GIB

بنك الخليج الدولي

GULF INTERNATIONAL BANK

THE GULF'S OWN MERCHANT BANK

2007
ANNUAL REPORT

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Gulf International Bank 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 30 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. Its other primary business areas include merchant banking services such as investment banking, capital markets and asset management.

GIB's financial strength is based on conservative asset and liability management policies, its high-quality asset profile and strong capital base.

The Bank was established in the Kingdom of Bahrain in 1975. It is owned by the six GCC governments - Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates - and the Saudi Arabian Monetary Agency. In addition to its main subsidiary Gulf International Bank (UK) Limited, the Bank has branches in London, New York, Riyadh and Jeddah, and representative offices in Beirut and Abu Dhabi.

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THE GULF'S OWN MERCHANT BANK

Financial Highlights

	2007	2006	2005	2004	2003
Earnings (US$ millions)					
Operating Income*	**292.1**	218.4	209.5	172.2	161.5
Net (Loss) / Income after Tax	**(757.3)**	255.5	203.0	150.2	106.1
Net Interest Income	**305.6**	257.7	209.0	175.2	167.3
Fee and Commission Income	**88.1**	65.8	46.2	36.7	29.8
Operating Expenses	**141.2**	144.0	138.7	124.4	126.1
Financial Position (US$ millions)					
Total Assets	**29,954.0**	24,787.2	22,856.6	19,239.0	17,454.6
Loans	**12,601.8**	8,145.0	6,273.7	4,847.1	3,710.5
Available-for-Sale Securities	**8,070.7**	8,422.9	7,839.6	8,469.1	8,451.8
Senior Term Financing	**2,657.8**	1,867.1	1,944.5	1,678.3	1,501.3
Equity	**2,215.3**	1,856.6	1,718.3	1,586.6	1,440.7
Ratios (Per cent)					
Profitability					
Return on Average Equity	**(37.2)**	14.3	12.3	9.9	8.1
Return on Average Assets	**(2.8)**	1.1	1.0	0.8	0.6
Capital					
BIS Risk Asset Ratio					
- Total	**12.0**	11.6	12.7	11.0	12.0
- Tier 1	**9.5**	8.7	9.2	9.7	10.4
Equity as % of Total Assets	**7.4**	7.5	7.5	8.2	8.3
Asset Quality					
Securities as % of Total Assets	**31.4**	42.8	43.1	52.4	57.5
Loans as % of Total Assets	**42.1**	32.9	27.4	25.2	21.3
Liquidity					
Liquid Assets Ratio	**52.8**	65.2	70.9	73.9	77.9
Deposits to Loans Cover (times)**	**1.8**	2.3	2.5	2.6	3.2

* Operating income represents total income before revaluation losses on exposures impacted by the 2007 credit market crisis and provisions, less total operating expenses.

** Deposits include Term Financing.

Credit Ratings

	Fitch	Moody's	Standard & Poor's	Capital Intelligence
Long-term	A	A2	A-	A+
Short-term	F-1	P-1	A-2	A1
Individual	C/D			
Financial Strength		C-		A
Outlook	Stable	Negative	Stable	Stable

The growing economic activity in the region, and the consequent increasing funding requirements of corporations, prompted a greater number of regional companies to access the syndicated loan market and the Islamic finance market during 2007. GIB, as a result, concluded a record number of financing deals.

Board of Directors

H.E. SHEIKH EBRAHIM BIN KHALIFA AL KHALIFA
Chairman
Minister of Housing
Kingdom of Bahrain

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

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

MR. SAUD BIN NASSIR AL-SHUKAILY
Secretary General for Taxation
Ministry of Finance
Sultanate of Oman

DR. KHALID BIN ABDULLA AL-SWEILEM
Director General, Investment Department
Saudi Arabian Monetary Agency
Kingdom of Saudi Arabia

MR. KHALID BIN ABDULLA AL-SUWAIDI
Head of Administration
Qatar Investment Authority
State of Qatar

MR. NASSER KHAMIS AL-SUWAIDI
Director of Industrial Development
Ministry of Finance
The United Arab Emirates

H.E. DR. ABDUL RAHMAN BIN AHMED AL-JAFARY
Governor
Communications & Information Technology Commission
Kingdom of Saudi Arabia

MR. AHMED TAHOUS AL-RASHED AL-TAHOUS
Director, Equities Department
Kuwait Investment Authority
State of Kuwait

Chairman's Statement

Sheikh Ebrahim Bin Khalifa Al Khalifa
Chairman

ON BEHALF OF THE BOARD OF DIRECTORS, it is my privilege to present the annual report of Gulf International Bank (GIB) for the year ended 31st December 2007.

I am pleased to report that the Bank's core GCC merchant banking activities generated yet another record performance in 2007, significantly surpassing the previous year's record result. This reflects a strong increase in both interest and fee-based income, and the success of GIB in continuing to leverage its lending relationships to generate fee income. The increase in capital during the year by US$1.5 billion to US$2.5 billion, and the raising of a US$1.2 billion syndicated term financing in April has considerably enhanced the Bank's capacity to underwrite larger transactions.

Throughout 2007, GIB successfully capitalised on the strong growth momentum of the GCC economy. Continuing the trend of recent years, this was characterised by higher oil production and prices, expansionary fiscal policies, regulatory reforms, and increasing flows of foreign direct investment. Once again, substantially enhanced liquidity levels enabled the region to accumulate fiscal and current account surpluses, and to increase public spending on major infrastructure and industrial projects. The private sector also continued to enhance its contribution to the ongoing economic expansion, including investments, both domestic and foreign, in areas such as infrastructure development, industry and tourism.

GIB led a record number of major projects and transactions in 2007, including two of the world's top ten project finance deals of the year, and also acted as sole lead arranger and underwriter in a greater number of deals than ever before. The Bank maintained its status as the primary provider of project and structured finance services in the MENA region; consolidated its position as the premier financier and arranger specialising in oil, gas, petrochemical, power generation, and manufacturing sector projects; and further enhanced its leading role as an Islamic facility agent. At the same time, GIB continued to expand its activities in other areas – in particular capital markets, GCC private equity, and secondary market loan asset trading and forfaiting - as well as remaining the region's most active financial institution in the loan agency business.

These achievements clearly illustrate the soundness of the Bank's GCC-focused merchant banking strategy. Introduced in 2002, this has successfully contributed to an ongoing diversification of earnings, sustained growth, and enhanced regional and international status and reputation.

GIB asset management business also saw good growth in 2007. Assets under management increased by US$2.4 billion in 2007 and now stand at US$24.1 billion.

However, the adverse impact of the global credit crisis during the second half of the year caused GIB to establish substantial provisions resulting in a notable loss in 2007. This is due to prudent and conservative provisioning for potential credit losses on the Bank's international securities portfolio. As a result, the Bank is reporting a net loss of US$757.3 million for 2007.

In response to this situation, GIB's shareholders have committed their ongoing support for the Bank by providing capital of US$1.0 billion, which exceeds the loss for the year. Following the capital increase, GIB's equity base at the end of 2007 of US$2,215 million was US$359 million higher than at the end of 2006. I would also like to emphasise that the Bank's capital adequacy ratios remain significantly higher than the regulatory minimum requirement of the Central Bank of Bahrain, and comply with the new Basel II capital adequacy guidelines that came into effect on 1st January 2008. The Bank's enhanced capital base provides a strong platform for GIB to continue the successful implementation of its proven GCC-focused merchant banking strategy, and to maintain its status as the region's pre-eminent merchant bank.

All three international credit rating agencies have reaffirmed GIB's long-term ratings: Standard & Poor's A-, Moody's A2 and Fitch A. The rating agencies have also indicated that the Bank followed a conservative provisioning approach.

In 2007 the Board and Management reviewed plans to leverage the Bank's success to date into other merchant banking and investment banking related areas, particularly those that will generate further fee-based income. A key strategic initiative taken during the year was the establishment of a securities company - GIB Financial Services - in the Kingdom of Saudi Arabia, following receipt of a licence from the Capital Market Authority. This new subsidiary will enable GIB to expand the enormous potential for investment banking business in Saudi Arabia, of which GIB was instrumental in pioneering and developing over many years, and to pursue the Bank's strategy of expanding its activities in other key financial markets of the GCC.

Also during the year, GIB continued to strengthen its corporate governance and risk management framework, and finalised preparations to ensure complete readiness for the introduction of the new Basel II guidelines. In addition, ongoing significant investment was made in streamlining Group-wide processes and procedures, and in enhancing the Bank's human capital and technical resources.

The composition of the Bank's Board of Directors changed during the year, with Mr. Ahmed Tahous Al-Rashed Al-Tahous replacing Mr. Bader Abdullah Al-Rushaid Al-Bader as the representative of the Kuwait Investment Authority. I would like to take this opportunity to thank Mr. Al-Bader for his invaluable contribution to GIB's progress over the past years, and to welcome Mr. Al-Tahous as a new member of the Board. His considerable business acumen and industry experience will be of great benefit in helping to guide GIB's future strategic direction.

Finally, on behalf of the Board of Directors, I express my sincere appreciation for the ongoing support and loyalty of GIB's shareholders and clients, for the professionalism and dedication of the Bank's management and staff, and for the constructive cooperation that GIB continues to receive from the regulatory and supervisory authorities.

The Board of Directors is confident that the challenges and conditions that characterised 2007 have been prudently managed and that GIB will continue to grow and prosper in 2008 and beyond.

Ebrahim Bin Khalifa Al Khalifa
Chairman

During 2007, the Bank continued to maintain its pre-eminent role in the area of project finance - arranging, underwriting and providing non-recourse project loans to green-field and expansion projects in the GCC region. GIB was particularly active in the power and water, oil and petrochemicals, aviation and shipping sectors.

DESPITE THE ADVERSE EFFECTS OF THE international credit crisis that overwhelmed the market in 2007, the strong performance of GIB's core banking activities recorded in 2007 reinforces the success of the Bank's GCC-focused merchant banking strategy, which was introduced in 2002. This has resulted in a greater diversification of revenues and sustained year-on-year growth, and contributed to GIB's growing status as a major regional player in project and structured finance, syndications, investment banking, and Islamic finance.

ECONOMIC AND MARKET BACKGROUND

The global economy continued to expand at a brisk pace during 2007 with the emerging economies of Asia and the Middle East region driving much of the expansion. Although world output was modestly lower than the year before, the overall macroeconomic environment was generally stable amid increasing trade and financial flows. On the commodity exchanges, crude oil and precious and base metals remained buoyed by strong demand, with the price of gold reaching near record highs. Towards the latter half of 2007, uncertainties developed across the international financial markets with the emergence of the subprime mortgage crisis and the global credit crunch. This added to the region's already lingering concerns about the weakening US dollar and rising inflationary pressures due to the mounting cost of food and building materials. The year ended on a pessimistic note, with growing fears of a US recession and a subsequent knock-on effect on the global economy.

The GCC economy maintained its robust growth momentum during 2007, with the strong expansionary conditions substantially boosting domestic confidence and allowing the local economies to enjoy greater prosperity. The key underlying influence of growth continues to be high level of oil prices and expanding oil production, alongside a favourable interest rate environment. This has fuelled regional liquidity levels, enabled the accumulation of substantial fiscal and current account surpluses, and enhanced the already favourable risk profiles of GCC countries. With the oil revenues, public spending on major infrastructure and industrial projects was increased further, accompanied by greater involvement of the private sector. Key areas of expansion were petrochemicals, liquefied natural gas, power generation, water supplies, construction materials, information technology, logistics, and tourism.

In order to sustain the Gulf region's reputation as one of the world's rapidly expanding areas with attractive investment opportunities, considerable debate took place between GCC member states during the year on a number of critical issues including job creation, research and development, education, money supply, inflation, asset valuation, and regulatory reforms. This culminated with the 28th GCC Summit held in Qatar in December 2007, during which a milestone decision was undertaken to launch a Gulf Common Market in 2008.

MERCHANT BANKING

Underlined by a record growth in loan assets, interest income and fee income, GIB's merchant banking business enjoyed its most successful year to date in 2007. The launch of new mega projects in the oil, gas, petrochemical, power, and real estate sectors in the region, continued unabated from the previous year, despite increasing input costs, and a shortage of skilled labour and experienced project contractors. Qatar and Saudi Arabia led the projects boom in the oil, power and petrochemical sectors, while the UAE continued to dominate the real estate sector. As in previous years, GIB played a leading role in arranging financing for major projects in the region. In addition, the Bank continued to underwrite and distribute loans for corporate borrowers and financial institutions, grew its Islamic banking business, and increased its market share in the financial advisory business.

Major syndicated loan transactions underwritten by GIB for financial institutions, as part of an arranging group, included Doha Bank (US$350 million), Arab Petroleum Investments Corporation (US$400 million), Awal Bank BSC (US$400 million), and Commercial Bank of Qatar (US$650 million). The Awal Bank transaction was structured on a Sharia'a compliant basis and demonstrated GIB's increasing involvement in arranging Islamic financing for commercial banks in the region.

The growing economic activity in the region, and the consequent increasing funding requirements of corporations, prompted a greater number of regional companies to access the syndicated loan market and the Islamic finance market during 2007. GIB was successful in securing a significant portion of the underwriting business offered by corporate names across the region. These included: Nakheel (US$1.85 billion), Union Properties (AED2.75 billion) and Damas (US$255 million) in the UAE. Islamic financings were arranged for Zain Group in Kuwait (US$1.2 billion); the Saudi European Petrochemical Company (US$855 million) and National Industrial Gases Company in Saudi Arabia (SAR1.5 billion); Barwa Real Estate Co. in Qatar (US$1.3 billion); and Sharjah Electricity and Water Authority (US$350 million).

The Bank also arranged funding to finance the acquisition requirements of a number of leading regional corporations. Some of the major loan transactions in which GIB played a significant role as an underwriter and provider of debt include: Saudi Basic Industries Corporation (US$5.2 billion), Qatar Investment Authority (US$3 billion), Qatar Telecom (US$2 billion), and Zain Group (US$4.9 billion guarantee and bridging finance for its group company Mada Leletisalat in Saudi Arabia in connection with its acquisition of the third GSM licence in the Kingdom).

During 2007, the Bank continued to maintain its pre-eminent role in the area of project finance - arranging, underwriting and providing non-recourse project loans to green-field and expansion projects in the GCC region, as well as facilitating refinancing loans for completed projects. GIB was particularly active in the power and water, oil and petrochemicals, aviation and shipping sectors.

In the power and water sector in Saudi Arabia, GIB was an initial mandated lead arranger (MLA) for the US$3.4 billion Marafiq IWPP financing and acted as the coordinating bank and a core mandated lead arranger for the US$1.8 billion Shuqaiq IWPP financing. In addition, GIB participated in the US$180 million financing of the Shuaibah IWPP expansion project. In Oman, GIB was

MLA for the US$795 million project financing for the Barka 2 IWPP, while in Qatar the Bank was MLA for the US$1.26 billion project financing facility for Mesaieed Power Company Limited and the US$450 million Ras Abu Fontas A1 power project.

In the oil and petrochemical sector, the Bank acted as MLA for the following major transactions: US$1.8 billion commercial loan facility for a new petrochemical complex by Saudi Polymers Company; US$1.37 billion refinancing for Oman Refinery and US$609 million green-field project financing for Salalah Methanol in Oman; and US$1.4 billion green-field project financing for Kuwait Paraxylene Company. GIB also participated in loan transactions relating to new petrochemical projects in Egypt, with a view to selectively expanding its activities to other Arab countries.

In the transportation sector, the Bank arranged US$148 million financing for the acquisition of aircraft by Etihad Airways, and provided refinancing loans aggregating US$81.5 million to Gulf Air against mortgages of aircraft. The Bank was also MLA in the US$438 million syndicated Murabaha facility arranged for the acquisition of ships by National Shipping Company of Saudi Arabia.

In the metals and mining sector, GIB acted as MLA in the US$2.4 billion project financing for the first aluminium smelter in Qatar, which is being constructed by Qatar Aluminium Company.

In the area of financial advisory, the Bank successfully executed a number of assignments in Saudi Arabia. These include raising Islamic financing for a new polypropylene project of Advanced Polypropylene Company, advising for arranging the Islamic financing of the construction of a series of shopping malls by Al Othaim Holdings Co., and the structuring of corporate debt for Al-Ittefaq Steel Products Company.

Besides enhanced activities in the origination, structuring and arranging of Islamic financing transactions for corporate and institutional clients, GIB participated at senior levels in several Sukuk transactions during 2007. Greater focus was placed during the year on building a capital market issue management capability, both in Sukuks and conventional bonds. This resulted in securing sole mandates from certain investors for Sukuk issues planned for 2008.

In line with its investment banking strategy, GIB continued to expand its private equity business in 2007. Key achievements include the completion of two equity investments in Saudi Arabia and the UAE. The GCC Energy Fund, of which the Bank is a co-sponsor, completed three new investments during the year. With a healthy pipeline of deal flow in the private equity domain, the Bank is well poised to expand this business in selected sectors.

GIB maintains a presence outside the GCC region through its branches in London and New York, and its representative office in Beirut. Based on significant trade flows and long-term relationships with the GCC, the Bank's international trade finance and institutional lending is mainly conducted in the MENA region. In 2007, GIB increased its support for the growing number of international contractors and sponsors involved in projects across the region through the issue of performance and project-related guarantees, letters of credit, and working capital facilities.

INVESTMENT BANKING

GIB's investment banking activities enjoyed another successful year in 2007. The Bank benefited from the recovery of the regional capital markets, which followed the severe corrections experienced in 2006, plus continued high levels of liquidity, strong corporate performance, improved investor confidence, and positive business and consumer sentiment.

The Bank maintained its regional role as a leading adviser and arranger for private placements and IPOs. GIB acted as exclusive financial adviser for the US$157 million IPO of Galfar Engineering and Contracting Company and its subsequent listing on the Muscat Securities Market. This was the first IPO for a family-owned group in Oman, and received great response from investors.

GIB also acted as exclusive financial adviser for a number of transactions in Saudi Arabia. These include the sale of 25 per cent of the capital of Ajlan and Bros. Co. through a private placement. The Bank also advised Saudi Aramco and ExxonMobil on the sale of their joint venture, Petrolube. Another notable transaction involved GIB acting as the exclusive financial adviser for the private placement of the British Islamic Insurance Holdings and the subsequent listing on the Bahrain Stock Exchange and the AIMS exchange in London, which will be the first listing for a Takaful (Islamic insurance) company in the UK.

A key development during the year was the establishment of a new subsidiary - GIB Financial Services - in the Kingdom of Saudi Arabia, following receipt of a licence from the Capital Market Authority. Through this new company, GIB will be able to capitalise on the huge potential that exists for investment banking activities in Saudi Arabia.

During 2007, the Bank also maintained its status in the provision of advisory services. This was recognised by the receipt of several prestigious awards, including "Best Equity Bank in the Middle East & North Africa" by *Global Finance*, and "Islamic Equity Deal of the Year" by *Islamic Finance*. GIB remains one of the few financial institutions in the GCC with a dedicated, professional advisory team.

ASSET MANAGEMENT

GIB continues to be the leading manager of client funds in the region, having enjoyed further growth in client assets and revenues during 2007. The international market environment was highly challenging, with a significant increase in volatility relative to recent years. In contrast, Middle Eastern and other emerging equity markets experienced steady growth, fuelled by an increasing level of liquidity and intra-regional investments.

Client assets under management by the Bank's UK-based investment banking subsidiary - GIBUK - continued to grow to reach US$24.1 billion, maintaining GIB's status as the largest manager of client assets in the Middle East. As a result, fees derived from the management of segregated portfolios and mutual funds continued to rise. Of these, an increasing component was incentive and success fees.

GIB's UK-based investment team manages a range of internationally oriented investment products and assets, operating through three market groups. Equity markets cover global and regional equities and convertibles; credit markets cover investment grade and high yield corporate debt and asset-backed securities; while government markets cover developed and emerging market bonds, interest rates and currencies.

TREASURY

A significant milestone achieved during the year was the signing of a new five-year term loan facility for US$1.2 billion in May 2007. The facility was extremely well received by the market, and was oversubscribed to an amount of US$1.46 billion. This loan, which is considered to be one of the largest ever arranged for a Middle Eastern bank, reflects the confidence of the international banking community in GIB's financial strength and sound business strategy.

As a result of GIB's excellent reputation and strong relationships with clients and financial institutions, the volume of deposits increased substantially during the year, thus enhancing further the Bank's liquidity.

Treasury achieved a strong performance in its foreign exchange and money market activities, as well as through its investments in emerging market debt funds and regional equities. Due to the prevailing market conditions characterised by higher levels of volatility, there were increased foreign exchange flows from clients with a growing demand for derivatives to hedge their interest rate and currency risks.

However, the performance of Treasury's investment securities portfolio was negatively impacted as a result of the international credit crunch witnessed during the second half of 2007. This resulted in revaluation losses and provisions in relation to certain structured investment vehicles and collateralised debt obligations that were adversely affected by the market conditions. At the end of 2007, some 98 per cent of available-for-sale debt securities were investment grade-rated with 88 per cent being rated A- and above.

GIB also increased its share capital by US$1.0 billion to US$2.5 billion. Subsequently, the three international credit rating agencies have reaffirmed the Bank's long-term ratings: Standard & Poor's A-, Moody's A2 and Fitch A. The rating agencies have indicated in their reports that GIB followed a conservative provisioning approach.

GIB acted as exclusive financial adviser for a number of transactions in Saudi Arabia. The Bank also advised during the year Saudi Aramco and ExxonMobil on the sale of their joint venture, Petrolube.

Financial Review

OPERATING INCOME WAS US$292.1 MILLION for the year, being US$73.7 million or 34 per cent up on the prior year, before taking account of the adverse impact of the global credit crisis. This reflected a record performance by the Bank's core GCC-focused merchant banking business. However, after taking account of revaluation losses and provisions in relation to exposures impacted by the global credit crisis witnessed during the second half of the year, the Bank recorded a net loss of US$757.3 million. The provisions primarily related to structured investment vehicles (SIVs), and collateralised debt obligations (CDOs) incorporating exposures to the US subprime sector.

Total income at US$342.4 million reflected strong increases in both interest and fee-based income. Net interest income at US$305.6 million was US$47.9 million or 19 per cent up on the previous year. The increase in interest earnings was principally due to significantly higher loan volumes, related in particular to GCC project financings. Non-interest income benefited in particular from strong fee-based income derived from asset and fund management, corporate advisory and underwriting activities. Fee and commission income rose by US$22.3 million to US$88.1 million for the year. Total operating expenses were contained below the prior year level.

NET INTEREST INCOME

Net interest income at US$305.6 million was US$47.9 million or 19 per cent up on the prior year. Net interest income is principally derived from the following sources:-

- margin income on the commercial lending portfolio,
- margin income on the available-for-sale securities portfolio,
- money book activities, and
- earnings on the investment of the Group's net free capital.

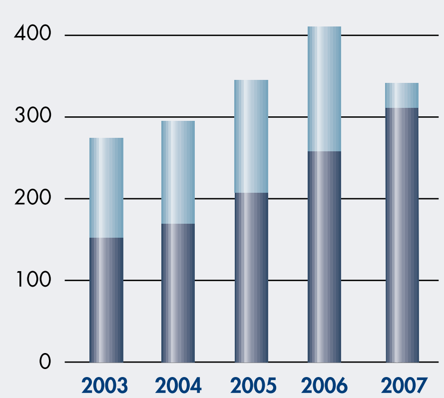
The year-on-year increase in net interest income was largely attributable to higher net interest earnings derived from the Group's commercial lending portfolio. Loan margin income was 42 per cent up on the previous year. This reflected a significant growth in the loan portfolio during the year with average margins being at much the same level as the previous year. The volume of GCC loans grew by US$4.3 billion or 58 per cent during 2007. Margins remained strong being attributable to a continued focus on higher value-added, skill-based commercial banking activities, including project financings and lead manager roles in syndicated facilities.

Margin income on the available-for-sale securities portfolio accounted for 18 per cent of net interest income in 2007. Margin income on available-for-sale securities decreased by 6 per cent in 2007 as maturing assets were not replaced due to the unattractive risk-reward characteristics earlier in the year and the credit market turmoil prevailing during the second half of the year. Available-for-sale debt securities at the 2007 year end were US$150.7 million up on the 2006 year end level. This reflected an increase in security volumes resulting from the exchange of two structured investment vehicles (SIVs) for the underlying securities during the fourth quarter. The underlying securities received amounted in total to US$1.2 billion. Excluding these securities, available-for-sale debt securities at the end of 2007 would have been US$1.0

billion down on the 2006 year end level. The credit quality of the available-for-sale securities portfolio continued to be emphasised with 98 per cent of available-for-sale debt securities at the 2007 year end being investment grade-rated.

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. Money book earnings in 2007 were 27 per cent up on the prior year reflecting in particular the benefit derived from the higher levels of liquidity prevailing in the region and the associated higher level of deposits. The money book also benefited from the declining interest rate environment during the last quarter of the year. Due to the reliance on deposits derived from counterparties in the GCC and wider Middle East, the Bank was relatively immune from the increase in costs in the international interbank markets associated with the credit market crisis.

Gross income development (US$ millions)



	2003	2004	2005	2006	2007
Non interest income	120.3	121.4	139.2	147.7	36.8
Net interest income	167.3	175.2	209.0	257.7	305.6
Total income before provisions	287.6	296.6	348.2	405.4	342.4

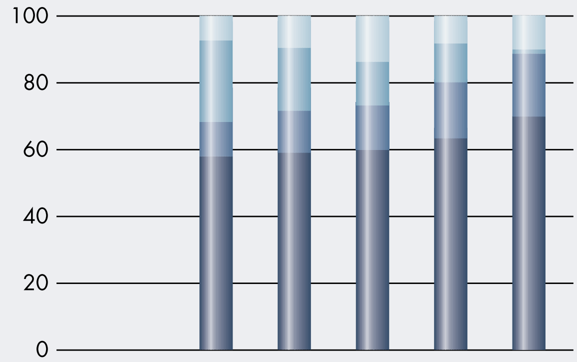
Earnings on the investment of the Group's net free capital were 38 per cent up on the prior year. The net free capital was partly uninvested during the year with the uninvested funds placed on a short term basis in the money market. Earnings on the net free capital therefore benefited from the higher average short term interest rates prevailing throughout much of the year prior to the reduction in short term US interest rates towards the end of the year.

NON-INTEREST INCOME

Non-interest income comprises fee and commission income, trading income, realised profits on available-for-sale securities, and other income. All non-interest income categories with the exception of trading income recorded increases over prior year levels.

Fee and commission income, which at US$88.1 million represented the second largest income category, was at a record level. Fee and commission income was US$22.3 million or 34 per cent up on 2006, which in itself was 42 per cent up on 2005. Fee and commission income has grown by 370 per cent in the five years since the GCC-focused merchant banking strategy was adopted in 2002. An analysis of fee and commission income with prior year comparatives is set out in note 22 to the consolidated financial statements. Investment banking and management fees at US$61.2 million were US$17.0 million or 38 per cent up on the prior year. This followed year-on-year increases of 42 per cent, 26 per cent and 25 per cent in 2006, 2005 and 2004 respectively. This income category comprises fees generated by the Group's asset management, fund management, corporate advisory and underwriting

Gross income composition (%)



	2003	2004	2005	2006	2007
Other	7.3	9.8	14.2	8.3	8.1
Trading income*	24.2	18.7	12.5	11.9	1.0
Fee and commission income	10.4	12.4	13.3	16.2	20.3
Net interest income	58.1	59.1	60.0	63.6	70.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

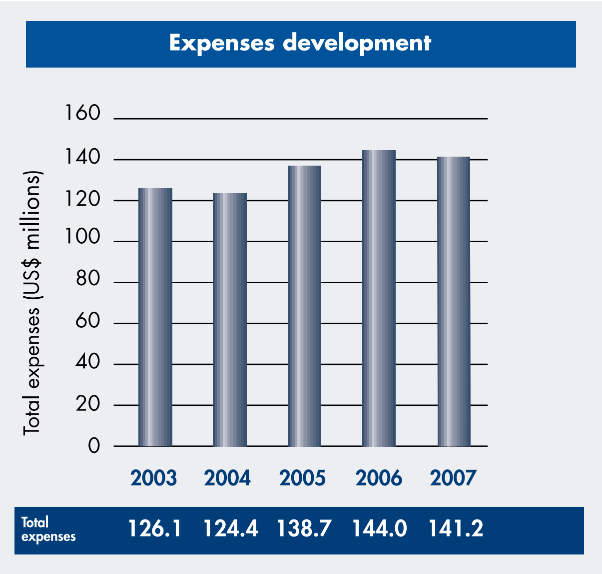
** To facilitate year-on-year comparison, 2007 trading income excludes revaluation losses on exposures directly impacted by the credit market crisis.*

activities. The significant year-on-year increases reflect the Group's successful efforts in diversifying revenues though the development of a wide range of customer-related products and services. The increase in asset and fund management fees in 2007 was attributable to both a higher level of performance fees and a higher volume of funds under management. As referred to in note 34 to the consolidated financial statements, assets held in a fiduciary capacity increased by US$2.4 billion or 11 per cent during the year to US$24.1 billion at 31st December 2007. Commissions on letters of credit and guarantee at US$20.8 million were US$5.1 million or 32 per cent up on the prior year and therefore continued to make an important contribution to fee and commission income. The significant year-on-year advance was largely attributable to an increase in guarantee commissions on GCC-related business activities.

The Group's various trading activities incurred an US$86.6 million loss for the year. Trading income is reported inclusive of all related income, including interest income, gains and losses arising on the purchase and sale, and from changes in the fair value of trading securities, dividend income, and interest expense, including all related funding costs. An analysis of trading income is set out in note 23 to the consolidated financial statements. The trading loss was attributable to revaluation losses arising on asset backed security trading positions. The asset backed security trading activity recorded a loss for the year of US$90.9 million reflecting the adverse impact of the credit market crisis. The asset backed security trading positions were fully closed out in the first quarter of 2008. Strong revenues were generated by foreign exchange trading which benefited from a high volume of customer-related business. Foreign exchange profits at US$9.7 million were US$1.4 million or 17 per cent up on the previous year. All other trading activities incurred a marginal aggregate loss for the year reflecting the volatile and challenging market environment, particularly during the second half of the year.

Profits on available-for-sale securities amounted to US$29.6 million for the year. Profits were principally realised on the early redemption of securities in the floating rate debt security portfolio, which is commented on in more detail in the section on available-for-sale securities, and on private equity-related investments.

Other income of US$5.7 million principally comprised dividends received from available-for-sale equity investments.



OPERATING EXPENSES

Operating expenses at US$141.2 million were US$2.8 million down on the prior year. As explained in more detail later in this section, the year-on-year decrease was recorded in the staff and other operating expense categories.

Staff expenses were US$3.6 million down on the prior year. Staff expenses in 2007 included one off, exceptional expenses of US$4.0 million relating to a restructuring of the Group's London-based subsidiary, GIBUK. Excluding this exceptional expense, staff expenses were US$7.6 million or 8 per cent down on the prior year. The year-on-year decrease was attributable to lower performance-related remuneration. Premises expenses were US$2.9 million up on the prior year. The year-on-year increase was due to higher depreciation expenses relating to the refurbishment of the Head Office building in Bahrain.

Other operating expenses were US$2.1 million down on the prior year. This was partly attributable to an exceptional, one off refund of VAT paid in prior years. Excluding this exceptional item, other operating expenses were marginally below the prior year reflecting ongoing cost control measures.

PROVISIONS

The Bank took prudent and conservative provisioning actions in relation to exposures that were adversely impacted by the credit market crisis.

The total provision charge for available-for-sale securities amounted to US$965.7 million for the year. The securities provision charge was comprised as follows:-

	US$ millions
- structured investment vehicles (SIVs)	544.6
- non-specific and portfolio provisions	243.0
- specific provisions	178.1
	965.7

The provisions in respect of investments in SIVs comprised provisions of US$44.6 million in respect of losses incurred on the exchange of the capital notes of two SIV investments for the underlying securities, and a US$500.0 million provision in respect of the SIV investments held at 31st December 2007, amounting to US$581.8 million. The SIV provisions represented 86 per cent of the cost of the investments.

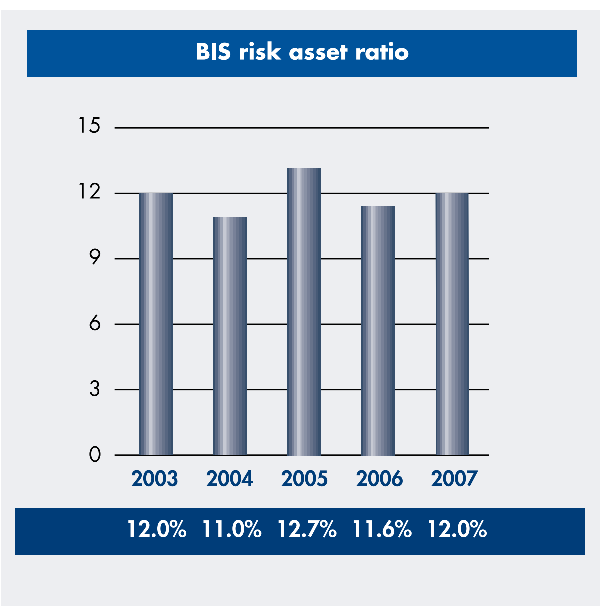
The non-specific and portfolio provisions included a US$150.0 million provision in respect of possible impairments of structured products resulting from the impact of the global credit crisis that had not been specifically indentified at the 2007 year end.

The specific provisions principally related to mortgage-backed collateralised debt obligations that were adversely impacted by the global credit crisis.

CAPITAL STRENGTH

Total equity amounted to US$2,215.3 million at 31st December 2007. At the 2007 year end the ratio of equity and Tier 1 capital to total assets were 7.4 per cent and 8.0 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 4.53 per cent according to a survey published in *The Banker* magazine in July 2007.

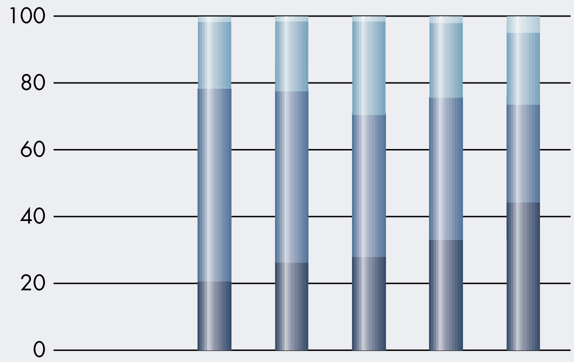
Share capital increased by US$1.5 billion during the year. Issued share capital increased by US$500.0 million in March 2007 to US$1.5 billion. At an Extraordinary General Assembly held on 20th February 2008, the shareholders ratified an earlier commitment in 2007 to increase the issued share capital by a further US$1.0 billion to US$2.5 billion. The capital increase was approved by the Central Bank of Bahrain, and was classified in the consolidated balance sheet as a proposed increase in share capital pending completion of the relevant legal formalities. The proceeds of the capital increase were received in March 2008.



A US$358.7 million increase in total equity during 2007 comprised the net of a US$1.5 billion increase in share capital, the US$757.3 million loss for the year, a US$127.7 million dividend paid in respect of 2006, and a US$256.3 million net decrease 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 equity. The net decrease in the fair value of available-for-sale securities reflected the negative impact on security valuations of the significant widening in credit spreads in the second half of the year associated with the credit market turmoil. The resultant unrealised revaluation loss at the 2007 year end was US$167.4 million, representing only 2 per cent of the total value of the available-for-sale securities portfolio.

With a total regulatory capital base of US$2,996.6 million and total risk-weighted exposure of US$24,941.8 million, the risk asset ratio calculated in accordance with the guidelines of the Basel Committee on Banking Supervision was 12.0 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 2007 year end net fair value losses of US$166.3 million were added back to equity to derive the regulatory capital base for capital adequacy purposes. The Bank's regulatory capital base is enhanced by subordinated term financing facilities amounting in total to US$550.0 million.

Asset mix by category (%)



	2003	2004	2005	2006	2007
Other	1.6	1.5	1.6	2.0	5.1
Placements, due from brokers, and other liquid assets	19.9	20.9	27.9	22.4	21.4
Securities	58.0	52.4	43.1	42.8	31.4
Loans and advances	20.5	25.2	27.4	32.8	42.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

The subordinated term financing facilities are approved for inclusion in Tier 2 capital for capital adequacy purposes by the Bank's regulator, the Central Bank of Bahrain (CBB).

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 CBB. Note 33 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 CBB, was 14.7 per cent at the 2007 year end. Under the CBB's guidelines, GCC governments are accorded the same preferential risk weighting as for OECD governments while GCC government-owned companies are accorded a preferential 20 per cent risk weighting. The CBB applies a minimum risk asset ratio of 12 per cent compared to a minimum of 8 per cent prescribed by the Basel Committee.

The Group adopted the Basel 2 capital adequacy framework with effect from 1st January 2008 in accordance with the guidelines of the CBB. At 31st December 2007, the Group had fully completed its preparations for the implementation of the CBB's Basel 2 Pillar One guidelines. The Basel 2 capital adequacy ratio at 31st December 2007 based on the CBB's guidelines for the Standardised Approach for both credit and operational risk was 13.8 per cent while the Basel 2 Tier 1 ratio was a high 11.1 per cent.

The Group's policies in relation to capital management are set out in note 26 to the consolidated financial statements. As described in more detail in the note, the Group's policy is to maintain a strong capital base so as to maintain investor, counterparty and market confidence and to sustain the future development of the Group's business.

ASSET QUALITY

The geographical distribution of risk assets is set out in note 27 to the consolidated financial statements. The credit risk profile of financial assets, based on internal credit ratings, is set out in note 26(a) to the consolidated financial statements. This note demonstrates that 84 per cent of all financial assets, comprising placements, securities and loans, that were neither past due nor impaired, were rated 4- or above, i.e. the equivalent of investment grade-rated. Further assessment of asset quality can be facilitated by reference to note 36 to the consolidated financial statements on the fair value of financial instruments.

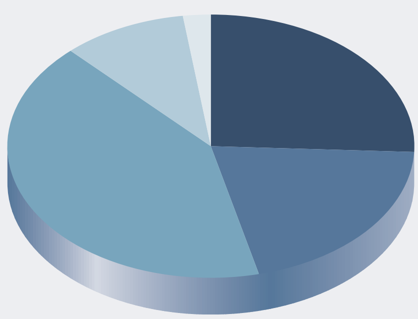
Based on the valuation methodologies set out in that note, the net fair values of all on- and off-balance sheet financial instruments at 31st December 2007 were not significantly different to their net book values. All non-trading securities are classified as available-for-sale and measured at fair value. Available-for-sale securities are accordingly stated at fair value in the consolidated balance sheet.

At the 2007 year end, available-for-sale securities accounted for 27 per cent of total assets while loans and advances represented 42 per cent.

Available-for-Sale Securities

Available-for-sale (AFS) securities totalled US$8,070.7 million at 31st December 2007. The available-for-sale securities portfolio represents an effective international geographical diversification of the Group's risk assets with 75 per cent of the portfolio comprising securities of North American and European issuers. The remaining balance largely comprises securities issued by GCC country governments.

Available-for-sale debt securities rating profile



	US$ millions	%
AAA / Aaa	1,996.9	25.7
AA- to AA+ / Aa3 to Aa1	1,589.3	20.5
A- to A+ / A3 to A1	3,243.1	41.7
BBB- to BBB+ / Baa3 to Baa1	766.2	9.9
Other debt securities	172.2	2.2
Total	**7,767.7**	**100.0**

An analysis of the basis used for determining the fair values of AFS securities is set out in note 36 to the consolidated financial statements. At 31st December 2007, US$7,338.3 million or 91 per cent of AFS securities were valued based on quoted prices while an additional US$246.3 million or 3 per cent was valued based on cost less provision for impairment. Modelled-based valuations, amounting to US$486.1 million, were only used where quoted prices were not available.

AFS securities comprise two types of debt security portfolios, a structured investment vehicle portfolio and a 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 91 per cent of the total AFS securities portfolio at the 2007 year end. The smaller debt security portfolio comprises fixed income securities. This portfolio amounted to US$441.7 million at the end of 2007. This largely comprised GCC country government bonds with original maturities of up to two years.

Structured investment vehicles (SIVs) at 31st December 2007 amounted to US$81.8 million. The underlying investments of the SIVs comprise high quality investment grade-rated floating rate debt securities. SIVs were severely impacted by the contagion effect of the credit market crisis which resulted in the virtual drying up of the asset backed commercial paper market upon which the

SIVs were reliant for their funding requirements. In view of the uncertainties concerning the future value of the SIV investments, a US$500 million provision was established against the US$581.8 million gross investment in SIVs. At 31st December 2007, the net asset values of the SIVs amounted to US$302.5 million, thereby exceeding the carrying value of the investments by US$220.7 million.

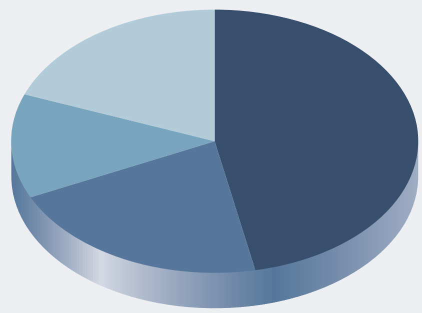
Equity and equity funds amounted to US$221.2 million at the end of 2007 and comprised private equity investments and externally managed funds providing a diversified exposure to the private equity sector.

Details of the Group's exposure to residential mortgage-backed securities (RMBS) and mortgage-backed collateralised debt obligations (CDOs) are set out in note 9(a) to the consolidated financial statements. At 31st December 2007, the Group's unimpaired exposure to RMBS and mortgage-backed CDOs amounted to US$396.9 million and US$194.3 million respectively. The fair value of the Group's RMBS security holdings was US$9.2 million less than the value implied by the relevant ABX index. US$317.7 million or 80 per cent of the RMBS security holdings were AAA rated and the RMBS holdings did not contain any sub-prime related exposure. The RMBS security holdings were largely of older vintages and therefore less impacted by the US sub-prime related turmoil. 88 per cent of the RMBS security holdings were issued prior to, or in, the first half of 2006. US$105.9 million or 55 per cent of the Group's unimpaired CDOs containing exposure to the residential mortgage sector was AAA-rated while 65 per cent was issued prior to, or in, 2005.

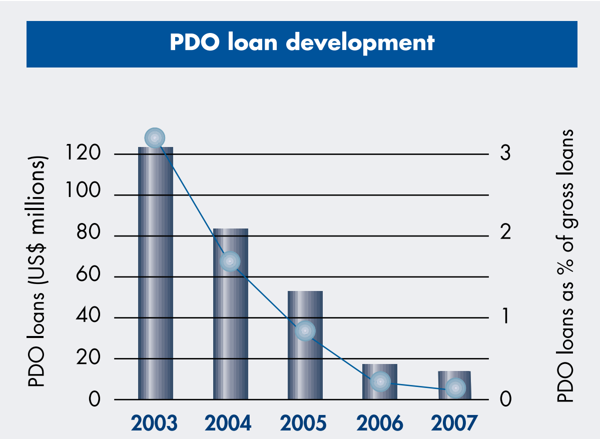
An analysis of the AFS securities portfolio by rating category is set out in note 9(a) to the consolidated financial statements. US$1,996.9 million or 26 per cent of the AFS debt securities at the 2007 year end represented AAA rated securities. Based on the rating of the issuer, a further US$5,598.6 million or 72 per cent of the AFS debt securities represented other investment grade-rated securities. Thus 98 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$172.2 million at the end of 2007, thus comprising only 2 per cent of the total AFS debt securities portfolio. 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.

Loan maturity profile



	US$ millions	%
Year 1	5,890.3	46.8
Years 2 & 3	2,671.8	21.2
Years 4 & 5	1,619.3	12.8
Over 5 years	2,420.4	19.2
Total	**12,601.8**	**100.0**



	2003	2004	2005	2006	2007
PDO loans	123.2	84.0	53.7	18.7	17.0
% of gross loans	3.20%	1.69%	0.84%	0.22%	0.13%

Loans and Advances

Loans and advances amounted to US$12,601.8 million at the 2007 year end. This represented a US$4,456.8 million or 55 per cent increase compared to the 2006 year end. The increase reflected further growth in the GCC loan portfolio and, in particular, project finance-related facilities within the region, in line with the Group's strategic emphasis on relationship banking in the GCC. 93 per cent of the loan portfolio at the 2007 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 per cent of the loan portfolio was due to mature within one year while 68 per cent was due to mature within three years. Only 19 per cent of loans were due to mature beyond five years. Details of the classification of loans and advances by industry are set out in note 10(a) to the consolidated financial statements while the geographical distribution of loans and advances is contained in note 27. At 31st December 2006, 27 per cent of the loan portfolio comprised exposure to the energy, oil and petrochemical sector. This reflects the Group's strategic focus on project finance and syndicated lending in the GCC states.

The credit risk profile of loans and advances, based on internal credit ratings, is set out in note 26(a) to the consolidated financial statements. US$9,086.9 million or 72 per cent of total loans were rated 4- or above, i.e. the equivalent of investment grade-rated. All but US$2.6 million were classified as standard.

Total loan loss provisions at 31st December 2007 amounted to US$75.4 million. Counterparty specific provisions amounted to US$10.4 million while non-specific provisions were US$65.0 million. Specific provisions at the 2007 year end represented 80 per cent of the loans against which a specific provision had been made.

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 on a portfolio basis utilising an incurred loss model. The incurred loss model estimates the probable losses inherent within the portfolio at the balance sheet date but that have not been specifically identified. The model is based on applicable credit ratings and associated historical default probabilities, loss severity and rating migrations, and reflects the current macroeconomic, political and business environment and other pertinent indicators.

The gross and net book values of past due loans amounted to US$17.0 million and US$2.6 million respectively. The provisioning coverage for past due loans was therefore 85 per cent. Past due loans are 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 net book value of the loan and 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 CBB, 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 10(c) to the consolidated financial statements. Only one new loan, amounting to US$4.0 million, became past due in 2007. All other past due loans were overdue by between two and five years. 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$58.4 million. This means that rather than earnings being impaired by the funding cost of the net book value of past due loans, there is an earnings enhancement.

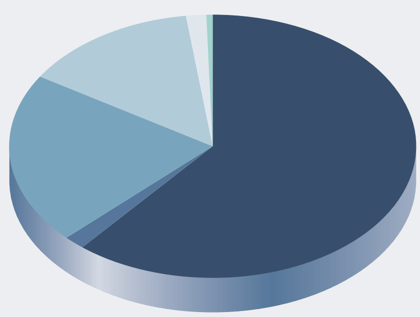
Other Asset Categories

Cash and other liquid assets, which amounted to US$532.7 million at the 2007 year end, are analysed in note 5 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$5,629.1 million at the 2007 year end and were well diversified by geography as illustrated in note 27 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 19 per cent of total assets at the 2007 year end.

Trading securities at US$1,342.6 million largely comprised listed debt securities amounting to US$623.0 million and government bonds of US$278.2 million. Trading securities also included US$421.4 million of managed funds. The funds, which are managed by international institutions with acknowledged expertise in their field, provide diversified exposure to hedge funds, and equity and international debt markets.

Risk asset and commitment exposure

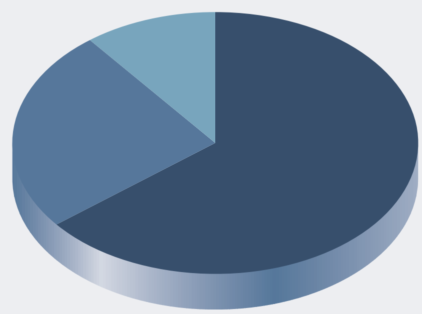


	US$ millions	%
GCC	21,800.7	61.1
Other Middle East & North Africa	617.8	1.7
Europe	7,526.5	21.1
North America	4,980.0	14.0
Asia	582.9	1.6
Latin America	174.2	0.5
Total	**35,682.1**	**100.0**

Risk Asset and Commitment Exposure

Risk asset and commitment exposure at 31st December 2007 amounted to US$35,682.1 million. Risk assets and commitments comprise all assets included in the balance sheet (with the exception of other assets) and credit-related contingent items. As referred to earlier, an analysis of risk asset and commitment exposure by category and geography is contained in note 27 to the consolidated financial statements. An analysis of derivative and foreign exchange products is set out in note 30 while a further analysis of credit-related contingent items together with their risk-weighted equivalents is contained in note 31.

Deposits - geographical profile



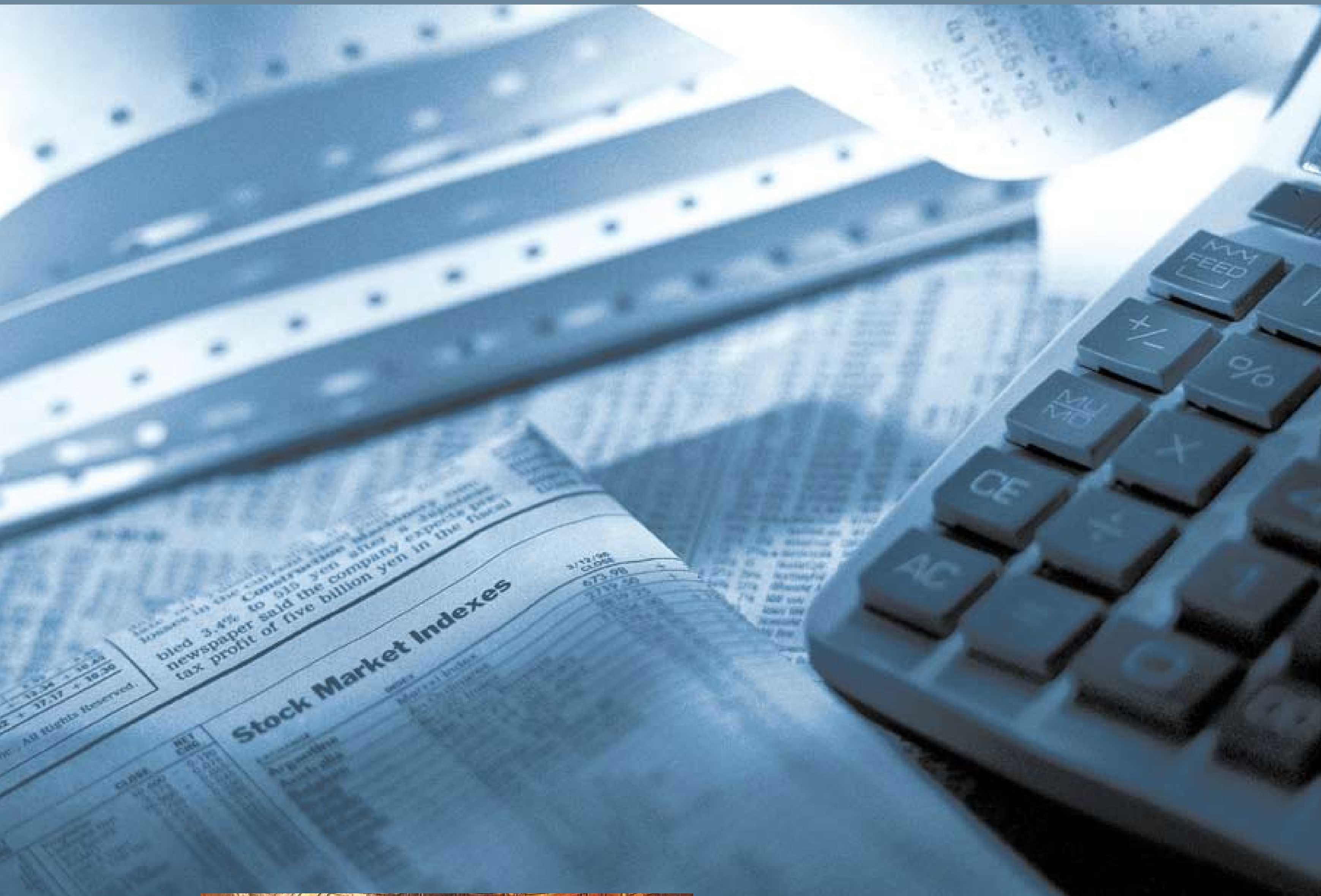
	US$ millions	%
GCC countries	12,636.7	64.3
Other Middle East & North African countries	4,931.7	25.1
Other countries	2,076.3	10.6
Total	**19,644.7**	**100.0**

FUNDING

Bank and customer deposits at 31st December 2007 totalled US$19,644.7 million. Customer deposits amounted to US$13,674.0 million at the 2007 year end being US$2,510.3 million higher than at the previous year end. Customer deposits represented 70 per cent, or over two thirds, of total deposits. The significant increase in customer deposits during 2007 reflected the high level of liquidity prevailing within the region. A US$266.7 million increase in bank deposits to US$5,970.7 million also reflected the high level of liquidity in the GCC interbank market. Total deposits are analysed by geography in note 13 to the consolidated financial statements. US$12,636.7 million or 64 per cent of total deposits were derived from counterparties in GCC countries while a further US$4,931.7 million were derived from the wider Middle East and North Africa. Deposits derived from other countries, principally Europe, amounted to only US$2,076.3 million or 10 per cent of total deposits. This compares to placements with non-GCC counterparties of US$4,558.2 million. The Group is therefore a net placer of funds in the international interbank markets.

Funding was also enhanced by securities sold under agreements to repurchase (repos). Repos were US$4,141.5 million at 31st December 2007. The substantial volume of investment grade-rated AFS securities facilitates the Group's ability to fund through this mechanism. An increase in the volume of repos during 2007 was largely due to repos related to securities acquired in exchange for the capital notes of structured investment vehicles.

Senior term financing at 31st December 2007 totalled US$2,657.8 million. Senior term financing was enhanced during 2007 by a new US$1.2 billion 5-year term deposit in May. Further commentary on liquidity and funding is provided in the Risk Management Review.



Client assets under management by the Bank's UK-based investment banking subsidiary - GIBUK - continued to grow to reach US$24.1 billion, maintaining GIB's status as the largest manager of client assets in the Middle East.

Risk Management Review

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 CEO, 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 Control 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 26 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 minimise 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 are conducted within Board approved guidelines, and the measurement, monitoring and control of credit exposures are done on a Groupwide basis in a consistent manner.

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 Officer and other members of senior management. In general, all credit exposures 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; the Group seeks to minimise these risks by the use of standard contract agreements. The current gross positive market values or credit risk amounts of foreign exchange and derivative transactions are set out in note 30 to the consolidated financial statements. The total credit risk amount in respect of all such transactions outstanding at the 2007 year end amounted to US$106.3 million before taking account of the risk-reducing benefits of any collateral held or legally enforceable netting agreements. 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 off-balance sheet 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 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 derivative 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 Monte Carlo simulation basis using historical volatilities and correlations to generate a profit and loss distribution from several thousand scenarios. 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.

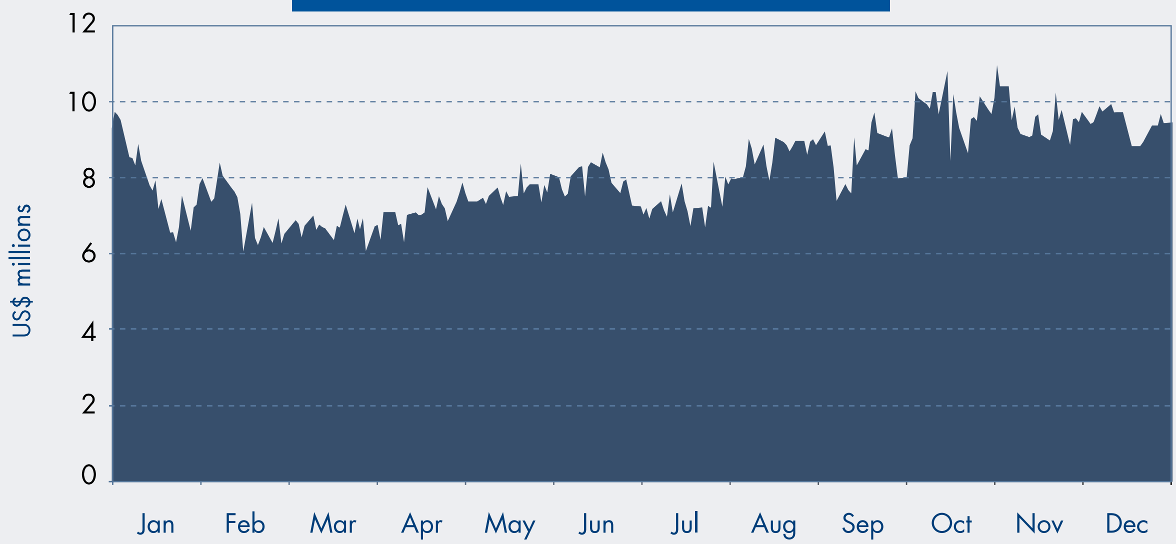
For internal risk management purposes, the Group measures losses that are anticipated to occur within a 95 per cent confidence level. The Group measures VaR utilising a one month assumed holding period for both trading and banking book positions.

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 holding 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$6.0 million to US$10.8 million with a 2007 year-end value of US$9.3 million. Although volatility levels at the end of 2007 were much higher than the levels at the beginning of the year, the VaR for the Group's trading activities at the end of 2007 was only marginally higher than the VaR at the beginning of the year. This was due to a reduction in market risk positions during the second half of the year in view of the unfavourable market environment.

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 actual trading profits and losses. During 2007, there were eight days on which a daily trading loss exceeded the trading VaR at the close of business on the previous business day. These losses were the result of the unprecedented credit market environment that prevailed in 2007, in particular the extreme dislocation that affected US residential mortgage-related securities. Since the 2007 year end, the Group has taken the strategic decision to discontinue proprietary trading activities in its London-based subsidiary, GIBUK, and accordingly proprietary trading positions have been wound down in the first quarter of 2008.

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 (i.e. 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

Trading Value-at-Risk daily development



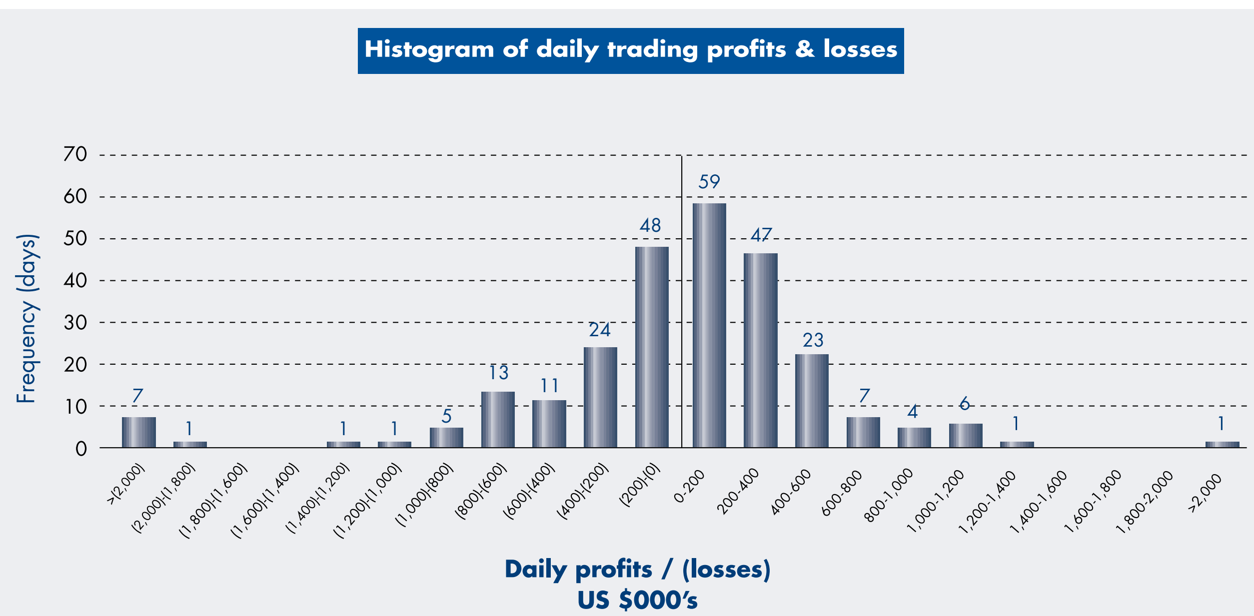
market risk. The Group regularly performs stress tests that are constructed around changes in market rates and prices resulting from pre-defined market stress scenarios, including both historical and hypothetical market events. Historical scenarios include the 1997 Asian crisis, the 1998 Russian crisis, the events of 9/11 and the 2007 US subprime crisis. In addition, the Group performs stress testing based on internally developed hypothetical market stress scenarios. Stress testing is performed for all material market risk 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 29 to the consolidated financial statements. The repricing profiles of individual asset and liability categories incorporate the effect of interest rate swaps used to modify the interest rate characteristics of specific transactions. As illustrated in note 29, the substantial majority of assets and liabilities reprice within one year. Interest rate exposure beyond one year amounted to only US$445 million or 1.5 per cent of total assets. This exposure represented the investment of the net free capital funds in fixed rate government securities and fixed receive interest rate swaps. At 31st December 2007 the modified duration of these fixed rate government securities and interest rate swaps was 4.99.

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 funds 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.

Liquidity is managed and monitored on a daily basis at the parent entity and subsidiary levels. The Group applies a prudent mix of liquidity controls that provide 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. In addition to the daily monitoring of contractual liquidity flows, which by default assumes the repayment of liabilities on their contractual maturity dates, the monitoring of forecast liquidity flows based on the behavioral characteristics of individual deposits and loans enable senior management to identify changes and to react accordingly to fluctuations in market conditions.

The Group monitors deposits by counterparty to ensure the maintenance of a diversified funding base in terms of individual depositor, range of counterparties, and maturities. The funding base is enhanced through term financing of US$3,207.8 million as at 31st December 2007, an increase of US$790.7 million over the year. Access to available but uncommitted short-term funding from the Group's established breadth of Middle East and international relationships provides additional comfort. In addition to the stable funding base, the Group maintains a stock of liquid and marketable securities that can be readily sold or repoed.

The asset and liability maturity profile by individual asset and liability category based on contractual repayment arrangements is set out in note 28 to the consolidated financial statements. At 31st December 2007, 42.5 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, as referred to in note 28 to the consolidated financial statements, average deposits in 2007 from those counterparties with deposits over US$10 million at 31st December 2007 amounted to US$17,002.8 million. This represented 87 per cent of total deposits at the 2007 year end.

US$12,636.7 million or 64 per cent of the Group's deposits at 31st December 2007 were from GCC countries, and a further $4,931.7 million or 25 per cent were from other Middle East and North African countries. Historical experience has shown that deposits from counterparties in the Middle East region are more stable than deposits derived from the international interbank market, which at 31st December 2007 were only US$2,076.3 million or 10 per cent of the Group's deposit base. At the 2007 year end, placements with counterparties in non Middle East and North African countries were more than twice the deposits received, indicating that the Group is a net lender of funds in the international interbank market.

The Group maintains strong balance sheet liquidity ratios. Core deposits of US$17,002.8 referred to above together with shareholders' equity and term financing were 1.8 times the least liquid asset category, loans and advances. At 31st December 2007 deposits from GCC country governments and central banks and other institutions headquartered in the GCC states, which are more stable, amounted to US$12,636.7 million, which more than exceeds the total loan portfolio. Total deposits and term financing coverage to loans was 1.8 times.

OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all businesses and covers a large number of operational risk events 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.

The Group's Operational Risk Management Framework (ORMF), in line with Basel II requirements, is being implemented for the Standardised Approach. As part of the ORMF, comprehensive risk self-assessments are conducted, which identify the operational risks inherent in the Group's activities, processes and systems. The controls in place to mitigate these risks are also reviewed, and enhanced as necessary. A database of measurable operational risk events is being built and maintained, together with a record of key risk indicators, which can provide an early warning of possible operational risk.

As a result of GIB's excellent reputation and strong relationships with clients and financial institutions, the volume of deposits increased substantially during the year.

GOVERNANCE

The Board of Directors and Management are committed to complying with established best practice in corporate governance. The Bank (although not a publicly traded company) has progressively adopted international best practices of publicly traded financial institutions, and since 2003 has published a statement on Corporate Governance in its Annual Report.

In 2007, a number of steps were taken to further strengthen GIB's corporate governance framework, including the following Board approvals:

- Updated mandates for the Board of Directors, the Chairman, the Directors, and the Chairmen of Board Committees.
- Updated mandates for the following Board Committees: the Audit Committee, the Risk Policy Committee, and the Human Resources & Compensation Committee.
- Letters of Appointment for all Directors and members of Senior Management, outlining their responsibilities.
- Updated Corporate Communications Policy, and Compliance Policy.

ORGANISATION

The Bank has an organisational structure in place that segregates functions and responsibilities, reflecting a division of roles and responsibilities between the Board of Directors and Management:

- There is an effective and appropriately constituted Board of Directors responsible for the stewardship of the Bank and the supervision of the Bank's business, that receives from management such information as is required to properly fulfill its duties and the duties of the Committees that assist it, and that delegates to Management the authority and responsibility for day-to-day business;
- There is an effective and appropriately organised management structure responsible for the day-to-day management of the Bank and the implementation of Board-approved strategy, policies and internal controls;
- There is a division of roles and responsibilities as between the Board of Directors and Management, and as between the Chairman and the Chief Executive Officer; and
- There are defined and documented mandates and responsibilities (as well as delegated authorities, where applicable) for:
    - The Board,
    - The Chairman of the Board,
    - The Board Committees,
    - The Management,
    - The Chief Executive Officer, and
    - The six Management Committees (the Management Committee, the Group Risk Committee, the Assets & Liabilities Committee, the Information Security Management Committee, the Information Technology Steering Committee and the Human Resources Committee).

The GIB Organisation Chart is set out on page 92.

BOARD OF DIRECTORS

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. Their biographies are set out on page 93.

In accordance with the Bank's Articles of Association, all directors are appointed every three years by the Bank's shareholders who consist of the six Gulf Cooperation Council governments, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, that collectively own 72.5 per cent (in equal number of shares) and who each appoint a director, and the Saudi Arabian Monetary Agency (the Central Bank of Saudi Arabia) that owns 27.5 per cent and who appoints three directors.

The Bank's Articles of Association also require that the Bank holds, annually, a properly constituted General Assembly.

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.

The Board performs its responsibilities as a supervisory board while delegating to the Bank's Management the responsibility for the management of the Bank within policies, guidelines and parameters set by the Board.

In 2007, Letters of Appointment were issued by the Chairman to all the directors, reminding them that:

- Directors are responsible for contributing to the oversight of the Bank's affairs with professionalism and integrity with the aim of achieving the strategic and financial objectives adopted by the Board;
- A key responsibility of the Board is to fill the gap between stakeholders (shareholders, creditors, employees, depositors, investment account holders, etc.) to whom the Board owes a duty of care, and executive management, by monitoring management closely on behalf of stakeholders;
- A detailed description of directors' responsibilities is outlined in the Mandate of the Board and in the Mandate of Directors, as adopted by the Board; and
- These responsibilities are to be carried out in line with the standards of the Code of Conduct adopted by the Board.

In preparation for Board and Committee meetings, the directors receive in a timely manner regular reports and all other information required for such meetings, supplemented by any additional information specifically requested by the directors from time to time. The directors also receive monthly financial reports and other regular management reports that enable them to evaluate the Bank's and management's performance against agreed objectives.

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.

In 2007, the Board met six times, the Audit Committee met three times, and both the Human Resources & Compensation Committee and the Risk Policy Committee met twice.

The details of committee membership and directors' attendance are set out in the table on page 37.

BOARD COMMITTEES

The committees of the Board of Directors derive their authorities and powers from the Board.

The Audit Committee

- Assists the Board in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, auditing and financial reporting practices.
- 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.
- Assists the Board in ensuring that an adequate, effective, comprehensive and transparent corporate governance process is in place.
- Recommends to the Board the selection and compensation of the Bank's external auditors (for appointment and approval at the shareholders' annual General Assembly), and ensures their independence.
- Reviews the activities and performance of the internal audit function.
- Reviews and supervises the implementation and enforcement of the Bank's Code of Conduct.
- Maintains an open avenue of communication among the Board of Directors, the Bank's management, and the Banks' internal and external auditors.

DIRECTORS' ATTENDANCE DURING 2007

Board and committee meetings attendance during 2007

Board Members	Board meetings	Audit Committee meetings	Human Resources & Compensation Committee meetings	Risk Policy Committee meetings
H.E. Sheikh Ebrahim Bin Khalifa Al Khalifa - Chairman *(Kingdom of Bahrain)*	6 (6)			
Mr. Abdul Aziz M. Al-Abdulkader - Vice Chairman *(Saudi Arabian Monetary Agency)*	6 (6)			2 (2)*
Dr. Hamad Bin Sulaiman Al-Bazai *(Kingdom of Saudi Arabia)*	6 (6)	3 (3)*	2 (2)	
Mr. Saud Bin Nassir Al-Shukaily *(Sultanate of Oman)*	5 (6)	3 (3)	_ (1)	
Mr. Khalid Bin Abdulla Al-Suwaidi *(State of Qatar)*	5 (6)		2 (2)	1 (2)
Mr. Nasser Khamis Al-Suwaidi *(The United Arab Emirates)*	6 (6)	3 (3)	2 (2)*	
Dr. Khalid Bin Abdulla Al-Sweilem *(Saudi Arabian Monetary Agency)*	6 (6)	3 (3)	1 (2)	2 (2)
Dr. Abdul Rahman Bin Ahmed Al-Jafary *(Saudi Arabian Monetary Agency)*	6 (6)		2 (2)	2 (2)
Note: Mr. Ahmed Tahous Al-Rashed Al-Tahous joined as Board Member from 18th February 2007 and attended his first Board Meeting on 29th April 2007, replacing Mr. Bader Abdullah Al-Rushaid Al-Bader.				
Mr. Ahmed Tahous Al-Rashed Al-Tahous *(State of Kuwait)*	4 (4)	2 (3)		2 (2)
Mr. Bader Abdullah Al-Rushaid Al-Bader *(State of Kuwait)*	2 (2)			

* Committee Chairman

Figure in brackets indicate maximum number of meetings during the period of membership

The function of the Audit Committee is oversight, and the mandate of the Audit Committee provides further particulars on financial reporting processes, process improvements, as well as additional ethical and legal compliance overview responsibilities.

The Group Chief Auditor reports functionally to the Audit Committee and administratively to the Chief Executive Officer.

The Human Resources & Compensation Committee

- Assists the Board in fulfilling its responsibilities for the Bank's human resources and remuneration policies.
- Reviews the Bank's human resources and compensation policy proposals, and makes the necessary recommendations in that regard for approval by the Board.
- Ensures that the Bank's remuneration levels remain

competitive for the Bank to continue to attract, retain and motivate competent staff to achieve the strategy and objectives of the Bank.
- Monitors the overall cost of remuneration structures of the Bank.
- Ensures that effective management systems are in place to monitor and evaluate the performance of staff.
- Reviews the Bank's succession plan report for submission to the regulators.

In line with industry best practice, the Bank has established a comprehensive staff compensation policy based on total compensation consisting of:

- a fixed component representing basic pay, allowances and benefits; and
- a variable component representing a performance-related award linked to the performance of the Bank, the contribution of the relevant unit and the individual's personal performance.

The Risk Policy Committee

- Assists the Board in fulfilling its oversight responsibilities with respect to setting the Bank's overall risk appetite, parameters and limits within which it conducts its activities.
- Ensures that the Bank has an effective risk management framework in place and that all risk controls operating throughout the Bank are in accordance with regulatory requirements and best practice standards for management of risks in banks.
- Ensures that realistic policies in respect of management of all significant risks are drafted and approved appropriately.
- Reviews the Bank's risk profile and significant risk positions.
- Approves with management the overall credit risk policy limits.
- Receives, reviews, challenges and recommends for approval, by the full Board, any proposed amendments to the overall risk appetite for the Bank.
- Ensures that roles and responsibilities for risk management are clearly defined, and that they remain independent of business development.
- Ensures that, on a timely basis, management informs the Committee of all significant risk arising and that it is comfortable with management's responses and action taken to address such findings.
- Ensures that management reports significant excesses and exceptions, as and when they arise, to the Committee for information and review.
- Monitors whether management maintains a culture that rewards the recognition, communication and management of risks.

The Executive Committee

- A standing Committee that meets when needed.
- The Executive Committee did not meet in 2007.

MANAGEMENT

Senior Management is responsible for the day-to-day management of the Bank, entrusted to it by the Board. It is headed by the Chief Executive Officer, who is assisted by the Chief Operating Officer, responsible for risk management, financial controls, operations, administration, information technology, information security and operational risk; and four Managing Directors responsible for banking, merchant banking, treasury and operations & administration. Their biographies are set out on page 93.

The following committees assist the Chief Executive Officer in the management of the Bank: Management, Group Risk, Bank ALCO (Assets and Liabilities Management), Human Resources, Information Technology and Information Security Management. The committees derive their authorities from the Chief Executive Officer, based on the authorities and limits delegated by the Board of Directors.

In fulfilling its principal responsibility of day-to-day management of the Bank, Senior Management must implement Board approved policies and effective controls, within the strategy and objectives set by the Board.

In 2007, Letters of Appointment were issued by the Chairman to the Chief Executive Officer, the Chief Operating Officer and the four Managing Directors, setting out their specific responsibilities and accountabilities which include assisting with, participating in and contributing to:

- Formulation of the Bank's strategic objectives and direction.
- Formulation of the Bank's annual budget and business plan and ensuring that the Bank's financial targets are met.
- Ensuring that high-level policies are in place for all areas and that such policies are applied fully in all that the Bank does.
- Setting and managing of risk/return targets in line with the Bank's overall risk appetite.
- Determination of the Bank's overall risk based performance measurement standards.
- Regular review of business unit performance and the initiation of appropriate action.
- Ensuring that the Bank operates to the highest ethical standards, and complies with both the letter and spirit of the law, applicable regulations and codes of conduct.
- Ensuring that the Bank is an exemplar of good business practice and customer service.

Their attention was also drawn to the fact that these obligations are in addition to their specific functional responsibilities and objectives, and those set out in the Bank's Corporate Policy Manual.

STRATEGY & OBJECTIVES

After having conducted a thorough analysis of its operations in the context of the regional and global industry in 2002, the Bank implemented improvements to its governance structure, organisational structure, business model and performance framework, and started to put into effect its new objective, best summarised as follows: *to become the GCC merchant bank of choice, with market leadership in a diversified portfolio of activities*.

Within that objective, every year the Board of Directors reassesses and approves a detailed strategic plan that covers the planned activities of the Bank for the next three years.

COMPLIANCE

The Board has also approved a Compliance framework that reflects the principles for promoting sound compliance practices at GIB, and that demonstrates the Bank's adherence to applicable legal and regulatory requirements and to high professional standards. Within that framework, the role of the Compliance function is to assist senior management to ensure on a reasonable basis that the activities of GIB and its staff are conducted in conformity with applicable laws and regulations, and generally with sound practices pertinent to those activities. The Head of Compliance, who reports directly to the Chief Executive Officer, also has access to the Board of Directors through the Audit Committee, if required.

The Compliance function is also responsible for ensuring that effective anti-money laundering processes and controls are in place at GIB.

ANTI-MONEY LAUNDERING

The Bank's current anti-money laundering and combating the financing of terrorism (AML/CFT) procedures and guidelines in place at GIB conform to the legal and regulatory requirements of the Kingdom of Bahrain (the AML Law of 2001 and the Central Bank of Bahrain Rulebook, Volume 1, Financial Crime Module). These legal and regulatory requirements largely reflect the FATF recommendations on Money Laundering and special recommendations on Terrorist Financing.

The GIB AML/CFT procedures and guidelines apply to all of the Bank's offices, branches and subsidiaries (collectively "GIB entities"), wherever located. In addition, the GIB entities located outside Bahrain are subject to the laws and requirements of the jurisdictions where they operate, and if local standards differ, the higher standards should apply.

Systems are in place to ensure that business relationships are commenced with clients whose identity and activities can reasonably be established to be legitimate, to collect and record all relevant client information, to monitor and report suspicious transactions, to provide periodic AML/CFT training to employees, and to review with external auditors the effectiveness of the AML/CFT procedures and controls. The GIB AML/CFT procedures prohibit dealing with shell banks.

A proactive structure of officers is in place to ensure group-wide compliance with AML/CFT procedures, and the timely update of the same to reflect the changes in regulatory requirements. This structure consists of the Head of Compliance (Bahrain) and Group Money Laundering Reporting Officer, MLROs, Deputy MLROs, and Compliance Officers.

CORPORATE COMMUNICATIONS

In keeping with good governance and transparency standards, the Board has adopted an updated Corporate Communications policy in line with the requirements of the Central Bank of Bahrain. These requirements call for the Board to oversee the process of disclosure and communications with stakeholders, and ensure that the disclosures made by the Bank are fair, transparent, comprehensive and timely, and reflect the character of the Bank and the nature, complexity and risks inherent in its business activities.

This transparency is also reflected in the Bank's website (www.gibonline.com) that provides substantial information on the Bank, including its profile and milestones, statements on its vision, mission, strategy and objectives, its Code of Conduct, its press releases, as well as its financial statements.

DISCLOSURES

The Bank's website also provides the Annual Reports of the Bank, and all the information contained in these reports is therefore accessible globally. That information includes management discussion on the business activities of the Bank, as well as discussion and analysis of the financial statements and risk management. The financial information reflects the latest international accounting standards requirements, including the increased level of disclosure resulting from the adoption of IFRS 7 - Financial Instruments Disclosures.

CODE OF CONDUCT

Finally, the Bank's website also contains the Code of Conduct that was approved by the Board, with rules on conduct, ethics and on avoiding conflicts of interest, applicable to all the employees and directors of the Bank.

The Code of Conduct is designed to guide all employees and directors through best practices to fulfill their responsibilities and obligations towards the Bank's stakeholders (shareholders, clients, staff, regulators, suppliers, the public, the host countries in which the Bank conducts business, etc.), in compliance with all applicable laws and regulations.

The Code addresses such issues as upholding the law and following best practices; acting responsibly, honestly, fairly and ethically; avoiding conflicts of interest; protecting Bank property and data; protecting client confidential information and safeguarding the information of others; complying with inside information rules and with the prohibition on insider trading; preventing money laundering and terrorism financing; rejecting bribery and corruption; avoiding compromising gifts; speaking up and whistle-blowing.

Financial Statements

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Report of the Auditors to the Shareholders

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Gulf International Bank B.S.C. ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at 31st December 2007, and the consolidated statement of income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the directors for the consolidated financial statements

The directors of the Bank are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In addition, in our opinion, the Bank 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. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, terms of the Bank's licence or its memorandum and articles of association having occurred during the year ended 31st December 2007 that might have had a material effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG.

KPMG
Public Accountants
Manama, Kingdom of Bahrain
20th February 2008

Consolidated Balance Sheet

	Note	At 31.12.07 US$ millions	At 31.12.06 US$ millions
Assets			
Cash and other liquid assets	5	**532.7**	268.2
Due from brokers	6	**243.3**	950.9
Placements with banks	7	**5,629.1**	4,322.5
Trading securities	8	**1,342.6**	2,186.1
Available-for-sale securities	9	**8,070.7**	8,422.9
Loans and advances	10	**12,601.8**	8,145.0
Other assets	11	**1,533.8**	491.6
Total assets		**29,954.0**	24,787.2
Liabilities			
Deposits from banks	13	**5,970.7**	5,704.0
Deposits from customers	13	**13,674.0**	11,163.7
Securities sold under agreements to repurchase	14	**4,141.5**	2,219.6
Securities sold but not yet purchased	6	**233.2**	862.7
Other liabilities	15	**511.5**	563.5
Senior term financing	16	**2,657.8**	1,867.1
Subordinated term financing	17	**550.0**	550.0
Total liabilities		**27,738.7**	22,930.6
Equity			
Share capital	18	**1,500.0**	1,000.0
Proposed increase in share capital	18	**1,000.0**	-
Share premium		**7.6**	7.6
Reserves	19	**109.6**	365.9
Retained earnings		**(401.9)**	483.1
Total equity		**2,215.3**	1,856.6
Total liabilities & equity		**29,954.0**	24,787.2

The consolidated financial statements were approved by the Board of Directors on 20th February 2008 and signed on their behalf by:-

Ebrahim Bin Khalifa Al Khalifa
Chairman

Dr. Khaled M. Al-Fayez
Chief Executive Officer

The notes on pages 47 to 91 form part of these consolidated financial statements.

Consolidated Statement of Income

	Note	**Year ended 31.12.07 US$ millions**	Year ended 31.12.06 US$ millions
Interest income	21	**1,512.7**	1,235.8
Interest expense	21	**1,207.1**	978.1
Net interest income		**305.6**	257.7
Fee and commission income	22	**88.1**	65.8
Trading (loss) / income	23	**(86.6)**	48.2
Profits on available-for-sale securities		**29.6**	28.8
Other income	24	**5.7**	4.9
Total income		**342.4**	405.4
Staff expenses		**98.3**	101.9
Premises expenses		**11.1**	8.2
Other operating expenses		**31.8**	33.9
Total operating expenses		**141.2**	144.0
Net income before provisions and tax		**201.2**	261.4
Provisions for available-for-sale securities	9	**(965.7)**	1.6
Provisions for loans and advances	10	**6.9**	0.8
Net (loss) / income before tax		**(757.6)**	263.8
Taxation credit / (charge) on overseas activities		**0.3**	(8.3)
Net (loss) / income		**(757.3)**	255.5
Earnings per share	37	***(US$0.55)***	*US$0.26*

Ebrahim Bin Khalifa Al Khalifa
Chairman

Dr. Khaled M. Al-Fayez
Chief Executive Officer

The notes on pages 47 to 91 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Year ended 31.12.07 US$ millions	Year ended 31.12.06 US$ millions
Operating Activities		
Net (loss) / income after tax	**(757.3)**	255.5
Adjustments to reconcile net (loss) / income to net cash inflow / (outflow) from operating activities:		
Provisions for available-for-sale securities	**965.7**	(1.6)
Provisions for loans and advances	**(6.9)**	(0.8)
Profits on available-for-sale securities	**(29.6)**	(28.8)
Amortisation of available-for-sale securities	**2.6**	2.9
Increase in accrued interest receivable	**(6.4)**	(66.7)
Increase in accrued interest payable	**35.3**	15.6
Increase in other net assets	**(127.6)**	(60.6)
Net decrease / (increase) in trading securities	**843.5**	(178.6)
Net cash inflow / (outflow) from operating activities	**919.3**	(63.1)
Investing Activities		
Net decrease / (increase) in due from brokers	**707.6**	(8.7)
Net (increase) / decrease in placements with banks	**(1,306.6)**	757.2
Net increase in loans and advances	**(4,449.9)**	(1,870.5)
Purchase of available-for-sale securities	**(2,653.8)**	(1,730.1)
Sale and maturity of available-for-sale securities	**1,815.4**	1,114.4
Net cash outflow from investing activities	**(5,887.3)**	(1,737.7)
Financing Activities		
Net increase in deposits from banks	**266.8**	1,612.3
Net increase in deposits from customers	**2,510.3**	1,792.9
Net increase / (decrease) in securities sold under agreements to repurchase	**1,921.9**	(1,491.9)
Net decrease in securities sold but not yet purchased	**(629.5)**	(10.8)
Net increase / (decrease) in senior term financing	**790.7**	(77.4)
Increase in share capital	**500.0**	-
Dividends paid	**(127.7)**	(101.5)
Net cash inflow from financing activities	**5,232.5**	1,723.6
Increase / (decrease) in cash and cash equivalents	**264.5**	(77.2)
Cash and cash equivalents at 1st January	**268.2**	345.4
Cash and cash equivalents at 31st December	**532.7**	268.2

The notes on pages 47 to 91 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Share capital US$ millions	Proposed increase in share capital US$ millions	Share premium US$ millions	Reserves US$ millions	Retained earnings US$ millions	Total US$ millions
At 1st January 2006	**1,000.0**	**-**	**7.6**	**334.6**	**376.1**	**1,718.3**
Arising in the year:-						
- Available-for-sale securities:						
net fair value gains	-	-	-	0.7	-	0.7
- Cash flow hedges:						
net fair value losses	-	-	-	(2.0)	-	(2.0)
Transfers in the year:-						
- Transfers to statement of income	-	-	-	(14.4)	-	(14.4)
Net losses recognised directly in equity	-	-	-	(15.7)	-	(15.7)
Dividend for 2005	-	-	-	-	(101.5)	(101.5)
Net income for the year	-	-	-	-	255.5	255.5
Transfers from retained earnings	-	-	-	47.0	(47.0)	-
At 31st December 2006	**1,000.0**	**-**	**7.6**	**365.9**	**483.1**	**1,856.6**
Arising in the year:-						
- Available-for-sale securities:						
net fair value losses	-	-	-	(248.8)	-	(248.8)
- Cash flow hedges:						
net fair value gains	-	-	-	1.3	-	1.3
Transfers in the year:-						
- Transfers to statement of income	-	-	-	(8.8)	-	(8.8)
Net losses recognised directly in equity	-	-	-	(256.3)	-	(256.3)
Increase in share capital	500.0	1,000.0	-	-	-	1,500.0
Dividend for 2006	-	-	-	-	(127.7)	(127.7)
Net loss for the year	-	-	-	-	(757.3)	(757.3)
At 31st December 2007	**1,500.0**	**1,000.0**	**7.6**	**109.6**	**(401.9)**	**2,215.3**

The notes on pages 47 to 91 form part of these consolidated financial statements.

For the year ended 31st December 2007

1. INCORPORATION AND REGISTRATION

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

The Group is principally engaged in the provision of wholesale commercial and investment banking services. The Group operates through subsidiaries, branch offices and representative offices located in six countries worldwide. The total number of staff employed by the Group at the end of the financial year was 608.

2. ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of trading securities, available-for-sale securities, securities sold but not yet purchased, 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.

During the year, the Group adopted IFRS 7 - Financial Instruments: Disclosures which increased the level of disclosures in the consolidated financial statements. The adoption of IFRS 7 had no impact on the reported income and losses or the financial position of the Group. In accordance with the transitional requirements of the standard full comparative information has been disclosed.

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 Foreign currencies

Items included in the financial statements of the Bank and its principal subsidiaries are measured based on the currency of the primary environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US Dollars, representing the Bank's functional and presentation currency. 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 at the balance sheet date. Realised and unrealised foreign exchange gains and losses are included in trading income.

2.4 Financial assets and liabilities

Financial assets and liabilities comprise all assets and liabilities reflected on the balance sheet, although excluding investments in subsidiaries, associated companies and joint ventures, employee benefit plans, property and equipment, deferred taxation and taxation payable.

2. ACCOUNTING POLICIES (continued)

2.4 Financial assets and liabilities (continued)

a) Initial recognition and measurement

Financial assets are classified at inception into one of the following three categories:-

- held-for-trading
- loans and receivables
- available-for-sale

Financial assets are initially recognised at fair value, including transaction costs that are directly attributable to the acquisition of the financial asset.

Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and liabilities 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 or liability. All regular way purchases and sales of other financial assets and liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to 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.

b) Subsequent measurement

Subsequent to initial measurement, financial assets and liabilities are measured at either fair value or amortised cost, depending on their classification:-

Held-for-trading

Held-for-trading financial assets and liabilities are assets or liabilities acquired or incurred 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.

Held-for-trading financial assets and liabilities are measured at fair value. The fair value for financial assets and liabilities traded in active markets is based on quoted prices, including quotations obtained from lead managers, brokers and dealers. The bid price is used to measure financial assets and the offer price is used to measure financial liabilities. Mid-market prices are used to measure fair value only to the extent that the Group has financial assets and liabilities with offsetting risk positions.

For all other held-for-trading financial assets and liabilities not traded in an active market, fair value is determined using appropriate valuation techniques. Valuation techniques include comparison to similar instruments for which there are observable prices, discounted cash flow techniques, and option pricing models.

Realised and unrealised gains and losses, interest earned or incurred, and dividends received on held-for-trading financial assets and liabilities are included in trading income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified as held-for-trading. The majority of the Group's loans and receivables are included in the loans and advances balance sheet category.

Financial assets classified as loans and receivables are stated at amortised cost using the effective interest rate method as described in note 2.7(a), less provision for impairment, with interest revenue recognised in the consolidated statement of income.

Available-for-sale financial assets

Available-for-sale financial assets are assets which 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 financial assets are measured at fair value. The fair value for available-for-sale financial assets in active markets is based on quoted prices, including quotations obtained from lead managers, brokers and dealers. The fair value for available-for-sale financial assets in inactive markets is determined using appropriate valuation techniques. Valuation techniques include

2. ACCOUNTING POLICIES (continued)

2.4 Financial assets and liabilities (continued)

comparison to similar instruments for which there are observable prices, and discounted cash flow techniques. 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 financial assets are recognised in a separate revaluation reserve in equity. The cumulative fair value adjustments on available-for-sale financial assets which are sold or otherwise disposed or become impaired, and which had previously been recognised in equity are transferred to the consolidated statement of income.

Non-trading financial liabilities

All financial liabilities, other than those designated as held-for-trading, are classified as non-trading financial liabilities and are measured at amortised cost using the effective interest rate method as described in note 2.7(a).

c) Derecognition of financial assets and liabilities

Financial assets are derecognised and removed from the consolidated balance sheet when the right to receive cash flows from the assets has expired; the Group has transferred its contractual right to receive the cash flows from the assets, and substantially all the risks and rewards of ownership; or where control is not retained. Financial liabilities are derecognised and removed from the consolidated balance sheet when the obligation is discharged, cancelled, or expires.

2.5 Impairment of financial assets

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. Objective evidence that a financial asset is impaired may include a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, that would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. For equity securities classified as available-for-sale, a significant or prolonged decline in fair value below cost is considered in determining whether a security is impaired. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the consolidated statement of income. The amount of the cumulative loss that is removed from equity and recognised in the consolidated statement of income is the difference between the acquisition cost and current fair value, less any impairment loss on that security previously recognised in the consolidated statement of income.

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 collective basis in respect of impairments that exist at the balance sheet date but which will only be individually identified in the future. Future cash flows for financial assets that are collectively assessed for impairment are estimated based on contractual cash flows and historical loss experiences for assets with similar credit risk characteristics. Historical loss experience is adjusted, based on current observable data, to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based.

Provisions for impairment are recognised in the consolidated statement of income and are reflected in an allowance account against loans and advances and available-for-sale securities.

Financial assets 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.

With the exception of provisions for the impairment of available-for-sale equity instruments, provisions for impairment are released and transferred to the consolidated statement of income where a subsequent increase in the recoverable amount is related objectively to an event occurring after the provision for impairment was established. Impairment losses for available-for-sale equity instruments are only released and transferred to the consolidated statement of income on the redemption or sale of the instrument.

2. ACCOUNTING POLICIES (continued)

2.5 *Impairment of financial assets* (continued)

Financial assets which have been renegotiated are no longer considered to be past due and are replaced on performing status when all principal and interest payments are up to date and future payments are reasonably assured. Financial assets subject to individual impairment assessment and whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due.

2.6 Offsetting financial assets and liabilities

Financial assets and financial 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.

2.7 Revenue recognition

a) Interest income and interest expense

Interest income and interest expense for all interest-bearing financial assets and liabilities except those classified as held-for-trading are recognised using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial asset or liability but excluding future credit losses. Fees, including loan origination fees and early redemption fees, are included in the calculation of the effective interest rate to the extent that they are considered to be an integral part of the effective interest rate.

Interest income is suspended when either 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.

b) Fees and commissions

Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate.

Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

c) Trading income

Trading income arises from earnings generated from customer business and market making, and from changes in fair value resulting from movements in interest and exchange rates, equity prices and other market variables. Changes in fair value and gains and losses arising on the purchase and sale of trading instruments are included in trading income, together with the related interest income, interest expense and dividend income.

d) Dividend income

Dividend income is recognised as follows:-

- dividends from structured finance investments are recognised on an accruals basis and are included in interest income.

  The structured finance investments are in the form of capital notes and the underlying investments comprise high quality, investment grade-rated debt securities.

- dividends from equity instruments classified as held-for-trading are recognised when the right to receive payment is established and are included in trading income.

2. ACCOUNTING POLICIES (continued)

2.7 Revenue recognition (continued)

- dividends from equity instruments classified as available-for-sale are recognised when the right to receive payment is established and are included in other income.
- in the separate financial statements of the Bank, dividends from subsidiaries are recognised when received.

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 Premises and equipment

Land is stated at cost. Other premises and equipment are stated at cost less accumulated depreciation. The residual values and useful lives of premises and equipment are reviewed at each balance sheet date, and adjusted where appropriate. Where the carrying amount of premises or equipment is greater than the estimated recoverable amount, the carrying amount is reduced to the 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 programmes beyond their original specifications and lives is recognised as a capital improvement and capitalised as part of the original cost of the software.

2.10 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.

2.11 Derivative financial instruments and hedge accounting

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, equity, credit and commodity markets.

Derivative financial instruments are recognised in the consolidated balance sheet at 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 trading 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,

2. ACCOUNTING POLICIES (continued)

2.11 Derivative financial instruments and hedge accounting (continued)

- 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 trading 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.

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 equity. Unrealised gains or losses recognised in 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 consolidated statement of income 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 included in trading income.

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

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

Some hybrid transactions contain both a derivative and non-derivative component. In such cases, the derivative is categorised as an embedded derivative. If the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, and the overall contract itself is not carried at fair value, the embedded derivative is bifurcated and measured at fair value. Changes in fair value are included in trading income.

2.12. Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are issued to financial institutions and other counterparties on behalf of customers to secure loans, overdrafts and other banking facilities, and to other parties in relation to the performance of customers under obligations related to contracts, advance payments made by other parties, tenders and retentions.

Financial guarantees are initially recognised at fair value on the date the guarantee is issued. The guarantee liability is subsequently measured at the higher of the initial measurement, less amortisation to recognise the fee income earned over the period, and the present value of any expected financial obligation arising as a result of an anticipated non-recoverable payment under a guarantee. Any increase in a liability relating to guarantees is included in the provision charge in the consolidated statement of income. Financial guarantees are included in other liabilities.

2.13 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.

2. ACCOUNTING POLICIES (continued)

2.13 Post retirement benefits (continued)

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 when the net cumulative unrecognised actuarial gain or loss at the end of the previous financial year exceeds 10 per cent of the higher of: (i) the fair value of the plan assets, and (ii) the present value of the fund obligations. That portion of the net cumulative unrecognised actuarial gain or loss is recognised in income over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

2.14 Taxation

a) Current tax

Current taxation is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and includes any adjustments to tax payable in respect of previous years.

b) Deferred tax

Deferred tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the unutilised tax losses and credits can be utilised. Currently enacted tax rates are used to determine deferred taxes.

2.15 Cash and cash equivalents

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

2.16 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.

2.17 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 fee and commission income.

2.18 Dividends

Dividends on issued shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders.

2.19 Comparatives

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

2. ACCOUNTING POLICIES (continued)

2.20 Future accounting developments

The International Accounting Standards Board (IASB) have issued a number of new standards, amendments to standards, and interpretations that are not yet effective and have not been applied in the preparation of the consolidated financial statements for the year ended 31st December 2007. The relevant new standards, amendments to standards, and interpretations, are as follows:-

- IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. IFRIC 14 becomes effective for financial years beginning on or after 1st January 2008. This interpretation addresses issues relating to IAS 19 - Employee Benefits on the amount of a surplus in a pension plan that entities can recognise as an asset, how a minimum funding requirement affects that limit, and when a minimum funding requirement creates an obligation that should be recognised as a liability. The adoption of this interpretation is not expected to have any material impact on the consolidated financial statements.
- IAS 1 - Presentation of Financial Statements. IAS 1 becomes effective for financial years beginning on or after 1st January 2009. The adoption of this standard will result in changes in the presentation of the consolidated financial statements and is not expected to have any impact on the financial position of the Group.
- IFRS 8 - Operating Segments. IFRS 8 becomes effective for financial years beginning on or after 1st January 2009. This standard replaces IAS 14 - Segment Reporting and prescribes disclosure requirements in relation to the Group's operating segments, products, services and geographical areas in which it operates. The adoption of this standard is not expected to have any material impact on the consolidated financial statements.

3. ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of certain financial assets, liabilities, income and expenses.

The use of estimates and assumptions is principally limited to the determination of provisions for impairment, the valuation of financial instruments, and the valuation of the Group's defined benefit pension plan as explained in more detail below:-

Provisions for impairment

Financial assets are evaluated for impairment on the basis set out in note 2.5.

In determining provisions for impairment, judgement is required in the estimation of the amount and timing of future cash flows.

In addition to provisions for impairment against specific assets, the Group also maintains provisions that are measured and recognised on a collective basis. Key assumptions included in the measurement of the portfolio provisions include data on the probability of default and the eventual recovery amount in the event of a forced sale or write off. These assumptions are based on observed historical data and updated as considered appropriate to reflect current conditions. The accuracy of the portfolio provisions would therefore be affected by unexpected changes in these assumptions.

Equity securities classified as available-for-sale are considered to be impaired when there has been a significant or prolonged decline in fair value below cost. The determination of significant or prolonged requires judgement. In making the judgement, a number of factors are taken into account including the normal volatility in valuation, evidence of a deterioration in the financial condition of the investee, industry and sector performance, and operational and financing cash flows.

Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

Retirement benefit obligations

Management, in coordination with an independent qualified actuary, are required to make assumptions regarding the defined benefit pension plan, changes in which could affect the reported liability, service cost and expected return on pension plan assets. The principal actuarial assumptions for the defined benefit pension plan are set out in note 12 and include assumptions on the discount rate, expected return on pension plan assets, mortality, future salary increases, and inflation. Changes in the assumptions could affect the reported liability, service cost and expected return on pension plan assets.

4. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The classification of assets and liabilities by accounting categorisation was as follows:-

	Held-to-maturity US$ millions	Loans and receivables US$ millions	Held-for-trading US$ millions	Available-for-sale US$ millions	Financial liabilities at amortised cost US$ millions	Non-financial assets & liabilities US$ millions	Total US$ millions
At 31st December 2007							
Cash and other liquid assets	**359.9**	**172.8**	-	-	-	-	**532.7**
Due from brokers	-	**243.3**	-	-	-	-	**243.3**
Placements with banks	**5,629.1**	-	-	-	-	-	**5,629.1**
Trading securities	-	-	**1,342.6**	-	-	-	**1,342.6**
Available-for-sale securities	-	-	-	**8,070.7**	-	-	**8,070.7**
Loans and advances	-	**12,578.6**	**23.2**	-	-	-	**12,601.8**
Other assets	-	**1,442.6**	**46.3**	-	-	**44.9**	**1,533.8**
Total assets	**5,989.0**	**14,437.3**	**1,412.1**	**8,070.7**	-	**44.9**	**29,954.0**
Deposits from banks	-	-	-	-	**5,970.7**	-	**5,970.7**
Deposits from customers	-	-	-	-	**13,674.0**	-	**13,674.0**
Securities sold under agreements to repurchase	-	-	-	-	**4,141.5**	-	**4,141.5**
Securities sold but not yet purchased	-	-	**233.2**	-	-	-	**233.2**
Other liabilities	-	-	**85.5**	-	-	**426.0**	**511.5**
Senior term financing	-	-	-	-	**2,657.8**	-	**2,657.8**
Subordinated term financing	-	-	-	-	**550.0**	-	**550.0**
Equity	-	-	-	-	-	**2,215.3**	**2,215.3**
Total liabilities & equity	-	-	**318.7**	-	**26,994.0**	**2,641.3**	**29,954.0**
At 31st December 2006							
Cash and other liquid assets	150.6	117.6	-	-	-	-	268.2
Due from brokers	-	950.9	-	-	-	-	950.9
Placements with banks	4,322.5	-	-	-	-	-	4,322.5
Trading securities	-	-	2,186.1	-	-	-	2,186.1
Available-for-sale securities	-	-	-	8,422.9	-	-	8,422.9
Loans and advances	-	8,132.3	12.7	-	-	-	8,145.0
Other assets	-	416.6	42.5	-	-	32.5	491.6
Total assets	4,473.1	9,617.4	2,241.3	8,422.9	-	32.5	24,787.2
Deposits from banks	-	-	-	-	5,704.0	-	5,704.0
Deposits from customers	-	-	-	-	11,163.7	-	11,163.7
Securities sold under agreements to repurchase	-	-	-	-	2,219.6	-	2,219.6
Securities sold but not yet purchased	-	-	862.7	-	-	-	862.7
Other liabilities	-	-	79.7	-	-	483.8	563.5
Senior term financing	-	-	-	-	1,867.1	-	1,867.1
Subordinated term financing	-	-	-	-	550.0	-	550.0
Equity	-	-	-	-	-	1,856.6	1,856.6
Total liabilities & equity	-	-	942.4	-	21,504.4	2,340.4	24,787.2

The held-for-trading category includes the fair values of derivatives designated as fair value and cash flow hedges.

4. CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

The Group did not have any financial assets or financial liabilities classified as fair value through the statement of income, other than those classified as held-for-trading, at either 31st December 2007 or 31st December 2006.

5. CASH AND OTHER LIQUID ASSETS

	31.12.07 US$ millions	31.12.06 US$ millions
Cash and balances with banks	**172.8**	117.6
Certificates of deposit	**186.2**	150.0
Treasury bills	**173.7**	0.6
	532.7	268.2

6. DUE FROM BROKERS

Due from brokers represents balances held with brokers as collateral for held-for-trading liabilities (securities sold but not yet purchased) transactions.

7. PLACEMENTS WITH BANKS

Placements with banks at 31st December 2007 included placements with non-bank financial institutions amounting to US$18.3 million (2006: US$54.6 million).

8. TRADING SECURITIES

	31.12.07 US$ millions	31.12.06 US$ millions
Government bonds and bills	**278.2**	534.0
Listed debt securities	**623.0**	1,192.3
Managed funds	**421.4**	411.4
Equities	**20.0**	48.4
	1,342.6	2,186.1

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

9. AVAILABLE-FOR-SALE SECURITIES

a) Classification of available-for-sale securities

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

Rating	31.12.07		31.12.06	
	US$ millions	%	US$ millions	%
AAA / Aaa	**1,996.9**	**25.7**	1,750.4	23.0
AA- to AA+ / Aa3 to Aa1	**1,589.3**	**20.5**	1,158.2	15.2
A- to A+ / A3 to A1	**3,243.1**	**41.7**	3,860.0	50.6
BBB- to BBB+ / Baa3 to Baa1	**766.2**	**9.9**	652.2	8.6
Other debt securities	**172.2**	**2.2**	196.2	2.6
Total debt securities	**7,767.7**	**100.0**	7,617.0	100.0
Structured finance investments	**81.8**		717.6	
Equity investments	**221.2**		88.3	
Total	**8,070.7**		8,422.9	

The Group's available-for-sale securities predominantly comprise investment grade-rated debt securities. At 31st December 2007, 97.8 per cent of available-for-sale debt securities were investment grade-rated (2006: 97.4 per cent).

An analysis of the basis used for determining the fair values of available-for-sale securities is set out in note 36. At 31st December 2007 US$7,338.3 million or 90.9 per cent of available-for-sale securities were valued based on quoted prices, including quotations from lead managers, dealers and brokers (2006: US$7,914.6 million or 94.0 per cent). An additional US$246.3 million or 3.1 per cent was valued based on cost less provision for impairment (2006: US$151.1 million or 1.8 per cent).

Structured finance investments represent investments in special purpose vehicles managed by international investment banks, the underlying investments of which principally comprise high quality, investment grade-rated debt securities. The investments are in the form of capital notes and the returns are based on LIBOR plus margin. At 31st December 2007, the original cost and related specific provisions of the structured finance investments amounted to US$581.8 million and US$500.0 million respectively. The specific provisions therefore represented 85.9 per cent of the original cost of the investments. At 31st December 2007, the net asset values of the structured finance investments amounted to US$302.5 million, thereby exceeding the carrying value of the investments by US$220.7 million.

Equity investments principally represent investments of a private equity nature, comprising both direct investments and investments in funds managed by external specialist managers and international investment banks.

Debt securities at 31st December 2007 included GCC country government securities of US$451.3 million (2006: US$479.1 million).

9. AVAILABLE-FOR-SALE SECURITIES (continued)

a) Classification of available-for-sale securities (continued)

At 31st December 2007, the Group's unimpaired exposure to the residential mortgage sector, in the form of residential mortgage-backed securities (RMBS) and collateralised debt obligations (CDOs) containing exposure to the residential mortgage sector, was as follows:-

Residential Mortgage-Backed Securities (RMBS)

	Based on fair value		Based on ABX index	
Rating	**Carrying amount US$ millions**	Average price US$	**Implied value US$ millions**	Implied price US$
AAA / Aaa	**317.7**	91	**326.9**	94
AA- to AA+ / Aa3 to Aa1	**53.8**	71	**63.3**	84
A- to A+ / A3 to A1	**24.4**	92	**15.4**	58
BBB- to BBB+ / Baa3 to Baa1	**1.0**	60	**0.5**	29
Total	**396.9**		**406.1**	

The ABX index implied values and prices are based on the ABX HE 2006–1 index, being the most representative ABX index for the vintages of the Group's RMBS holdings. 88.0 per cent of the Group's unimpaired RMBS were issued prior to, or in, 2006. The ABX indices represent synthetic indices reflecting the prices of series of credit default swaps based on representative selections of 20 US home equity loan asset backed securities. A new series is issued every six months based on securities issued over the preceding period. ABX index contracts are commonly used to hedge mortgage-related asset backed security exposures. The total value of the Group's unimpaired RMBS implied by the ABX HE 2006–1 index amounted to US$406.1 million, exceeding their fair value based on quoted prices by US$9.2 million. The higher average price for the Group's A-rated RMBS security holdings compared to the ABX index was due to a security with a short remaining tenor, maturing in March 2008. US$317.7 million or 80.0 per cent of the Group's RMBS security holdings were AAA-rated.

Mortgage-Backed Collateralised Debt Obligations (CDOs)

Rating	**Carrying amount US$ millions**	Average price US$
AAA / Aaa	**105.9**	60
AA- to AA+ / Aa3 to Aa1	**23.5**	38
A- to A+ / A3 to A1	**39.0**	51
BBB- to BBB+ / Baa3 to Baa1	**25.9**	53
Total	**194.3**	

US$105.9 million or 54.5 per cent of the Group's unimpaired CDOs containing exposure to the residential mortgage sector was AAA-rated while 65.2 per cent was issued prior to, or in, 2005.

The credit ratings of the Group's residential mortgage sector exposures set out above are not based on monoline insurance company guarantees or hedges.

Details of the Group's impaired securities exposures are set out in note 26(a).

9. AVAILABLE-FOR-SALE SECURITIES (continued)

b) Provisions for impairment

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

	2007 US$ millions	2006 US$ millions
At 1st January	**63.9**	71.6
Exchange rate movements	**0.4**	1.0
Amounts utilised	**(45.0)**	(7.1)
Charge / (release) for the year	**965.7**	(1.6)
At 31st December	**985.0**	63.9

The provision charge for the year ended 31st December 2007 principally comprised provisions in relation to the impairment of structured finance investments and mortgage-related debt securities that were impacted by the global credit crisis witnessed during the latter months of the year.

Amounts utilised during the year ended 31st December 2007 represented provisions utilised on the exchange of structured finance investments for the underlying assets in the special purpose vehicles. The original cost of the capital notes exchanged amounted to US$117.7 million.

Provisions for the impairment of available-for-sale securities at 31st December 2007 included a US$150.0 million portfolio provision in respect of possible impairments resulting from the impact of the global credit crisis that had not been specifically identified at the balance sheet date (2006: nil).

c) Past due available-for-sale debt securities

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

31.12.07		31.12.06	
Gross US$ millions	**Net book value** US$ millions	Gross US$ millions	Net book value US$ millions
40.7	**12.2**	-	-

The past due available-for-sale debt securities were past due in relation to interest only and had not yet reached their contractual maturity dates. The securities were classified as past due during the year ended 31st December 2007.

At 31st December 2007 uncollected interest-in-suspense on past due available-for-sale debt securities amounted to US$0.9 million (2006: nil).

d) Unquoted equity investments

Available-for-sale securities at 31st December 2007 included US$107.2 million (2006: US$81.4 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 represent private equity investments and 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. The Group intends to exit these investments principally by means of IPOs or private placements.

For the year ended 31st December 2007

10. LOANS AND ADVANCES

	31.12.07 US$ millions	31.12.06 US$ millions
Gross loans and advances	**12,677.2**	8,228.0
Provisions for impairment	**(75.4)**	(83.0)
Net loans and advances	**12,601.8**	8,145.0

Gross loans and advances at 31st December 2007 included loans held for trading of US$23.2 million (2006: US$12.7 million).

a) Industrial classification

The classification of loans and advances by industry was as follows:-

	31.12.07 US$ millions	31.12.06 US$ millions
Energy, oil and petrochemical	**3,418.4**	2,523.4
Trading and services	**2,149.5**	1,547.7
Financial services	**1,956.3**	1,428.1
Construction	**1,106.9**	607.0
Manufacturing	**1,012.7**	594.8
Transportation	**780.0**	467.9
Government	**686.1**	299.0
Communication	**616.5**	321.3
Real estate	**614.2**	69.2
Other	**336.6**	369.6
	12,677.2	8,228.0
Provisions for impairment	**(75.4)**	(83.0)
	12,601.8	8,145.0

The classification of loans and advances by industry reflects the Group's strategic focus on project and structured finance and syndicated lending in the Gulf Cooperation Council (GCC) states.

b) Provisions for impairment

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

	2007 US$ millions	2006 US$ millions
At 1st January	**83.0**	104.9
Exchange rate movements	**(0.2)**	0.3
Amounts utilised	**(0.5)**	(21.4)
Release for the year	**(6.9)**	(0.8)
At 31st December	**75.4**	83.0

10. LOANS AND ADVANCES (continued)

b) Provisions for impairment (continued)

Total specific provisions at 31st December 2007 represented 80.0 per cent (2006: 70.7 per cent) of loans against which a specific provision had been made. Total provisions at 31st December 2007 exceeded the gross book value of past due loans by US$58.4 million (2006: US$64.3 million).

Amounts utilised during the year ended 31st December 2007 of US$0.5 million (2006: US$21.4 million) represented provisions utilised on the sale, settlement or write off of the related loans.

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:-

	31.12.07		31.12.06	
	Gross	**Net book value**	Gross	Net book value
	US$ millions	**US$ millions**	US$ millions	US$ millions
Corporates	**11.8**	**-**	8.4	0.3
Financial Institutions	**5.2**	**2.6**	10.3	-
	17.0	**2.6**	18.7	0.3

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

	31.12.07	31.12.06
	US$ millions	US$ millions
Less than 1 year	**4.0**	-
2 to 5 years	**13.0**	18.7
	17.0	18.7

At 31st December 2007 uncollected interest-in-suspense on past due loans amounted to US$2.3 million (2006: US$1.4 million).

d) Renegotiated loans

There were no renegotiated loans during either the year ended 31st December 2007 or 31st December 2006.

e) Collateral

The Group did not take possession of any collateral as a result of a loan default during either the year ended 31st December 2007 or 31st December 2006.

For the year ended 31st December 2007

11. OTHER ASSETS

	31.12.07 US$ millions	31.12.06 US$ millions
Amounts receivable in respect of increase in share capital	**1,000.0**	-
Accrued interest, fees and commissions	**345.0**	338.7
Derivative financial instruments	**46.3**	42.5
Premises and equipment	**44.9**	32.5
Prepaid pension cost	**14.6**	-
Deferred items	**9.6**	7.7
Prepayments	**6.5**	10.5
Outstanding security settlements	**1.0**	30.0
Other, including accounts receivable	**65.9**	29.7
	1,533.8	491.6

The increase in share capital is commented on in more detail in note 18.

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 30(d).

An analysis of the prepaid pension cost is set out in note 12.

12. 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 2007 amounted to US$5.8 million (2006: US$5.5 million).

The Bank's principal subsidiary, Gulf International Bank (UK) Limited (GIBUK), maintains a defined benefit pension plan for the majority of 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 2007.

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

	31.12.07 US$ millions	31.12.06 US$ millions
Fair value of plan assets	**169.9**	132.5
Present value of fund obligations	**162.5**	161.7
Plan surplus / (deficit)	**7.4**	(29.2)
Unrecognised actuarial loss	**7.2**	21.9
Net asset / (liability) in the consolidated balance sheet	**14.6**	(7.3)

12. POST RETIREMENT BENEFITS (continued)

b) The movements in the fair value of plan assets were as follows:-

	2007 US$ millions	2006 US$ millions
At 1st January	**132.5**	105.9
Expected return on plan assets	**9.2**	7.4
Contributions paid by the Group	**23.5**	2.4
Benefits paid by the plan	**(2.3)**	(2.3)
Actuarial gains	**3.4**	3.1
Exchange rate movements	**3.6**	16.0
At 31st December	**169.9**	132.5

The plan assets at 31st December 2007 comprise equity and debt securities in the ratio of 35 per cent and 65 per cent respectively (2006: 85 per cent and 15 per cent respectively).

The expected and actual returns on the plan assets for the year ended 31st December 2007 were US$9.2 million and US$12.6 million respectively (2006: US$7.4 million and US$10.2 million respectively). The overall expected rate of return on the plan assets is determined based on market prices, applicable to the period over which the obligation is to be settled. The expected return is determined separately for equity and debt securities.

c) The movements in the present value of fund obligations were as follows:-

	2007 US$ millions	2006 US$ millions
At 1st January	**161.7**	138.1
Current service cost	**2.8**	3.8
Interest cost	**8.4**	7.0
Actuarial gains	**(11.5)**	(4.7)
Benefits paid by the plan	**(2.3)**	(2.3)
Exchange rate movements	**3.4**	19.8
At 31st December	**162.5**	161.7

d) The movements in the net asset / (liability) recognised in the consolidated balance sheet were as follows:-

	2007 US$ millions	2006 US$ millions
At 1st January	**(7.3)**	(1.5)
Net expense included in staff expenses	**(2.8)**	(5.5)
Contributions paid by the Group	**23.5**	2.4
Exchange rate movements	**1.2**	(2.7)
At 31st December	**14.6**	(7.3)

The Group paid US$23.5 million in contributions to the plan during 2007 and expects to pay US$1.3 million during 2008.

For the year ended 31st December 2007

12. POST RETIREMENT BENEFITS (continued)

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

	2007 US$ millions	2006 US$ millions
Current service cost	**2.8**	3.8
Interest cost	**8.4**	7.0
Expected return on plan assets	**(9.2)**	(7.4)
Amortisation of actuarial loss	**0.8**	2.1
Net expense included in staff expenses	**2.8**	5.5

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

	2007	2006
Discount rate	**5.8%**	5.1%
Expected return on plan assets - equities	**8.0%**	7.4%
Expected return on plan assets - bonds	**5.8%**	4.9%
Future salary increases	**4.5%**	3.9%
Future increases to pensions in payment	**2.4%**	2.8%

g) Historical information

	2007 US$ millions	2006 US$ millions	2005 US$ millions	2004 US$ millions	2003 US$ millions
Fair value of plan assets	**169.9**	132.5	105.9	100.0	80.2
Present value of fund obligations	**162.5**	161.7	138.1	134.4	94.1
Plan surplus / (deficit)	**7.4**	(29.2)	(32.2)	(34.4)	(13.9)
Experience gains on plan assets	**4.2**	3.5	10.4	11.0	12.8
Experience (losses) / gains on plan liabilities	**(1.2)**	0.3	5.0	(3.0)	(0.4)

13. DEPOSITS

Deposits from customers include deposits from central banks.

The geographical composition of total deposits was as follows:-

	31.12.07 US$ millions	31.12.06 US$ millions
GCC countries	**12,636.7**	11,484.3
Other Middle East and North African countries	**4,931.7**	3,603.7
Other countries	**2,076.3**	1,779.7
	19,644.7	16,867.7

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

GCC deposits at 31st December 2007 represented 64.3 per cent (2006: 68.1 per cent) of total deposits.

Total deposits at 31st December 2007 included Islamic-related transactions amounting to US$2,463.7 million (2006: US$2,744.9 million). Islamic-related transactions comprised murabaha contracts.

14. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Group enters into collateralised borrowing transactions (repurchase agreements) in the ordinary course of its financing activities. Collateral is provided in the form of securities held within the available-for-sale and trading portfolios. At 31st December 2007, the fair value of available-for-sale and trading securities that had been pledged as collateral under repurchase agreements was US$4,033.5 million and US$28.3 million respectively (2006: US$2,128.2 million and US$161.1 million respectively). The fair value of the securities that had been pledged as collateral as reported in the consolidated financial statements may be different to, and potentially lower than, the value applied to the securities by the counterparties to the repurchase agreements. The collateralised borrowing transactions are conducted under standardised terms that are usual and customary for such transactions.

At 31st December 2007, the fair value of available-for-sale securities that had been pledged as collateral under the term repo facility referred to in note 16 was US$344.4 million (2006: US$574.2 million). This was in addition to the available-for-sale securities pledged as collateral under repurchase agreements referred to in the paragraph above.

The increase in the volume of repurchase agreements during the year ended 31st December 2007 was largely due to repurchase agreements related to securities acquired in exchange for the capital notes of structured finance investments as explained in more detail in note 9(b).

15. OTHER LIABILITIES

	31.12.07	31.12.06
	US$ millions	US$ millions
Accrued interest	**260.3**	224.9
Derivative financial instruments	**85.5**	79.7
Deferred items	**80.4**	70.4
Minority interests	**11.0**	25.2
Outstanding security settlements	-	62.0
Pension plan liability	-	7.3
Other, including accounts payable and accrued expenses	**74.3**	94.0
	511.5	563.5

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 30(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.

An analysis of the pension plan liability is set out in note 12.

16. SENIOR TERM FINANCING

	Maturity	31.12.07 US$ millions	31.12.06 US$ millions
Islamic murabaha term facility	2008	**6.1**	6.1
Floating rate repo	2007-2009	**300.0**	500.0
Floating rate loans	2009	**175.0**	50.0
Islamic murabaha term facilities	2009	**29.0**	29.0
Floating rate loan	2010	**800.0**	800.0
Islamic murabaha term facility	2010	**14.6**	14.6
Floating rate loan	2011	**60.0**	60.0
Floating rate loans	2012	**1,273.1**	-
Floating rate note	2007	**-**	350.0
Islamic murabaha term facilities	2007	**-**	57.4
		2,657.8	1,867.1

17. SUBORDINATED TERM FINANCING

	Maturity	31.12.07 US$ millions	31.12.06 US$ millions
Floating rate note	2015	**400.0**	400.0
Floating rate loans	2016	**150.0**	150.0
		550.0	550.0

The subordinated term financing facilities 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 financing facilities have been approved for inclusion in tier 2 capital for capital adequacy purposes by the Bank's regulator, the Central Bank of Bahrain.

18. SHARE CAPITAL

The authorised share capital at 31st December 2007 comprised 3.0 billion shares of US$1 each (2006: 3.0 billion shares of US$1 each). The issued share capital at 31st December 2007 comprised of US$1.5 billion shares of US$1 each (2006: 1.0 billion shares of US$1 each). All issued shares are fully paid.

At an Extraordinary General Assembly meeting held on 20th February 2008, the shareholders ratified an earlier commitment in 2007 to increase the issued share capital of the bank by US$1.0 billion to US$2.5 billion. The capital increase has been approved by the Group's lead regulator, the Central Bank of Bahrain, and will be transferred to issued share capital after the relevant legal formalities have been completed. The proceeds of the capital increase were receivable immediately following the Extraordinary General Assembly meeting.

19. 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 1st January 2006	**145.7**	**83.2**	**(1.8)**	**107.5**	**334.6**
Arising in the year:-					
- Available-for-sale securities:					
net fair value gains	-	-	-	0.7	0.7
- Cash flow hedges:					
net fair value losses	-	-	(2.0)	-	(2.0)
Transfers in the year:-					
- Transfers to statement of income	-	-	2.6	(17.0)	(14.4)
Net gains / (losses) recognised directly in equity	-	-	0.6	(16.3)	(15.7)
Transfers from retained earnings	23.5	23.5	-	-	47.0
At 31st December 2006	**169.2**	**106.7**	**(1.2)**	**91.2**	**365.9**
Arising in the year:-					
- Available-for-sale securities:					
net fair value losses	-	-	-	(248.8)	(248.8)
- Cash flow hedges:					
net fair value gains	-	-	1.3	-	1.3
Transfers in the year:-					
- Transfers to statement of income	-	-	1.0	(9.8)	(8.8)
Net gains / (losses) recognised directly in equity	-	-	2.3	(258.6)	(256.3)
At 31st December 2007	**169.2**	**106.7**	**1.1**	**(167.4)**	**109.6**

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. No transfer was made to either the compulsory or voluntary reserve for the year ended 31st December 2007.

20. DIVIDENDS

No dividend is proposed in respect of the financial year ended 31st December 2007.

For the year ended 31st December 2007

21. NET INTEREST INCOME

	2007 US$ millions	2006 US$ millions
Interest income		
Placements and other liquid assets	**306.9**	283.2
Due from brokers	**29.3**	36.5
Available-for-sale securities	**494.1**	441.6
Loans and advances	**682.4**	474.5
Total interest income	**1,512.7**	1,235.8
Interest expense		
Deposits from banks and customers	**911.9**	722.8
Securities sold under agreements to repurchase	**127.9**	120.6
Term financing	**167.3**	134.7
Total interest expense	**1,207.1**	978.1
Net interest income	**305.6**	257.7

Interest income on available-for-sale securities includes dividends from structured finance investments.

Interest income on loans and advances includes loan origination fees that form an integral part of the effective interest rate of the loan.

Accrued but uncollected interest on impaired available-for-sale debt securities included in interest income for the year ended 31st December 2007 amounted to US$4.2 million (2006: US$1.7 million). There was no accrued but uncollected interest included in interest income on past due available-for-sale debt securities, or impaired or past due loans for either the year ended 31st December 2007 or 31st December 2006.

22. FEE AND COMMISSION INCOME

	2007 US$ millions	2006 US$ millions
Fee and commission income		
Investment banking and management fees	**61.2**	44.2
Commissions on letters of credit and guarantee	**20.8**	15.7
Loan commitment fees	**5.0**	4.4
Other fee and commission income	**3.5**	3.7
Total fee and commission income	**90.5**	68.0
Fee and commission expense	**(2.4)**	(2.2)
Net fee and commission income	**88.1**	65.8

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

Investment banking and management fees for the year ended 31st December 2007 included fee income relating to the Group's fiduciary activities amounting to US$35.3 million (2006: US$26.1 million).

Fee and commission expense principally comprises security custody fees.

23. TRADING (LOSS) / INCOME

	2007 **US$ millions**	2006 US$ millions
Foreign exchange	**9.7**	8.3
Interest rate derivatives	**1.4**	0.3
Loans held for trading	**0.1**	0.4
Equity securities	**(2.0)**	2.8
Managed funds	**(4.3)**	11.0
Debt securities	**(91.5)**	25.4
	(86.6)	48.2

Trading income comprises gains and losses arising both on the purchase and sale, and from changes in the fair value, of trading instruments, together with the related interest income, interest expense and dividend income. Trading income accordingly incorporates all income and expenses related to the Group's trading activities.

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

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

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

The trading loss on debt securities for the year ended 31st December 2007 principally comprised revaluation losses on asset backed securities arising as a result of the global credit crisis.

An analysis of the basis used for determining the fair values of held-for-trading financial assets and liabilities is set out in note 36.

24. OTHER INCOME

Other income principally comprises dividends on available-for-sale equity investments.

25. 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:-

- Merchant Banking: the provision of wholesale commercial financing and other credit facilities for corporate and institutional customers, and the provision of financial advisory services relating to structured financing, privatisations, IPOs and mergers and acquisitions.
- Treasury: the provision of a broad range of treasury and capital market products and services to corporate and financial institution clients, money market, proprietary investment activities and the management of the Group's balance sheet, including funding.
- Financial Markets: the provision of asset and fund management services, and proprietary trading activities.

For the year ended 31st December 2007

25. SEGMENTAL INFORMATION (continued)

a) Business Segments (continued)

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 these consolidated financial statements and are 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 income arising on the recharge of the Group's net free capital to business units. Unallocated overheads and exceptional charges are reported separately.

The business segment analysis is as follows:-

	Merchant Banking US$ millions	Treasury US$ millions	Financial Markets US$ millions	Corporate and other US$ millions	Total US$ millions
2007					
Total income	**173.8**	**118.1**	**(58.8)**	**109.3**	**342.4**
Segment result	**168.0**	**(857.9)**	**(77.1)**	**103.3**	**(663.7)**
Unallocated overhead					**(93.9)**
Taxation credit on overseas activities					**0.3**
Net loss after tax					**(757.3)**
Segment assets	**13,065.0**	**14,558.7**	**1,235.7**	**1,094.6**	**29,954.0**
Segment liabilities	**14.2**	**24,727.8**	**35.1**	**2,961.6**	**27,738.7**
Total equity					**2,215.3**
Total liabilities and equity					**29,954.0**
2006					
Total income	131.8	146.5	54.0	73.1	405.4
Segment result	126.0	134.9	42.3	57.5	360.7
Unallocated overhead					(96.9)
Taxation charge on overseas activities					(8.3)
Net income after tax					255.5
Segment assets	8,333.6	13,530.8	2,855.3	67.5	24,787.2
Segment liabilities	15.7	20,777.6	117.0	2,020.3	22,930.6
Total equity					1,856.6
Total liabilities and equity					24,787.2

25. 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 total income based on the location in which transactions are booked and income is recorded was as follows:-

	2007 US$ millions	2006 US$ millions
GCC countries	**359.9**	297.9
Other countries	**(17.5)**	107.5
	342.4	405.4

The geographical analyses of deposits and risk assets are set out in notes 13 and 27 respectively.

26. 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 Chief Operating Officer 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.

The principal risks associated with the Group's businesses and the related risk management processes are described in detail in the Risk Management Review section of the Annual Report and are summarised below together with additional quantitative analysis:-

a) 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.

For the year ended 31st December 2007

26. RISK MANAGEMENT (continued)

a) Credit risk (continued)

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 are conducted within Board approved guidelines, and the measurement, monitoring and control of credit exposures are done on a Groupwide basis in a consistent manner.

The Group also mitigates its credit exposures on foreign exchange and derivative financial instruments through the use of master netting agreements and collateral arrangements.

Maximum exposure to credit risk

The gross maximum exposure to credit risk before applying collateral, guarantees and other credit enhancements was as follows:-

	At 31.12.07 US$ millions	At 31.12.06 US$ millions
Balance sheet items:		
Cash and other liquid assets	**532.7**	268.2
Due from brokers	**243.3**	950.9
Placements with banks	**5,629.1**	4,322.5
Trading securities	**1,342.6**	2,186.1
Available-for-sale securities	**8,070.7**	8,422.9
Loans and advances	**12,601.8**	8,145.0
Other assets, excluding derivative-related items	**1,345.0**	338.7
Total on-balance sheet credit exposure	**29,765.2**	24,634.3
Off-balance sheet items:		
Credit-related contingent items	**7,261.9**	3,896.4
Foreign exchange-related items	**60.2**	24.7
Derivative-related items	**46.1**	42.8
Total off-balance sheet credit exposure	**7,368.2**	3,963.9
Total gross credit exposure	**37,133.4**	28,598.2

Credit Risk Profile

The Group monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a rating scale from 1 to 10, subject to positive (+) and negative (-) modifiers for rating grades 2 to 6. The internal credit rating is a measure of the credit-worthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits. The internal credit rating system also serves as a key input into the Group's risk-adjusted return on capital (RAROC) performance measurement system and equips the Group to meet the more advanced regulatory requirements under the new Basel 2 capital adequacy regime which is to be implemented in 2008. Ratings are assigned to obligors, rather than facilities, and reflect a medium term time horizon, thereby rating through an economic cycle. The internal ratings map directly to the rating grades used by the international credit rating agencies as set out on the following page:-

26. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Internal rating grade	Internal classification	Historical default rate range	External Rating: Fitch and Standard & Poor's	External Rating: Moody's
		%		
Investment grade				
Rating grade 1	Standard	0.00 - 0.00	AAA	Aaa
Rating grade 2	Standard	0.00 - 0.02	AA	Aa
Rating grade 3	Standard	0.05 - 0.07	A	A
Rating grade 4	Standard	0.16 - 0.33	BBB	Baa
Sub-investment grade				
Rating grade 5	Standard	0.57 - 1.54	BB	Ba
Rating grade 6	Standard	2.70 - 10.11	B	B
Rating grade 7	Standard	26.29	CCC	Caa
Classified				
Rating grade 8	Substandard	26.29	CC	Ca
Rating grade 9	Doubtful	26.29	C	C
Rating grade 10	Loss	-	D	-

The historical default rates represent the range of probability of defaults between the positive and negative modifiers for each rating grade based on Standard & Poor's one year default rates for the 25 years from 1981 to 2006 for senior unsecured obligations. The default rates represent the averages over the 25 year period and therefore reflect the full range of economic conditions over that period.

The credit risk profile, based on internal credit ratings, was as follows:-

	31.12.07			31.12.06		
	Placements, due from brokers & other liquid assets US$ millions	**Securities US$ millions**	**Loans and advances US$ millions**	Placements, due from brokers & other liquid assets US$ millions	Securities US$ millions	Loans and advances US$ millions
Neither past due nor impaired						
Rating grades 1 to 4-	**6,370.1**	**8,084.7**	**9,086.9**	5,520.7	8,533.1	5,395.6
Rating grades 5+ to 5-	**35.0**	**299.4**	**3,105.7**	20.0	425.2	2,563.6
Rating grades 6+ to 6-	-	**113.3**	**397.5**	0.9	300.8	171.3
Rating grade 7	-	**26.3**	**9.1**	-	69.1	5.0
Equity investments	-	**619.5**	-	-	1,180.7	-
Carrying amount	**6,405.1**	**9,143.2**	**12,599.2**	5,541.6	10,508.9	8,135.5
Past due or individually impaired						
Rating grades 1 to 7	-	**171.9**	-	-	97.8	9.2
Rating grade 8	-	**6.3**	-	-	-	-
Rating grade 9	-	**7.8**	-	-	-	0.3
Rating grade 10	-	**2.0**	**2.6**	-	-	-
Equity investments	-	**82.1**	-	-	2.3	-
Carrying amount	-	**270.1**	**2.6**	-	100.1	9.5
Total	**6,405.1**	**9,413.3**	**12,601.8**	5,541.6	10,609.0	8,145.0

The above analysis is reported net of the following provisions for impairment:-

Provisions for impairment	-	**(985.0)**	**(75.4)**	-	(63.9)	(83.0)

Impaired equity investments principally comprise structured finance investments.

For the year ended 31st December 2007

26. RISK MANAGEMENT (continued)

a) Credit risk (continued)

Individually impaired financial assets represent assets for which 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 obligation.

At 31st December 2007 there were no past due but not impaired financial assets (2006: nil).

The Group holds collateral against loans and advances in the form of physical assets, cash deposits, securities and guarantees. The amount and type of collateral is dependent upon the assessment of the credit risk of the counterparty. The market / fair value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the underlying agreements. Collateral is not usually held against securities or placements and no such collateral was held at either 31st December 2007 or 31st December 2006.

An analysis of the credit risk in respect of foreign exchange and derivative financial instruments is set out in note 30 while the notional and risk-weighted exposures for off-balance sheet credit-related financial instruments are set out in note 31.

Credit risk concentration

The Group monitors concentrations of credit risk by sector and by geographic location. The industrial classification of loans and advances is set out in note 10. The geographical distribution of risk assets is set out in note 27. An analysis of the credit risk in respect of foreign exchange and derivative financial instruments is set out in note 30.

Settlement risk

Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities, or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring process.

b) 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, equity, credit and commodity 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. It is recognised that there are limitations to the VaR methodology. These limitations include the fact that the historical data may not be the best proxy for future price movements. The Group performs regular back testing exercises to compare actual profits and losses with the VaR estimates to monitor the statistical validity of the VaR model. VaR is calculated based on the Group's market risk exposures at the close of the business each day. Intra-day risk levels may vary from those reported at the end of the day. In addition, losses beyond the specified confidence level are not captured by the VaR methodology. VaR is not a measure of the absolute limit of market risk and losses in excess of the VaR amounts will, on occasion, arise. To manage the risk associated with extreme market movements, the Group conducts stress testing which measures the impact of simulated abnormal changes in market rates and prices on the market values of the portfolios. The composition of the debt and equity trading securities is set out in note 8. An analysis of derivative financial instruments, including the VaR of foreign exchange and derivative trading contracts, is set out in note 30.

26. RISK MANAGEMENT (continued)

b) Market risk (continued)

- **Trading 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 33, was as follows:-

	2007				2006			
	31.12.07	**Average**	**High**	**Low**	31.12.06	Average	High	Low
	US$ millions	**US$ millions**	**US$ millions**	**US$ millions**	US$ millions	US$ millions	US$ millions	US$ millions
Interest rate risk	**3.2**	**4.1**	**6.8**	**3.0**	6.7	4.7	7.1	3.6
Foreign exchange risk	**0.2**	**0.8**	**2.8**	**0.2**	0.9	1.4	2.2	0.5
Equity risk	**7.0**	**5.8**	**7.8**	**3.8**	5.4	4.4	5.6	2.9
Total diversified risk	**9.3**	**8.0**	**10.8**	**6.0**	9.9	7.3	9.9	5.6

- **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 are set out in note 29. The Group is exposed to the impact of changes in credit spreads on the fair value of available-for-sale debt securities. Movements in the fair value of available-for-sale securities are accounted for in equity. Credit spread risk is managed within VaR limits and through the use of models to evaluate the sensitivity of changes in equity to movements in credit spreads. Based on the available-for-sale debt securities held at 31st December 2007, a 1 b.p. increase in credit spreads would result in a US$3.1 million decrease in fair value (2006: US$3.1 million). The Group does not maintain material non-trading equity or foreign currency exposures. Details of available-for-sale equity investments are set out in note 9. In general, the Group's policy is to match financial 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 30(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

26. RISK MANAGEMENT (continued)

c) Liquidity risk

Liquidity risk is the risk that sufficient funds are not available to meet the Group's financial obligations on a punctual basis as they fall due.

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.

The management of liquidity and funding is primarily conducted in the Group's individual geographic entities within limits set and approved by the Board of Directors. The limits take account of the depth and liquidity of the market in which the entity operates. It is the Group's general policy that each geographic entity should be self-sufficient in relation to funding its own operations.

The Group's liquidity management policies include the following:-

- the monitoring of (i) future contractual cash flows against approved limits, and (ii) the level of liquid assets available in the event of a stress event
- the monitoring of balance sheet liquidity ratios
- the monitoring of the sources of funding in order to ensure that funding is derived from a diversified range of sources
- the monitoring of depositor concentrations in order to avoid undue reliance on individual depositors
- the maintenance of a satisfactory level of term financing; and
- the maintenance of liquidity and funding contingency plans. These plans identify early indicators of stress conditions and prescribe the actions to be taken in the event of systemic or other crisis, while minimising adverse long term implications for the Group's business activities.

The Group has established limits which restrict the volume of liabilities maturing in the short term. An independent risk management function monitors the future cash flow maturity profile against approved limits on a daily basis. The cash flows are monitored against limits applying to both daily and cumulative cash flows occurring over a 14 day period. The cash flow analysis is also monitored on a weekly basis by the Assets and Liabilities Committee (ALCO).

Customer deposits form a significant part of the Group's funding. The Group places considerable importance on maintaining the stability of both its customer and interbank deposits. The stability of deposits depends on maintaining confidence in the Group's financial strength and financial transparency.

The maturity profile of assets and liabilities is set out in note 28. An analysis of available-for-sale debt securities by rating classification is set out in note 9(a).

d) 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.

26. RISK MANAGEMENT (continued)

e) Capital management

The Group's lead regulator, the Central Bank of Bahrain (CBB), sets and monitors capital requirements for the Group as a whole. The parent company and individual banking operations are directly supervised by their local regulators.

In applying current capital requirements, the CBB requires the Group to maintain a prescribed minimum ratio of total regulatory capital to total risk-weighted assets. The CBB's minimum risk asset ratio is 12 per cent compared to a minimum ratio of 8 per cent prescribed by the Basel Committee on Banking Supervision. Under the CBB's guidelines, GCC governments and GCC government-owned companies are accorded preferential risk-weightings of 0 per cent and 20 per cent respectively. The Group calculates regulatory capital requirements for general market risk in its trading portfolios using a Value-at-Risk model and uses the CBB's prescribed risk weightings to determine the risk-weighted amounts for credit risk and specific market risk.

The Group's regulatory capital is analysed into two tiers:-

- Tier 1 capital, comprising issued share capital, share premium, retained earnings and reserves, adjusted to exclude revaluation gains and losses arising on the remeasurement to fair value of available-for-sale securities and derivative cash flow hedging transactions with the exception of unrealised losses arising on the remeasurement to fair value of marketable equity securities classified as available-for-sale.
- Tier 2 capital, comprising qualifying subordinated term finance, collective impairment provisions and 45 per cent of unrealised gains arising on the remeasurement to fair value of marketable equity securities classified as available-for-sale.

The CBB applies various limits to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 per cent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying subordinated term finance cannot exceed 50 per cent of tier 1 capital. There also are restrictions on the amount of collective impairment provisions that may be included as part of tier 2 capital. Collective impairment provisions cannot exceed 1.25 per cent of total risk-weighted assets.

The Group's risk exposures are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout, and the issue of new shares, subordinated term finance, and innovative tier 1 capital securities.

The Group and its individually regulated operations complied with all externally imposed capital requirements throughout the years ended 31st December 2007 and 31st December 2006.

There have been no material changes in the Group's management of capital during the years ended 31st December 2007 and 31st December 2006.

The capital adequacy ratio calculated in accordance with the guidelines of the Basel Committee is set out in note 33.

The Group is adopting the Basel 2 capital adequacy framework with effect from 1st January 2008 in accordance with the guidelines of the CBB. At 31st December 2007, the Group had completed its preparations for the implementation of the CBB's Basel 2 Pillar One guidelines.

For the year ended 31st December 2007

27. GEOGRAPHICAL DISTRIBUTION OF RISK ASSETS

	31.12.07					31.12.06
	Placements, due from brokers & 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	**1,846.9**	**1,740.7**	**11,779.6**	**6,433.5**	**21,800.7**	13,002.1
Other Middle East & North Africa	**-**	**54.1**	**381.2**	**182.5**	**617.8**	560.2
Europe	**3,701.7**	**2,949.4**	**413.1**	**462.3**	**7,526.5**	7,701.8
North America	**555.1**	**4,238.3**	**3.0**	**183.6**	**4,980.0**	6,099.2
Asia	**301.4**	**256.6**	**24.9**	**-**	**582.9**	565.4
Latin America	**-**	**174.2**	**-**	**-**	**174.2**	263.3
	6,405.1	**9,413.3**	**12,601.8**	**7,261.9**	**35,682.1**	28,192.0

An analysis of derivative and foreign exchange instruments is set out in note 30.

28. MATURITIES OF ASSETS AND LIABILITIES

The maturity profile of the carrying amount of assets and liabilities, based on the 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 2007						
Cash and other liquid assets	**421.5**	**111.2**	**-**	**-**	**-**	**532.7**
Due from brokers	**243.3**	**-**	**-**	**-**	**-**	**243.3**
Placements with banks	**5,614.1**	**15.0**	**-**	**-**	**-**	**5,629.1**
Trading securities	**1,342.6**	**-**	**-**	**-**	**-**	**1,342.6**
Available-for-sale securities	**96.5**	**247.8**	**1,676.8**	**1,331.9**	**4,717.7**	**8,070.7**
Loans and advances	**3,624.6**	**2,265.7**	**2,671.8**	**1,619.3**	**2,420.4**	**12,601.8**
Other assets	**1,373.0**	**84.1**	**13.8**	**7.2**	**55.7**	**1,533.8**
Total assets	**12,715.6**	**2,723.8**	**4,362.4**	**2,958.4**	**7,193.8**	**29,954.0**
Deposits	**17,080.6**	**2,558.7**	**-**	**5.4**	**-**	**19,644.7**
Securities sold under agreements to repurchase	**1,148.7**	**2,992.8**	**-**	**-**	**-**	**4,141.5**
Securities sold but not yet purchased	**233.2**	**-**	**-**	**-**	**-**	**233.2**
Other liabilities	**326.1**	**68.9**	**27.8**	**17.1**	**71.6**	**511.5**
Term financing	**-**	**206.1**	**1,118.7**	**1,333.0**	**550.0**	**3,207.8**
Equity	**-**	**-**	**-**	**-**	**2,215.3**	**2,215.3**
Total liabilities & equity	**18,788.6**	**5,826.5**	**1,146.5**	**1,355.5**	**2,836.9**	**29,954.0**
At 31st December 2006						
Total assets	9,879.3	2,366.8	2,930.9	2,706.4	6,903.8	24,787.2
Total liabilities & equity	18,655.5	2,163.0	591.6	885.2	2,491.9	24,787.2

28. MATURITIES OF ASSETS AND LIABILITIES (continued)

The asset and liability maturities presented in the table above 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. Total average deposits throughout 2007 for counterparties with individual deposits of US$10.0 million and above at 31st December 2007 amounted to US$17,002.8 million (2006: US$13,542.0 million). Formal liquidity controls are nevertheless based on contractual asset and liability maturities.

The gross cash flows payable by the Group under financial liabilities, based on 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 US$ millions
At 31st December 2007					
Deposits	**17,227.8**	**2,617.9**	**0.6**	**6.0**	**-**
Securities sold under agreements					
to repurchase	**1,188.3**	**3,095.1**	**-**	**-**	**-**
Term financing	**46.2**	**333.4**	**1,398.8**	**1,529.0**	**652.4**
Derivative financial instruments:					
- contractual amounts payable	**91.8**	**147.9**	**239.4**	**98.2**	**59.3**
- contractual amounts receivable	**(73.8)**	**(157.5)**	**(219.8)**	**(97.7)**	**(55.4)**
Total undiscounted financial liabilities	**18,480.3**	**6,036.8**	**1,419.0**	**1,535.5**	**656.3**
At 31st December 2006					
Deposits	15,729.4	1,360.3	-	-	-
Securities sold under agreements					
to repurchase	1,779.9	485.8	-	-	-
Term financing	82.7	434.3	780.9	967.7	690.9
Derivative financial instruments:					
- contractual amounts payable	83.8	114.2	230.0	127.5	81.5
- contractual amounts receivable	(69.0)	(140.5)	(206.4)	(105.0)	(78.6)
Total undiscounted financial liabilities	17,606.8	2,254.1	804.5	990.2	693.8

Information on the contractual terms for the drawdown of gross loan commitments is set out in note 31.

The figures in the table above do not agree directly to the carrying amounts in the consolidated balance sheet as they incorporate all cash flows, on an undiscounted basis, related to both principal as well as those associated with future coupon and interest payments. Coupons and interest payments for periods for which the interest rate has not yet been determined have been calculated based on the relevant forward rates of interest prevailing at the balance sheet date.

Held-for-trading liabilities (securities sold but not yet purchased) have not been included in the table above as they are typically held for short periods of time.

A maturity analysis of derivative and foreign exchange instruments based on notional amounts is set out in note 30(c).

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29. INTEREST RATE RISK

The repricing profile of assets and liabilities 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
At 31st December 2007						
Cash and other liquid assets	421.5	91.2	20.0	-	-	532.7
Due from brokers	243.3	-	-	-	-	243.3
Placements with banks	5,364.1	140.0	50.0	75.0	-	5,629.1
Trading securities	901.1	-	-	-	441.5	1,342.6
Available-for-sale securities:-						
- Fixed rate	1.0	39.5	37.3	363.9	-	441.7
- Floating rate	6,848.8	456.6	20.6	-	-	7,326.0
- Equities & equity funds	-	-	-	-	303.0	303.0
Loans and advances	8,923.5	3,488.5	249.1	5.8	(65.1)	12,601.8
Other assets	-	-	-	-	1,533.8	1,533.8
Total assets	22,703.3	4,215.8	377.0	444.7	2,213.2	29,954.0
Deposits	17,486.6	1,505.3	652.8	-	-	19,644.7
Securities sold under agreements to repurchase	2,523.8	1,273.9	343.8	-	-	4,141.5
Securities sold but not yet purchased	233.2	-	-	-	-	233.2
Other liabilities	-	-	-	-	511.5	511.5
Term financing	3,207.8	-	-	-	-	3,207.8
Equity	-	-	-	-	2,215.3	2,215.3
Total liabilities & equity	23,451.4	2,779.2	996.6	-	2,726.8	29,954.0
Interest rate sensitivity gap	(748.1)	1,436.6	(619.6)	444.7	(513.6)	-
Cumulative interest rate sensitivity gap	(748.1)	688.5	68.9	513.6	-	-
At 31st December 2006						
Cumulative interest rate sensitivity gap	(1,966.4)	(89.1)	271.8	708.3	-	-

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 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 the investment of the Group's net free capital in fixed rate government securities and fixed receive interest rate swaps. At 31st December 2007 the modified duration of these fixed rate securities and interest rate swaps was 4.99. 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 securities and interest rate swaps was US$221,000.

29. INTEREST RATE RISK (continued)

Based on the repricing profile at 31st December 2007, 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 one 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$7.7 million and US$7.5 million respectively (2006: US$8.4 million and US$11.2 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 26. The market risk relating to foreign exchange and derivative trading instruments is set out in note 30.

30. 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, equity, credit and commodity 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.

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.

30. DERIVATIVE AND FOREIGN EXCHANGE INSTRUMENTS (continued)

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

The Group buys and sells credit protection through credit default swaps. Credit default swaps provide protection against the decline in value of a referenced asset as a result of credit events such as default or bankruptcy. It is similar in structure to an option whereby the purchaser pays a premium to the seller of the credit default swap in return for payment related to the deterioration in value of the referenced asset. Credit default swaps purchased and sold by the Group are classified as derivative financial instruments.

The Group also transacts in other derivative products including exchange traded commodity options.

a) Product analysis

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

		Notional amounts		Credit risk
	Trading US$ millions	Hedging US$ millions	Total US$ millions	amounts US$ millions
At 31st December 2007				
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	**1,445.6**	**3,747.9**	**5,193.5**	**58.9**
Options purchased	**27.3**	**55.3**	**82.6**	**1.3**
Options written	**27.3**	**-**	**27.3**	**-**
	1,500.2	**3,803.2**	**5,303.4**	**60.2**
Interest rate contracts:-				
Futures	**162.4**	**-**	**162.4**	**-**
Interest rate swaps and swaptions	**1,861.2**	**4,990.1**	**6,851.3**	**45.2**
Options, caps and floors purchased	**24.3**	**-**	**24.3**	**0.2**
Options, caps and floors written	**1,255.8**	**-**	**1,255.8**	**-**
	3,303.7	**4,990.1**	**8,293.8**	**45.4**
Credit contracts:-				
Protection bought	**125.8**	**-**	**125.8**	**0.7**
Protection sold	**203.4**	**-**	**203.4**	**-**
	329.2	**-**	**329.2**	**0.7**
Equity contracts:-				
Contracts for differences	**2.4**	**-**	**2.4**	**-**
Total	**5,135.5**	**8,793.3**	**13,928.8**	**106.3**
At 31st December 2006				
Total	18,298.9	8,097.4	26,396.3	67.5

30. DERIVATIVE AND FOREIGN EXCHANGE INSTRUMENTS (continued)

a) Product analysis (continued)

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, and protection sold on credit contracts as they represent obligations of the Group.

At 31st December 2007 the Value-at-Risk of the foreign exchange, interest rate, credit, and equity derivative trading contracts analysed in the table above, as calculated in accordance with the basis set out in note 33, was US$0.2 million, US$0.2 million, US$1.1 million and nil respectively (2006: US$0.5 million, US$0.5 million, nil and US$0.6 million 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

Credit risk amounts		**31.12.07**		31.12.06
	Banks US$ millions	**Other US$ millions**	**Total US$ millions**	Total US$ millions
OECD countries	**71.0**	**-**	**71.0**	43.9
GCC countries	**3.5**	**31.3**	**34.8**	22.2
Other countries	**0.5**	**-**	**0.5**	1.4
	75.0	**31.3**	**106.3**	67.5

Credit risk is concentrated on major OECD-based banks.

c) Maturity analysis

	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 2007					
Foreign exchange contracts	**5,174.0**	**129.4**	**-**	**-**	**5,303.4**
Interest rate contracts	**4,196.2**	**1,491.6**	**1,101.5**	**1,504.5**	**8,293.8**
Credit contracts	**47.9**	**92.4**	**30.0**	**158.9**	**329.2**
Equity contracts	**-**	**-**	**-**	**2.4**	**2.4**
Total	**9,418.1**	**1,713.4**	**1,131.5**	**1,665.8**	**13,928.8**
At 31st December 2006					
Total	20,030.9	2,928.0	1,327.8	2,109.6	26,396.3

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

For the year ended 31st December 2007

30. DERIVATIVE AND FOREIGN EXCHANGE INSTRUMENTS (continued)

d) Fair value analysis

	31.12.07		31.12.06	
	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	**6.5**	**(6.9)**	0.6	(0.5)
Foreign exchange options	**0.6**	**(0.6)**	8.4	(8.5)
Interest rate futures	**0.1**	**-**	1.5	-
Interest rate swaps and swaptions	**30.2**	**(28.1)**	19.4	(16.4)
Interest rate options, caps and floors	**-**	**-**	-	-
Credit default swaps	**0.7**	**(2.1)**	1.4	(2.0)
Equities - contracts for differences	**1.3**	**-**	1.2	-
	39.4	**(37.7)**	32.5	(27.4)
Derivatives held as fair value hedges:-				
Interest rate swaps	**4.7**	**(47.8)**	10.0	(51.1)
Derivatives held as cash flow hedges:-				
Interest rate swaps	**2.2**	**-**	-	(1.2)
Amount included in other assets / (other liabilities)	**46.3**	**(85.5)**	42.5	(79.7)

e) Significant net open positions

There were no significant derivative trading or foreign currency net open positions at either 31st December 2007 or at 31st December 2006.

f) Hedge effectiveness

Gains and losses recognised in the consolidated statement of income relating to fair value hedging relationships were as follows:-

	2007 US$ millions	2006 US$ millions
Net (losses) / gains on derivative hedging instruments	**(13.1)**	42.5
Net gains / (losses) on hedged items attributable to the hedged risk	**13.1**	(42.5)

There were no ineffective portions of fair value or cash flow derivative hedging transactions recognised in the consolidated statement of income in either the year ended 31st December 2007 or 31st December 2006. The maximum period over which the Group was hedging its exposure to the variability in future cash flows for forecasted transactions was 18 months (2006: 19 months).

31. 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.

	31.12.07		31.12.06	
	Notional principal amount US$ millions	**Risk-weighted exposure US$ millions**	Notional principal amount US$ millions	Risk-weighted exposure US$ millions
Direct credit substitutes	**2,269.2**	**595.2**	200.6	187.9
Transaction-related contingent items	**1,505.1**	**700.0**	969.5	455.5
Short-term self-liquidating trade-related contingent items	**588.9**	**99.7**	409.2	75.5
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	**2,898.7**	**1,180.5**	2,317.1	988.7
	7,261.9	**2,575.4**	3,896.4	1,707.6

Commitments may be drawdown on demand.

Credit-related financial instruments are reported gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities. At 31st December 2007 the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related financial instruments amounting to US$2,041.3 million (2006: US$157.7 million).

Direct credit substitutes at 31st December 2007 included a US$2.0 billion credit facility for which the Group was acting on behalf of a syndicate of banks. The credit facility was largely collateralised by cash or counter-indemnified by the syndicate of banks. The Group's net exposure under this credit facility amounted to US$262.1 million.

32. 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.

33. CAPITAL ADEQUACY

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

		31.12.07 US$ millions	31.12.06 US$ millions
Regulatory capital base			
Tier 1 capital:			
Total equity		**2,215.3**	1,856.6
Adjustment to exclude net fair value losses / (gains)		**166.3**	(90.0)
Tier 1 capital		**2,381.6**	1,766.6
Tier 2 capital:			
Subordinated term financing		**550.0**	550.0
Non-specific loan provision		**65.0**	60.0
Tier 2 capital		**615.0**	610.0
Total regulatory capital base	*(a)*	**2,996.6**	2,376.6

Risk-weighted exposure

		Notional principal amount US$ millions (31.12.07)	Risk-weighted exposure US$ millions (31.12.07)	Notional principal amount US$ millions (31.12.06)	Risk-weighted exposure US$ millions (31.12.06)
Credit risk					
Balance sheet items:					
Cash and other liquid assets		**532.7**	**127.6**	268.2	52.1
Due from brokers		**243.3**	**-**	950.9	-
Placements		**5,629.1**	**1,006.4**	4,322.5	900.1
Available-for-sale securities		**8,070.7**	**7,215.7**	8,422.9	7,618.7
Loans and advances		**12,601.8**	**11,384.8**	8,145.0	7,318.4
Other assets		**1,533.8**	**993.9**	491.6	319.8
			20,728.4		16,209.1
Off-balance sheet items:					
Credit-related contingent items		**7,261.9**	**2,575.4**	3,896.4	1,707.6
Forward asset purchases		**-**	**-**	214.7	42.9
Foreign exchange-related items		**5,303.4**	**17.6**	5,551.2	9.3
Derivative-related items		**8,625.4**	**10.8**	20,845.1	175.5
			2,603.8		1,935.3
Credit risk-weighted exposure			**23,332.2**		18,144.4
Market risk					
General market risk			**416.4**		491.5
Specific market risk			**1,193.2**		1,782.6
Market risk-weighted exposure			**1,609.6**		2,274.1
Total risk-weighted exposure	*(b)*		**24,941.8**		20,418.5
Risk asset ratio [(a)/(b) x 100]			**12.0%**		11.6%

33. CAPITAL ADEQUACY (continued)

In accordance with the capital adequacy guidelines of the Bank's regulator, the Central Bank of Bahrain (CBB), 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 1 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 CBB's guidelines, gains arising on the remeasurement to fair value of marketable equity securities classified as available-for-sale are included in tier 2 capital. There were no fair value gains or losses in relation to marketable equity securities classified as available-for-sale at either 31st December 2007 or at 31st December 2006.

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 CBB. 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 (2006: 3.0) by the CBB.

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.

34. 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 2007 was US$24,089.7 million (2006: US$21,689.5 million).

35. RELATED PARTY TRANSACTIONS

The Group's related party transactions are limited to the compensation of its directors and executive officers.

The compensation of key management personnel was as follows:-

	2007 **US$ millions**	2006 US$ millions
Short term employee benefits	**9.7**	11.1
Post-employment benefits	**0.7**	0.7
	10.4	11.8

Key management personnel comprise members of the Board of Directors, the Group Chief Executive Officer, the Chief Operating Officer and the Managing Directors of the Group.

There were no other related party transactions.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments are accounted for under the historical cost method with the exception of trading securities, available-for-sale securities, securities sold but not yet purchased and derivative financial instruments. 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 prices or to the pricing prevailing for similar financial instruments and the use of estimation techniques such as discounted cash flow analysis.

Based on the valuation methodologies outlined below, the fair values of all on- and off-balance sheet financial instruments were not significantly different to their net book values.

a) Securities

The fair values of securities are based on quoted prices or valuation techniques with the exception of investments in unquoted equity investments for which fair values cannot be reliably measured, the fair values of which are based on their carrying amounts.

b) Loans and advances

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

c) Term financing

The fair value of term financing is 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.

d) Other on-balance sheet items

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

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 made in respect of individual transactions where a potential for loss has been identified are included in provisions for the impairment of loans and advances.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	Quoted prices US$ millions	Valuation based on observable market data US$ millions	Other valuation techniques or amortised cost US$ millions	Total US$ millions
At 31st December 2007				
Financial assets:				
Trading securities	**1,342.6**	**-**	**-**	**1,342.6**
Available-for-sale securities	**7,338.3**	**454.8**	**277.6**	**8,070.7**
Derivative financial instruments	**2.2**	**43.5**	**0.6**	**46.3**
Financial liabilities:				
Securities sold but not yet purchased	**233.2**	**-**	**-**	**233.2**
Derivative financial instruments	**2.1**	**83.1**	**0.3**	**85.5**
At 31st December 2006				
Financial assets:				
Trading securities	2,166.4	19.7	-	2,186.1
Available-for-sale securities	7,914.6	234.1	274.2	8,422.9
Derivative financial instruments	4.5	29.6	8.4	42.5
Financial liabilities:				
Securities sold but not yet purchased	862.7	-	-	862.7
Derivative financial instruments	1.9	69.3	8.5	79.7

Quoted prices include prices obtained from lead managers, brokers and dealers. The majority of the Group's financial assets and liabilities that are carried at fair value are valued based on quoted market prices. At 31st December 2007 only 8.2 per cent of financial assets carried at fair value were valued based on valuation techniques or amortised cost (2006: 5.3 per cent). This included US$139.1 million of impaired available-for-sale securities and US$107.2 million of unquoted equity investments (2006: US$69.7 million and US$81.4 million respectively), for which the carrying value was determined based on cost less provision for impairment.

For the year ended 31st December 2007

37. EARNINGS PER SHARE

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

	2007	2006
Net (loss) / income after tax (US$ millions)	**(757.3)**	255.5
Weighted average number of shares in issue (millions)	**1,385**	1,000
Basic earnings per share	**(US$0.55)**	US$0.26

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

38. PRINCIPAL SUBSIDIARIES

The principal subsidiary companies were as follows:-

	Country of incorporation	Ownership interest 31.12.07	31.12.06
Gulf International Bank (UK) Limited	United Kingdom	**100%**	100%
GIB (UK) Capital Investments Limited	United Kingdom	**100%**	100%
GIBINVEST E.C.	Bahrain	**100%**	100%

39. AVERAGE CONSOLIDATED BALANCE SHEET

The average consolidated balance sheet was as follows:-

	At 31.12.07 US$ millions	At 31.12.06 US$ millions
Assets		
Cash and other liquid assets	**314.0**	462.0
Due from brokers	**628.2**	1,080.2
Placements with banks	**5,512.8**	5,338.6
Trading securities	**1,798.7**	2,132.1
Available-for-sale securities	**8,290.9**	8,032.4
Loans and advances	**10,407.9**	7,585.7
Other assets	**529.6**	581.8
Total assets	**27,482.1**	25,212.8
Liabilities		
Deposits from banks	**5,885.1**	5,140.9
Deposits from customers	**13,050.7**	11,383.1
Securities sold under agreements to repurchase	**2,466.5**	2,844.2
Securities sold but not yet purchased	**554.9**	925.8
Other liabilities	**598.5**	729.7
Senior term financing	**2,303.5**	1,883.1
Subordinated term financing	**539.4**	546.2
Total liabilities	**25,398.6**	23,453.0
Total equity	**2,083.5**	1,759.8
Total liabilities & equity	**27,482.1**	25,212.8

40. PARENT COMPANY

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

a) Condensed balance sheet

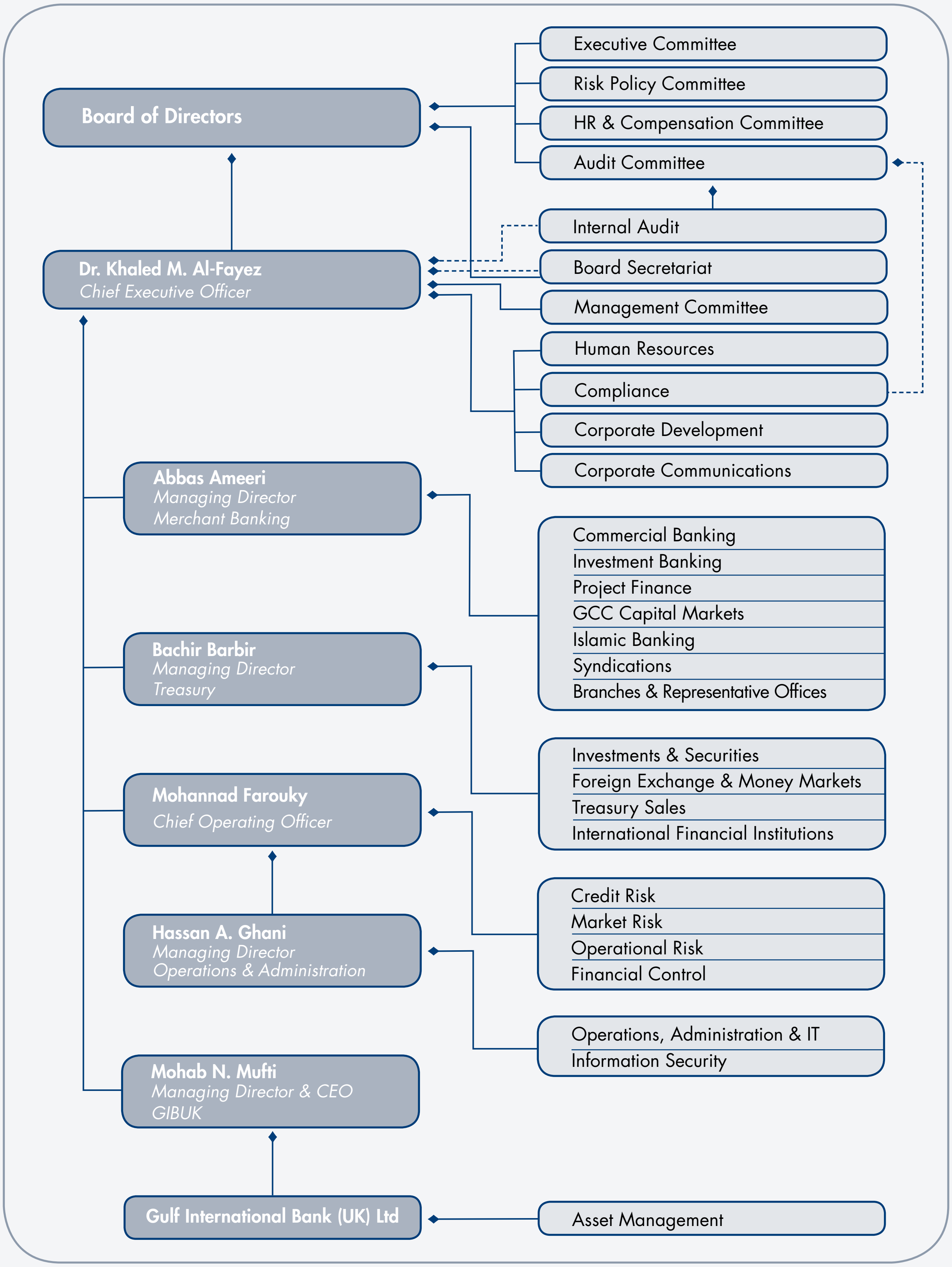
	At 31.12.07 US$ millions	At 31.12.06 US$ millions
Assets		
Cash and other liquid assets	**505.5**	178.3
Placements with banks	**2,191.2**	2,445.3
Trading securities	**398.4**	377.1
Available-for-sale securities	**8,058.1**	8,402.4
Investment in GIBUK	**250.6**	346.6
Loans and advances	**12,533.3**	8,144.9
Other assets	**1,452.9**	397.2
Total assets	**25,390.0**	20,291.8
Liabilities		
Deposits from banks	**5,924.2**	5,611.4
Deposits from customers	**9,473.5**	7,928.1
Securities sold under agreements to repurchase	**4,112.8**	2,056.1
Other liabilities	**456.4**	422.3
Senior term financing	**2,657.8**	1,867.1
Subordinated term financing	**550.0**	550.0
Total liabilities	**23,174.7**	18,435.0
Total equity	**2,215.3**	1,856.8
Total liabilities & equity	**25,390.0**	20,291.8

The investment in GIBUK is accounted for at fair value. Gains and losses arising from changes in the fair value of the investment are accounted for in equity.

b) Condensed income statement

	Year ended 31.12.07 US$ millions	Year ended 31.12.06 US$ millions
Net interest income	**278.4**	235.3
Fee and commission income	**52.9**	39.5
Trading income	**1.8**	17.1
Profits on available-for-sale securities	**29.6**	28.7
Dividend received from GIBUK	**14.1**	6.4
Other income	**5.5**	2.9
Total income	**382.3**	329.9
Operating expenses	**86.7**	86.8
Net income before provisions and tax	**295.6**	243.1
Provisions for securities	**(962.3)**	-
Provisions for loans and advances	**6.9**	0.8
Net (loss) / income before tax	**(659.8)**	243.9
Taxation charge on overseas activities	**(5.7)**	(8.3)
Net (loss) / income	**(665.5)**	235.6

Organisation Chart



Biographies of the Board and Senior Management

BOARD OF DIRECTORS

Sheikh Ebrahim Bin Khalifa Al Khalifa
Chairman
Bahraini Citizen
LLB, Beirut Arab University, Lebanon. Sheikh Ebrahim was appointed as Chairman of the Board of Directors in 2001. He became Minister of Housing in the Kingdom of Bahrain in 2007. Sheikh Ebrahim was Undersecretary at the Ministry of Finance & National Economy, Kingdom of Bahrain, between 1993-2007. 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 ❸
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. Mr. Al-Abdulkader is also the Chairman of Osool Capital. 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.

Dr. Hamad Bin Sulaiman Al-Bazai ❶ ❷
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. Saud Bin Nassir Al-Shukaily ❶ ❷
Omani Citizen
BS in Business Administration from USA and MA in Development Management, the American University, Washington, DC. Mr. Al-Shukaily was appointed to the Board in 1999. He is currently the Secretary General for Taxation at the Ministry of Finance, Sultanate of Oman. Earlier he served as Director General of Revenue and Investment at the Ministry of Finance, Director of the Minister's Office at the Ministry of National Economy and Director of the Minister's Office at the Ministry of Civil Services. He is also Deputy Chairman of the Board of Oman Refinery Company, Oman Airport Management Company and Qatar-Oman Investment Company. He is a Board Member of Sohar Industrial Port Company and Dubai Mercantile Exchange.

Dr. Khalid A. Al-Sweilem ❶ ❷ ❸
Saudi Arabian Citizen
BS in Industrial Engineering, University of Arizona, MA in Economics, Boston University, Ph.D. in Economics, University of Colorado-Boulder, in addition to post-doctoral fellowship in Economics at Harvard University, USA. Dr. Al-Sweilem was appointed to the Board in 2004. He is now Director General of Investment at the Saudi Arabian Monetary Agency (SAMA). Previous positions at SAMA included Deputy Director General of Investment and Director Investment Management Department.

Mr. Khalid Bin Abdulla Al-Suwaidi ❷ ❸
Qatari Citizen
BA in Accounting from South Eastern University, United Kingdom. He joined the Board in 2004. He currently heads the Administration Department at the Qatar Investment Authority. Earlier, he was Director of Finance at Doha International Airport (1997-2003) and Office Director at the Deputy Secretary General's Office of the Supreme Council for Economic Affairs and Investment in Qatar from 2003-2006. In 2006 he was appointed as Office Manager of the Executive Board Member to Qatar Investment Authority.

Mr. Nasser Khamis Al-Suwaidi ❶ ❷
UAE Citizen
BS in Business and Banking, Arizona University, USA, in addition to specialised courses in macro economics at the International Monetary Fund. He joined GIB's Board in 2004. Currently he is the Director of Industrial Development at the Ministry of Finance in the UAE. Previous positions at the Ministry included Director of Investments (2003-2004), Minister's Office Manager (2000-2003), Head of Development Institutions-Investment Department (1999-2000). Mr. Al-Suwaidi is a Board member at OPEC Fund for Development and a member of the UAE Anti-Dumping Committee and the Central Committee for Statistics Coordination.

H.E. Dr. Abdul Rahman Bin Ahmed Al-Jafary ❷ ❸
Saudi Arabian Citizen
Bachelor of Science in Geology, University of Washington, Seattle, USA, Master of Science in Educational Administration from East Texas State University (Texas A&M), and a Ph.D. in Business Administration from the University of Oklahoma. He joined GIB's Board of Directors in 2005.
Dr. Al-Jafary started his career as Administrative Assistant to the Dean of the College of Petroleum & Minerals in the Kingdom of Saudi Arabia, and worked as a teaching assistant at the University of Oklahoma. He joined King Fahd University of Petroleum and Minerals as Assistant Professor and Associate Professor (1979-1985). He also served as Dean of the College of Industrial Management between 1985-1989. Dr. Al-Jafary was appointed Secretary General of the Gulf Organisation for Industrial Consulting (1989-1999). He was selected as a member of the Saudi Arabian Shura Council in 1993 and held this post until 2005. During this period he served as Chairman of the Finance Committee for four years. In 2007 he was appointed Governor of the Communications & Information Technology Commission in the Kingdom of Saudi Arabia. He is a member in the Academy of Management and a member of the Institute of Decision Sciences. Dr. Al-Jafary is Board member of the Saudi Arabian Mining Company and Dar Al Youm Press and Publishing. He has numerous published researches and lectures.

Mr. Ahmed Tahous Al-Rashed Al-Tahous ❶ ❸
Kuwaiti Citizen
Bachelor of Business in Economics, Kuwait University, 1981. He was appointed to the Board of Directors in 2007. Currently he is Director of the Equities Department (America, Europe and Asia) at the Kuwait Investment Authority. Prior to this position, he was Senior Investment Manager (US Equity). Between 1984-1988, he worked at Morgan Stanley Asset Management in New York as a Portfolio Manager. Mr. Al-Tahoos started his career with Kuwait Investment Authority in 1982. He is a Board Member of the Kuwait Real Estate Investment Consortium (k.s.c.).

❶ Audit Committee Member
❷ HR & Compensation Committee Member
❸ Risk Policy 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 & International Relations, Fletcher School of Law & Diplomacy, which is run by Tufts University in cooperation with Harvard 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 former Member of the Board of the Institute of International Finance, Inc., Washington, USA.

Mohannad Farouky
Chief Operating Officer
UK Citizen
BA in Economics, the American University, Cairo and MBA in Finance, the University of Miami, USA. Farouky served as Managing Director-Risk Management from 2003-2004. From 2000 until 2002, he 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.

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.

Abbas Ameeri
Managing Director - Merchant Banking
Bahraini Citizen
Mr. Ameeri has banking experience of 24 years at GIB, where he worked within the credit and banking groups. He is responsible for GIB's total relationship efforts within the GCC, including ministries of finance, government agencies, corporations, financial institutions and investment companies. He also supervises other activities, including project and structured finance, syndications and Islamic banking, as well as the activities of GIB's branches in Riyadh, Jeddah, London and New York and the two representative offices in Abu Dhabi and Beirut. Mr. Ameeri is a member of GIB's Management Committee, the Credit Committee and the Assets and Liabilities Committee.

Hassan Abdul Ghani
Managing Director - Operations and Administration
Bahraini Citizen
Mr. Abdul Ghani joined GIB more than 30 years ago, where he worked within various departments and business units and headed the Singapore Branch. He completed many specialised and advanced training programmes in credit and operations, including the Darden Executive Management Programme from the University of Virginia, USA. Mr. Abdul Ghani was appointed Managing Director in 2007, and his responsibilities cover the Bank's operations, information technology, human resources and administration services. Prior to that, Mr. Abdul Ghani served as head of the Human Resources Group, GCC Branches & Syndications, Financial Institutions and other areas. Mr. Abdul Ghani is a member of GIB's Management Committee, the Group Risk Committee, the Human Resources Committee, the IT Committee and the Information Security Committee.

Mr. Mohab Naji Mufti
Managing Director & CEO, GIBUK
Saudi Arabian Citizen
BSc in Computer Science, University of East Anglia, UK. Mr. Mufti was appointed in 2008 Managing Director and CEO of Gulf International Bank (UK) Ltd. He has been responsible for GIB's Financial Markets business since 1999. He joined Gulf International Bank (UK) Limited in 1996. Prior to that Mr. Mufti worked with the National Commercial Bank in Saudi Arabia, where he was the Head of Trading. Between 1987 and 1993 he occupied various senior trading and investment roles within Saudi International Bank in London. Mr. Mufti is a Board member of the Arab Bankers Association, UK.

Corporate Directory

General Management

Dr. Khaled Al-Fayez
Chief Executive Officer
Mohannad Farouky
Chief Operating Officer
Bachir Barbir
Managing Director - Treasury
Abbas Ameeri
Managing Director - Merchant Banking
Hassan Abdul-Ghani
Managing Director - Operations & Administration
Mohab N. Mufti
Managing Director & CEO - GIBUK

Merchant Banking

GCC Relationship Management
Ali Rahimi
Head of GCC Relationship Management
Ali Al-Derazi
Abu Dhabi Representative Office

Project Finance
M. Chandrasekaran
Head of Project Finance
Ravi Krishnan
Structuring & Project Advisory
Tarun Puri
Project Finance
Rajan Malik
Syndications
Satish Panchamia
Agency

GCC Capital Markets
Srinivas Vemparala
Head of GCC Capital Markets, Private Equity & Islamic Banking
Iftikhar S. Ali
Islamic Banking
P. R. Suresh
GCC Capital Markets
Maneesh Ajmani
GCC Private Equity

International Banking
Asghar Ali Baba
International Banking
Charbel Khazen
London Branch
Gregga Baxter
New York Branch
Hassan Yaseen
Beirut Representative Office

Investment Banking
Fakhre Fazli
Corporate Finance - GCC

Asset Management

Uday Patnaik
Senior Investment Officer
Alex Gracian
Equity Portfolio Management
James Taylor
Bond Portfolio Management
Azhar Hussain
Fund Products
Andrew Burgess
Structured Products
Anthony Chisnall
Investor Relations Officer

Treasury

Souheil Hajjar
Group Deputy Treasurer & Head of Investments
Adel Al-Dosseri
Foreign Exchange & Money Markets, Bahrain & Saudi Arabia
Adnan Al-Rifaie
Riyadh Treasury
Steven Moulder
London & New York Treasury
Salman Al-Zayani
Treasury Sales
Ali Al-Qaseer
International Financial Institutions
Austin Sequeira
Treasury Policy & Administration

Risk Management

Masood Zafar
Chief Credit Officer
Stephen Williams
Group Financial Controller
Shane Panjvani
Operational Risk - Bahrain
Robert Amis
Chief Financial Officer - GIBUK

Support Functions

Hassan Abdul-Ghani
Managing Director - Operations & Administration
Ali Buhejji
Operations - Bahrain
P. K. Nambiar
Information Technology
Jameel Al-Sairafi
Information Security - Bahrain
Ali Ashoor
Administrative Services - Bahrain
Rashed Abdul-Rahim
Operations & Administration - Saudi Arabia
David Maskall
Operations - GIBUK

Human Resources

Hassan Abdul-Ghani
Human Resources
Darshan Singh
Human Resources Development
Jamal Hejris
Human Resources - Bahrain
Laura Ritchie
Personnel - GIBUK

Audit, Legal & Compliance

Hassan Al-Mulla
Group Chief Auditor
Georges Djandji
Compliance - Bahrain
Julian Anthony
Audit - London
Toby Billington
Legal and Compliance - London

Corporate Communications

Abdulla Naneesh
Corporate Communications

Board Secretariat

Faiz Al-Barwani
Secretary to the Board

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