2003

GULF INTERNATIONAL BANK

Annual Report & Accounts

THE GULF'S OWN MERCHANT BANK

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GULF INTERNATIONAL BANK

GULF INTERNATIONAL BANK (GIB) IS A LEADING MERCHANT Bank in the Middle East with its principal focus on the Gulf Cooperation Council (GCC) states. With a proven track record spanning more than 25 years, GIB provides client-led, innovative financial products and services. Its client base includes major private-sector corporations, Gulf-based financial institutions, multinational companies active in the region and the governments of the GCC states.

GIB has gained an international reputation for project and trade finance and is a leading player in the regional syndicated loan market. The Bank's financial strength is based on conservative asset and liability management policies, its high-quality asset profile and strong capital base. More recently, the bank increased its focus on merchant banking services, including corporate finance and asset management.

GIB was established in the Kingdom of Bahrain in 1975. The six GCC governments, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, own 72.5 per cent of the Bank, while the Saudi Arabian Monetary Agency and JP Morgan Overseas Capital Corporation own 22.2 per cent and 5.3 per cent respectively. In addition to its main subsidiary Gulf International Bank (UK) Limited, the Bank has branches in London, New York and Riyadh, in addition to representative offices in Beirut and Abu Dhabi.

GIB

بنك الخليج الدولي

THE GULF'S OWN MERCHANT BANK

FINANCIAL HIGHLIGHTS

	2003	2002	2001	2000	1999
Earnings (US$ millions)					
Net Income after Tax	**106.1**	85.3	100.5	118.1	67.6
Net Interest Income	**167.3**	195.7	193.4	169.7	139.6
Other Income	**120.3**	88.4	70.3	127.3	77.4
Operating Expenses	**126.1**	115.6	118.1	132.3	109.9
Financial Position (US$ millions)					
Total Assets	**17,302.4**	16,236.5	15,232.0	15,119.5	15,679.4
Available-for-Sale Securities	**8,451.8**	8,280.4	7,641.7	7,062.1	5,451.4
Loans	**3,759.6**	3,255.8	3,309.4	3,923.1	4,038.0
Term Financing	**1,501.3**	880.0	830.0	850.0	750.0
Shareholders' Equity	**1,388.8**	1,128.2	1,193.7	1,205.8	1,137.7
Ratios (Per cent)					
Profitability					
Return on Average Shareholders' Equity	**8.4**	7.3	8.4	10.1	6.5
Return on Average Assets	**0.6**	0.5	0.7	0.8	0.5
Capital					
BIS Risk Asset Ratio					
Total	**12.5**	12.8	12.6	11.5	12.2
Tier 1	**10.0**	10.3	10.2	10.2	10.9
Shareholders' Equity as % of Total Assets	**8.0**	6.9	7.8	8.0	7.3
Asset Quality					
Securities as % of Total Assets	**58.0**	58.4	56.8	49.8	38.2
Loans as % of Total Assets	**21.7**	20.1	21.7	25.9	25.8
Liquidity					
Liquid Assets Ratio	**76.7**	77.9	75.1	71.0	71.3
Deposits to Loans Cover (times)*	**3.1**	3.6	3.6	3.1	3.0

* Deposits include Term Financing

BOARD OF DIRECTORS

H.E. SHEIKH EBRAHIM BIN KHALIFA AL KHALIFA
Chairman
Undersecretary, Ministry of Finance and National Economy
Kingdom of Bahrain

MR. ABDUL AZIZ M. AL-ABDULKADER
Vice Chairman
President, AMA Group
Kingdom of Saudi Arabia

MR. BADER ABDULLAH AL-RUSHAID AL-BADER
Ex-Chairman and Managing Director
Kuwait Investment Company
State of Kuwait

DR. HAMAD S. AL-BAZAI
Deputy Minister for Economic Affairs
Ministry of Finance
Kingdom of Saudi Arabia

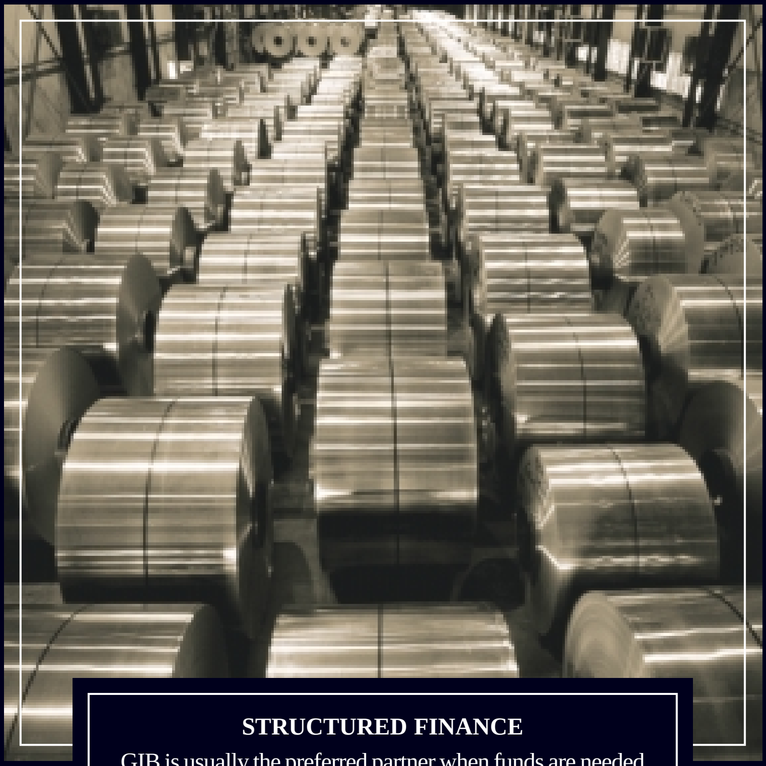
MR. MOHAMMED MUGHNEM AL-SHUMRANI
Director General of Investment Department
Saudi Arabian Monetary Agency
Kingdom of Saudi Arabia

MR. SAKER DHAHER AL-MORAIKHI
Consultant, the Minister's Office
Ministry of Finance
State of Qatar

MR. MOHAMMED BIN SAIF AL-SHAMSI
Consultant, the Minister's Office
Ministry of Finance and Industry
United Arab Emirates

MR. SAUD NASSIR AL-SHUKAILY
Director General of Revenue and Investments
Ministry of Finance
Sultanate of Oman

MR. MARK STEPHEN GARVIN
Managing Director
JP Morgan Chase
United Kingdom



STRUCTURED FINANCE

GIB is usually the preferred partner when funds are needed to finance major projects in the GCC. By way of example, during 2003 GIB assisted ALBA in raising a US$1.6 billion loan to finance its fifth potline expansion project.

CHAIRMAN'S STATEMENT

SHEIKH EBRAHIM BIN KHALIFA AL KHALIFA
CHAIRMAN

ON BEHALF OF THE BOARD OF DIRECTORS, I am pleased to present the annual report of Gulf International Bank B.S.C. (GIB) for the year ended 31st December 2003. Significant improvements and advances across the Group's major operating activities enabled GIB to post its second highest ever result at US$106.1 million. Given the numerous political and economic uncertainties challenging the early stages of global economic recovery in 2003, GIB's performance was particularly creditable and further testimony to the resilience of the Group's new GCC-focused merchant banking strategy. The objective of enhanced returns to shareholders is being fulfilled and favourable recognition has been accorded GIB by clients, supervisory authorities and international credit rating agencies.

GIB saw a noticeable improvement in its operating environment as 2003 progressed. In the early months of the year, there were serious concerns about the impact the military conflict in Iraq might have on the GCC states, the SARS epidemic in Asia was spreading alarmingly, and there were clear signs of deflationary pressures in all the world's major economies. From mid-year, and following both the US Federal Reserve's and the European Central Bank's decisions to cut interest rates to historic lows, market sentiment responded positively and economic output increased. The international bond market began to put distance between itself and the unprecedented number of corporate scandals and defaults of the previous year, and international credit rating agencies started to adopt a more positive stance on key sovereign and corporate risk worldwide.

Positive growth momentum in the GCC economies was firmly maintained in 2003. Any investor nervousness at the beginning of the year was countered by continued improvements in government finances and further determined moves towards economic reform, diversification and integration. Oil prices during the year remained comfortably within or above the OPEC target range. Regional stock markets were active and new government borrowing instruments were well supported by local institutions. Global recognition of the growing importance, maturity and international interdependency of the GCC economies was reflected in Dubai's highly successful hosting in September 2003 of the first IMF/World Bank annual meetings to be held in the GCC.

The many and varied range of business opportunities within GIB's franchise in the GCC together with improvements in global market performances were major contributory factors to the Group's strong result in 2003. Productivity and efficiency gains at point of delivery were equally important. GIB maintained its position as the leading financier and arranger in a much-expanded regional project finance market. In the context of the recently adopted merchant banking strategy, the increase in investment banking, advisory and management fees to US$18.8 million was encouraging as was the related event of non-interest income exceeding interest income, net of provisions, for the first time in GIB's history. The Riyadh branch has developed very promisingly since its opening in September 2000 and is now operating as a consistently profitable and integral unit of the GIB Group. In 2004 it is planned to expand the Group's activities in Saudi Arabia by establishing a presence in Jeddah, the kingdom's second largest city and major commercial hub.

GIB's shareholders' equity at the end of 2003 stood at US$1,388.8 million, representing a 23.1 per cent increase over the equity at the end of 2002 of US$1,128.2 million. This increase partly reflects 2003 net income, but also more significantly a strong recovery in the adjustment to equity in relation to the fair value of the available-for-sale securities portfolio. This recovery was anticipated in my Statement last year. At the end of 2003, the fair value of the available-for-sale securities portfolio comfortably exceeded the book value reflecting a substantial narrowing of credit spreads during the year. GIB's BIS capital adequacy ratio was 12.5 per cent at the end of 2003, a level that allows considerable flexibility in reconciling desirable balance sheet growth ambitions with the capitalisation concerns of supervisory authorities and international credit rating agencies. Notwithstanding GIB's comparatively strong capital ratios relative to regional and international peers, the Group's return on average shareholders' equity at 8.4 per cent for 2003 can be evaluated favourably against prevailing investment benchmarks.

It is gratifying to report that the successful implementation of GIB's merchant banking strategy and the resultant improvement in the Group's financial performance were recognised in the last two months of the year by two significant credit rating upgrades. In November, Fitch upgraded GIB's key long-term foreign currency credit rating from 'BBB+' to 'A-'. This was followed in December by an upgrade in Moody's long-term foreign currency rating from 'Baa2' to 'Baa1'. These rating upgrades should have a very direct and beneficial impact on the Group's funding costs. The Fitch rating also places GIB among a higher tier category of banks in the Basel Committee's proposed new capital adequacy accord, which is currently planned for implementation by the end of 2006. This positioning again holds out the prospect of distinct commercial advantages.

The Board of Directors fully appreciates and supports management's concern to protect and, where possible, to improve GIB's credit ratings. It also believes that independent validation of the Group's potential for increased participation in GCC economic development is warranted. The outlook for world and regional economies in 2004 is significantly more positive than that for 2003, although several contentious issues regarding international trade, law and finance remain to be resolved. With liquidity levels, contracting activity, corporate restructurings and overall business confidence in the GCC and the region as a whole anticipated to rise, GIB is hopeful of identifying more diverse and multiple opportunities to employ its treasury, asset management, investment banking and project and structured finance skills.

In conclusion, and as in previous years, I should like to express my sincere appreciation on behalf of the Board of Directors for the continued support of GIB's shareholders, for the skills and dedication of GIB's highly experienced management and staff, and for the constructive cooperation which GIB enjoys with the regulatory authorities that supervise and facilitate its activities.

Ebrahim Bin Khalifa Al Khalifa
Chairman

INVESTMENT BANKING

Clients look to GIB for advisory services as the Bank is a leader in this field. During 2003, the Bank played a major advisory role in the part-privatisation of the Saudi Telecom Company (STC), acting as the exclusive financial advisor to the Public Investment Fund. The Initial Public Offering (IPO) of 30 per cent of STC's shares was oversubscribed by 3.5 times.

IMPROVING GLOBAL ECONOMIC AND market conditions in the second half of 2003 provided the most positive overall business environment GIB has experienced since the adoption of its new merchant banking strategy in 2001. As a result, stronger contributions right across the Group's major operating activities produced a highly satisfactory financial performance for the year. Encouraging prospects for 2004 are supported by the continued economic expansion and diversification of GCC and regional markets, and by GIB's own more balanced earnings profile, raised international credit ratings and active business development programme. Demand for GIB's merchant and investment banking products and services is growing in tandem with important and beneficial structural reforms in the GCC states' financial infrastructure.

ECONOMIC AND BUSINESS OVERVIEW

Economic recovery in 2003 was slow to materialise and remained hesitant in nature. As the year progressed, however, rising year-on-year quarterly expansion returns for the US, Eurozone and Asian economies increased confidence that the fundamentals of a sustainable rally were in place. The threat of worldwide deflation and the risks of double-dip recession in advanced economies were addressed by further monetary loosening and fiscal stimulus in the form of tax cuts and increased deficit spending. Major stock markets around the world responded with key indices posting their first annual advances since 1999 in most cases; emerging markets' gains were even stronger. On commodities exchanges, precious and base metals and crude oil were major performers, with Brent crude futures ending the year above US$30/barrel for the first time since their introduction in 1988. This growth momentum is widely expected to continue in 2004, with rising international corporate earnings underpinning market sentiment.

For governments and businesses in the GCC states, as for GIB's management, the principal concern in the early months of 2003 had to be the military conflict in Iraq and its possible wider economic ramifications. Minor alterations to normal operations, as well as the planning and contingencies put in place to counter potentially damaging developments, were important factors in determining lower levels of business as well as delayed investment decisions throughout the region during this period. The curtailment of direct threats to GCC states' interests from the conflict was, however, followed by a rapid resumption and revival of all forms of governmental, commercial and consumer activity. Furthermore, the broad range of influences lifting local markets in the second half of 2003 reflected positively on the increased diversification and consolidation of the GCC economic area, and on the benefits of recent reforms of government finance and of foreign ownership, competition, labour and capital markets laws in individual states. The introduction of a uniform 5 per cent GCC import tariff in January 2003 marked a further important step towards the creation of a GCC common market.

Notwithstanding the bolstering effect that strong international crude oil prices had on GCC states' budgetary revenues in 2003, it is the successful and deliberate de-linking of governments' spending from oil price fluctuation over successive oil price cycles since the 1980s that is attracting the plaudits of international economic observers and leading to sovereign rating upgrades. By focusing on reducing annual budget deficits and improving management of outstanding domestic debt programmes, GCC governments are credited with providing the more stable and conducive environment within which non-oil economic activity can progressively flourish. The privatisation of key services, industries and infrastructure installations, as well as the re-organisation and corporatisation of other public concerns, has enabled governments successfully to pass on to regional financial markets the financing of the investment and working capital demands of many productive units. 2003 saw significant private and joint sector, actual or planned expansion in the petrochemicals and base metals industries, as well as in building materials led by a new phase of cement plant capacity increases. The tourism and hotels sectors of the GCC states are also making an ever more substantial contribution to local economic activity and employment, supported by the widening range of international conferences and sporting events successfully hosted in the Gulf.

The potential of the GCC to continue to feature as one of the more rapidly expanding regions of the world is rated high, especially considering that when the Iraqi market stabilises GCC companies and financial institutions will be ideally placed to participate fully in the country's reconstruction effort. Aggregate demand in the unified GCC market is driven by compelling population factors – high birth rates, a youthful demographic profile and increasing life expectancy – that are beginning to provide for internationally competitive economies of scale in light manufacturing and services. Internal and external resource mobilisation has been greatly improved: domestically, through more sophisticated fiscal and monetary management and more effective financial market intermediation, which in turn is now encouraging private sector capital repatriation on a long-term basis; externally, through lengthening the maturity terms of international financings in support of the long lead-time requirements of key world-scale hydrocarbon and industry developments. Overall, and as a committed party to the process, GIB's management is confident of the capacity of the GCC states to continue evolving the market mechanisms and institutions required to support entrepreneurship and investment and to deliver sustainable economic growth.

MERCHANT BANKING

Strategically targeted client marketing provided clear focus and the desired results for GIB's commercial banking activities in 2003. Loans and advances in the GCC rose substantially in gross terms despite significant levels of repayments during the year. GIB managed to secure a lead arranger role in almost all the region's major project finance borrowings completed in 2003, building on established relationships either with the project company itself or key project sponsors. Contact with many of the Gulf's foremost contractors, traders and real estate developers was also regularly maintained and facilities adjusted in line with updated business requirements, current exposure profiles, and new product and services availability. The Riyadh branch increased by around a third the number of new corporate customers it had acquired since opening in late 2000 and took over the relationship handling and calling programme for GIB's existing clients in the Western Province. Within the Near East geographical area, business was focused on maintaining healthy levels of deposit gathering through active management of GIB's relationships with government entities and banks. Other international exposures continued to be gradually reduced as GIB phased out or declined all but core client business with export credit agencies, banks and multinational corporations related to Gulf or North African markets.

GIB's achievement in increasing its share of GCC project finance transactions in 2003 was highly satisfying. Extensive involvement in this growth area is an important element of the Group's merchant banking strategy, but the market is challenging and competitive. Transactions are complicated in structure and documentation, and can be both exceptionally time sensitive and time and cost consuming. Managing the uncertainties of such a deal pipeline, and recovering adequate costs through margins and fees, requires not only patience and financial backing but also the type of experience, expertise and know-how for which GIB is now widely recognised.

The main characteristics of the 2003 project finance market were a pronounced lengthening of borrowing maturities and further use of long-term Islamic leasing instruments. With many new borrowings also including an element of refinancing of old facilities, the average size of loans also rose. In response to these factors, clients looked to increase the number of banks involved in lead management groups and also began to put restrictions on the extent of sell-down allowed in general syndication.

Key examples of GIB's involvement in the 2003 GCC project finance market include deals signed early in the year for beneficiaries in Bahrain, the UAE and Qatar. The largest five-tranche US$1.6 billion loan for Aluminium Bahrain (Alba) was finalised in April 2003 on the basis of lead arrangement mandates awarded in November 2002. GIB underwrote the US$500 million unsecured commercial loan along with nine other banks, a US$300 million aluminium-linked tranche with another co-underwriter, and the US$250 million Islamic tranche with six other institutions. The loan was raised to finance Alba's fifth potline expansion project. In the UAE, GIB was appointed lead arranger and regional book-runner for two out of three tranches of a US$875 million loan for the Umm Al Nar Independent Water and Power Project (IWPP), the proceeds being used to acquire existing water and power assets from the government and to develop additional capacities. In Qatar, GIB was one of fifteen lead managers for a US$700 million 14-year facility to support the Gulf's first natural gas to liquid fuel plant being built by Oryx GTL, a joint venture of Qatar Petroleum and Sasol of South Africa, one of the original pioneers of the technology. Other project financings either signed or substantially completed in 2003 covered petrochemical developments in Saudi Arabia, an oil refinery project in Oman and water-cooling plants in the UAE.

INVESTMENT BANKING

GIB began 2003 by completing its major advisory role in the part-privatisation of the Saudi Telecom Company (STC). In early January, the public offer of a 30 per cent share in STC closed, the issue was oversubscribed by 3.5 times, and in subsequent trading, shares in STC rose from a flotation price of SR170 per share to an average range of SR385-400 for the year. The benefits of the STC issue, the first Initial Public Offering (IPO) in Saudi Arabia since 1984, extended beyond the sale itself, strengthening key technical and trading attributes of the Saudi stock market and contributing positively to the overall performance of share prices during 2003. Acting as exclusive financial adviser to the Public Investment Fund, the Saudi government investment vehicle responsible for selling the STC stake, GIB had assumed a wide-ranging role in assisting the client in all major strategic and practical stages of the flotation process. The success of the STC mandate was complemented towards the end of the year with the public listing on 16th December 2003 of Jarir Marketing Company, the 70th company to be introduced to the Saudi stock market. GIB's advisory relationship with Jarir was initiated in 2000 when the company was converted to a closed joint stock company through an original private equity placement of 40 per cent of its shares, and was followed up in 2002 with GIB's appointment as exclusive financial adviser to the 2003 listing of Jarir's shares.

The strong performance of GCC stock markets in 2003 was not accompanied by any significant or immediate overall increase in completed private sector new issues or mergers and acquisitions, but a certain momentum has been gained and the prospects for 2004 are good. In Saudi Arabia, the widely heralded passage of the Capital Markets Law in 2003 will take full effect in 2004 with the publication of implementing detail and the appointment of Securities and Exchange Commission (SEC) commissioners. The Law should facilitate the approval of mergers and acquisitions involving listed and unlisted companies and lead to an increase in general corporate activity. GIB's own investment banking work during the past year suggests that a significant number of ground-breaking new transactions are ready to come to market, including the public listing of previously privately held family companies and, eventually, the issue of corporate bonds to be traded on the Saudi exchange. Demonstrable public appetite for both privatisation and private sector new issues, and the reassurance given to governments that local and regional institutions can handle and benefit from them, indicates a likelihood of increasing activity in this area across all GCC stock exchanges over the next few years.

Outside of the stock markets, GIB actively pursued project finance advisory mandates (including both debt and equity placements) from major industrial concerns in the GCC. In Saudi Arabia GIB was mandated by the National Polypropylene Company (NPPC) to raise SR2 billion of equity and loans to support a new grass-roots venture. With the equity raising component essentially complete, it is expected that both the equity and debt transactions will now be finalised in 2004. GIB also completed an advisory mandate on the commercial debt financing of a new methanol plant for the Saudi-Japanese joint venture International Methanol Company Limited; a US$180 million 12-year loan was successfully signed up through a club deal in October 2003. Raising both debt and equity for Saudi petrochemical projects involving private Saudi sponsors remains challenging, and GIB's achievements in these transactions are therefore regarded with considerable satisfaction.

In GCC markets other than Saudi Arabia, progress continues to be made in establishing GIB's investment banking and advisory franchise. Mandates won included a project finance debt advisory assignment for a major client in Oman and an equity and debt raising mandate for a UAE manufacturing company. A significant number of other proposals have also been requested from clients in Oman, the UAE, Qatar and Bahrain, and these will be actively pursued in 2004.

FINANCIAL MARKETS AND ASSET MANAGEMENT

The recovery of world equity markets in 2003 and improvements in corporate debt pricing and quality provided an altogether more accommodating environment for GIB's financial markets and asset management activities from that prevailing in the previous three years. Valuations of discretionary portfolios and the investment and hedge funds managed by GIB's UK investment banking subsidiary registered good advances, in most cases out-performing established benchmarks. Assets under management rose by US$5.0 billion or 78.8 per cent to US$11.3 billion, with advantages and gains continuing to be derived from GIB's unique franchise as the only Gulf institution with an in-house global asset management capability. Financial markets trading in 2003 enjoyed significant increases in profits, reflecting both more favourable market conditions as well as the successful application of a diverse array of rigorously developed trading strategies.

In the likely scenario of a continued global upturn in 2004, the potential for incremental gains in business and further leveraging of existing capacities is positive. The profile of GIB's asset management products has been systematically raised among Gulf investors over the last two years through an attentive, responsive and well illustrated marketing campaign that mirrors the type of quality customer service that GIB has become known for providing to existing clients.

During 2003 GIB's UK-based investment teams were consolidated so as to enhance the quality and skills available to the asset management process as applied equally to client discretionary portfolios, funds, structured products and proprietary capital. The investment and trading team now comprises 30 professionals, providing global coverage of international markets in equities and convertibles, corporate debt including high yield, asset backed securities (ABS), government debt including emerging markets, interest rates, currencies and related derivatives. The investment strategies are also diverse and include investment for Libor-plus returns, enhancing index returns, long-short trading, market neutral strategies and quantitative trading strategies. The consolidation of the investment teams has allowed GIB to pursue its strategy of leveraging its proprietary skills into client products and services.

A prime example of this strategy has been the recent growth of GIB's structured products business on the basis of trading experience gained over many years as a principal in the relevant financial markets.

Following on from a first issue in June 2002, the raising in July 2003 of a second 300 million collateralised debt obligation (CDO) saw GIB confirm its status as the leading manager of Euro-denominated mezzanine asset-backed securities in the wholesale market. The various classes of notes issued by the two special purpose entities – FAB CBO 2002-1 BV and FAB CBO 2003-1 BV – are separately rated by international credit rating agencies. Success in raising institutional funds through its CDOs depended significantly on GIB's acknowledged specialisation in relative value fixed-income investment strategies. The CDOs, which have been placed predominantly with European financial institutions, provide GIB with a further diversified source of management fees. Additional structured products are planned for 2004.

TREASURY

GIB's Treasury business group is responsible for the funding activities of the GIB Group and the capital market investment activities of the parent bank. Over the years, it has successfully established GIB's name in international and regional money markets and established its own reputation as a reliable and professional business partner. With its specialist skills and global reach, GIB's Treasury continued during 2003 to cater to the diverse financial needs of a broad client base of regional corporates, financial institutions and government entities.

A key feature of Treasury's investment activities in recent years has been the gradual growth of a large portfolio of investment grade-rated floating rate securities that now constitute GIB's principal asset class. The securities portfolio is highly liquid and generates an exceptionally stable income stream, besides providing considerable diversification of risk. Strict investment criteria are used in the selection of these assets to minimise credit risk. The portfolio made a substantial contribution to the bank's interest income for the year.

In order to achieve an efficient asset mix with adequate diversification, Treasury also makes selective investments in specialised markets and asset classes through external fund managers. Several of those funds turned in exceptionally strong performances in 2003, particularly in foreign exchange and emerging market debt.

During 2003, GIB completed additional term financing arrangements in line with the bank's strategic objective of lengthening the maturity of its funding. Total senior and subordinated term liabilities increased from US$1 billion to US$1.7 billion. The recent international credit rating upgrades, responding partly to GIB's success in its term financing programme, have provided Treasury with the opportunity to further tap other sources of competitively priced longer term funds in the near future. The continuation of GIB's historically stable trend of customers deposit retention further strengthens the bank's liquidity profile.

GCC capital markets witnessed some very successful sovereign bond issues in 2003. GIB actively participated in these issues, thereby clearly demonstrating its strategic commitment to the region and reiterating its dominant position in the Gulf's banking industry.

Owing to the prevailing low levels of interest rates and volatile exchange rate movements during 2003, there was healthy customer demand for derivatives to hedge their interest rate and currency risks. This trend is expected to continue into 2004.

SUPPORT FUNCTIONS

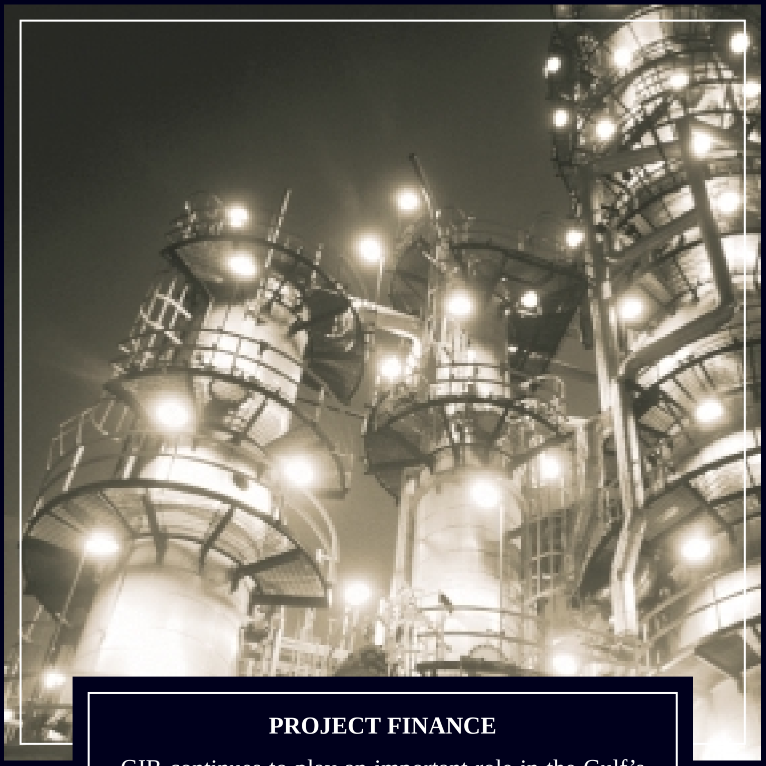
Security of operations ranked high among the priorities of senior support management and projects throughout 2003. The Group's business recovery procedures were worked upon and fully tested and tried in the early months of the year. There is complete two-way back up of Bahrain and London's central banking systems daily, as well as off-site reinforcement. A new document scanning and record retrieval system was introduced to add to existing back-up capacities and, more generally, to increase options and efficiency in the area of document access and storage. Firewall protection of GIB's systems was strengthened and an independent contractor hired to test the systems' security and integrity on a regular basis.

GIB's anti-money laundering procedures were further developed in line with international standards; extensive staff training on money laundering issues was applied at all levels, and two software programmes installed to help identify potentially suspicious transactions. GIB's anti-money laundering policy has been approved by the Board of Directors and all relevant regulatory authorities have accepted current procedures as meeting their requirements.

As well as this strengthening of practical risk-mitigation measures, an overall framework for managing operational risk was also formulated in 2003 as part of a further support area priority initiative: readying GIB to meet fully the likely requirements of the new Capital Accord (Basel II) issued by the Basel Committee on Banking Supervision and scheduled for implementation by end-2006. Other pro-active responses to Basel II challenges are described in the Risk Management Review section of this Annual Report.

GIB continues to pursue maximum efficiency and client responsiveness in all its operations, introducing new or upgraded banking software applications on a regular programmed basis and modifying organisational configurations to maintain standards of service. During 2003, GIB successfully installed new modules of its core banking system as well as independent new programmes to assist in Treasury dealing, trade finance and the monitoring and control of global credit exposures on a real-time basis. In response to the prospect of continuing increases in GIB's capital markets activity, the product processing areas were re-organised.

In the area of human resources, there are ongoing initiatives to ensure that compensation, benefits and career development opportunities are kept in line with market and administered in an equitable and transparent manner. Greater accountability for training budgets has been transferred to line managers to try to ensure more strategic and efficient use of this resource. GIB encourages all staff to seek to acquire and maintain professional qualifications and memberships of professional associations, and assists materially in this area.



PROJECT FINANCE

GIB continues to play an important role in the Gulf's infrastructure development. It was appointed lead arranger and regional book-runner for two of the three tranches of a US$875 million loan for the Umm Al Nar Independent Water and Power Project in Abu Dhabi.

CONSOLIDATED NET INCOME AFTER TAX at US$106.1 million for the year was US$20.8 million or 24.4 per cent up on the prior year. This represented a return on average shareholder's equity of 8.4 per cent which compared favourably against prevailing investment benchmarks. Significant improvements and advances were recorded by the Group's key business activities enabling GIB to record its second highest ever result. The significant year-on-year increase in the Group's profit was due to substantially higher non-interest earnings and a lower level of provisions. 2003 net income was net of a US$55.2 million provision charge for credit losses compared to an US$82.7 million charge in 2002. A decrease in net interest income resulting from the lower interest rate environment prevailing during the year was more than offset by a US$31.9 million or 36.1 per cent increase in non-interest earnings. This increase was largely attributable to strong trading revenues although also partly reflected the bank's strategic emphasis on merchant banking activities with investment banking and management fees rising by 10.6 per cent over the previous year. Operating expenses were 9.1 per cent up on the prior year. The year-on-year increase in expenses was recorded almost entirely in staff expenses. This was largely attributable to higher performance-related remuneration in line with the significantly stronger trading performance although was also partly due to the negative impact of the weaker US Dollar on foreign currency denominated expenses. Despite this adverse development, premises and other operating expenses were nevertheless maintained at much the same level as the prior year as a result of ongoing cost containment measures. As referred to in the section on operating expenses, GIB's profit per employee and cost to income ratios continue to be extremely efficient.

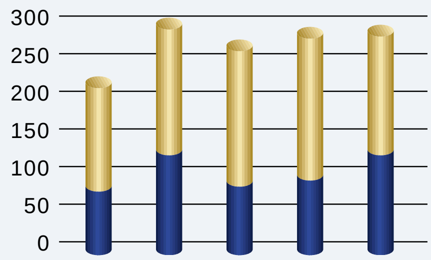
NET INTEREST INCOME

Net interest income at US$167.3 million was US$28.4 million or 14.5 per cent lower than the prior year. Net interest income is principally derived from four sources: earnings on the investment of the Group's net free capital, margin income on the commercial lending as well as the available-for-sale securities portfolios, and earnings from the Group's money book activities. Money book earnings represent the differential between the funding cost of interest-bearing assets based on internal transfer pricing methodologies and the actual funding cost incurred by the Bank. This includes benefits derived from the mismatch of the repricing profile of the Group's interest-bearing assets and liabilities. Net interest income is also reported net of the funding cost of non-interest bearing investments from which income is derived in the form of dividends and capital gains, and reported in the relevant category in other income.

Interest rates declined to extremely low absolute levels in most developed economies in 2003. The lower interest rate environment impacted the Group's net interest earnings in three specific respects. The Group's net free capital is partly invested in fixed rate instruments in order to lock-in a fixed return over the medium term. Interest earnings on the net free capital were lower in 2003 as a result of the maturity and sale of a number of investments. Investments were sold in order to reduce the duration of the portfolio in anticipation of a higher interest rate environment in the medium term. This realignment nevertheless resulted in a lower overall yield in 2003. In addition, while the Group's money book activity generated strong interest earnings in 2003, they were nevertheless almost one third lower than in 2002. Short interest rate mismatch positions were maintained throughout much of the year. The money book accordingly benefitted from the lower level of interest rates prevailing during the year. However, interest rates declined by a far lesser extent in 2003 than in 2002. As illustrated in note 24 to the consolidated financial statements, the Group had a long interest rate mismatch position at the end of 2003. As such, it was positioned to benefit from a rising interest rate environment moving into 2004. These negative factors were, however, partly offset by a lower funding cost in respect of non-interest bearing investments as a result of the lower interest rate environment.

The overall negative impact of the lower interest rate environment on interest earnings was partly compensated by a year-on-year increase in net interest earnings from the available-for-sale (AFS) securities portfolio. This resulted from a $450.6 million or 5.7 per cent increase in the average volume of AFS securities during the year as is evident in the average consolidated balance sheet as set out in note 33 to the consolidated financial statements. The high credit quality of the AFS securities portfolio continued to be emphasised with 97.2 per cent of AFS debt securities at the 2003 year end being investment grade-rated. Net interest earnings derived from the Group's commercial lending portfolio were also higher in 2003. Loan margin income was 12 per cent up on the previous year. In line with the Group's strategic focus on the GCC, there was a further decrease in the volume of international loans during 2003 contributing to a decrease in the associated loan margin income. This was, however, more than offset by a 24 per cent increase in interest earnings from the Group's core GCC commercial loan portfolio. This was attributable to an increase in average loan volumes with margins being marginally higher than in 2002.

Gross income development (US$ millions)



	1999	2000	2001	2002	2003
Net interest income	139.6	169.7	193.4	195.7	167.3
Other income	77.4	127.3	70.3	88.4	120.3
Gross income before provisions	217.0	297.0	263.7	284.1	287.6

OTHER INCOME

Other income at US$120.3 million for the year was US$31.9 million or 36.1 per cent up on the prior year level. An analysis of other income with prior year comparatives is set out in note 18 to the consolidated financial statements.

The significant year-on-year increase in other income was principally attributable to strong trading revenues and further growth in investment banking-related fee income. The Group's various trading activities recorded a US$50.8 million profit for the year compared to a US$1.4 million profit in 2002. Profits were generated across all trading activities. This included trading in equity, corporate debt, foreign exchange, fixed income, derivative and emerging debt markets. Trading profits benefited in particular from strong advances in the equity and emerging debt markets, and the significant weakening in the US Dollar. The profits also reflected the benefit derived from a wide range of trading strategies, including relative value, arbitrage and non-directional strategies.

Dividend income of US$23.7 million was US$7.8 million lower than in 2002. Dividend income was received from investments in leveraged finance transactions and from externally managed funds. The funding cost of these investments is reported in net interest income. The year-on-year decrease in dividend income reflected the impact of the lower interest rate environment on the income from the underlying investments within the leveraged finance vehicles. The underlying investments of these vehicles are principally high quality, investment grade-rated floating rate debt securities.

Investment banking and management fees at US$18.8 million were a significant, and increasing, contributor to non-interest earnings. This income category comprises fees generated by the Group's asset management, fund management, corporate advisory and underwriting activities. These fees were US$1.8 million or 10.6 per cent up on the prior year, following a 45.3 per cent increase in 2002. The year-on-year increase principally reflected higher asset and fund management fees, and underwriting fees. The increase in asset and fund management fees was attributable to a higher volume of funds under management and also to a higher level of performance fees in 2003. As referred to in note 29 to the consolidated financial statements, assets held in a fiduciary capacity increased by US$5.0 billion or 78.8 per cent during the year to US$11.3 billion at 31st December 2003.

Profits on available-for-sale securities amounted to US$15.6 million for the year. This largely comprised profits arising as a result of the active management of the investment of the Group's net free capital in fixed rate securities. The profits arose on the restructuring of the fixed rate securities portfolio in anticipation of a rise in interest rates in the medium term.

Commissions on letters of credit and guarantee at US$8.9 million were US$1.3 million or 17.1 per cent up on the prior year and therefore continued to make an important contribution to non-interest income. The significant year-on-year advance was attributable to an increase in guarantee commissions on GCC-related business activities and a higher level of letter of credit business generated by the Group's overseas offices. Other fee and sundry income principally comprised loan commitment and Islamic finance arrangement fees.

OPERATING EXPENSES

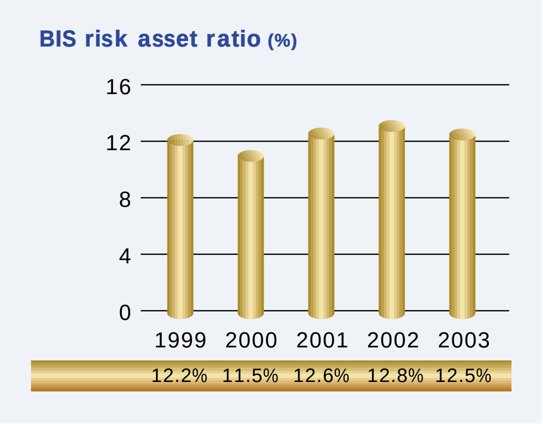
Operating expenses at US$126.1 million were US$10.5 million or 9.1 per cent up on the prior year. The year-on-year increase was recorded almost entirely in staff expenses. Despite the year-on-year increase in expenses, GIB continues to maintain one of the highest profit per employee ratios for any bank in the world in addition to an extremely low cost to income ratio. According to a survey of the top 1,000 banks in the world published by The Banker magazine in July 2003, GIB's profit per employee in 2002 was the highest among the top 1,000 banks ranked by Tier 1 capital. In addition, the cost to income ratio of 40.1 per cent in 2002 was significantly lower than the average ratio for each geographic region, including the U.S.A. (58.2 per cent), Europe (70.6 per cent) and Japan (87.4 per cent). In 2003, the Group's cost to income ratio was 43.8 per cent, an extremely efficient ratio by international comparison.

Staff expenses were US$9.9 million or 13.5 per cent up on the prior year. This was attributable to higher performance-related remuneration as a result of the significantly stronger trading performance and the increase in investment banking revenues, a higher pension expense in relation to the Group's defined benefit pension plan as set out in note 10 to the consolidated financial statements, and higher release expenses associated with a further reduction in the Group's headcount. 2003 expenses were also negatively impacted by the weaker US Dollar prevailing during the year. This resulted in an increase in the US$ equivalent of the foreign currency denominated expenses of the Group's overseas offices. While the foreign currency denominated expenses were hedged against the US Dollar, they were hedged at a less favourable rate than in the previous year. Despite this adverse development, premises and other operating expenses were both successfully contained at much the same level as in the previous year as a result of ongoing cost control measures.

CAPITAL STRENGTH

Shareholders' equity amounted to US$1,388.8 million at 31st December 2003. At the 2003 year end the ratios of shareholders' equity and Tier 1 capital to total assets were 8.0 per cent and 7.7 per cent respectively, ratios that are high by international comparison. The average Tier 1 capital to total assets ratio of the top 1,000 world banks was 4.5 per cent according to a survey published in The Banker magazine in July 2003.

A US$260.6 million increase in shareholders' equity during 2003 comprised the net of the US$106.1 million profit for the year, a US$42.7 million dividend paid in respect of 2002, and a US$197.2 million net increase in the fair value of available-for-sale securities and derivative cash flow hedges. In accordance with IAS 39, changes in the fair values of available-for-sale securities and derivative cash flow hedges are accounted for in shareholders' equity.



With a total regulatory capital base of US$1,657.6 million and total risk-weighted exposure of US$13,294.5 million, the risk asset ratio calculated in accordance with the guidelines of the Basel Committee on Banking Supervision was 12.5 per cent. In accordance with international regulatory guidelines, the fair value adjustments to equity arising under IAS 39 in relation to available-for-sale securities and derivative cash flow hedges are excluded from the regulatory capital base, with the exception of unrealised gains and losses on equity investments. As a result, at the 2003 year end net fair value gains of US$47.4 million were deducted from shareholders' equity to derive the regulatory capital base for capital adequacy purposes. The Bank's regulatory capital base was enhanced by two 10 year subordinated loan facilities amounting in total to US$150.0 million. The subordinated loans have been approved for inclusion in Tier 2 capital for capital adequacy purposes by the Bank's regulator, the Bahrain Monetary Agency (BMA). The risk asset ratio incorporates market risk-weighted exposure. Exposure to general market risk is 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 BMA. The high proportion of shareholders' equity within the total capital base resulted in a Tier 1 ratio of 10.0 per cent. Note 28 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 14.2 per cent at the 2003 year end. Under the BMA guidelines, GCC governments and government-owned entities are accorded the same preferential 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 Group's favourable capital adequacy position are the strong capital base, the level of non-specific provisions and significant exposure to major OECD country governments and to the banking sector.

ASSET QUALITY

The geographical diversification of risk assets is set out in note 22 to the consolidated financial statements. Further assessment of asset quality can be facilitated by reference to note 30 to the consolidated financial statements on the fair value of financial instruments. Based on the valuation methodologies 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 2003 by US$23.5 million. All non-trading securities are classified as available-for-sale and measured at fair value. Available-for-sale securities are accordingly stated at fair value in the consolidated balance sheet.

At the 2003 year end, available-for-sale securities accounted for 48.8 per cent of total assets while loans and advances represented 21.7 per cent.

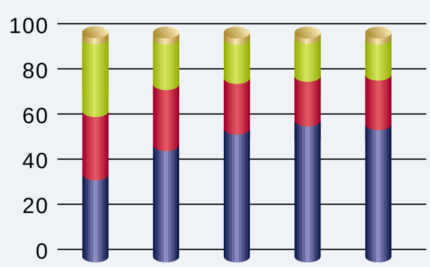
AVAILABLE-FOR-SALE SECURITIES

Available-for-sale (AFS) securities totalled US$8,451.8 million at 31st December 2003. The available-for-sale securities portfolio represents not only a substantial and effective liquidity reserve but also an effective international geographical diversification of the Group's risk assets with 81.6 per cent of the portfolio comprising securities of North American and European issuers. The remaining balance largely comprises securities issued by GCC country governments.

AFS 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 yield constant spreads over LIBOR. These accounted for 86.5 per cent of the total AFS securities portfolio at the 2003 year end. The smaller debt security portfolio comprises fixed income securities. This portfolio amounted to US$601.3 million at the end of 2003. This largely comprised GCC country government bonds with original maturities of up to two years.

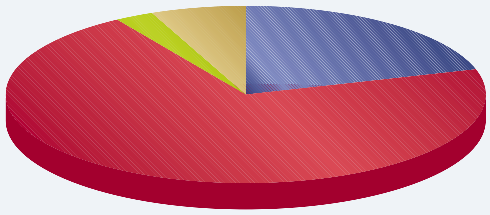
An analysis of the AFS securities portfolio by rating category is set out in note 6(a) to the consolidated financial statements. US$1,722.4 million or 21.7 per cent of

Asset mix by category (%)



	1999	2000	2001	2002	2003
Other	3.0	3.1	3.2	2.0	1.6
Placements and other liquid assets	33.1	21.2	18.3	19.5	18.7
Loans and advances	25.7	25.9	21.7	20.1	21.7
Securities	38.2	49.8	56.8	58.4	58.0
Total	100.0	100.0	100.0	100.0	100.0

Available-for-sale securities rating profile



	US$ millions	%
AAA / Aaa rated debt securities	1,722.4	20.4
Debt securities of other investment grade issuers	5,973.0	70.6
Other debt securities	218.5	2.6
Equities and equity funds	537.9	6.4
Total	8,451.8	100.0

the AFS debt securities at the 2003 year end represented AAA/Aaa rated securities. Based on the rating of the issuer, a further US$5,973.0 million or 75.5 per cent of the AFS debt securities represented other investment grade-rated securities. Thus 97.2 per cent of the total debt securities comprised investment grade-rated securities. Other debt securities, the issuers of which are rated below BBB-/Baa3 or are unrated, amounted to US$218.5 million at the end of 2003, thus comprising only 2.6 per cent of the total AFS securities portfolio. In view of the historically high corporate default rates witnessed in the past three years, the Group has actively reduced the volume of securities rated below investment grade. As a result, other debt securities decreased by US$446.3 million, or two thirds, during 2003. 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 credit-related contingent transactions. Equities and equity funds at 31st December 2003 amounted to US$537.9 million. The equities and equity funds portfolio is principally invested in the equity tranches of leveraged finance entities and, to a very limited extent, in a number of externally managed fund-type investments which provide a diversified exposure to private equity and real estate markets. The underlying investments of the leveraged finance entities principally comprise high quality, investment grade-rated floating rate debt securities. The investments generate an attractive and stable margin over LIBOR by means of the leveraged characteristics of the investment vehicles.

LOANS AND ADVANCES

Loans and advances amounted to US$3,759.6 million at the 2003 year end. This represented a US$503.8 million or 15.5 per cent increase compared to the 2002 year end. The increase reflected further growth in the GCC loan portfolio and, in particular, a number of new project finance-related facilities within the region, in line with the Group's strategic emphasis on relationship banking in the GCC. 78.2 per cent, or over three quarters, of the loan portfolio at the 2003 year end represented lending within GIB's core market in the GCC states. The geographical diversification of the Group's overall credit risk is achieved through the international securities markets rather than through participation in international syndicated lending transactions.

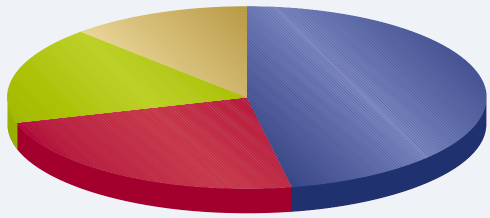
Based on contractual maturities at the balance sheet date, 47.0 per cent of the loan portfolio was due to mature within one year while 70.5 per cent was due to mature within three years. Details of exposure within the loan portfolio to GCC and OECD country governments are contained in note 7 to the consolidated financial statements while the geographical distribution of loans and advances is set out in note 22. The portfolio contained no significant concentrations by industrial sector. As discussed in note 30, the net fair value of loans and advances exceeded their net book value by US$23.5 million.

Total loan loss provisions at 31st December 2003 amounted to US$721.5 million. Country and counterparty specific provisions amounted to US$539.1 million while non-specific provisions were US$182.4 million. Specific provisions at the 2003 year end represented 89.1 per cent of loans against which a specific provision had been made. Specific provision utilisations during 2003 totalled US$54.8 million. The utilisations arose on the sale or settlement of the related loans and, to a more limited extent, on the write off of a number of historically long overdue loans for which the possibility of collection was considered remote. While loans were sold or settled at less than nominal value, the proceeds exceeded the provisioned net book values in all cases. The loan write offs took place within the Group's ongoing strategic programme to reduce exposure to non-relationship international loans. The written off loans were all fully provisioned. The provision charge for loans and advances was US$4.4 million for the year. This comprised the net of a US$12.4 million provision charge for specific loan provisions and an US$8.0 million release of non-specific loan provisions. The release arose in the Bank's principal subsidiary, Gulf International Bank (UK) Limited, following the maturity of almost all of its remaining loans during 2003. As a result, it was no longer necessary for the subsidiary to continue to maintain non-specific loan provisions. Specific provisions are maintained in the currencies of the related exposures. The weakening in the US Dollar during the year resulted in a US$20.7 million increase in the US$ equivalent of specific loan provisions maintained in foreign currencies. This increase was, however, offset by an equivalent increase in the related loan exposures. The non-specific provision at the year end represented 4.7 per cent of loans which had not been specifically provided against.

Specific provisions are determined based on the recoverable amount of the loan. The recoverable amount is measured as the present value of the expected future cash flows discounted based on the interest rate at the inception of the facility. Non-specific provisions are determined based on the applicable credit ratings and associated historical default probabilities, loss severity and rating migrations, and reflect the current macroeconomic, political and business environment and other pertinent indicators. 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.

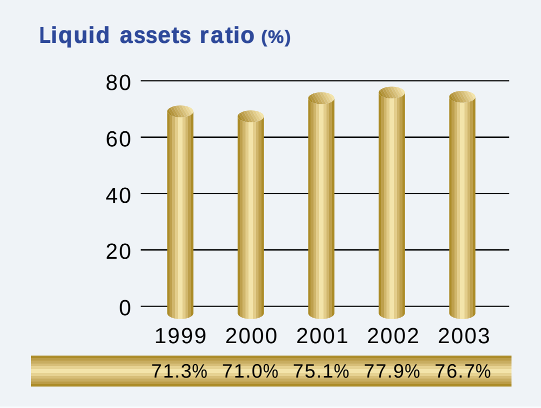
The gross and net book values of past due loans amounted to US$562.4 million and US$42.9 million respectively. The provisioning coverage for past due loans was therefore 92.4 per cent. Past due loans are

Loan maturity profile



	US$ millions	%
Year 1	1,766.7	47.0
Years 2 & 3	881.6	23.5
Years 4 & 5	651.5	17.3
Over 5 years	459.8	12.2
Total	3,759.6	100.0

defined as those loans for which either principal or interest is over 90 days past due. Under IAS 39, interest on impaired loans should be recognised in income based on the interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount. However, in accordance with guidelines issued by the Bank's regulator, the BMA, interest on past due loans is only to be recognised in income on a cash basis. In view of the Group's high provisioning coverage for impaired loans, the difference between the two bases of accounting is not material. An ageing analysis of past due loans is set out in note 7(c) to the consolidated financial statements. US$454.9 million or 80.9 per cent of gross past due loans were overdue by more than five years and are therefore historical in nature. These are all fully provided against. Only US$33.9 million of past due loans at 31st December 2003 had become past due during the preceding twelve months. The gross volume of past due loans also continued to be substantially less than total provisions. Total provisions for loan losses exceeded the gross volume of past due loans by US$159.1 million. This means that rather than earnings being impaired by the funding cost of the net book value of past due loans, there is a positive earnings enhancement. Past due loans at their net book value of US$42.9 million represented just 1.1 per cent of net loans. Past due loans at their net book value also represented only 3.1 per cent of shareholders' equity.



OTHER ASSET CATEGORIES

Cash and other liquid assets, which amounted to US$215.0 million at the 2003 year end, are analysed in note 3 to the consolidated financial statements. In addition to cash and balances with banks, other liquid assets included certificates of deposit and Treasury bills held for balance sheet management purposes.

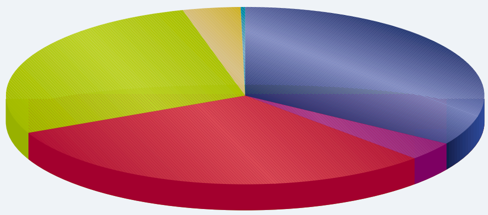
Placements with banks totalled US$3,023.1 million at the 2003 year end and were well diversified by geography as illustrated in note 22 to the consolidated financial statements. Interbank placements were largely with GCC and European bank counterparties, representing the Group's two principal operating locations. Placements with banks represented 17.5 per cent of total assets at the 2003 year end contributing to a very strong liquid assets ratio of 76.7 per cent.

Trading securities at US$1,583.6 million largely comprised listed debt securities amounting to US$1,168.0 million. Trading securities also included US$159.6 million of managed funds. The funds, which are managed by international institutions with acknowledged expertise in their field, provide diversified exposure to foreign exchange, hedge funds and international debt markets.

RISK ASSET AND COMMITMENT EXPOSURE

Risk asset and commitment exposure at 31st December 2003 amounted to US$19,127.4 million. Risk assets

Risk asset and commitment exposure



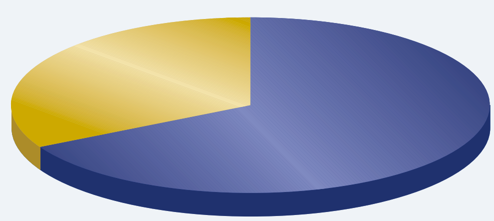
	US$ millions	%
GCC	6,515.9	34.1
Other Middle East & North Africa	655.4	3.4
North America	5,303.9	30.6
Europe	5,863.9	27.7
Asia	738.5	3.9
Latin America	49.8	0.3
Total	19,127.4	100.0

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 22 to the consolidated financial statements. An analysis of derivative and foreign exchange products is set out in note 25 while a further analysis of credit-related contingent items together with their risk-weighted equivalents is contained in note 26.

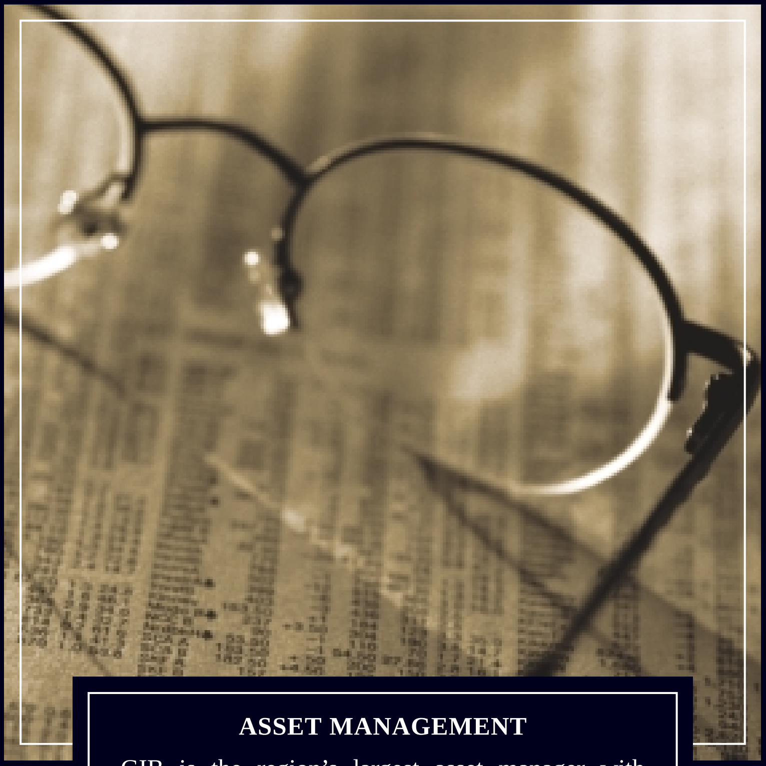
FUNDING

Bank and customer deposits at 31st December 2003 totalled US$10,340.1 million. Customer deposits amounted to US$4,910.2 million at the 2003 year end being marginally lower than at the previous year end. Customer deposits represented 47.5 per cent of total deposits compared to 46.9 per cent at the end of 2002. A US$312.1 million decrease in bank deposits compared to the 2002 year end reflected a reduced requirement for interbank funding as a result of a further increase in term financing during the year. Funding was also enhanced by an increase in securities sold under agreements to repurchase (repos). Repos increased by US$429.8 million during the year to US$3,006.5 million at 31st December 2003. The increase in the volume of AFS securities facilitated the Group's ability to fund through this mechanism. Repos represent a more stable and cost effective source of funding, thereby enhancing both liquidity management and profitability. As is evident from note 33 to the consolidated financial statements, total deposits averaged US$10,401.6 million during 2003. Total deposits at the year end were therefore representative of the level of deposits maintained throughout the year. As illustrated in note 11 to the consolidated financial statements, 67.1 per cent or over two thirds of total deposits were from the GCC. GIB is a net placer of funds in the international interbank market. Term financing at 31st December 2003 totalled US$1,501.3 million. Term financing was further enhanced during the year by a US$500 million 5 year repo transaction. An additional US$121.3 million of term financing was also raised during the year as part of an ongoing programme to enhance the Group's funding profile. Further commentary on liquidity and funding is provided in the Risk Management Review section.

Deposits - geographical profile



	US$ millions	%
GCC countries	6,940.3	67.1
Other countries	3,399.8	32.9
Total	10,340.1	100.0



ASSET MANAGEMENT

GIB is the region's largest asset manager with US$11.3 billion of funds under management. During 2003, funds under management rose by 78.8 per cent and in most cases valuations of discretionary portfolios out-performed established benchmarks.

THE GIB GROUP MAINTAINS A PRUDENT and disciplined approach to risk taking by upholding a comprehensive set of risk management policies, processes and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels. A key tenet of this culture is the clear segregation of duties and reporting lines between personnel transacting business and personnel processing that business. The Group's risk management is underpinned by its ability to identify, measure, aggregate and manage the different types of risks it faces.

The Board of Directors has created from among its members a Board Risk Policy Committee to review the Group's risk taking activities and report to the Board in this regard. The Board sets the overall risk parameters and tolerances within which the Group conducts its activities. The Board periodically reviews the Group's overall risk profile and significant risk exposures as well as the Group's major risk policies, processes and controls.

The Management Committee, chaired by the Chief Executive Officer, has the primary responsibility for sanctioning risk taking policies and activities within the tolerances defined by the Board. The Group Risk Committee assists the Management Committee to perform its risk related functions. The Group Risk Committee, comprising the bank's most senior risk professionals, provides a forum for the review and approval of new products, risk measurement methodologies and risk control processes. The Committee also reviews all risk policies and limits that require approval by the Management Committee.

From a control perspective, the process of risk management is facilitated through a set of independent functions, which report directly to senior management. These functions include Risk Management, Credit Risk Control, Market Risk Control, Financial Controls and Internal Audit. This multi-faceted approach aids the effective management of risk by identifying, measuring and monitoring risks from a variety of perspectives. Risks associated with off-balance sheet derivative instruments are managed within the overall risk management framework.

The major risks associated with the Group's business are credit, market, liquidity and operational risks. These risks and the related risk management processes are commented on in note 21 to the consolidated financial statements and are discussed in detail in the following sections.

CREDIT RISK

Credit risk is the risk that a customer, counterparty or an issuer of securities or other financial instruments fails to perform under its contractual payment obligations thus causing the Group to suffer a loss in terms of cash flow or market value. Credit risk is the predominant risk type faced by the Group in its banking, investment and treasury activities both on and off balance sheet. Where appropriate the Group seeks to minimize its credit exposure using a variety of techniques including but not limited to the following:

- entering netting agreements with counterparties that permit offsetting of receivables and payables.
- obtaining collateral against the Group's exposure.
- seeking third party guarantees of the counterparty's obligations.
- imposing restrictions and covenants on borrowers.

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor's financial condition, market position, business environment and quality of management. The risk assessment generates an internal credit risk rating for each exposure, which affects the credit approval decision and the terms and conditions of the transaction. For cross border transactions an analysis of country risk is also conducted. The Group bases its credit decision for an individual counterparty on the aggregate Group exposure to that counterparty and all its related entities. Groupwide credit limit setting and approval authorisation requirements have been rationalised within Board approved guidelines and a new software package, which facilitates improved monitoring and control of credit exposures, was implemented during 2003.

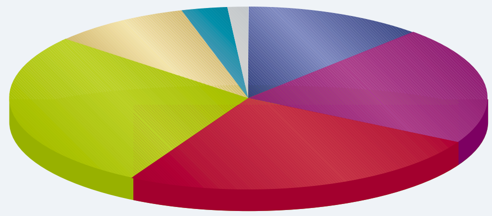
Overall exposures are evaluated to ensure broad diversification of credit risk. Potential concentration risks by product, industry, single obligor, credit risk rating and geography are regularly assessed with a view to improving overall portfolio diversification. Established limits and actual levels of exposure are regularly reviewed by the Chief Credit Officers and other members of senior management. In general, all credit decisions are reviewed at least once a year. Credit policies and procedures are designed to identify, at an early stage, exposures which require more detailed monitoring and review.

The credit risk associated with foreign exchange and derivative instruments is assessed in a manner similar to that associated with on-balance sheet activities. The Group utilises derivative transactions for proprietary trading, to facilitate customer transactions and for the management of interest and foreign exchange risks associated with the Group's longer-term lending, borrowing and investment activities. Unlike on-balance sheet products, where the principal amount and interest generally represent 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 the replacement cost at current market rates plus an add-on amount commensurate with the position's size, volatility and remaining life.

Derivative contracts may also carry legal risk such as not having been authorized, appropriate or enforceable for a counterparty and documentation not being properly executed. The Group seeks to

Credit risk rating profile

as at 31st December 2003



	US$ millions	%
AAA / Aaa	2,135.4	11.2
AA / Aa	3,656.4	19.1
A / A	5,018.4	26.2
BBB / Baa	5,509.6	28.8
BB / Ba	1,933.0	10.1
B / B	616.5	3.2
below B / B	258.1	1.4
Total	19,127.4	100.0

minimize these risks by the use of standard contract agreements and by obtaining the opinion of legal counsel regarding enforceability of agreements and the authority of a counterparty to transact.

The current gross positive market values or credit risk amounts of foreign exchange and derivative transactions are set out in note 25 to the consolidated financial statements. The total credit risk amount in respect of all such transactions outstanding at the 2003 year end amounted to US$94.2 million before taking account of the risk-reducing benefits of any collateral held or legally enforceable netting agreements. The note highlights that 94.1 per cent of the total credit risk was concentrated on major OECD-based banks and was predominantly short-term in nature with 77.6 per cent of notional amounts of the transactions outstanding at the end of 2003 contracted to mature within one year. Transactions maturing beyond one year represented either hedging transactions entered into for asset and liability management purposes or fully offset customer transactions.

MARKET RISK

Market risk is the risk of loss of value of a financial instrument or a portfolio of financial instruments as a result of changes in market prices and rates. Market risk arises from the Group's trading, asset and liability management and investment activities. A description of the categories of market risk faced by the Group is set out below:

- Interest rate risk results from exposure to changes in the level, slope, curvature and volatility of interest rates and credit spreads. The credit spread risk is the risk that the interest yield for a security will increase, with a reduction in the security price, relative to benchmark yields as a result of the general market movements for that rating and class of security. Interest rate risk is the principal type of market risk faced by the Group and arises from the Group's investment activities in debt securities, asset and liability management and the trading of debt and derivative instruments.
- Foreign exchange risk results from exposure to changes in the price and volatility of currency spot and forward rates. For the Group the principal foreign exchange risk arises from its investments in externally managed currency funds and from its foreign exchange forward and derivatives trading activities.
- Equity risk arises from exposures to changes in the price and volatility of individual equities or equity indices. The Group's equity risk principally arises from its trading activities in US and European equities, equity derivatives and convertibles.
- Commodity risk results from exposure to changes in the price and volatility of commodities. The Group's commodity risk arises entirely from its derivatives trading activities.

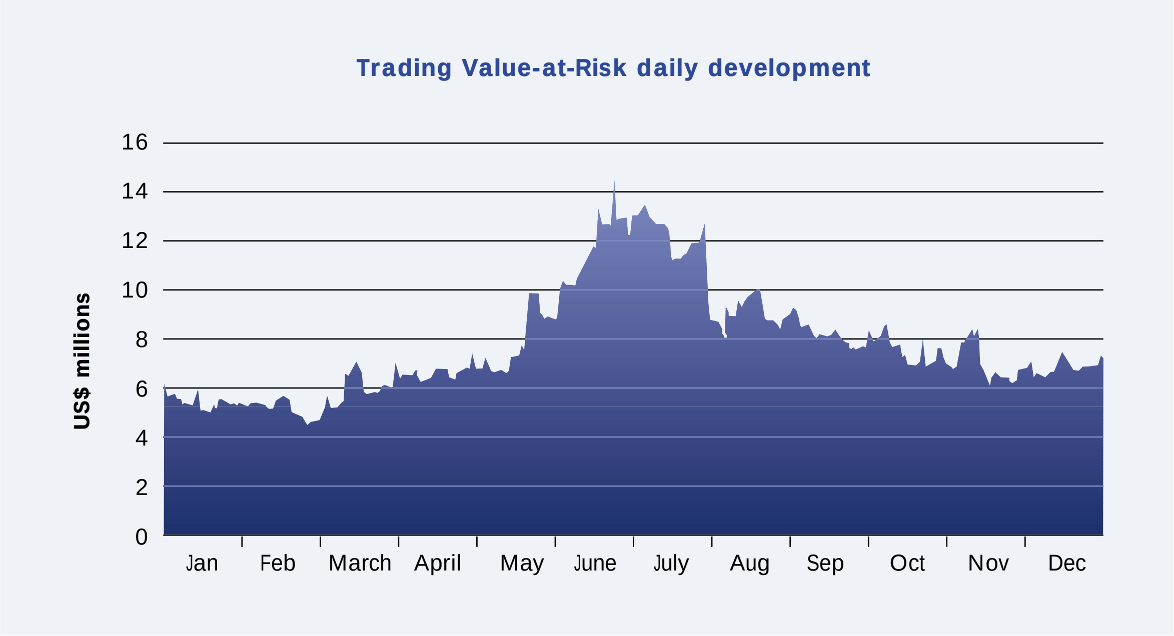
The Group seeks to manage the market risks it faces through diversification of exposures across dissimilar markets and establishment of hedges in related securities or off balance sheet derivative instruments. To manage the Group's exposures in addition to the exercise of business judgment and management experience, the Group utilises limit structures including those relating to positions, portfolios, maturities and maximum allowable losses.

A key element in the Group's market risk management framework is the estimation of potential future losses that may arise from adverse market movements. The Group utilises Value-at-Risk (VaR) to estimate such losses. The VaR is derived from quantitative models that use statistical and simulation methods that take account of all market rates and prices that may cause a change in a position's value. These include interest rates, foreign exchange rates and equity prices, their respective volatilities and the correlations between these variables. The Group's VaR is calculated on a variance/co-variance basis using exponentially weighted one-year historical daily movements in market rates and prices, giving greater importance to the more recent observations in estimating potential future losses. The VaR takes account of potential diversification benefits of different positions both within and across different portfolios. Consistent with general market practice, VaR is computed for all financial instruments for which there are readily available daily prices or a suitable proxy.

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. Exposures are monitored against a range of limits both by risk category and portfolio and are regularly reported to and reviewed by senior management and the Board of Directors.

For internal risk management purposes, the Group measures losses that are anticipated to occur within a 95 per cent confidence level. This implies that there is on average a 5 per cent or a 1 in 20 chance of a loss exceeding the VaR over the prescribed time horizon or holding period. The Group measures VaR utilising a one month assumed holding period for both trading and available-for-sale positions.

The graph below sets out the total Value-at-Risk for all the Group's trading activities at the close of each business day throughout the year. The figures are calculated using the regulatory VaR basis

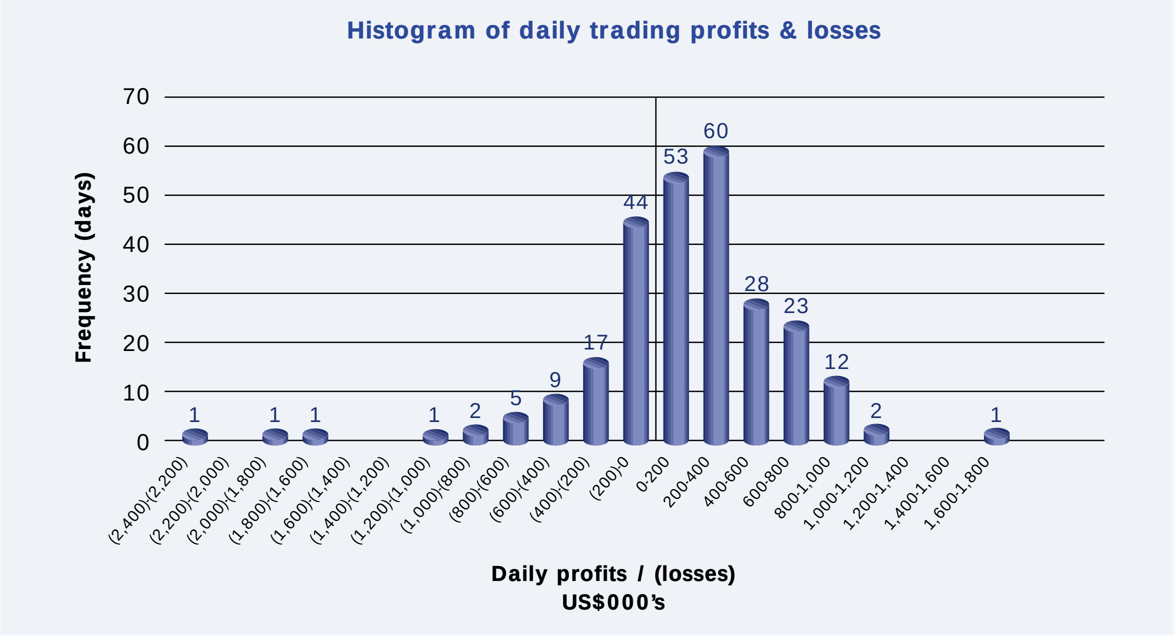


at a 1 per cent risk level (2.33 standard deviations) and at the ten-day horizon using one-year unweighted historical daily movements in market rates and prices. On this basis, total diversified VaR over the year averaged US$8.0 million and varied within the range of US$4.5 million to US$14.6 million with a 2003 year-end value of US$7.0 million.

The Group conducts daily VaR back testing both for regulatory compliance with the Basel Committee on Banking Supervision market risk capital rules and for internal evaluation of VaR against trading profit and losses. During 2003, there were no occasions on which a daily trading loss exceeded the trading VaR at the close of business on the previous business day. The Basel Committee's guidelines on back testing permit a maximum of five excesses beyond which the multiplication factor determined by the regulator may be increased.

An inherent limitation of VaR is that past market movements may not provide an accurate prediction of future market losses. Historic analyses of market movements have shown that extreme market movements (e.g. beyond the 99 per cent confidence level) occur more frequently than VaR models predict. Stress tests are designed to estimate the potential economic losses in such abnormal markets. Therefore, stress testing combined with VaR provides a more comprehensive picture of market risk. The Group regularly performs stress tests that are constructed around changes in market rates and prices that result from pre-specified market scenarios, including both historical and hypothetical market events. Historical scenarios include the 1994 bond market sell-off, the 1995 Mexican Peso crisis, the 1998 Russian crisis and the 2001 September 11 market disruption. Stress testing is performed for all material trading and available-for-sale 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. VaR-based limits are utilised to control fluctuations in interest earnings resulting from changes in interest rates. 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 24 to the consolidated financial statements. The repricing profiles of individual assets and liability categories incorporate the effect of interest rate swaps used to modify the interest rate characteristics of specific transactions. As illustrated in note 24, the substantial majority of assets and liabilities reprice within one year. The volume of interest-bearing assets repricing over one year amounted to only US$496.7 million or 2.9 per cent of total assets. This mainly represented investments in fixed rate government securities with a maximum original maturity of two years. At 31st December 2003 the modified duration of these fixed rate government securities was 1.4.

LIQUIDITY RISK AND FUNDING

Liquidity risk is the risk of the Group's financial obligations not being met fully and punctually as they fall due. The risk arises from the timing differences between the maturity profiles of the Group's assets and liabilities. It includes the risk of losses arising from the following:

- Forced sale of assets at below normal market prices.
- Raising of deposits or borrowing funds at excessive rates.
- The investment of surplus fund at below market rates.

The Group maintains a strong liquidity position by managing the liquidity structure of assets, liabilities and commitments to ensure the Group has access to adequate funds to meet its obligations even under adverse market conditions. In normal market conditions the Group endeavours to ensure that there are sufficient funds not only to meet current obligations but also to provide the flexibility to capitalise on market opportunities.

The Group applies a prudent mixture of liquidity controls that provide security of access to funds 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, by major currency, the projected profile of future cash flows from 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.

The Group maintains strong balance sheet liquidity ratios and regularly monitors its depositors to ensure it retains a diversified deposit base in terms of name concentration, range of counterparties and maturities. The Group maintains a stock of liquid and marketable securities that can be readily sold or repoed. The funding base is enhanced through term financing of US$1,651.3 million as at 31st December 2003, an increase of US$621.3 million over the year. Deposits from customers provide a further stable source of funding. Contingency plans also exist that can be quickly implemented to maintain liquidity in crisis situations without hindering long-term business objectives.

The asset and liability maturity profile by individual asset and liability category based on contractual repayment arrangements is set out in note 23 to the consolidated financial statements. At 31st December 2003, 42.1 per cent of total assets were contracted to mature within one year. 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 2003 from those counterparties with deposits over US$10 million at 31st December 2003 amounted to US$8,849.6 million. These deposits of a core nature together with shareholders' equity and term financing were three times the least liquid asset category, loans and advances. The more stable deposits from the GCC region also comfortably exceed the loan portfolio. At 31st December 2003 deposits from GCC country governments and central banks and other institutions headquartered in the GCC states amounted to US$6,940.3 million. GCC deposits to total loans cover was therefore 1.8 times. Total deposits and term financing coverage to loans was 3.5 times while the liquid assets ratio, which expresses the sum total of bank balances, money market instruments, placements with banks and securities as a percentage of total assets, was a very high 76.7 per cent.

OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. It is an inherent risk faced by all businesses and covers a large number of vulnerabilities including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

Whilst operational risk cannot be eliminated in its entirety, the Group endeavours to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation. The various procedures and processes used to manage operational risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. In addition, other control strategies, including business continuity planning and insurance, are in place to complement the procedures, as applicable.

A risk assessment has been compiled which identifies the operational risks inherent in the Group's activities, processes and systems, and the controls required to mitigate these risks are constantly under review and updated as necessary. A database of measurable operational losses is maintained, together with a record of key risk indicators, which can provide an early warning of possible operational risk. The process of management reporting is currently under review.

The Group ensures that its processes are in line with best practice and that it takes account of lessons learnt from published failures within the global financial services industry. In addition, the Group has a strong Internal Audit function, which undertakes periodic, independent appraisals of the actual functioning of the controls in all the identified risk areas and reports on their findings to the Audit Committee of the Board of Directors.

SPECIALISED LENDING

GIB is recognised as the region's premier authority on oil and gas lending. The Bank was mandated, along with other financial institutions, to arrange a US$700 million syndicated loan to support the Gulf's first natural gas to liquid fuel plant, which is being built by Oryx GTL in Qatar.

FINANCIAL STATEMENTS

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REPORT OF THE AUDITORS TO THE SHAREHOLDERS

We have audited the consolidated financial statements of Gulf International Bank B.S.C. (the Bank) and its subsidiaries (the Group) as at, and for the year ended 31st December 2003 as set out on pages 37 to 73.

Respective responsibilities of Directors and Auditors

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

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 2003, and the results of its operations, changes in shareholders' equity and its cash flows for the year then ended, in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

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 Bahrain Commercial Companies Law 2001, or the Bahrain Monetary Agency Law 1973 (as amended), or the terms of the Bank's licence, or its Agreement of Establishment, or its Articles of Association have occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG.

KPMG
Public Accountants
Manama, Kingdom of Bahrain
27th January 2004

CONSOLIDATED BALANCE SHEET

	Note	**At 31.12.03 US$ millions**	At 31.12.02 US$ millions
Assets			
Cash and other liquid assets	3	**215.0**	147.6
Placements with banks	4	**3,023.1**	3,024.0
Trading securities	5	**1,583.6**	1,201.4
Available-for-sale securities	6	**8,451.8**	8,280.4
Loans and advances	7	**3,759.6**	3,255.8
Fixed assets	8	**18.8**	20.6
Other assets	9	**250.5**	306.7
Total assets		**17,302.4**	16,236.5
Liabilities			
Deposits from banks	11	**5,429.9**	5,742.0
Deposits from customers	11	**4,910.2**	5,079.5
Securities sold under agreements to repurchase		**3,006.5**	2,576.7
Securities sold but not yet purchased		**271.2**	53.3
Other liabilities	12	**644.5**	626.8
Term financing	13	**1,501.3**	880.0
Subordinated term loans	14	**150.0**	150.0
Total liabilities		**15,913.6**	15,108.3
Shareholders' Equity			
Share capital	15	**1,000.0**	1,000.0
Share premium		**7.6**	7.6
Reserves	16	**226.8**	37.1
Retained earnings		**154.4**	83.5
Shareholders' equity		**1,388.8**	1,128.2
Total liabilities & shareholders' equity		**17,302.4**	16,236.5

The consolidated financial statements were approved by the Board of Directors on 27th January 2004 and signed on their behalf by:-

Ebrahim Bin Khalifa Al Khalifa
Chairman

Dr. Khaled M. Al-Fayez
Chief Executive Officer

The notes on pages 41 to 73 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

	Note	**Year ended 31.12.03 US$ millions**	Year ended 31.12.02 US$ millions
Interest Revenue			
Interest on securities		**271.3**	343.5
Interest and fees on loans		**97.2**	117.1
Interest on placements and other liquid assets		**60.8**	67.0
		429.3	527.6
Interest Expense		**262.0**	331.9
Net interest income		**167.3**	195.7
Provisions for securities	6	**50.8**	83.2
Provisions for loans and advances	7	**4.4**	(0.5)
Net interest income after provisions		**112.1**	113.0
Other Income	18	**120.3**	88.4
Net interest and other income		**232.4**	201.4
Operating Expenses			
Staff		**83.1**	73.2
Premises		**10.0**	9.6
Other		**33.0**	32.8
		126.1	115.6
Net income before tax		**106.3**	85.8
Taxation charge on overseas activities	19	**0.2**	0.5
Net income after tax		**106.1**	85.3
Earnings per share	*31*	***US$0.11***	*US$0.09*

The notes on pages 41 to 73 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31.12.03 US$ millions	Year ended 31.12.02 US$ millions
Operating Activities		
Net income	**106.1**	85.3
Adjustments to reconcile net income to net cash outflow from operating activities:		
Provisions for securities	**50.8**	83.2
Provisions for loans and advances	**4.4**	(0.5)
Profit on available-for-sale securities	**(15.6)**	(19.4)
Amortisation of available-for-sale securities	**6.3**	16.5
Depreciation of fixed assets	**6.4**	7.1
Decrease in accrued interest receivable	**26.4**	37.3
Decrease in accrued interest payable	**(25.1)**	(34.7)
Decrease in other net assets	**131.5**	5.3
Net increase in trading securities	**(382.2)**	(194.7)
Net cash outflow from operating activities	**(91.0)**	(14.6)
Investing Activities		
Net decrease / (increase) in placements with banks	**0.9**	(330.4)
Net (increase) / decrease in loans and advances	**(508.2)**	54.1
Purchase of available-for-sale securities	**(2,724.8)**	(3,337.5)
Sale and maturity of available-for-sale securities	**2,650.2**	2,733.2
Purchase of fixed assets	**(4.6)**	(5.2)
Net cash outflow from investing activities	**(586.5)**	(885.8)
Financing Activities		
Net decrease in deposits from banks	**(312.1)**	(449.0)
Net (decrease) / increase in deposits from customers	**(169.3)**	345.8
Net increase in securities sold under agreements to repurchase	**429.8**	1,154.3
Net increase / (decrease) in securities sold but not yet purchased	**217.9**	(69.3)
Increase in senior term financing	**621.3**	25.0
Dividends paid	**(42.7)**	(50.0)
Net cash inflow from financing activities	**744.9**	956.8
Increase in cash and cash equivalents	**67.4**	56.4
Cash and cash equivalents at 1st January	**147.6**	91.2
Cash and cash equivalents at 31st December	**215.0**	147.6

The notes on pages 41 to 73 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital US$ millions	Share premium US$ millions	Reserves US$ millions	Retained earnings US$ millions	Total US$ millions
At 31st December 2001	**1,000.0**	**7.6**	**133.5**	**52.6**	**1,193.7**
Arising in the year:-					
- Available-for-sale securities:					
net fair value losses	-	-	(113.1)	-	(113.1)
- Cash flow hedges:					
net fair value gains	-	-	13.7	-	13.7
Transfers in the year:-					
- Transfers to net income	-	-	(14.0)	12.6	(1.4)
Net (losses)/gains recognised directly in equity	-	-	(113.4)	12.6	(100.8)
Dividend for 2001	-	-	-	(50.0)	(50.0)
Net income for the year	-	-	-	85.3	85.3
Transfers from retained earnings	-	-	17.0	(17.0)	-
At 31st December 2002	**1,000.0**	**7.6**	**37.1**	**83.5**	**1,128.2**
Arising in the year:-					
- Available-for-sale securities:					
net fair value gains	-	-	171.4	-	171.4
- Cash flow hedges:					
net fair value gains	-	-	0.8	-	0.8
Transfers in the year:-					
- Transfers to net income	-	-	(3.7)	28.7	25.0
Net gains recognised directly in equity	-	-	168.5	28.7	197.2
Dividend for 2002	-	-	-	(42.7)	(42.7)
Net income for the year	-	-	-	106.1	106.1
Transfers from retained earnings	-	-	21.2	(21.2)	-
At 31st December 2003	**1,000.0**	**7.6**	**226.8**	**154.4**	**1,388.8**

The notes on pages 41 to 73 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2003

1. INCORPORATION AND REGISTRATION

The parent company of the Group (the Group), Gulf International Bank B.S.C. (the Bank), is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain by Amiri Decree Law No. 30 dated 24th November 1975 and is registered as an offshore banking unit with the Bahrain Monetary Agency. The registered office of the Bank is located at Al-Dowali Building, 3 Palace Avenue, Manama, Kingdom of Bahrain.

The Group is principally engaged in the provision of wholesale commercial and investment banking services. The Group operates through subsidiaries, branch offices and representative offices located in six countries worldwide. The total number of staff employed by the Group at the end of the financial year was 582.

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 Financial Reporting Standards promulgated by the International Accounting Standards Board. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of trading securities, available-for-sale securities and derivative financial instruments as explained in more detail in the following accounting policies. Recognised assets and liabilities that are hedged by derivative financial instruments are also stated at fair value in respect of the risk that is being hedged. The accounting policies have been consistently applied by the Bank and its subsidiaries and are consistent with those of the previous year.

2.2 Consolidation principles

The consolidated financial statements include the accounts of Gulf International Bank B.S.C. and its subsidiaries. Subsidiary undertakings are companies and other entities, including special purpose entities, in which the Bank holds, directly or indirectly, more than one half of the voting rights, or otherwise has the power to exercise effective control over the financial and operating policies of the entity. All intercompany balances and transactions, including unrealised gains and losses on transactions between Group companies, have been eliminated.

2.3 Trade and settlement date accounting

All regular way purchases and sales of financial assets held for trading are recognised on the trade date, i.e. the date on which the Group commits to purchase or sell the financial asset. All regular way purchases and sales of other financial assets are recognised on the settlement date, i.e. the date on which the asset is delivered to or received from the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

2.4 Foreign currencies

The reporting currency of the Group is the US Dollar. The share capitals of the Bank and its principal subsidiaries are also denominated in US Dollars. Transactions in foreign currencies are converted to US Dollars at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated 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. ACCOUNTING POLICIES (continued)

2.5 Offsetting

Financial assets and liabilities are only offset and the net amount reported in the consolidated 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 the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange and equity markets.

Derivative financial instruments are initially recognised in the consolidated balance sheet at cost, including transaction costs, and subsequently remeasured to fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate. In the consolidated balance sheet, derivative financial instruments with positive fair values (unrealised gains) are included in other assets and derivative financial instruments with negative fair values (unrealised losses) are included in other liabilities.

The changes in the fair values of derivative financial instruments entered into for trading purposes or to hedge other trading positions are included in other income in the consolidated statement of income.

The recognition of changes in the fair values of derivative financial instruments entered into for hedging purposes is determined by the nature of the hedging relationship. For the purposes of hedge accounting, derivative financial instruments are designated as a hedge of either: (i) the fair value of a recognised asset or liability (fair value hedge), or (ii) the future cash flows attributable to a recognised asset or liability or a firm commitment (cash flow hedge).

The Group's criteria for a derivative financial instrument to be accounted for as a hedge include:-

- the hedging instrument, the related hedged item, the nature of the risk being hedged, and the risk management objective and strategy must be formally documented at the inception of the hedge,
- it must be clearly demonstrated that the hedge is expected to be highly effective in offsetting the changes in fair values or cash flows attributable to the hedged risk in the hedged item,
- the effectiveness of the hedge must be capable of being reliably measured, and
- the hedge must be assessed on an ongoing basis and determined to have actually been highly effective throughout the financial reporting period.

Changes in the fair values of derivative financial instruments that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk, are included in other income in the consolidated statement of income together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk that is being hedged. Unrealised gains and losses arising on hedged assets or liabilities which are attributable to the hedged risk are adjusted against the carrying amounts of the hedged assets or liabilities in the consolidated balance sheet. If the hedge no longer meets the criteria for hedge accounting, any adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to income over the remaining period to maturity.

2. ACCOUNTING POLICIES (continued)

2.6 Derivative financial instruments (continued)

Changes in the fair values of derivative financial instruments that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in a separate component of shareholders' equity. Unrealised gains or losses recognised in shareholder's equity are transferred to the consolidated statement of income at the same time that the income or expense of the corresponding hedged item is recognised in the income statement and are included in the same income or expense category as the hedged item. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are recognised in other income in the consolidated statement of income.

The interest component of derivatives that are designated, and qualify, as fair value or cash flow hedges is recognised in interest income or interest expense over the life of the derivative instrument.

Certain derivative transactions, while providing effective economic hedges within the Group's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39. Such derivative transactions are categorised as derivatives held for trading and related fair value gains and losses included in other income in the consolidated statement of income.

Hedge accounting is discontinued when the derivative hedging instrument either expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

2.7 Interest income and expense

Interest income and interest expense are recognised for all interest-bearing financial instruments on an accruals basis using the effective yield method based on the original settlement amount. Loan origination fees are deferred and recognised as an adjustment to the effective yield on the loan. 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 consolidated 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 included in cash and other liquid assets.

2.9 Securities

Trading securities are securities which are either acquired for the purpose of generating a profit from short-term fluctuations in price or are included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost, including transaction costs, and subsequently remeasured to fair value based on quoted market prices. Realised and unrealised gains and losses are included 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.

2. ACCOUNTING POLICIES (continued)

2.9 Securities (continued)

Available-for-sale securities are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity, changes in interest rates or concerns with respect to credit deterioration. Available-for-sale securities are initially recognised at cost, including transaction costs, and subsequently remeasured to fair value based on quoted market prices or amounts derived from cash flow models as appropriate. Unquoted and illiquid equity investments for which fair values cannot be reliably measured are stated at cost less provision for impairment. Unrealised gains and losses arising from changes in the fair values of available-for-sale securities after the adoption of IAS 39 on 1st January 2001 are recognised in a separate revaluation reserve in shareholders' equity. The cumulative fair value adjustments on available for-sale securities which are sold or otherwise disposed of, or become impaired, and which had previously been recognised in shareholder's equity are transferred to the consolidated statement of income.

Dividends received on trading and available-for-sale securities are included 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 originated by the Group by providing money directly to the borrower or to a sub-participation agent at the drawdown date are categorised as loans originated by the Group. Originated loans are stated at amortised cost less provision for impairment.

Purchased loans, including sub-participations purchased subsequent to the provision of the original loan, which are acquired for the purpose of generating a profit in the short term are categorised as held-for-trading assets. Loans categorised as held-for-trading are initially recognised at cost, including transaction costs, and subsequently remeasured to fair value based on available market prices. Realised and unrealised gains and losses are included in other income. Interest earned on trading loans is included in interest income. Purchased loans which are intended to be held to maturity are categorised as held-to-maturity assets and stated at amortised cost less provision for impairment.

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 impairment

A provision for impairment is established where there is objective evidence that the Group will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the credit facility. The provision for impairment is determined based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments remeasured to fair value, at the current market rate of interest for a similar financial asset.

Provisions for impairment are also measured and recognised on a portfolio basis where there is objective evidence that probable losses are present in groups of similar credit exposures. These exposures are collectively evaluated for impairment with the provisions for expected losses based on the applicable credit ratings and associated historical default probabilities, loss severity and rating migrations, and reflect the macroeconomic, political and business environment and other pertinent indicators.

2. ACCOUNTING POLICIES (continued)

2.11 Provisions for impairment (continued)

Provisions for impairment are released where a subsequent increase in the recoverable amount is related objectively to an event occurring after the provision for impairment was established.

2.12 Other provisions

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

2.13 Fixed assets

Land is stated at cost. Other fixed assets are stated at cost less accumulated depreciation. Where the carrying amount of a fixed asset is greater than its estimated recoverable amount, the asset is written down to its recoverable amount.

Generally, costs associated with the maintenance of existing computer software 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.

The Group's contributions to defined contribution pension plans are charged to income in the year to which they relate.

The pension costs for 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, in accordance with the advice of an independent qualified actuary who conducts a full valuation of the plan every three years. The pension obligation is measured as the present value of the estimated future cash flows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised in income over the average remaining service lives of employees.

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. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Currently enacted tax rates are used to determine deferred income taxes.

2.16 Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash and other liquid assets.

2. ACCOUNTING POLICIES (continued)

2.17 Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments whose revenue, result or assets comprise 10 per cent or more of the total for all segments are reported separately.

2.18 Fiduciary activities

The Group administers and manages assets owned by clients which are not reflected in the consolidated financial statements. Asset management fees are earned for providing investment management services and for managing 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.

2.19 Comparatives

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

3. CASH AND OTHER LIQUID ASSETS

	31.12.03	31.12.02
	US$ millions	US$ millions
Cash and balances with banks	**141.9**	143.4
Certificates of deposit	**38.4**	3.0
Treasury bills	**21.2**	1.2
Securities purchased under agreements to resell	**13.5**	-
	215.0	147.6

Certificates of deposit and treasury bills are categorised as assets held-to-maturity and are stated at amortised cost.

4. PLACEMENTS WITH BANKS

Placements with banks are categorised as assets held-to-maturity and are stated at cost.

Placements with banks at 31st December 2003 included placements with non-bank financial institutions amounting to US$77.5 million (2002: US$51.0 million).

5. TRADING SECURITIES

	31.12.03	31.12.02
	US$ millions	US$ millions
Government bonds	**149.6**	65.1
Listed debt securities	**1,168.0**	974.1
Unlisted debt securities	**39.8**	14.4
Managed funds	**159.6**	137.7
Equities	**66.6**	10.1
	1,583.6	1,201.4

Managed funds represent funds placed for investment with external asset managers. The funds provide a diversified exposure to foreign exchange and international debt markets.

6. AVAILABLE-FOR-SALE-SECURITIES

a) Classification of available-for-sale securities

	31.12.03	31.12.02
	US$ millions	US$ millions
AAA / Aaa rated debt securities	**1,722.4**	1,282.5
Debt securities of other investment grade issuers	**5,973.0**	5,804.0
Other debt securities	**218.5**	664.8
Equities and equity funds	**537.9**	529.1
	8,451.8	8,280.4

The Group's available-for-sale securities predominantly comprise higher quality, investment grade-rated debt securities. At 31st December 2003, 91.0 per cent of available-for-sale securities were investment grade-rated (2002: 85.6 per cent)

Equities and equity funds principally comprised investments of a structured finance nature managed by international investment banks, the underlying investments of which are high quality, investment-grade rated debt securities.

Debt securities of other investment grade issuers at 31st December 2003 included GCC country government securities of US$1,000.2 million (2002: US$1,151.7 million).

6. AVAILABLE-FOR-SALE-SECURITIES (continued)

b) Provisions for impairment

	2003	2002
	US$ millions	US$ millions
At 1st January	**125.6**	80.4
Exchange rate movements	**3.5**	2.9
Amounts utilised	**(87.7)**	(40.9)
Charge for the year	**50.8**	83.2
At 31st December	**92.2**	125.6

c) Unquoted equity investments

Available-for-sale securities at 31st December 2003 included US$58.9 million (2002: US$81.0 million) of unquoted equity investments for which fair values cannot be reliably measured. These investments are stated at cost less provision for impairment. They principally comprise investments in managed entities, the underlying investments of which are primarily of either a corporate debt or private equity nature, managed by external specialist managers and international investment banks. There are no active markets or other appropriate methods from which to derive reliable fair values for these investments.

7. LOANS AND ADVANCES

	31.12.03	31.12.02
	US$ millions	US$ millions
Loans originated by the Group	**4,280.8**	3,832.0
Loans purchased by the Group		
- held for trading	**44.2**	-
- held to maturity	**156.1**	175.0
Gross loans and advances	**4,481.1**	4,007.0
Provisions for impairment	**(721.5)**	(751.2)
Net loans and advances	**3,759.6**	3,255.8

a) Concentrations of loans and advances

Net loans and advances at 31st December 2003 included exposure to GCC country governments of US$299.8 million (2002: US$323.2 million) and OECD country central government and agency risk of US$98.9 million (2002: US$124.4 million).

There were no significant concentrations by industrial sector at either 31st December 2003 or at 31st December 2002.

7. LOANS AND ADVANCES (continued)

b) Provisions for impairment

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

	2003			2002		
	Specific provision US$ millions	**Non-specific provision US$ millions**	**Total US$ millions**	Specific provision US$ millions	Non-specific provision US$ millions	Total US$ millions
At 1st January	**560.8**	**190.4**	**751.2**	551.6	190.4	742.0
Exchange rate and other movements	**20.7**	**-**	**20.7**	18.0	-	18.0
Amounts utilised	**(54.8)**	**-**	**(54.8)**	(8.3)	-	(8.3)
Charge / (release) for the year	**12.4**	**(8.0)**	**4.4**	(0.5)	-	(0.5)
At 31st December	**539.1**	**182.4**	**721.5**	560.8	190.4	751.2

Total specific provisions at 31st December 2003 represented 89.1 per cent (2002: 84.8 per cent) of loans against which a specific provision had been made. Total non-specific provisions at 31st December 2003 represented 4.7 per cent (2002: 5.7 per cent) of loans which had not been specifically provided against. Total provisions at 31st December 2003 exceeded the gross book value of past due loans by US$159.1 million (2002: US$181.1 million).

At 31st December 2003 there was no accrued but uncollected interest on impaired loans included in interest income (2002: nil).

c) Past due loans

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

	31.12.03		31.12.02	
	Gross US$ millions	**Net book value US$ millions**	Gross US$ millions	Net book value US$ millions
Sovereign	**440.5**	**0.8**	421.8	0.7
Corporate	**108.9**	**41.3**	143.6	47.3
Financial institutions	**13.0**	**0.8**	4.7	-
	562.4	**42.9**	570.1	48.0

7. LOANS AND ADVANCES (continued)

c) Past due loans (continued)

The overdue status of past due loans based on original contractual maturities was as follows:-

	31.12.03 US$ millions	31.12.02 US$ millions
Within 6 months	**-**	2.5
7 months to 1 year	**33.9**	26.4
2 to 5 years	**73.6**	79.3
Over 5 years	**454.9**	461.9
	562.4	570.1

At 31st December 2003 uncollected interest-in-suspense on past due loans amounted to US$522.3 million (2002: US$501.3million).

8. FIXED ASSETS

	Freehold land US$ millions	Buildings US$ millions	Premises and equipment US$ millions	Total US$ millions
At 31st December 2003				
Cost	**8.9**	**27.2**	**54.0**	**90.1**
Accumulated depreciation	**-**	**26.7**	**44.6**	**71.3**
Net book value	**8.9**	**0.5**	**9.4**	**18.8**
At 31st December 2002				
Net book value	8.9	0.9	10.8	20.6

9. OTHER ASSETS

	31.12.03 US$ millions	31.12.02 US$ millions
Accrued interest, fees and commissions	**156.8**	183.2
Derivative financial instruments	**35.5**	32.2
Outstanding security settlements	**12.2**	32.5
Deferred items	**12.6**	15.7
Prepaid pension cost	**8.7**	13.0
Other prepayments	**3.0**	4.8
Other, including accounts receivable	**21.7**	25.3
	250.5	306.7

Derivative financial instruments represent the positive fair values of derivative financial instruments entered into for trading purposes, or designated as fair value or cash flow hedges. An analysis of the fair value of derivative financial instruments is set out in Note 25(d).

An analysis of the prepaid pension cost is set out in Note 10.

10. POST RETIREMENT BENEFITS

The Group contributes to defined benefit and defined contribution pension plans which cover substantially all its 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 defined contribution pension plans for the year ended 31st December 2003 amounted to US$3.2 million (2002: US$3.2 million).

The Bank's principal subsidiary, Gulf International Bank (UK) Limited (GIBUK), 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 costs are charged to income so as to spread the regular cost of the pensions over the service lives of the employees, in accordance with the advice of an independent qualified actuary who conducts a full valuation of the plan every three years using the projected unit credit method. In the intervening years the calculation is updated based on information received from the actuary. The latest full actuarial valuation was carried out at 1st January 2001.

The amount recognised in the consolidated balance sheet is analysed as follows:-

	31.12.03 US$ millions	31.12.02 US$ millions
Fair value of plan assets	**80.2**	59.1
Present value of fund obligations	**94.1**	78.1
	(13.9)	(19.0)
Unrecognised actuarial loss	**22.6**	32.0
Net asset in the consolidated balance sheet	**8.7**	13.0

The movements in the net asset recognised in the consolidated balance sheet were as follows:-

	2003 US$ millions	2002 US$ millions
At 1st January	**13.0**	17.5
Net expense included in staff expenses	**(6.2)**	(4.5)
Contributions paid	**3.2**	-
Exchange differences	**(1.3)**	-
At 31st December	**8.7**	13.0

The amounts recognised in the consolidated statement of income were as follows:-

	2003 US$ millions	2002 US$ millions
Current service cost	**5.1**	4.6
Interest cost	**3.9**	3.6
Expected return on plan assets	**(4.1)**	(4.5)
Amortisation of actuarial loss	**1.3**	0.8
Total included in staff expenses	**6.2**	4.5

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

	2003	2002
Discount rate	**5.8%**	5.0%
Expected return on plan assets	**7.0%**	7.0%
Future salary increases	**4.0%**	3.9%
Future increases to pensions in payment	**2.7%**	2.3%

11. DEPOSITS

Deposits from customers include deposits from central banks

The geographical composition of total deposits was as follows:-

	31.12.03 US$ millions	31.12.02 US$ millions
GCC countries	**6,940.3**	6,992.0
Other countries	**3,399.8**	3,829.5
	10,340.1	10,821.5

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

12. OTHER LIABILITIES

	31.12.03 US$ millions	31.12.02 US$ millions
Derivative financial instruments	**257.8**	308.2
Accrued interest	**126.2**	151.3
Outstanding security settlements	**45.6**	9.4
Deferred items	**70.7**	63.8
Minority interests	**84.9**	30.6
Other, including accounts payable and accrued expenses	**59.3**	63.5
	644.5	626.8

Derivative financial instruments represent the negative fair values of derivative financial instruments entered into for trading purposes, or designated as fair value or cash flow hedges. An analysis of the fair value of derivative financial instruments is set out in Note 25(d).

Minority interests represent minority interests in fund products managed by the Bank and its subsidiaries. Fund products in which the Bank holds, directly or indirectly, more than half of the net asset value are accounted for on a consolidated basis.

13. TERM FINANCING

	31.12.03 US$ millions	31.12.02 US$ millions
US$ Floating rate loans due in 2004	**75.0**	75.0
US$ Floating rate loans due in 2005	**501.0**	400.0
US$ Islamic murabaha term facilities due in 2005	**70.3**	-
US$ Floating rate loan due in 2006	**30.0**	30.0
US$ Floating rate note due in 2007	**325.0**	325.0
US$ Floating rate repo due between 2007 and 2009	**500.0**	-
US$ Floating rate loan due in 2003	**-**	50.0
	1,501.3	880.0

14. SUBORDINATED TERM LOANS

	31.12.03 US$ millions	31.12.02 US$ millions
US$ Floating rate loan due 2011	**100.0**	100.0
US$ Floating rate loan due 2011	**50.0**	50.0
	150.0	150.0

The subordinated term loans represent unsecured obligations of the Group and are subordinated in right of payment to the claims of depositors and other creditors of the Group that are not also subordinated. The subordinated loans have been approved for inclusion in Tier 2 capital for capital adequacy purposes by the Bank's regulator, the Bahrain Monetary Agency.

15. SHARE CAPITAL

The authorised share capital at 31st December 2003 comprised 3.0 billion shares of US$1 each (2002: 3.0 billion shares of US$1 each). The issued share capital at 31st December 2003 comprised 1.0 billion shares of US$1 each (2002: 1.0 billion shares of US$1 each). All issued shares are fully paid.

16. RESERVES

	Compulsory reserve US$ millions	Voluntary reserve US$ millions	Cash flow hedge reserve US$ millions	Available -for-sale securities revaluation reserve US$ millions	Total US$ millions
At 31st December 2001	**91.1**	**28.6**	**7.6**	**6.2**	**133.5**
Arising in the year:-					
- Available-for-sale securities:					
net fair value losses	-	-	-	(113.1)	(113.1)
- Cash flow hedges:					
net fair value gains	-	-	13.7	-	13.7
Transfers in the year:-					
- Transfers to net income	-	-	(9.6)	(4.4)	(14.0)
Net gains/(losses) recognised directly in equity	-	-	4.1	(117.5)	(113.4)
Transfers from retained earnings	8.5	8.5	-	-	17.0
At 31st December 2002	**99.6**	**37.1**	**11.7**	**(111.3)**	**37.1**
Arising in the year:-					
- Available-for-sale securities:					
net fair value gains	-	-	-	171.4	171.4
- Cash flow hedges:					
net fair value gains	-	-	0.8	-	0.8
Transfers in the year:-					
- Transfers to net income	-	-	(4.1)	0.4	(3.7)
Net (losses)/gains recognised directly in equity	-	-	(3.3)	171.8	168.5
Transfers from retained earnings	10.6	10.6	-	-	21.2
At 31st December 2003	**110.2**	**47.7**	**8.4**	**60.5**	**226.8**

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. Transfers to the non-distributable compulsory reserve are required until such time as this reserve represents 50 per cent of the issued share capital of the Bank. The voluntary reserve may be utilised at the discretion of the Board of Directors.

17. DIVIDENDS

Dividends are not accounted for until they have been ratified at the general assembly meeting. The dividend ratified in respect of 2003 will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31st December 2004.

18. OTHER INCOME

	2003 **US$ millions**	2002 US$ millions
Profit / (loss) on trading securities	**39.6**	(5.1)
Dividend income	**23.7**	31.5
Investment banking and management fees	**18.8**	17.0
Profit on available-for-sale securities	**15.6**	19.4
Profit on foreign exchange	**11.2**	6.5
Commissions on letters of credit and guarantee	**8.9**	7.6
Other fee and sundry income	**2.5**	3.2
Profit on cash flow hedges	**-**	8.3
	120.3	88.4

Dividend income comprised dividends received of US$2.2 million and US$21.5 million from equities and equity funds in the trading and available-for-sale security portfolios respectively (2002: US$5.2 million and US$26.3 million respectively). The funding cost in respect of the equities and equity funds is included in interest expense in the consolidated statement of income.

Investment banking and management fees comprised fees relating to the provision of investment management and financial services, including asset and fund management, underwriting activities and services relating to structured financing, privatisations, IPO's, and mergers and acquisitions.

19. DEFERRED INCOME TAXES

At 31st December 2002 a deferred tax asset of US$3.2 million associated with an IAS 39-related consolidation adjustment in relation to a subsidiary company was not recognised in the consolidated financial statements due to the uncertainty of the recovery of the tax losses against future taxable profits. There was no deferred tax asset at 31st December 2003.

20. SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's business and geographical segments. The primary reporting format, business segments, is based on the products and services provided or the type of customer serviced and reflects the manner in which financial information is evaluated by management and the Board of Directors.

a) Business Segments

For financial reporting purposes, the Group is organised into three main business segments:-

* Corporate and institutional banking - the provision of wholesale commercial financing and other credit facilities for corporate and institutional customers.

* Treasury and financial markets - the provision of a broad range of treasury and capital market products and services to corporate and financial institution clients, money market, proprietary trading and investment activities and the management of the Group's balance sheet, including funding.

* Investment management and banking - the provision of investment management and financial advisory services, including asset management and services relating to structured financing, privatisations, IPO's and mergers and acquisitions.

The results reported for the business segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's consolidated financial statements as set out in Note 2. Transactions between business segments are conducted on normal commercial terms and conditions. Transfer pricing between the business units is based on the market cost of funds.

Segment results, assets and liabilities comprise items directly attributable to the business segments. The 'corporate and other' category comprises items which are not directly attributable to specific business segments, including investments of a strategic nature and the investment of, and earnings on, the Group's net free capital. Unallocated overheads and exceptional charges are reported separately.

20. SEGMENTAL INFORMATION (continued)

The business segment analysis is as follows:-

	Corporate and institutional banking US$ millions	Treasury and financial markets US$ millions	Investment management and banking US$ millions	Corporate and other US$ millions	Total US$ millions
2003					
Net interest and other income	**40.4**	**138.3**	**12.8**	**40.9**	**232.4**
Segment result	**31.1**	**119.5**	**4.9**	**39.4**	**194.9**
Unallocated overhead					**(88.6)**
Taxation on overseas activities					**(0.2)**
Net income after tax					**106.1**
Segment assets	**3,813.5**	**13,334.3**	**-**	**154.6**	**17,302.4**
Segment liabilities	**-**	**14,838.1**	**-**	**1,075.5**	**15,913.6**
Shareholders' equity					**1,388.8**
Total liabilities and shareholders' equity					**17,302.4**
2002					
Net interest and other income	45.6	81.4	11.8	62.6	201.4
Segment result	36.3	62.3	4.4	60.6	163.6
Unallocated overhead					(77.8)
Taxation on overseas activities					(0.5)
Net income after tax					85.3
Segment assets	3,317.6	12,443.6	-	475.3	16,236.5
Segment liabilities	-	14,026.3	-	1,082.0	15,108.3
Shareholders' equity					1,128.2
Total liabilities and shareholders' equity					16,236.5

20. SEGMENTAL INFORMATION (continued)

b) Geographical segments

Although the Group's three main business segments are managed on a worldwide basis, they are considered to operate in two geographical markets: the GCC and the rest of the world.

The geographical composition of net interest and other income based on the location in which transactions are booked and income is recorded was as follows:-

	2003	2002
	US$ millions	US$ millions
GCC countries	**174.5**	209.7
Other countries	**57.9**	(8.3)
	232.4	201.4

The geographical analyses of deposits and risk assets are set out in Notes 11 and 22 respectively.

21. RISK MANAGEMENT

The principal risks associated with the Group's businesses are credit risk, market risk, liquidity risk and operational risk. The Group has a comprehensive risk management framework in place for managing these risks which is constantly evolving as the business activities change in response to credit, market, product and other developments. The risk management framework is guided by a number of overriding principles including the formal definition of risk management governance, an evaluation of risk appetite expressed in terms of formal risk limits, risk oversight independent of business units, disciplined risk assessment and measurement including Value-at-Risk (VaR) methodologies and portfolio stress testing, and risk diversification. The Board of Directors set the Group's overall risk parameters and risk tolerances, and the significant risk management policies. A Board Risk Policy Committee reviews and reports to the Board of Directors on the Group's risk profile and risk taking activities. A Management Committee, chaired by the Group Chief Executive Officer, has the primary responsibility for sanctioning risk taking activities and risk management policies within the overall risk parameters and tolerances defined by the Board of Directors. A Group Risk Committee, under the chairmanship of the Managing Director of Risk Management and comprising the Group's most senior risk professionals, provides a forum for the review and approval of risk measurement methodologies, risk control processes and the approval of new products. The Group Risk Committee also reviews all risk policies and limits that require the formal approval of the Management Committee. The risk management control process is based on a detailed structure of policies, procedures and limits, and comprehensive risk measurement and management information systems for the control, monitoring and reporting of risks. Periodic reviews by internal and external auditors and regulatory authorities subject the risk management processes to additional scrutiny which help to further strengthen the risk management environment.

21. RISK MANAGEMENT (continued)

The principal risks associated with the Group's businesses and the related risk management processes are commented on as follows:-

Credit risk

Credit risk is the risk that counterparties will be unable to meet their obligations to the Group. Credit risk arises principally from the Group's lending and investment activities in addition to other transactions involving both on and off balance sheet financial instruments. Disciplined processes are in place at both the business unit and corporate level that are intended to ensure that risks are accurately assessed and properly approved and monitored. Formal credit limits are applied at the individual transaction, counterparty, country and portfolio levels. Overall exposures are also evaluated to ensure a broad diversification of credit risk. The credit management process involves the monitoring of concentrations by product, industry, single obligor, risk grade and geography, and the regular appraisal of counterparty credit quality through the analysis of qualitative and quantitative information. The Group also mitigates its credit exposures on foreign exchange and derivative financial instruments through the use of master netting agreements and collateral arrangements.

The geographical distribution of risk assets is set out in Note 22. An analysis of the credit risk in respect of foreign exchange and derivative financial instruments is set out in Note 25 while the notional and risk-weighted exposures for credit-related financial instruments are detailed in Note 26.

Market risk

Market risk is the risk of loss due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions, such as liquidity. The principal market risks to which the Group is exposed are interest rate risk, foreign exchange risk and equity price risk associated with its trading, investment and asset and liability management activities. The portfolio effects of holding a diversified range of instruments across a variety of businesses and geographic areas contribute to a reduction in the potential negative impact on earnings from market risk factors.

* Trading market risk: The Group's trading activities principally comprise trading in debt and equity securities, foreign exchange and derivative financial instruments. Derivative financial instruments include futures, forwards, swaps and options in the interest rate, foreign exchange and equity markets. The Group manages and controls the market risk within its trading portfolios through limit structures of both a VaR and non-VaR nature. Non-VaR based constraints relate, inter alia, to positions, volumes, concentrations, allowable losses and maturities. VaR is a risk measurement concept which uses statistical models to estimate, within a given level of confidence, the maximum potential negative change in the market value of a portfolio over a specified time horizon resulting from an adverse movement in rates and prices. The Group supplements daily VaR calculations with portfolio stress testing which measures the impact of simulated abnormal changes in market rates and prices on the market values of the portfolios. It is recognised that VaR is not a measure of the absolute limit of market risk and that losses in excess of the VaR amounts will, on occasion, arise. The composition of the debt and equity trading securities is set out in Note 5. An analysis of derivative financial instruments, including the VaR of foreign exchange and derivative trading contracts, is set out in Note 25.

21. RISK MANAGEMENT (continued)

Market risk (continued)

The VaR by risk class for the Group's trading positions, as calculated in accordance with the basis set out in Note 28, was as follows:-

	31.12.03 US$ millions	**2003 average US$ millions**	31.12.02 US$ millions	2002 average US$ millions
Interest rate risk	**4.4**	**4.6**	4.0	6.1
Foreign exchange risk	**2.5**	**1.5**	1.0	1.4
Equity risk	**1.7**	**2.4**	1.6	2.8
Total diversified risk	**7.0**	**8.0**	3.3	5.3

* Non-trading market risk: Structural interest rate risk arises in the Group's core balance sheet as a result of mismatches in the repricing of interest rate sensitive financial assets and liabilities. The associated interest rate risk is managed within VaR limits and through the use of models to evaluate the sensitivity of earnings to movements in interest rates. The repricing profile and related interest rate sensitivity of the Group's financial assets and liabilities is set out in Note 24. The Group does not maintain material non-trading foreign currency open positions. In general, the Group's policy is to match assets and liabilities in the same currency or to mitigate currency risk through the use of currency swaps. Details of significant foreign currency net open positions are set out in Note 25(e).

The more significant market risk-related activities of a non-trading nature undertaken by the Group, the related risks associated with those activities and the types of derivative financial instruments used to manage and mitigate such risks are summarised as follows:-

Activity	**Risk**	**Risk mitigant**
Management of the return on variable rate assets funded by shareholders' funds	Reduced profitability due to a fall in short term interest rates	Receive fixed interest rate swaps
Fixed rate assets funded by floating rate liabilities	Sensitivity to increases in short term interest rates	Pay fixed interest rate swaps
Investment in foreign currency assets	Sensitivity to strengthening of US$ against other currencies	Currency swaps
Profits generated in foreign currencies	Sensitivity to strengthening of US$ against other currencies	Forward foreign exchange contracts and purchased currency options

21. RISK MANAGEMENT (continued)

Liquidity risk

Liquidity management policies are designed to ensure that funds are available at all times to meet the funding requirements of the Group, even in 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 facilitate business expansion. These objectives are met through the application of prudent liquidity controls. These controls provide security of access to funds without undue exposure to increased costs from the liquidation of assets or the aggressive bidding for deposits. The Group's liquidity controls ensure that, over the short term, the future profile of cash flows from maturing assets is adequately matched to the maturity of liabilities. Liquidity controls also provide for the maintenance of a stock of liquid and readily realisable assets and a diversified deposit base in terms of both maturities and range of depositors.

An analysis of available-for-sale securities by rating classification is set out in Note 6 (a). The maturity profile of assets and liabilities is set out in Note 23.

Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing.

A framework and methodology has been developed to identify and control the various operational risks. While operational risk cannot be entirely eliminated, it is managed and mitigated by ensuring that the appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group. A strong internal audit function makes regular, independent appraisals of the control environment in all identified risk areas. Adequately tested contingency arrangements are also in place to support operations in the event of a range of possible disaster scenarios.

22. GEOGRAPHICAL DISTRIBUTION OF RISK ASSETS

			31.12.03			31.12.02
	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	**1,048.0**	**1,129.3**	**2,940.8**	**1,397.8**	**6,515.9**	5,727.1
Other Middle East & North Africa	**178.0**	**118.6**	**240.2**	**118.6**	**655.4**	488.2
Europe	**1,433.8**	**3,778.3**	**410.6**	**241.2**	**5,863.9**	5,530.5
North America	**324.3**	**4,597.1**	**64.8**	**317.7**	**5,303.9**	5,412.9
Asia	**254.0**	**362.3**	**103.2**	**19.0**	**738.5**	875.6
Latin America	**-**	**49.8**	**-**	**-**	**49.8**	116.0
	3,238.1	**10,035.4**	**3,759.6**	**2,094.3**	**19,127.4**	18,150.3

An analysis of derivative and foreign exchange instruments is set out in Note 25.

23. MATURITIES OF ASSETS AND LIABILITIES

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

	Within 3 months US$ millions	4 months 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 2003						
Cash and other liquid assets	**190.4**	**24.6**	**-**	**-**	**-**	**215.0**
Placements	**2,907.0**	**116.1**	**-**	**-**	**-**	**3,023.1**
Securities	**1,661.9**	**383.1**	**1,161.6**	**1,004.7**	**5,824.1**	**10,035.4**
Loans and advances	**942.2**	**824.5**	**881.6**	**651.5**	**459.8**	**3,759.6**
Fixed & other assets	**188.4**	**37.7**	**-**	**-**	**43.2**	**269.3**
Total assets	**5,889.9**	**1,386.0**	**2,043.2**	**1,656.2**	**6,327.1**	**17,302.4**
Deposits	**9,071.5**	**1,233.8**	**30.0**	**4.8**	**-**	**10,340.1**
Securities sold under agreements to repurchase	**2,168.7**	**837.8**	**-**	**-**	**-**	**3,006.5**
Securities sold but not yet purchased	**271.2**	**-**	**-**	**-**	**-**	**271.2**
Other liabilities	**266.7**	**43.0**	**25.1**	**24.0**	**285.7**	**644.5**
Term financing	**-**	**75.0**	**601.3**	**725.0**	**250.0**	**1,651.3**
Shareholders' equity	**-**	**-**	**-**	**-**	**1,388.8**	**1,388.8**
Liabilities & shareholders' equity	**11,778.1**	**2,189.6**	**656.4**	**753.8**	**1,924.5**	**17,302.4**
At 31st December 2002						
Total assets	5,047.0	1,837.1	2,306.3	1,831.6	5,214.5	16,236.5
Liabilities & shareholders' equity	10,010.5	3,690.5	617.4	397.1	1,521.0	16,236.5

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$10.0 million at 31st December 2003 had average deposits throughout 2003 amounting to US$8,849.6 million (2002: US$9,965.5 million). Formal liquidity controls are nevertheless based on contractual asset and liability maturities.

24. 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 2003							
Cash and other liquid assets	**190.4**	**2.2**	**22.4**	**-**	**-**	**215.0**	***1.28***
Placements	**2,832.0**	**108.3**	**7.8**	**75.0**	**-**	**3,023.1**	***1.30***
Trading securities	**1,425.6**	**-**	**-**	**-**	**158.0**	**1,583.6**	***4.60***
Available-for-sale securities:-							
- Fixed rate	**28.8**	**86.1**	**75.0**	**411.4**	**-**	**601.3**	***3.30***
- Floating rate	**6,511.6**	**755.8**	**45.2**	**-**	**-**	**7,312.6**	***2.52***
- Equities & equity funds	**-**	**-**	**-**	**-**	**537.9**	**537.9**	**-**
Loans and advances	**2,817.1**	**1,023.1**	**91.5**	**10.3**	**(182.4)**	**3,759.6**	***2.42***
Fixed & other assets	**-**	**-**	**-**	**-**	**269.3**	**269.3**	**-**
Total assets	**13,805.5**	**1,975.5**	**241.9**	**496.7**	**782.8**	**17,302.4**	
Deposits	**9,464.4**	**405.5**	**440.2**	**30.0**	**-**	**10,340.1**	***1.32***
Securities sold under agreements to repurchase	**2,168.7**	**219.5**	**618.3**	**-**	**-**	**3,006.5**	***1.51***
Securities sold but not yet purchased	**271.2**	**-**	**-**	**-**	**-**	**271.2**	***3.86***
Other liabilities	**-**	**-**	**-**	**-**	**644.5**	**644.5**	**-**
Term financing	**1,616.0**	**-**	**-**	**35.3**	**-**	**1,651.3**	***1.69***
Shareholders' equity	**-**	**-**	**-**	**-**	**1,388.8**	**1,388.8**	**-**
Liabilities & shareholders' equity	**13,520.3**	**625.0**	**1,058.5**	**65.3**	**2,033.3**	**17,302.4**	
Interest rate sensitivity gap	**285.2**	**1,350.5**	**(816.6)**	**431.4**	**(1,250.5)**		
Cumulative interest rate sensitivity gap	**285.2**	**1,635.7**	**819.1**	**1,250.5**	**-**		
At 31st December 2002							
Cumulative interest rate sensitivity gap	125.1	175.0	267.2	955.5	-	-	

24. INTEREST RATE RISK (continued)

The repricing profile is based on the remaining period to the next interest repricing date. 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. Derivative financial instruments that have been used for asset and liability management purposes to hedge exposure to interest rate risk are incorporated in the repricing profiles of the related hedged assets and liabilities. The non-specific loan provision is 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 principal interest rate risk beyond one year as set out in the asset and liability repricing profile, represents investments in fixed rate government securities with a maximum original maturity of two years. At 31st December 2003 the modified duration of these fixed rate government securities was 1.4. 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 fixed rate government securities was US$4.3 million.

Based on the repricing profile at 31st December 2003, and assuming that the financial assets and liabilities were to remain until maturity or settlement with no action taken by the Group to alter the interest rate risk exposure, an immediate and sustained 1 per cent increase in interest rates across all maturities would result in a reduction in net income before tax for the following year and in the Group's equity by approximately US$7.4 million and US$9.4 million respectively (2002: US$4.6 million and US$5.9 million respectively). The impact on the Group's equity represents the cumulative effect of the increase in interest rates over the entire duration of the mismatches in the repricing profile of the interest rate sensitive financial assets and liabilities.

The Value-at-Risk by risk class for the Group's trading positions is set out in Note 21. The market risk relating to foreign exchange and derivative trading instruments is set out in Note 25.

25. 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. Derivatives and foreign exchange 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.

25. DERIVATIVE AND FOREIGN EXCHANGE INSTRUMENTS (continued)

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 netting 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 specific 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. 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.

25. DERIVATIVE AND FOREIGN EXCHANGE INSTRUMENTS (continued)

a) Product analysis

The table below summarises the aggregate notional and credit risk amounts of foreign exchange and interest rate-related derivative contracts.

	Notional amounts			Credit risk
	Trading	Hedging	Total	amounts
	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2003				
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	**2,172.1**	**2,916.3**	**5,088.4**	**74.6**
Options purchased	**78.0**	**-**	**78.0**	**-**
Options written	**57.0**	**-**	**57.0**	**-**
	2,307.1	**2,916.3**	**5,223.4**	**74.6**
Interest rate contracts:-				
Futures	**5,384.0**	**-**	**5,384.0**	**-**
Interest rate swaps and swaptions	**1,188.7**	**5,882.2**	**7,070.9**	**19.6**
Options, caps and floors purchased	**2,576.0**	**12.6**	**2,588.6**	**-**
Options, caps and floors written	**4,192.1**	**5.0**	**4,197.1**	**-**
	13,340.8	**5,899.8**	**19,240.6**	**19.6**
Commodity contracts:-				
Futures	**4.0**	**-**	**4.0**	**-**
Total	**15,651.9**	**8,816.1**	**24,468.0**	**94.2**
At 31st December 2002				
Total	19,498.6	9,543.9	29,042.5	59.7

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 2003 the Value-at-Risk of the foreign exchange, interest rate and commodity-related derivative trading contracts analysed in the table above, as calculated in accordance with the basis set out in Note 28, was US$1.7 million, US$0.5 million and nil respectively (2002: US$0.2 million, US$1.0 million and nil respectively). Value-at-Risk is a measure of market risk exposure and is accordingly separate and in addition to the credit risk exposure represented by the credit risk amounts in the table above.

b) Counterparty Analysis

	31.12.03			31.12.02
Credit risk amounts	**Banks**	**Other**	**Total**	Total
	US$ millions	**US$ millions**	**US$ millions**	US$ millions
OECD countries	**79.2**	**0.4**	**79.6**	44.8
GCC countries	**3.0**	**9.5**	**12.5**	14.5
Other countries	**2.0**	**0.1**	**2.1**	0.4
	84.2	**10.0**	**94.2**	59.7

Credit risk is concentrated on major OECD-based banks.

25. DERIVATIVE AND FOREIGN EXCHANGE INSTRUMENTS (continued)

c) 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 2003					
Foreign exchange contracts	**5,119.8**	**103.6**	**-**	**-**	**5,223.4**
Interest rate contracts	**13,859.0**	**2,884.9**	**561.1**	**1,935.6**	**19,240.6**
Commodity contracts	**4.0**	**-**	**-**	**-**	**4.0**
Total	**18,982.8**	**2,988.5**	**561.1**	**1,935.6**	**24,468.0**
At 31st December 2002					
Total	24,887.9	1,080.6	825.2	2,248.8	29,042.5

The Group's derivative and foreign exchange activities are predominantly short-term in nature. Transactions with maturities over one year represent either fully offset trading transactions or transactions that are designated, and qualify, as fair value and cash flow hedges.

d) Fair value analysis

	31.12.03		31.12.02	
	Positive fair value US$ millions	**Negative fair value US$ millions**	Positive fair value US$ millions	Negative fair value US$ millions
Derivatives held for trading:-				
Forward foreign exchange contracts	**6.8**	**(20.1)**	5.2	(11.5)
Interest rate futures	**-**	**(0.4)**	0.2	(0.2)
Interest rate swaps and swaptions	**19.0**	**(24.0)**	12.7	(16.8)
Interest rate options, caps and floors	**4.0**	**(4.0)**	11.3	(2.1)
	29.8	**(48.5)**	29.4	(30.6)
Derivatives held as fair value hedges:-				
Interest rate swaps	**5.7**	**(209.3)**	1.7	(278.3)
Derivatives held as cash flow hedges:-				
Interest rate swaps	**-**	**-**	1.8	-
Gross positive/(negative) fair value	**35.5**	**(257.8)**	32.9	(308.9)
Effect of master netting agreements	**-**	**-**	(0.7)	0.7
Net amount included in other assets / (other liabilities)	**35.5**	**(257.8)**	32.2	(308.2)

e) Significant net open positions

There were no significant derivative trading or foreign currency net open positions at either 31st December 2003 or at 31st December 2002.

26. 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 Basel Committee on Banking Supervision.

	31.12.03		31.12.02	
	Notional principal amount US$ millions	**Risk-weighted exposure US$ millions**	Notional principal amount US$ millions	Risk-weighted exposure US$ millions
Direct credit substitutes	**104.6**	**103.4**	202.2	98.8
Transaction-related contingent items	**573.7**	**277.0**	607.1	296.6
Short-term self-liquidating trade-related contingent items	**215.5**	**31.1**	128.4	20.1
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	**1,200.5**	**515.5**	1,303.4	521.1
	2,094.3	**927.0**	2,241.1	936.6

27. 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.

28. CAPITAL ADEQUACY

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

		31.12.03 US$ millions	31.12.02 US$ millions
Regulatory capital base			
Tier I capital:			
Shareholders' equity		**1,388.8**	1,128.2
Adjustment to exclude net fair value (gains)/losses		**(53.2)**	141.8
Adjusted Tier I capital		**1,335.6**	1,270.0
Tier II capital:			
Subordinated loans		**150.0**	150.0
Non-specific loan provision subject to 1.25% risk-weighted exposure limitation		**166.2**	153.8
Fair value gain on marketable equity securities classified as available-for-sale		**5.8**	-
Total Tier II capital		**322.0**	303.8
Total regulatory capital base	(a)	**1,657.6**	1,573.8

Risk-weighted exposure

		Notional principal amount US$ millions	Risk-weighted exposure US$ millions	Notional principal amount US$ millions	Risk-weighted exposure US$ millions
Credit risk					
Balance sheet items:					
Cash and other liquid assets		**215.0**	**38.2**	147.6	29.2
Placements		**3,023.1**	**656.7**	3,024.0	642.4
Securities		**10,035.4**	**7,079.6**	9,481.8	6,716.3
Loans and advances		**3,759.6**	**3,346.5**	3,255.8	2,957.0
Fixed & other assets		**269.3**	**169.3**	327.3	229.2
		17,302.4	**11,290.3**	16,236.5	10,574.1
Off-balance sheet items:					
Credit-related contingent items		**2,094.3**	**927.0**	2,241.1	936.6
Foreign exchange-related items		**5,223.4**	**12.0**	3,909.1	10.7
Interest rate-related items		**19,240.6**	**8.6**	25,133.4	12.9
		26,558.3	**947.6**	31,283.6	960.2
Credit risk-weighted exposure			**12,237.9**		11,534.3
Market risk					
General market risk			**339.1**		253.2
Specific market risk			**717.5**		518.7
Market risk-weighted exposure			**1,056.6**		771.9
Total risk-weighted exposure	(b)		**13,294.5**		12,306.2
Risk asset ratio [(a)/(b) x 100]			**12.5%**		12.8%

28. CAPITAL ADEQUACY (continued)

In accordance with the capital adequacy guidelines of the Bank's regulator, the Bahrain Monetary Agency (BMA), revaluation gains and losses arising on the remeasurement to fair value of available-for-sale securities and derivative cash flow hedging transactions are excluded from Tier I capital with the exception of losses arising on the remeasurement to fair value of marketable equity securities classified as available-for-sale. In accordance with the BMA's guidelines, gains arising on the remeasurement to fair value of marketable equity securities classified as available-for-sale are included in Tier II capital. At 31st December 2003, Tier II capital included a net fair value gain of US$5.8 million (2002: Tier I - US$2.2 million loss) in respect of marketable equity securities classified as available-for-sale.

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 Basel 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 BMA. The multiplication factor to be applied to the Value-at-Risk calculated by the internal model has been set at the regulatory minimum of 3.0 (2002: 3.0) by the BMA.

Value-at-Risk is calculated based on a 99 per cent confidence level, a ten-day holding period and a twelve-month historical observation period of unweighted data from the DataMetrics™ regulatory data set. Correlations across broad risk categories are excluded. Prescribed additions in respect of specific risk are made to the general market risk. 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.

29. FIDUCIARY ACTIVITIES

The Group conducts investment management and other fiduciary activities on behalf of clients. Assets held in trust or in a fiduciary capacity are not assets of the Group and accordingly have not been included in the consolidated financial statements. The aggregate amount of the funds concerned at 31st December 2003 was US$11,348.0 million (2002: US$6,346.8 million).

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

The table set out on the next page compares the estimated fair values of all on- and off-balance sheet financial instruments with their respective book values. With the exception of trading securities, available-for-sale securities and derivative financial instruments, the Group's financial instruments are accounted for 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 therefore can arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted market prices or to the pricing prevailing for similar financial instruments and the use of estimation techniques such as discounted cash flow analysis.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	Book value US$ millions	Fair value US$ millions	Excess US$ millions
At 31st December 2003			
Assets			
Cash and other liquid assets	**215.0**	**215.0**	**-**
Placements	**3,023.1**	**3,023.1**	**-**
Trading securities	**1,583.6**	**1,583.6**	**-**
Available-for-sale securities	**8,451.8**	**8,451.8**	**-**
Loans and advances	**3,759.6**	**3,783.1**	**23.5**
Fixed & other assets	**269.3**	**269.3**	**-**
Liabilities			
Deposits	**10,340.1**	**10,340.1**	**-**
Securities sold under agreements to repurchase	**3,006.5**	**3,006.5**	**-**
Securities sold but not yet purchased	**271.2**	**271.2**	**-**
Other liabilities	**644.5**	**644.5**	**-**
Term financing	**1,651.3**	**1,651.3**	**-**
Credit-related contingent items			**-**
Excess of net fair values over net book values			**23.5**
At 31st December 2002			
Excess of net fair values over net book values			16.4

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 as at 31st December 2003 by US$23.5 million (2002: US$16.4 million).

a) Securities

The fair value of securities was based on quoted market prices with the exception of investments in unquoted equity investments, the fair values of which were based on their carrying amounts.

b) Loans and advances

The fair value of floating rate loans was principally estimated at book value less provisions for impairment. The fair value of troubled sovereign debt was based on market bid prices. The fair value of impaired loans was estimated at the recoverable amount, measured as the present value of expected future cash flows discounted based on the interest rate at the inception of the loan. The fair 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 24. All but US$10.3 million (2002: US$11.2 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 as the applicable margins approximate the current spreads that would apply for borrowings with similar maturities. The term financing reprices at least semi-annually.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

d) Other on-balance sheet items

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

e) Credit-related contingent items

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

31. EARNINGS PER SHARE

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

	2003	2002
Net income after tax (US$ millions)	**106.1**	85.3
Weighed average number of shares in issue (millions)	**1,000.0**	1,000.0
Basic earnings per share	**US$0.11**	US$0.09

32. PRINCIPAL SUBSIDIARIES

The principal subsidiary companies were as follows:-

	Country of Incorporation	**Ownership Interest**	
		31.12.03	31.12.02
		%	%
Gulf International Bank (UK) Limited	United Kingdom	**100**	100
GIB (UK) Capital Investments Limited	United Kingdom	**100**	100
SIB Financial Advisory Services Limited	United Kingdom	**100**	100
GIBINVEST E.C.	Bahrain	**100**	100

33. AVERAGE CONSOLIDATED BALANCE SHEET

The average consolidated balance sheet was as follows:-

	2003	2002
	US$ millions	US$ millions
Assets		
Cash and other liquid assets	**269.7**	154.7
Placements with banks	**3,143.4**	2,911.2
Trading securities	**1,312.4**	1,378.4
Available-for-sale securities	**8,404.8**	7,954.2
Loans and advances	**3,555.0**	3,279.7
Fixed & other assets	**401.3**	426.4
Total assets	**17,086.6**	16,104.6
Liabilities		
Deposits from banks	**5,902.6**	6,608.9
Deposits from customers	**4,499.0**	4,854.5
Securities sold under agreements to repurchase	**3,131.5**	1,866.7
Securities sold but not yet purchased	**146.4**	95.2
Other liabilities	**763.3**	484.6
Term financing	**1,243.9**	887.1
Subordinated term loans	**150.0**	150.0
Total liabilities	**15,836.7**	14,947.0
Shareholders' equity	**1,249.9**	1,157.6
Total liabilities & shareholders' equity	**17,086.6**	16,104.6

34. PARENT COMPANY

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

a) Condensed balance sheet

	At 31.12.03 US$ millions	At 31.12.02 US$ millions
Assets		
Cash and other liquid assets	**87.3**	16.1
Placements with banks	**2,234.9**	2,247.4
Trading securities	**192.4**	160.7
Available-for-sale securities	**8,276.8**	7,023.1
Investment in GIB (UK) Limited	**308.6**	245.9
Loans and advances	**3,622.1**	3,275.5
Fixed & other assets	**209.6**	214.3
Total assets	**14,931.7**	13,183.0
Liabilities		
Deposits from banks	**4,947.6**	4,721.3
Deposits from customers	**3,495.8**	3,350.4
Securities sold under agreements to repurchase	**2,997.8**	2,467.2
Other liabilities	**450.4**	485.8
Term financing	**1,501.3**	880.0
Subordinated term loans	**150.0**	150.0
Total liabilities	**13,542.9**	12,054.7
Shareholders' equity	**1,388.8**	1,128.3
Total liabilities & shareholders' equity	**14,931.7**	13,183.0

The investment in GIB (UK) Limited is accounted for based on the equity method of accounting.

b) Condensed income statement

	Year ended 31.12.03 US$ millions	Year ended 31.12.02 US$ millions
Net interest income	**126.1**	125.2
Provisions for securities	**18.3**	10.6
Provisions for loan and advances	**12.4**	(0.5)
Net interest income after provisions	**95.4**	115.1
Other income	**91.9**	88.2
Net interest and other income	**187.3**	203.3
Operating expenses	**70.8**	63.0
Profit from operations	**116.5**	140.3
Result of subsidiary	**(10.2)**	(54.5)
Net income before tax	**106.3**	85.8
Taxation charge on overseas activities	**0.2**	0.5
Net income after tax	**106.1**	85.3

THE BOARD OF DIRECTORS AND management are committed to high standards of corporate governance. Following the adoption of the Bank's new strategy in 2001, the organisation was restructured to provide the appropriate governance framework, including clearly defined reporting lines for the business and support units.

There is an effective and appropriately constituted Board of Directors which receives from management, such information as is required to properly fulfil its duties.

The Board comprises nine non-executive directors, including the Chairman and Vice Chairman, who together bring a wide range of skills and experience to the Board.

The Board is responsible for the strategic direction of the Bank; maintaining an appropriate organisation structure; approving major policies; monitoring business performance, operations and the integrity of internal controls; nurturing proper and ethical behaviour; providing appropriate oversight and conducting corporate governance in a transparent manner. There is a clear division of roles and responsibilities between the Board of Directors and the Chief Executive Officer.

MEETINGS OF THE BOARD

As prescribed in the Bank's Articles of Association, the Board plans at least four meetings per year, with further meetings to occur at the discretion of the Board. The Board is generally responsible for its agenda which, when applicable, is prepared in consultation with management.

The Board is assisted by the following committees:

EXECUTIVE COMMITTEE:

The Committee has been reestablished to act for the Board in its absence. The Committee will handle matters requiring Board review that arise between full board meetings. It will relieve the Board of detailed reviews of information and operational activities, so that it can concentrate on activities reserved for the full board as per the Bank's Articles of Association and applicable laws.

AUDIT COMMITTEE:

The Committee assists the Board in fulfulling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, auditing and financial reporting practices. The Committee assists the Board in its oversight of (i) the integrity and reporting of the Bank's quarterly and annual financial statements, (ii) compliance with legal and regulatory requirements; and (iii) the independence and performance of the Bank's internal and external auditors.

As per the Bank's Articles of Association, the General Assembly is directly responsible for the appointment and compensation of the external auditors who audit the Bank's financial statements.

The function of the Committee is oversight. Although the Board of Directors is responsible for the integrity of the Bank's financial statements, the management is responsible for maintaining appropriate accounting and financial reporting principles as well as internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent internal and external auditors are responsible for planning and performing proper audits on the adequacy of the Bank's internal controls.

The Committee is responsible for maintaining an avenue of communication with the external auditors, management, the internal auditor and the Board of Directors.

RISK POLICY COMMITTEE:

The primary objective of the risk management strategy adopted by the Board of Directors is to preserve the Bank's capital base, to optimise the allocation of capital and to foster a proactive risk culture bank-wide. The Board of Directors is responsible for setting the Bank's overall risk appetite, parameters and limits within which it conducts its business activities.

The Board Risk Policy Committee assists the Board in fulfilling its oversight responsibilities in respect of:

- The risk profile of the Bank;
- The risks inherent in the businesses of the Bank, management and the control processes with respect to such risks;
- Determination of overall policy limits using a set of parameters and rules based on the Bank's portfolio, business line economics, overall capital adequacy requirements and target risk rating; and
- The integrity of the Bank's systems of operational controls regarding legal and regulatory compliance.

COMPENSATION COMMITTEE:

The Committee provides assistance to the Board in fulfilling its oversight responsibilities in matters relating to executive compensation and administration of the Bank's compensation and benefits plans. The Compensation Committee is responsible for periodic reviews of the policy on management succession, including the criteria for the Chief Executive Officer and other executive management positions.

All directors are appointed or re-elected every three years according to the Bank's Articles of Association.

THE MANAGEMENT

The management, which is responsible for the implementation of Board approved strategy, policies, effective controls and day-to-day management of the Bank, is headed by the Chief Executive Officer, who is assisted by four managing directors responsible for risk management, treasury, operations and administration, and merchant banking. The following management committees have been established to assist the Chief Executive Officer in the management of the Bank – Management, Group Risk, Bank ALCO (Assets and Liabilities Management) and Human Resources.

The committees of the Board derive their authorities and powers from the Board of Directors and management committees from the Chief Executive Officer, based on the authorities and limits delegated by the Board of Directors.

In accordance with the Bank's Articles of Association, the Bank holds, annually, a properly constituted General Assembly and its Board of Directors, who are elected by the shareholders, encourage and regularly communicate with the Bank's shareholders and other stakeholders.

BOARD OF DIRECTORS

Sheikh Ebrahim Bin Khalifa Al Khalifa ❶
Chairman, Bahraini Citizen
LLB, Beirut Arab University, Lebanon. Sheikh Ebrahim was appointed as Chairman of the Board of Directors in 2001. Since 1993, he has been Undersecretary at the Ministry of Finance and National Economy, Kingdom of Bahrain. Previously, he served as Deputy Governor of the Bahrain Monetary Agency from 1983-1993, Assistant to the Governor of the BMA from 1981-1983, and Head of Banking Control Department between 1975-1981. Other current positions include Chairman and Managing Director of Gulf Aluminium Rolling Mill Company (GARMCO), Chairman of Bahrain Development Bank and Bahrain Institute of Technology and Member of the Board of Aluminium Bahrain (ALBA) and Faysal Islamic Bank of Egypt.

Mr. Abdul Aziz M. Al-Abdulkader ❶ ❷
Vice Chairman, Saudi Arabian Citizen
BA in Business Administration, the University of Washington, USA. Mr. Al-Abdulkader was appointed to the Board in 2001. He is Chairman of the Risk Policy Committee. He is the founder and owner of the AMA Group of Companies in Saudi Arabia. Other current directorships include Middle East Capital Group, United Gulf Industries Company and National Instalment Company Ltd. He is a former Chairman of the Board of Directors of Bank Al-Jazira.

Mr. Bader A. Al Rushaid Al-Bader ❶ ❸
Board Member, Kuwaiti Citizen
BA in Commerce, Alexandria University, Egypt. Mr. Al-Bader was appointed to the Board in 1978. He served as Chairman and Managing Director of Kuwait Investment Company from 1992-2000. He was Deputy Managing Director of Kuwait Investment Authority from 1984-1992. He worked in various positions at the Ministry of Finance and Oil, Kuwait, from 1969 to 1984. Mr. Al-Bader has served as Chairman and Director of a large number of Middle Eastern financial institutions.

Dr. Hamad Bin Sulaiman Al-Bazai ❹
Board Member, Saudi Arabian Citizen
BA in Administrative Sciences, King Saud University, Saudi Arabia, MS and Ph.D. in Economics, Colorado State University, USA. Dr. Al-Bazai was appointed to the Board in 1999. He is Deputy Minister of Finance for Economic Affairs at the Ministry of Finance, Kingdom of Saudi Arabia. He is a Member of the Preparatory Committee of the Supreme Petroleum Council and a Board Member of the Human Resources Development Fund, the Southern Region Cement Company and the Higher Education Fund.

Mr. Mohammed Al-Shumrani ❸ ❹
Board Member, Saudi Arabian Citizen
BA in Economics, King Saud University, Riyadh, and MA in Economics, University of Denver, USA. Mr. Al-Shumrani was appointed to the Board in 2001. He has been Director General of the Investment Department at the Saudi Arabian Monetary Agency (SAMA) since 1994. Previous positions at SAMA included Director, Investment Management Department from 1989-1994 and Assistant Director, Investment Management Department from 1985-1989. Before joining SAMA in 1974, he worked at First National City Bank in Riyadh from 1969-1974. He is currently a Board Member of Petromin. He also served as a Board Member at Saudi Industrial Development Fund, Saudi Credit Bank and Saudi Tunisian Investment Development Fund.

Mr. Saker Dhaher Al-Moraikhi ❶
Board Member, Qatari Citizen
BA degree in Business Administration, Cairo University. Mr. Al-Moraikhi was appointed to the Board in 1988. He is currently Consultant at the Minister's Office, Ministry of Finance, Qatar. He commenced his career at the Ministry in 1973 and immediately prior to his current position, he was Director of the Financial Affairs Department. Mr. Al-Moraikhi is a Member of the Board of Directors of The Arab Investment Company.

Mr. Mohamed Bin Saif Al-Shamsi ❷ ❸
Board Member, UAE Citizen
MBA, Bradford University, United Kingdom. Mr. Al-Shamsi was appointed to the Board in 1997 and is currently Chairman of the Audit Committee. He is Consultant at the Minister's Office, Ministry of Finance and Industry, United Arab Emirates. Previously he served in various senior positions at the Ministry of Finance since 1992. He represents the Ministry on the Boards of a number of organisations and financial institutions. Previous positions include Head of the Industrial Property Rights Directorate. Mr. Al-Shamsi is a former Member of the Board of Directors of the Emirates Transportation Company.

Mr. Saud Nassir Al-Shukaily ❸
Board Member, Omani Citizen
BS in Business Administration, University of South Carolina, and MA in Development Management, American University, Washington, DC. Mr. Al-Shukaily was appointed to the Board in 1999. He is currently Director General of Revenue and Investment, Ministry of Finance, Sultanate of Oman. Earlier he served as Director of the Minister's Office at the Ministry of Civil Services (1994-1996) and at the Ministry of National Economy (1996-1999). He is also a Member of the Board of Directors of Oman Flour Mills, Oman Cement Company and Petroleum Development Of Oman.

Mr. Mark Garvin ❷ ❹
Board Member, US Citizen
BS, Georgetown University and MBA, American University, Washington, DC. Mr. Garvin was appointed to the Board in 2002. He is Chief Operating Officer of the Europe Middle East Africa region and Senior Country Officer for JPMorgan in the United Kingdom. He assumed his current position in 2001 following the merger between JPMorgan and Chase. Mr. Garvin is Chairman or a Director of a number of JPMorgan entities. He is also a Director of CLS Bank Services International and British American Business Inc.

❶ Executive Committee Member
❷ Risk Policy Committee Member
❸ Audit Committee Member
❹ Compensation Committee Member

SENIOR MANAGEMENT

Dr. Khaled M. Al-Fayez
Chief Executive Officer
Saudi Arabian Citizen
BA Economics, Whitman College, Washington State, USA; MA in International Relations, MA in Law & Diplomacy and Ph.D. in Economics and International Relations, Fletcher School of Law & Diplomacy, Tufts University, USA. Dr. Al-Fayez was Group Chief Executive Officer of Gulf Investment Corporation from 1983 to 2001. Dr. Al-Fayez served as GIB's first General Manager from 1976 to 1983. He was previously an Economic Advisor at the Saudi Arabian Ministry of Finance and National Economy and an Economist and Senior Credit Officer at the Saudi Industrial Development Fund. Dr. Al-Fayez is Chairman of the Board of Gulf International Bank (UK) Ltd., Member of the Advisory Council and Member of the Privatisation Committee of the Supreme Economic Council, Saudi Arabia, Member of the Advisory Board of The Middle East Institute, Washington, USA and Member of the Board of the Institute of International Finance, Inc., Washington, USA.

Mr. Matthew C Snyder
Managing Director - Merchant Banking
US Citizen
BA in Political Science, CW Post College, USA and MA in International Politics, Long Island University, USA. Mr. Snyder first joined GIB's principal subsidiary Gulf International Bank (UK) Ltd. (then Saudi International Bank) in 1993. From 1982 to 1993 he was President and Chief Executive Officer of AI International, a US-based diversified, private industrial company. He previously worked for eleven years in the New York offices of Schroders, a London-based merchant bank. He is Managing Director of Gulf International Bank (UK) Ltd.

Mr. Bachir Barbir
Managing Director - Treasury
Lebanese and Canadian Citizen
Degree in Banking Studies and Business Administration from Saint Joseph University, Beirut, Lebanon. Mr. Barbir was appointed Assistant General Manager, Assets and Liabilities Management in 1997. In 1988 he was promoted to Executive Vice President and Head of the Assets and Liabilities Group. He was previously the Bahrain Treasurer. Mr. Barbir joined GIB in 1981. Before joining GIB he worked for Chase Manhattan Bank in both Bahrain and Lebanon and Credit Hypothecaire in Lebanon.

Mr. Mohannad Farouky
Managing Director - Risk Management
UK Citizen
BA in Economics, the American University, Cairo and MBA in Finance, the University of Miami, USA. From 2000 until 2002, Mr. Farouky was assigned to Gulf International Bank (UK) Ltd. as Deputy Managing Director. From 1994 to 2000, he was Global Head of the Banking Group. Mr. Farouky joined GIB in London in 1986 as Head of the Europe and Africa Area. He is a member of the Board of Directors of Gulf International Bank (UK) Ltd. Before joining GIB, he worked at Citibank N.A. in the Middle East in a variety of credit and marketing positions, and at Chase Investment Bank Ltd. in London as a Managing Director.

Dr. Fouad M. Sinan
Managing Director - Operations and Administration
Saudi Arabian Citizen
Ph.D. in Engineering from Purdue University, USA, and ISMP/AMP and Finance for Senior Executives programmes, Harvard Business School, USA. Dr. Sinan joined GIB in 2000 as Operations and Administration Group Head. He was previously Executive Vice President in the Administration Group at Gulf Investment Corporation, Kuwait. He commenced his career in the mid 1970's with ARAMCO, Ras Tanura Construction Division, and then with the Royal Commission for Jubail & Yanbu - Jubail project. He has served as a member of the Board of Directors of Middle East Propulsion Company Ltd., Gulf Ferro Alloys Co. (SABAYEK) and National Titanium Dioxide Co. (Cristal).

CORPORATE DIRECTORY

General Management
Dr. Khaled Al-Fayez
Chief Executive Officer
Matthew Snyder
Managing Director - Merchant Banking
Bachir Barbir
Managing Director - Treasury
Mohannad Farouky
Managing Director - Risk Management
Dr. Fouad Sinan
Managing Director - Operations & Administration

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Abbas Ameeri
Head of Merchant Banking
Zafer Al Kalali
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Head of International Banking

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Dominic Bacon
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