreements to Repurchase	793.2	486.9
Securities Sold but not yet Purchased	213.0	30.8
Proposed Dividend	-	45.0
Other Liabilities	284.9	161.1
Term Financing	750.0	750.0
TOTAL LIABILITIES	12,144.9	9,478.0
SHAREHOLDERS' EQUITY		
Share Capital	1,000.0	450.0
Reserves	121.6	281.0
SHAREHOLDERS' EQUITY	1,121.6	731.0
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	13,266.5	10,209.0

The Consolidated Balance Sheet and Statement of Income are extracted from the 1999 Interim Financial Statements reviewed by KPMG

GULF INTERNATIONAL BANK B.S.C.

Consolidated Statement of Income

	Six Months ended 30.6.99 US$ millions	Six Months ended 30.6.98 US$ millions
INTEREST REVENUE		
Interest and Fees on Loans	136.4	136.5
Interest on Securities	126.0	100.0
Interest on Placements and Money Market Instruments	68.8	68.3
	331.2	304.8
INTEREST EXPENSE	262.4	252.1
NET INTEREST REVENUE	68.8	52.7
Provision for Investment Securities	2.6	(15.0)
Provision for Loan Losses	(12.6)	5.0
NET INTEREST REVENUE AFTER PROVISIONS	58.8	42.7
OTHER INCOME	38.7	24.3
NET INTEREST AND OTHER INCOME	97.5	67.0
OPERATING EXPENSES		
Staff	25.5	16.0
Premises	4.0	2.3
Other	11.8	5.4
	41.3	23.7
NET INCOME BEFORE TAX	56.2	43.3
Taxation on Overseas Activities	(4.6)	0.7
NET INCOME AFTER TAX	51.6	44.0
Earnings per Share	US$ 0.06	US$ 0.06

1999 Net Income includes Saudi International Bank's results for the period 8th April to 30th June 1999