

GULF INTERNATIONAL BANK
Annual Report and Accounts 2001



LEADING THE WAY FOR 25 YEARS IN THE GULF

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

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

GIB was established in the Kingdom of Bahrain in 1975 and commenced operations in 1976. The governments of the six GCC states, Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and United Arab Emirates, own 72.5 per cent of the Bank, while the Saudi Arabian Monetary Agency (SAMA) and J. P. Morgan Overseas Capital Corporation own 22.2 per cent and 5.3 per cent respectively. In addition to its main subsidiary Gulf International Bank (UK) Limited, the Bank has branches in London, New York and Riyadh, in addition to representative offices in Beirut and Abu Dhabi.

FINANCIAL HIGHLIGHTS

Net Income after Tax

US\$ 100.5 million

Total Assets

US\$ 15,232.0 million

Shareholders' Equity

US\$ 1,193.7 million

Net Income after Tax (US\$ millions)

2001	100.5
2000	118.1
1999	67.6
1998	82.1
1997	86.4

Total Assets (US\$ millions)

2001	15,232
2000	15,120
1999	15,679
1998	10,209
1997	9,524

Shareholders' Equity (US\$ millions)

2001	1,194
2000	1,206
1999	1,138
1998	731
1997	694

	2001	2000	1999
Earnings (US\$ millions)			
Net Income after Tax	100.5	118.1	67.6
Net Interest Revenue	195.4	169.7	139.6
Other Income	68.3	127.3	77.4
Operating Expenses	118.1	132.3	109.9
Financial Position (US\$ millions)			
Total Assets	15,232.0	15,119.5	15,679.4
Available-for-Sale Securities	7,641.7	7,062.1	5,451.4
Loans	3,309.4	3,923.1	4,038.0
Shareholders' Equity	1,193.7	1,205.8	1,137.7
Ratios (Per cent)			
Profitability			
Return on Average Shareholders' Equity	8.4	10.1	6.5
Return on Average Assets	0.7	0.8	0.5
Capital			
BIS Risk Asset Ratio			
- Total	12.6	11.5	12.2
- Tier 1	10.2	10.2	10.9
Shareholders' Equity as % of Total Assets	7.8	8.0	7.3
Loans as a multiple of Equity (times)	2.8	3.3	3.5
Asset Quality			
Securities as % of Total Assets	56.8	49.8	38.2
Loans as % of Total Assets	21.7	25.9	25.8
Liquidity			
Liquid Assets Ratio	75.1	71.0	71.3
Deposits to Loans Cover (times)*	3.6	3.1	3.0
* Deposits include Term Financing			

Reorienting and strengthening GIB's focus on GCC-based clients



BOARD OF DIRECTORS

H.E. Sh. Ebrahim Bin Khalifa Al Khalifa

Chairman

Undersecretary, Ministry of Finance
and National Economy
Kingdom of Bahrain

Mr. Abdul Aziz M. Al-Abdulkader

Vice Chairman

President, AMA Group
Kingdom of Saudi Arabia

Mr. Bader Abdullah Al-Rushaid Al-Bader*

Ex-Chairman and Managing Director
Kuwait Investment Company
State of Kuwait

Dr. Hamad S. Al-Bazai

Deputy Minister for Economic Affairs
Ministry of Finance and National Economy
Kingdom of Saudi Arabia

Mr. Mohammed Mughnem Al-Shumrani*

Director General of Investment Department
Saudi Arabian Monetary Agency
Kingdom of Saudi Arabia

Mr. Saker Dhafer Al-Moraikhi

Consultant, the Minister's Office
Ministry of Finance
State of Qatar

Mr. Mohammed Bin Saif Al-Shamsi*

Consultant, the Minister's Office
Ministry of Finance and Industry
United Arab Emirates

Mr. Saud Nassir Al-Shukaily*

Acting Director General of Revenue
and Investments
Ministry of Finance
Sultanate of Oman

Mr. Robert J. McGinn

Managing Director
J.P. Morgan & Co., Incorporated
United States of America

*Audit Committee Members

CHAIRMAN'S STATEMENT

ON BEHALF OF THE BOARD OF DIRECTORS, I am pleased to present the twenty-fifth annual report of Gulf International Bank B.S.C. (GIB) for the year ending 31st December 2001, the Bank's Silver Jubilee year. Gulf International Bank is entering a new era in its history. Leading from our core strengths as one of the premier wholesale financial institutions of the Arab world, the Bank has embraced a fresh and dynamic vision to become a merchant bank of equal prominence, focusing on the Gulf region.

Many forces associated with globalisation are bringing about unprecedented changes in the Gulf economies. We are witnessing an ever-deepening integration of GCC trade, financial flows, and investment with the rest of the world. Our keen understanding of the impact of these dynamics on the Gulf region, and the business prospects this offers, have provided an opportunity to extend GIB's mission. Following last year's successful merger of Gulf International Bank (UK) Limited (GIBUK) into the GIB group, we conducted a comprehensive review of our aggregate activities, which has resulted in a new strategy for developing GIB into a GCC merchant bank. In September 2001, the Board of Directors formally adopted the new strategy.

Our new strategy is being implemented in a number of ways: firstly, reorienting and strengthening GIB's focus on GCC-based clients across the range of our specialised service; secondly, expanding our well-regarded asset management business and specialised proprietary trading; thirdly, building on our leadership position as one of the Gulf's premier advisors and corporate financiers; and finally, growing our structured and project finance capabilities by undertaking more advisory and lead arranger roles in key regional projects. Relationship Management is to play a significant role in achieving these goals.

Our values of commitment and service to clients that have characterised us for the last quarter of a century will continue to guide GIB's future decisions. To this end, the group's organisational structure has been revised to create a common client service base that integrates the investment banking, commercial banking, financial markets and asset management product areas. At the same time, an integrated risk management and finance function has been created, while the support capabilities of human resources, information technology, operations and administration have been merged across all areas of the business and geographic locations.

In the year marking our twenty-fifth anniversary, GIB has much to celebrate. Winning the accolade of 'Best Bank in the Middle East' by Euromoney magazine in July 2001 and being cited as a 'dominant regional performer' underscores GIB's achievements in light of the enormous challenges that the GCC region, and the Middle East in general, has met in the last quarter century. Nevertheless, the difficult global economic circumstances that prevailed during most of 2001 have impacted the performance of financial institutions around the world with GIB being no exception. While GIB performed well against the trauma experienced in the financial and credit markets, group profits declined 14.9 per cent, largely attributable to the charge for restructuring costs associated with the Bank's new strategic plan.



EBRAHIM BIN KHALIFA AL KHALIFA
CHAIRMAN

In April 2001, the member states of the Gulf Cooperation Council (GCC) decided to directly own their stakes in GIB. Currently each of the six GCC states has a 12.1 per cent stake in GIB, with the holdings of two further shareholders, the Saudi Arabian Monetary Agency (SAMA) and J.P. Morgan Overseas Capital Corporation, remaining unchanged at 22.2 per cent and 5.3 per cent respectively. This change led to the appointment of a new Board of Directors in June 2001.

Our new mission essentially rests on two important pillars: Firstly, GIB aims to become the GCC Merchant Bank of choice, with market leadership in every one of our major activities. GIB has come to be one of the most professional and well-regarded banks in the Middle East, with a broad range of skills and expertise. We are confident that the Bank's pioneering character, which has contributed to establishing an excellent track record in areas such as corporate and structured project finance, asset management and investment banking, will also allow us to expand our activities in this area.

Secondly, GIB aims to be an integral participant and contributor in the economic development and growth of the GCC region. We believe that in its new capacity as a merchant bank, GIB will certainly play an important role in the evolution of the Gulf's capital and financial markets. Additionally, the Bank will ensure that it plays a lead role in the arranging and underwriting of the vast power, water, petrochemical, and oil and gas projects associated with the region's infrastructure and industrial development, whilst our corporate advisory expertise will help bolster the Gulf's private sector growth.

I would like to take this opportunity to express our appreciation to the retiring members of the Board of Directors and my predecessor as Chairman, HE Mr Abdulla H. Saif, for their dedication and valuable contribution to GIB during their tenure. I also welcome Dr. Khaled M. Al-Fayez as Chief Executive Officer of the GIB Group.

I am confident that the unstinting support of our shareholders and expertise of our Board members, together with the dedicated spirit that has long characterised GIB's experienced management and staff will guide the Bank into a new phase of growth, while sustaining the foundation that has ensured commercial success throughout all these years.

Ebrahim Bin Khalifa Al Khalifa Chairman

Embracing a fresh and dynamic vision



MANAGEMENT REVIEW

UNDER THE GCC MERCHANT BANK MANDATE, GIB's organisational structure is integrated across all locations to permit uniform systems, policies and procedures where possible. A client/product matrix, coordinated through a dedicated relationship management function, drives the Bank's new business philosophy across three principal product areas including asset management, corporate finance, and financial markets and treasury.

GIB's vision is to build regional leadership in merchant banking through the enhancement of customer franchise, strengthening of the Bank's competitive position across a broader product range, and focusing on opportunities with higher risk-adjusted returns.

The year 2001 marked an important milestone for GIB. After twenty-five years of successful wholesale commercial banking operations, which also saw the acquisition and merger of Saudi International Bank into the GIB group, the strategy to develop as a GCC merchant bank provides new growth opportunities for the Bank in a rapidly transforming regional economic environment.

As a merchant bank, GIB serves Gulf-based clients in a range of specialised areas including corporate advisory, asset management, structured and project finance and GCC capital markets, alongside conducting proprietary trading and investment business as additional support for customer relationships. This reinforces the Bank's competitive position by building on GIB's well-established market presence and broad-based understanding of the region's economic environment and potential business opportunities.

RELATIONSHIP MANAGEMENT

Relationship Management is the cornerstone of the merchant banking mandate, broadening the customer franchise by integrating a common client relationship function with GIB's product portfolio. Relationship managers work closely with GIB's product specialists to develop its clientele such as governments, government-owned entities, corporations and institutions utilising a diverse range of products.

Through total relationship management, GIB's clients are introduced to all aspects of the Bank's merchant banking capabilities, including products and services in corporate finance and advisory, project and structured finance, asset management and treasury, alongside conventional and Islamic banking. GIB's international (non-GCC) client relationships are often more narrowly based. The emphasis is on treasury and trade finance requirements and on meeting the more specific Gulf-related banking needs of this client base.

GIB has recognised the significant business prospects the Gulf region is presenting as the GCC states continue to pursue reforms of varying degrees directly aimed at economic diversification and raising the contribution of the private sector. Accordingly, the Bank's focus is on both tapping into these prospects and providing support to the economic transition underway.

ASSET MANAGEMENT

Asset Management offers a diverse range of investment products and services to institutional and corporate clients. Portfolios and funds are managed by an experienced and successful team of specialist managers, offering a diverse range of products. Cash management and investment grade debt portfolios are complemented by specialist credit management skills for specialist accounts.

The equity investment team manages mandates including global, regional and Islamic equity portfolios, both to defined client objectives and in pooled funds. Alternative investments, including hedge and structured products, illustrate an expanding franchise in balanced and specialist asset management.

Performance of GIB's Asset Management team in 2001 delivered excess returns over benchmarks for equity and fixed income mandates, resulting in a 20 per cent increase in client funds under management to US\$ 6.5 billion, in addition to a substantial increase in the number of clients.

Following the events of September 11th, and the re-evaluation of strategy from some international institutions, this has positioned GIB's Asset Management strongly as one of the few institutions in the Middle East with a committed asset management function focused on the Gulf countries.

FINANCIAL MARKETS AND TREASURY

Financial Markets and Treasury are engaged in the management of proprietary and client capital, in addition to assuming responsibility for asset and liability management. Through well-equipped dealing rooms in Bahrain, London, New York and Riyadh, significant portfolios are managed across a well-diversified range of asset classes, while clients are offered specialist products tailored to their specific requirements. The Bank's trading and investment teams actively manage risk in diverse markets that include corporate and sovereign debt, equities, interest rates and currencies, using a wide range of cash and derivative instruments.

An important and growing dimension of GIB's business profile is client capital management. This is being achieved through the launching of fund products that utilise proprietary skills. The Bank plans to further enhance its product suite offered to clients by expanding into a variety of new products using its global reach and its specialist product skills.

CORPORATE FINANCE

GIB offers a range of complementary corporate finance products and services to create innovative financial and investment solutions for individual client needs. The portfolio of services offered to clients incorporates i) financial advisory services in connection with mergers, disposals and acquisitions; privatisations; strategic advice; and equity placements (IPOs and private placements); and ii) project and structured finance advice.

Knowledge and practical experience acquired through years of experience in the Gulf region allow GIB to be among the few GCC-based institutions capable of providing strategic financial and transaction advice to the public and private sectors. The on-going liberalisation of GCC business and investment laws and the need for restructuring of companies faced with both internal and external threats, will add momentum to the demand for advisory services, and the Bank is well positioned to play a leading role in meeting these needs.

Despite the difficult economic environment, the Corporate Finance team undertook a variety of business assignments in 2001, including prominent project and corporate finance deals in sectors including infrastructure, petrochemicals, industry and shipping. The Bank won several mandates as financial advisor for key projects including the successful placement of US\$ 1.15 billion of medium-term debt for a SABIC subsidiary, Jubail United Petrochemical Company (JUPC). GIB was also involved in several mergers and acquisitions transactions for GCC clients.

In addition, GIB offers clients co-investment opportunities in private equity investments and specialist private equity fund products developed through self-seeding or by alliances and formal joint ventures with other private equity firms. The difficult operating environment in 2001 had begun to show some improvement before being set back in the final quarter by the terrorist attacks in New York. Gulf investor appetite is anticipated to recover more slowly than that of their US counterparts. GIB's regional and international presence has nevertheless ideally positioned the Bank to capitalise both on the upturn in deal flow and the, albeit somewhat delayed, regional investor demand.

INTERNATIONAL NETWORK

GIB's global organisation structure is a reflection of the seamless 'one bank' philosophy, which forms an integral part of the new GCC merchant bank mission. A group-wide reorganisation, initiated in line with the new mission's GCC focused mandate, led to the streamlining of the London and New York branches, and closure of the Singapore branch.

As GIB's asset management and corporate finance arm, Gulf International Bank (UK) Limited (GIBUK) plays a critical role in contributing to the Bank's success as the GCC merchant bank of choice. During 2001, the London based subsidiary witnessed substantial growth in assets under management and the number of clients, while nine new hedge and investment funds were launched for client investments. The establishment of a marketing presence for Asset Management in Bahrain covering the GCC private sector and corporations has widened opportunities for further growth.

The Riyadh Branch, which was the first branch for a non-local bank in the Kingdom of Saudi Arabia, continued to strengthen its position in GIB's core market. Since its opening in September 2000, the branch has been providing onshore services to an increasing number of clients.

GIB's presence in Riyadh and Abu Dhabi have allowed for a solid foundation to conduct business and actively market and cross sell the Bank's portfolio of products, while developing client relationships and deepening the roots of knowledge in prominent GCC markets. On the other hand, the strategic focus of the Beirut and New York offices is directed towards seeking out GCC-related business with international institutions and corporations.

The GCC merchant bank of choice



RISK MANAGEMENT

Disciplined management of group-wide credit and market risks is a fundamental goal at GIB. Currently, harmonisation of risk systems and policies across GIB locations is underway as part of the 'one-bank' framework, which will enable further integration of prudent practices and financial controls to manage risks. In this regard, a new credit risk management system planned for the Bank will play a pivotal role in converging risk measurement and management throughout all GIB locations, while enhancing the established practice of rigorously stress testing market risks.

TECHNOLOGY

During 2001, GIB made significant strides in enhancing the Bank's technological infrastructure to the benefit of greater operational efficiency and security. Key projects included the upgrading of GIBUK's overall operational technology and the implementation of new banking software systems. Additionally, testing of the off-site Disaster Recovery capability was successfully conducted with future plans including furthering this capability to enable a mutually supportive disaster recovery system for all GIB locations.

GIB views technology as an integral component of its total resource capability that is conducive to maintaining a competitive edge. Indeed, the Bank's technological advancements also contribute to flexible internal systems as was evident during the year with the flawless implementation of IAS39, generally regarded as the most complex accounting standard.

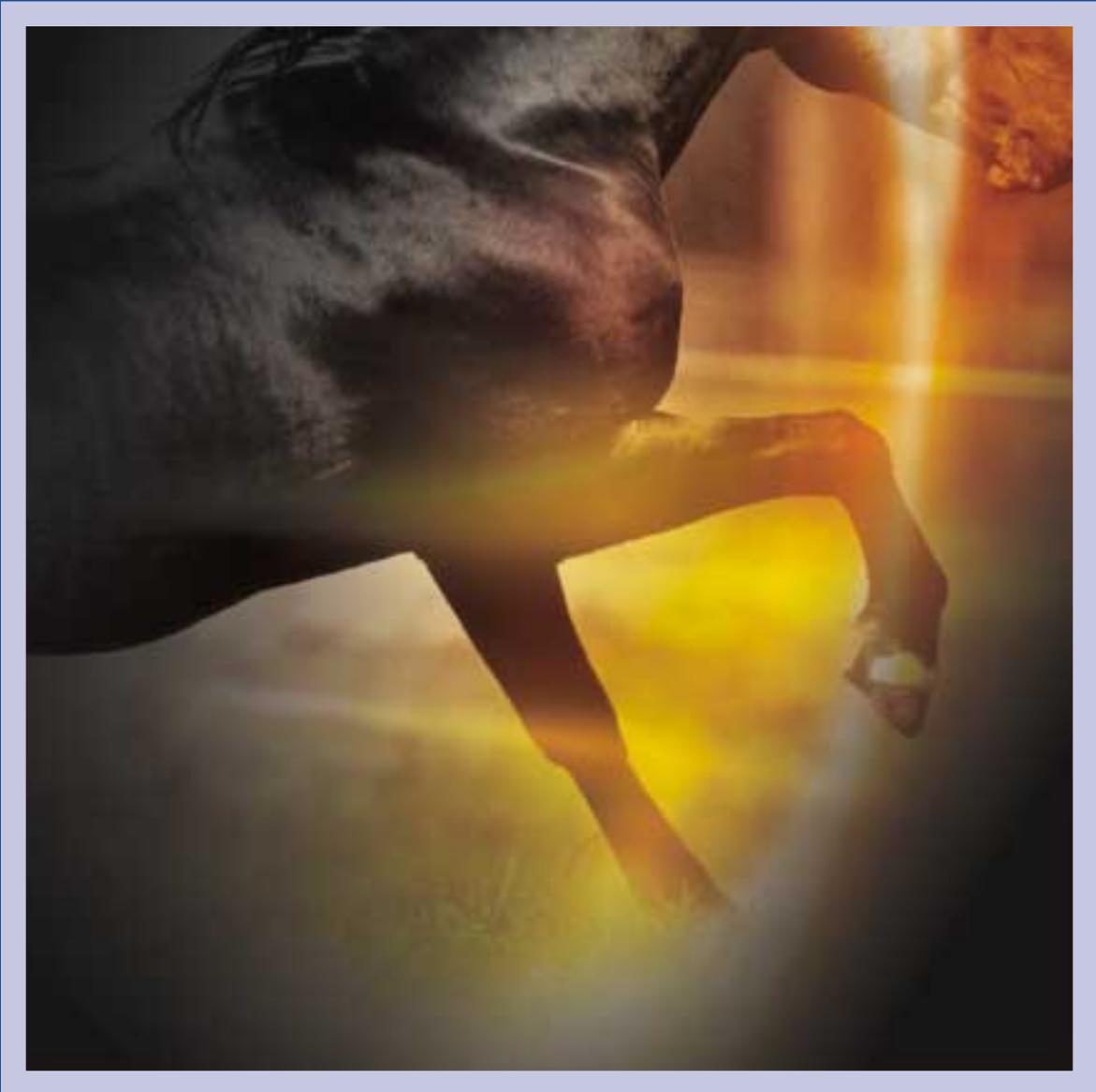
Going forward, building and integrating common core technological systems throughout the Bank's network, including further streamlining of operations and processing, will take precedence. Particular emphasis will also be placed on strengthening the already stringent operational controls to further mitigate risks related to new developments in money laundering.

HUMAN RESOURCES

The guiding principle of GIB's human resources strategy remains focused on the development of policies and practices that enhance the Bank's competitive advantage through a well-trained and high calibre employee base. Under the new mission, an added dimension of this principle is to create a unified culture across geographical boundaries that exemplifies the spirit of cooperation and support amongst all locations. Achieving these objectives is dependent on maintaining a selective recruitment process for all job levels; ensuring policies are in place to motivate and retain employees including appropriate remuneration and excellent training and development opportunities; and fostering an overall environment of open communication and dialogue.

GIB's strong commitment to training and development is benefiting employees at all levels and allowing them to develop skills and competencies. In this regard, the Executive Trainee programme, currently focused on Bahrain, has played an important role and remains a key source for identifying and developing the Bank's potential future leaders.

GIB has established an excellent track record



FINANCIAL REVIEW

CONSOLIDATED NET INCOME AFTER TAX WAS US\$ 100.5 MILLION FOR THE YEAR. While down against the record result achieved in 2000, Net Income in 2001 was nevertheless well ahead of profits recorded in the immediately preceding years. 2001 Net Income was net of a US\$ 52.1 million provision charge for credit losses (2000: US\$ 36.2 million). Net Income was also negatively impacted by one-off restructuring costs in connection with the streamlining of support functions and the realignment of certain business activities associated with strategic restructuring initiatives implemented during the year. At the operating level, the Group's results contained many positive elements. Interest earnings recorded a strong year-on-year advance and while trading revenues were down against the previous year's record level, they nevertheless remained positive in a particularly difficult market environment. Operating expenses also declined, despite the inclusion of the restructuring costs, reflecting the benefits derived from rationalisation measures.

NET INTEREST INCOME

Net Interest Income at US\$ 195.4 million was US\$ 25.7 million or 15.1 per cent up on the prior year. Net Interest Income is principally derived from four sources: earnings on the Group's net free capital, the commercial lending portfolio, the Available-for-Sale Securities portfolio, and the money book. Net Interest Income is also reported net of the funding cost of externally managed funds from which income is derived in the form of dividends and capital gains and is reported in the relevant category in Other Income.

A significantly lower interest rate environment prevailed in most developed economies in 2001. The lower interest rate environment impacted the Group's net interest earnings in three specific respects, although had an overall positive impact thereby contributing to the year-on-year increase in Net Interest Income. The Group's net free capital is largely invested in fixed rate instruments in order to derive a fixed return over the medium term. Interest earnings on the net free capital were lower in 2001 due to the maturity of a number of investments which were replaced at lower yields. This was, however, more than compensated by a lower funding cost in respect of the externally managed funds, and significantly higher interest earnings generated by the Group's money book activity. The higher money book earnings reflected the benefit derived from short interest repricing mismatch positions maintained throughout the year in anticipation of the reductions in short term interest rates. As a result, money book earnings were at almost twice the level in the previous year. The short mismatch positions have subsequently been reduced in anticipation of a possible rise in interest rates in response to demonstrable signs of a sustained recovery in the US and European economies. Net interest earnings derived from the Group's commercial banking portfolio were lower in 2001 due to a significant decrease in the volume of international loans. In line with the Group's new business strategy, international loans declined by approximately US\$ 0.5 billion, or one third, during the year. Interest earnings from the Group's core GCC commercial banking portfolio were at much the same level as the previous year with a small decrease in average volumes being compensated by a further improvement in margins. The continued improvement in margins was attributable to the Group's strategic focus on higher value-added activities, including key lead manager and syndication roles. The overall year-on-year decrease in interest earnings from the Group's commercial banking activity was, however, more than offset by a 45 per cent year-

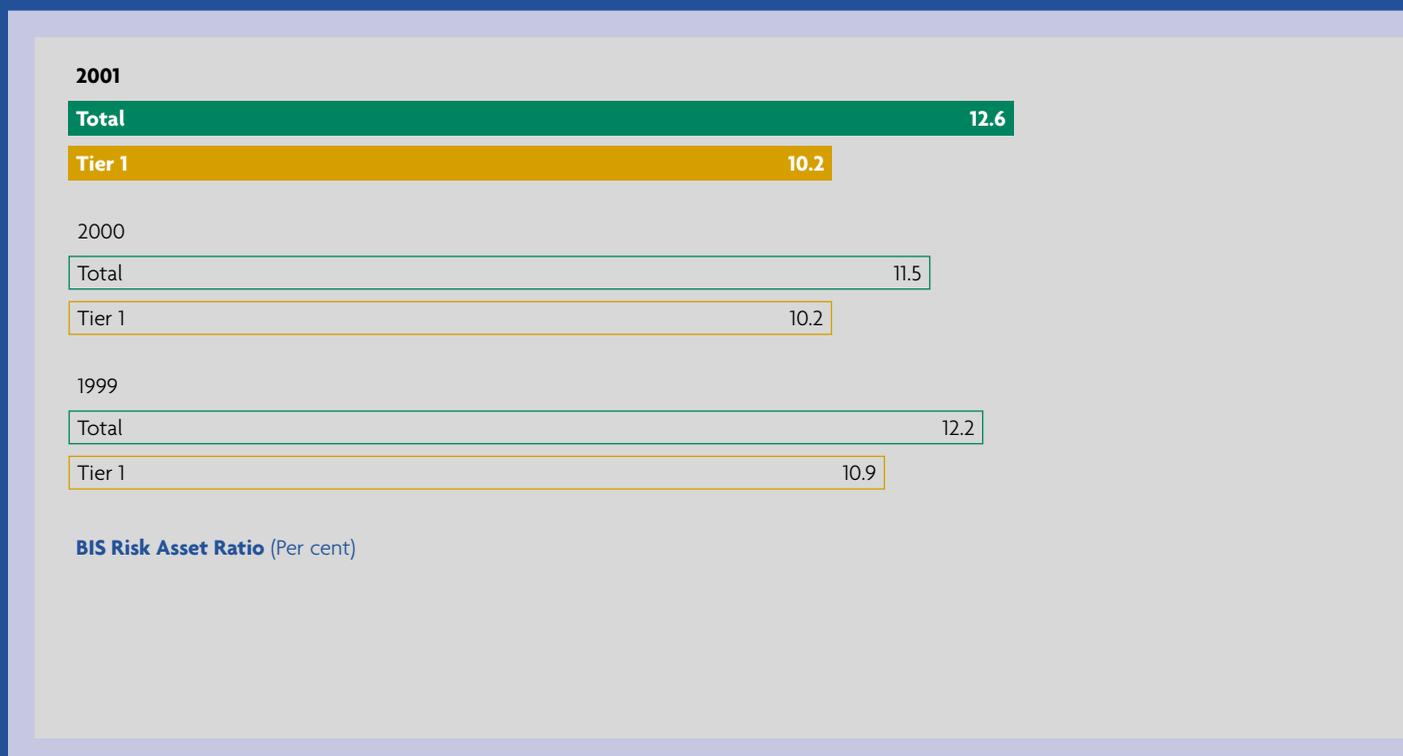
on-year increase in net interest earnings from the Available-for-Sale Securities portfolio. This reflected an US\$ 864 million or 14 per cent increase in the average volume of securities and, more significantly, the benefit derived from a substantial widening in credit spreads that took place in 2001. This provided particularly attractive investment opportunities, even at the higher end of the credit rating spectrum. The credit quality of the securities portfolio continued to be emphasised with 87.5 per cent of available-for-sale debt securities at the 2001 year end being investment grade-rated.

OTHER INCOME

Other Income at US\$ 68.3 million for the year was a little over half the prior year level. An analysis of Other Income with prior year comparatives is set out in Note 18 to the Consolidated Financial Statements.

In 2000, the Group generated record trading revenues reflecting the extremely favourable market environment prevailing throughout much of the year. In contrast, the market environment in 2001 was particularly difficult and challenging in terms of both direction and volatility. In these less favourable circumstances it was not possible to repeat the success achieved in the previous year. The Group nevertheless recorded a positive trading performance in 2001, although a one time IAS 39-related adjustment arising on consolidation resulted in a small loss being reported in the Consolidated Financial Statements.

The IAS 39 consolidation adjustment related to internal derivative hedging transactions undertaken by the Group's investment banking subsidiary, Gulf International Bank (UK) Limited (GIBUK). In accordance with common practice applied by other large international financial institutions with sophisticated central treasury functions, GIBUK used internal derivative hedging transactions to transfer interest rate risk from the banking book to the trading book. Exposure to interest



rate risk was accordingly proactively managed within the trading book. Under IAS 39, which was implemented with effect from 1st January 2001, internal hedging transactions are required to be eliminated on consolidation. As a result, in the Group's 2001 consolidated accounts it was necessary to eliminate revaluation gains arising on the internal derivative hedges in the trading book. In order to avoid ongoing volatility in the Group's consolidated results, all internal derivative hedging transactions were replaced by external transactions during the year. By the end of 2001 all internal derivative hedging transactions had been replaced by external transactions. The impact of the elimination of the internal derivative hedge transactions on the Group's consolidated results for 2001 was to reduce Profits on Trading Activities by US\$ 14 million and to increase Profits on Available-for-Sale Securities by US\$ 10 million.

Excluding the one time IAS 39 consolidation adjustment, the Group's various trading activities recorded a US\$ 10 million profit for the year. Profits were generated from trading activities in the corporate debt, fixed income, derivative and emerging markets while equity trading incurred a marginal loss. This positive outcome in unfavourable market conditions was achieved through the strict application of disciplined and prudent risk management techniques. The limited loss on equity trading reflected the benefit derived from a wide range of trading strategies, including relative value, arbitrage and non-directional strategies.

Dividend Income of US\$ 40.4 million was the largest contributor to Other Income. Dividend income is received from equity investments of a structured finance nature and from externally managed funds. The funding cost of these investments is reported in Net Interest Income. An US\$ 11.9 million year-on-year increase in dividend income reflected a higher level of investment in 2001 and higher returns generated by the underlying investments.

Profits on Available-for-Sale Securities were US\$ 9.4 million for the year. This largely comprised a profit realised on an investment in a Singaporean-based stockbroker which was sold during the year to a competing stockbroker. As referred to previously, Profits on Available-for-Sale Securities included a US\$ 10 million positive adjustment arising on consolidation in relation to IAS 39. This positive adjustment offset losses incurred by GIBUK on the unwinding of the internal derivative hedge transactions as a result of the sale, or provisioning, of the related securities. Investment Banking and Management Fees at US\$ 11.7 million continued to be one of the major contributors to non-interest earnings.

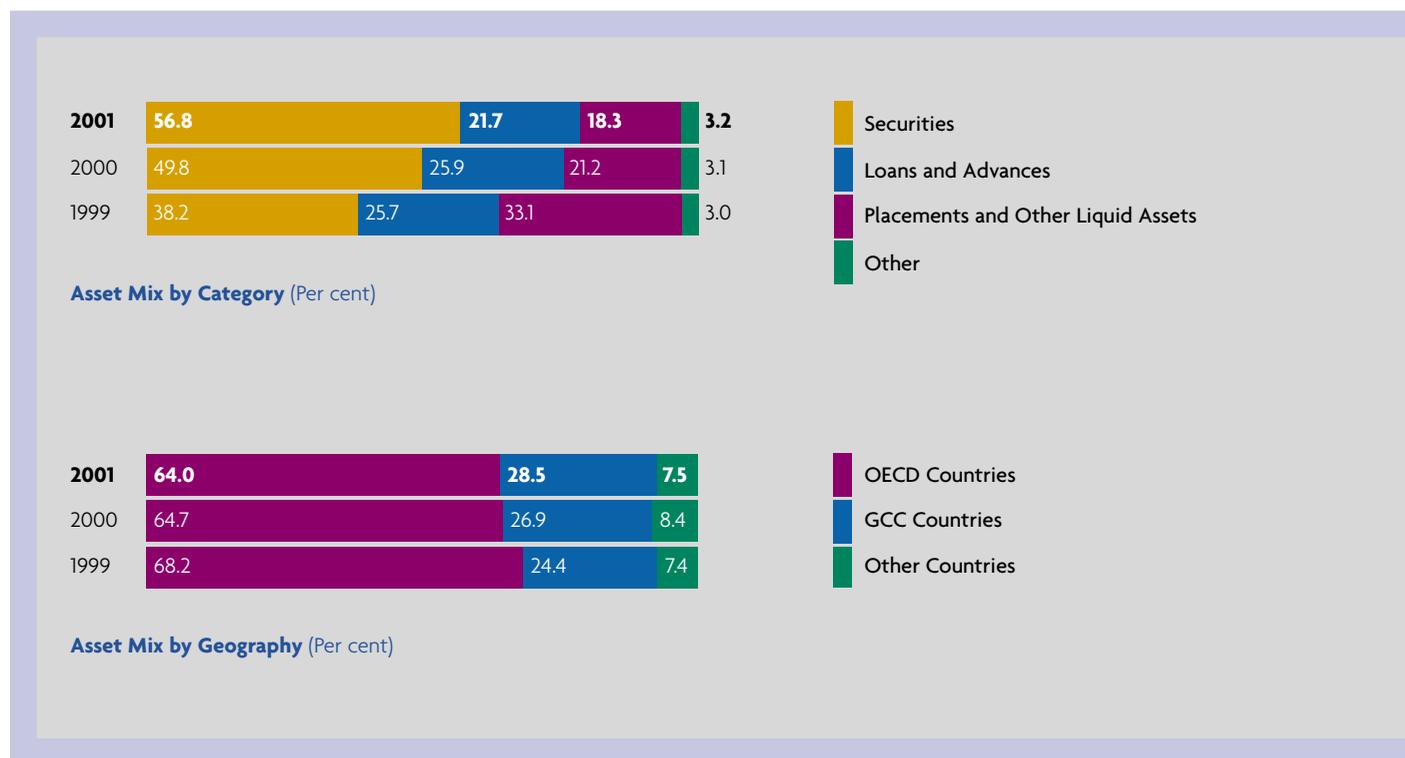
Investment Banking and Management Fees comprise fees generated by the Group's asset management, fund management and corporate advisory activities. A US\$ 2.2 million year-on-year decrease in Investment Banking and Management Fees principally reflected lower performance-related asset management fees due to relatively subdued performances attributable to the unfavourable market environment. Funds under management nevertheless outperformed their relevant indices.

Profits on Foreign Exchange of US\$ 2.0 million were significantly lower than in the previous year. In February, the Group incurred a US\$ 2.6 million loss as a result of the unexpected devaluation of the Turkish Lira. In addition, customer business volumes were at a generally lower level than the historically high levels witnessed in 2000. Commissions on letters of credit and guarantees at US\$ 7.2 million were 9.1 per cent up on the prior year and continued to make an important contribution to non-interest income. A US\$ 1.0 million recovery was received during the year in respect of an old fully written off loan.

OPERATING EXPENSES

Operating Expenses at US\$ 118.1 million were US\$ 14.2 million or 10.7 per cent down on the prior year. However, expenses in 2001 included an exceptional charge of US\$ 8.4 million in respect of restructuring costs associated with strategic reorganisation initiatives. These initiatives involved the reorganisation and streamlining of support functions and the realignment of certain business activities. In particular, the majority of the Bank's New York branch back office functions were transferred to Head Office in Bahrain resulting in a reduction in staffing levels and the write off of fixed assets. In addition, in the second quarter of the year, an early retirement programme was initiated at Head Office also resulting in a reduction in staffing levels. Excluding these one-off exceptional costs, Operating Expenses were US\$ 22.6 million or 17.1 per cent down on the prior year.

Staff Expenses were US\$ 17.0 million or 20.4 per cent down on the prior year. This was largely attributable to lower performance-related remuneration as a result of the subdued trading performance. There was nevertheless an underlying 8 per cent year-on-year decrease in Staff Expenses, excluding bonuses, reflecting cost savings derived from the restructuring of the Group's overseas activities in 2000 and 2001, and the early retirement programme initiated in the early part of 2001. A US\$ 1.1 million year-on-year decrease in Premises Expenses resulted from the physical integration of the Bank's London branch with GIBUK in the latter part of 2000. Other Operating Expenses decreased by US\$ 4.5 million or 11.8 per cent reflecting cost savings derived from the physical integration with GIBUK and, in particular, a lower level of IT expenditure. The Group continues to focus on further improving cost efficiencies through the use of technology and to take measures to contain recurring costs while making the necessary investments for the future.



CAPITAL STRENGTH

Shareholders' Equity amounted to US\$ 1,193.7 million at 31st December 2001. At the 2001 year end Shareholders' Equity and Tier 1 Capital both represented 7.8 per cent of Total Assets, ratios that are high by international comparison. The average Tier 1 capital to total assets ratio of the top 1,000 banks in 2001 was 4.8 per cent according to a survey published in *The Banker* in July 2001.

With a total regulatory capital base of US\$ 1,537.7 million and total risk-weighted exposure of US\$ 12,162.6 million, the risk asset ratio calculated in accordance with the guidelines of the Basel Committee on Banking Supervision was 12.6 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 2001 year end net fair value losses of US\$ 42.0 million were added back to Shareholders' Equity to derive the regulatory capital base for capital adequacy purposes. The Bank's regulatory capital base was significantly enhanced during the year by two 10 year subordinated loan facilities amounting in total to US\$ 150.0 million. The subordinated loans were approved for inclusion in Tier 2 capital for capital adequacy purposes by the Bank's regulator, the Bahrain Monetary Agency (BMA). The risk asset ratio incorporates market risk-weighted exposure. Exposure to general market risk is calculated utilising a Value-at-Risk model in accordance with the provisions of the Amendment to the Capital Accord to Incorporate Market Risk. The use of the internal model approach for the calculation of the capital requirement for general market risk has been approved by the BMA. During 2001, the multiplication factor to be applied to the Value-at-Risk (VaR) calculated by the internal model was reduced by the BMA to the regulatory minimum of 3 in recognition of the reliability of the Group's VaR model as determined by the regular backtesting exercises.

The high proportion of Shareholders' Equity within the total capital base resulted in a Tier 1 ratio of 10.2 per cent. This ratio is particularly high by international standards. Note 28 to the Consolidated Financial Statements provides further details on capital adequacy. The risk asset ratio calculated in accordance with the guidelines of the Bank's regulatory authority, the BMA, was 14.1 per cent at the 2001 year end (2000: 12.3 per cent). Under the BMA guidelines, GCC governments and government-owned entities are accorded the same preferential risk weighting as for OECD governments. The BMA applies a minimum risk asset ratio of 12 per cent compared to a minimum of 8 per cent prescribed by the Basel Committee.

Factors which contribute to the Group's favourable capital adequacy position are the strong capital base, the level of non-specific provisions and significant exposure to major OECD country governments and to the banking community.

ASSET QUALITY

An assessment of the geographical diversification of risk assets may be made by reference to Note 23 to the Consolidated Financial Statements. Further assessment of asset quality can be facilitated by reference to Note 30 to the Consolidated Financial Statements on the fair value of financial instruments. Based on the valuation methodologies set out in that note, the net fair values of all on-and off-balance sheet financial instruments exceeded their net book values at 31st December 2001 by US\$ 33.0 million. Following the implementation of IAS 39 at the beginning of the year, all Investment Securities were reclassified as Available-for-Sale and remeasured

to fair value. Available-for-Sale Securities are accordingly stated at fair value in the Consolidated Balance Sheet.

At the 2001 year end, Available-for-Sale Securities accounted for 50.2 per cent of Total Assets while Loans and Advances represented 21.7 per cent.

Available-for-Sale Securities

Available-for-Sale (AFS) Securities totalled US\$ 7,641.7 million at 31st December 2001. The Available-for-Sale Securities portfolio is used as a means of providing effective geographical diversification of the Group's risk assets with 79.7 per cent of the portfolio comprising securities of North American and European issuers.

AFS Securities principally comprise two types of debt security portfolios and a more limited investment in equities and equity funds. The larger debt security portfolio comprises floating rate securities or fixed rate securities that have been swapped to floating to yield constant spreads over LIBOR. These accounted for 87.8 per cent of the total AFS Securities portfolio at the 2001 year end. The smaller debt security portfolio is made up of fixed income securities, principally OECD government or government-guaranteed bonds, representing the investment of part of the Group's net free capital. This portfolio amounted to US\$ 370.0 million at the end of 2001.

An analysis of the AFS Securities portfolio by rating category is contained in Note 6 (a) to the Consolidated Financial Statements. US\$ 1,088.7 million or 14.2 per cent of the portfolio at the 2001 year end represented AAA-rated securities. Based on the rating of the issuer, a further US\$ 5,103.4 million or 66.8 per cent of the portfolio represented investment grade-rated debt securities. Thus 81.0 per cent of the total portfolio comprised investment grade-rated securities. Other Debt Securities amounted to US\$ 888.2 million at the end of 2001, thus comprising only 11.6 per cent of the total portfolio. In view of the rising default rates witnessed during the



year, the Group adopted a cautious policy in respect of securities rated below investment grade. As a result, Other Debt Securities decreased during the year in both absolute terms and as a percentage of the total 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. Equities and equity funds at 31st December 2001 amounted to US\$ 561.4 million. The equity and equity fund portfolio is principally invested in equity investments of a structured finance nature and also a wide range of externally managed fund-type investments which provide a diversified exposure to private equity, debt and real estate markets.

Loans and Advances

In line with the Group's strategic focus on the GCC, Loans and Advances reduced by US\$ 613.7 million during the year to US\$ 3,309.4 million at the 2001 year end. The decrease principally reflected the scaling back of the Group's international lending activity in line with its new strategic emphasis on relationship banking in the GCC. The geographical diversification of overall credit risk is now achieved through the international securities markets rather than through participation in international syndicated lending transactions. Based on contractual maturities at the balance sheet date, 48.4 per cent of the loan portfolio was due to mature within one year while 73.5 per cent was due to mature within three years.

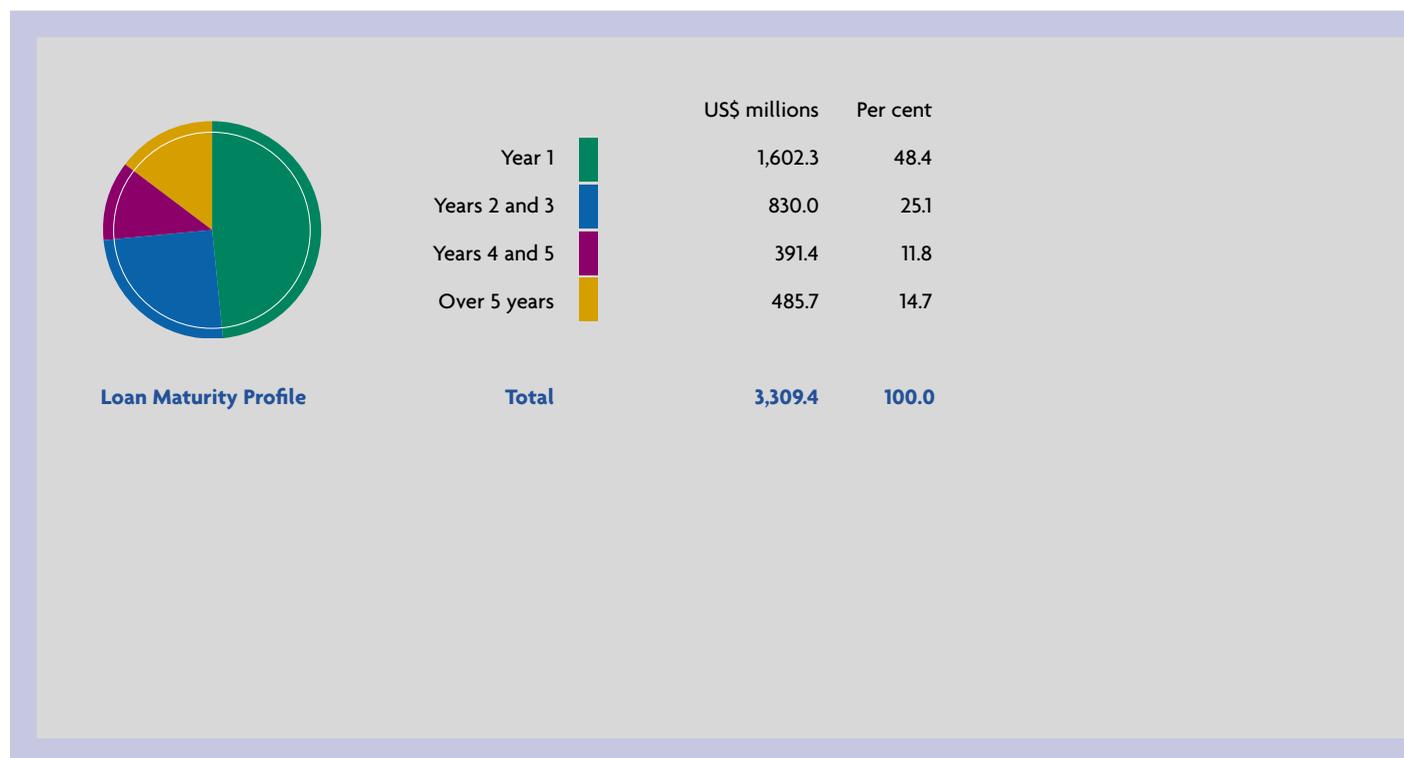
Details of exposure within the loan portfolio to GCC and OECD country governments are contained in Note 7 to the Consolidated Financial Statements while the geographic distribution of Loans and Advances is set out in Note 23. 68.4 per cent, or a little over two thirds, of the loan portfolio represented lending within GIB's core market in the GCC states while the balance was largely made up of exposure to the GCC countries' major trading partners in Europe and North America. The portfolio contained no significant concentrations by industrial sector. As discussed in Note 30, the net fair value of loans and advances exceeded their net book value by US\$ 33.0 million.

Total loan loss provisions at 31st December 2001 amounted to US\$ 742.0 million. Country and counterparty specific provisions amounted to US\$ 551.6 million while non-specific provisions were US\$ 190.4 million. Loan loss provision releases during the year amounted to US\$ 17.8 million. The releases resulted entirely from reductions in the related exposures arising from repayments or the sale of loans. Specific provision utilisations during 2001 totalled US\$ 19.5 million. The utilisations arose on the sale of the related loans, principally the sale of Indonesian sovereign loans. While the loans were sold at less than nominal value, the proceeds exceeded the provisioned net book values thus giving rise to the release of specific provisions. A US\$ 13.3 million decrease in specific provisions resulting from exchange rate movements was offset by an equivalent decrease in the related impaired loan exposures. Specific provisions are maintained in the currencies of the related exposures. The non-specific provision at the year end represented 5.4 per cent of loans net of specific provisions.

Specific provisions are maintained for individually significant loans based on the recoverable amount of the loan. The recoverable amount is measured as the present value of the expected future cash flows discounted based on the interest rate at the inception of the facility. Non-specific provisions are determined based on historical patterns of losses for each group of similar loans and the applicable credit ratings, and reflect the current economic and business environment and other pertinent indicators.

The adoption of IAS 39 on 1st January 2001 had no impact on the Group's overall level of provisions for impairment at that date. Loans are written off only after all reasonable restructuring and collection activities have taken place and the possibility of further recovery is considered to be remote.

The gross and net book values of past due loans amounted to US\$ 549.9 million and US\$ 56.0 million respectively. The average provisioning coverage for past due loans was therefore 89.8 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, which was implemented with effect from 1st January 2001, interest on impaired loans should be recognised in income based on the interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount. However, in accordance with guidelines issued by Bank's regulator, the BMA, interest on past due loans is only to be recognised in income on a cash basis. In view of the Group's high provisioning coverage for impaired loans, the difference between the two bases of accounting is not material. An ageing analysis of past due loans is set out in Note 7 (c) to the Consolidated Financial Statements. US\$ 450.7 million, or 81.9 per cent, of gross past due loans were overdue by more than five years and are therefore historical in nature. These are all fully provided against. Only US\$ 25.4 million of past due loans at 31st December 2001 had become past due during the preceding twelve months. This represented less than 1 per cent of gross loans. The gross volume of past due loans also continued to be substantially below total provisions. Total provisions for loan losses exceeded the gross volume of past due loans by US\$ 192.1 million. This means that rather than earnings being impaired by the funding cost of the net book value of past due loans, there is a positive earnings enhancement. Past due loans at their net book value of US\$ 56.0 million represented just 1.7 per cent of net loans. Past due loans at their net book value also represented only 4.7 per cent of Shareholders' Equity.



Other Asset Categories

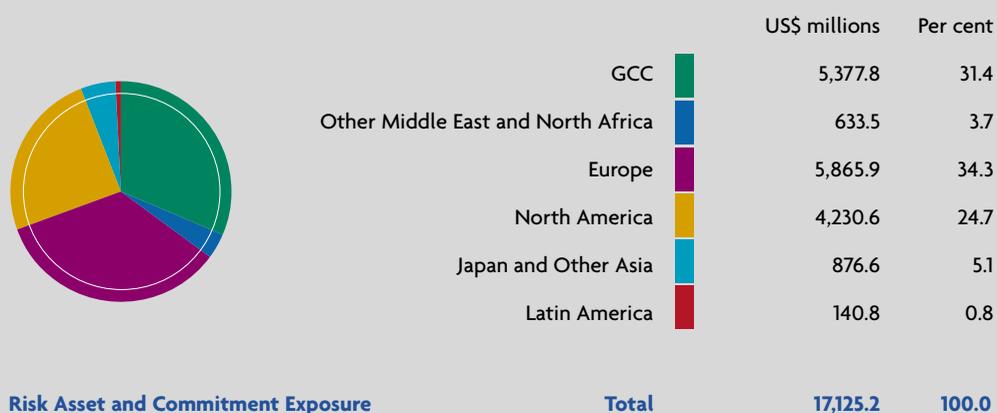
Cash and Other Liquid Assets, which amounted to US\$ 91.2 million at the 2001 year end, are analysed in Note 3 to the Consolidated Financial Statements. In addition to Cash and Balances with Banks, Other Liquid Assets included certificates of deposit held for Balance Sheet management purposes.

Placements with Banks totalled US\$ 2,693.6 million at the 2001 year end and were well diversified by geography as illustrated in Note 23 to the Consolidated Financial Statements. Placements with Banks decreased by US\$ 371.4 million during the year reflecting the Group's focus on the effective management of assets from both a capital utilisation and risk-adjusted return perspective. The significant increase in the securities portfolio has enabled the Group to reduce placements while still maintaining a high Liquid Assets Ratio. The Liquid Assets Ratio at the 2001 year end was 75.1 per cent.

Trading Securities at US\$ 1,006.7 million largely comprised listed debt securities and government bonds amounting to US\$ 637.4 million and US\$ 136.5 million respectively. Trading Securities also included US\$ 184.3 million of managed funds. The funds, which are managed by international institutions with acknowledged expertise in their field, provide diversified exposure to foreign exchange and international debt markets. The year-on-year increase in Trading Securities was principally due to the transfer in the first quarter of the year of certain debt securities from the available-for-sale category in order to more appropriately reflect the short-term nature of the securities.

Risk Asset and Commitment Exposure

Risk assets and commitment exposure at 31st December 2001 amounted to US\$ 17,125.2 million. Risk assets and commitments comprise all assets included in the balance sheet (with the exception of Fixed and Other Assets) and Credit-related Contingent Items. As alluded to earlier, an analysis of risk asset and commitment exposure by category and geography is contained in Note 23 to the Consolidated Financial Statements.



An analysis of derivatives and foreign exchange products is set out in Note 26(a) while a further analysis of Credit-related Contingent Items together with their risk-weighted equivalents is contained in Note 26(b).

FUNDING

Bank and Customer Deposits at 31st December 2001 totalled US\$ 10,949.7 million. The decrease in total deposits compared to the 2000 year end reflected a temporary decrease over the year end due to the increasingly common practice, particularly by bank counterparties, to minimise exposures over financial reporting dates. A more useful illustration of the Group's funding position during the year is provided in the average Consolidated Balance Sheet set out in Note 33 to the Consolidated Financial Statements. Total deposits averaged US\$ 11,664.3 million during 2001 compared to an average of US\$ 11,185.6 million during 2000. Customer deposits at the 2001 year end represented 43.5 per cent of total deposits compared to 42.9 per cent at the end of 2000. Customer deposits averaged US\$ 4,988.0 million during 2001 being US\$ 119.1 million higher than the average during 2000. Securities Sold under Agreements to Repurchase (Repos) increased to US\$ 1,422.4 million at 31st December 2001. Repos were used as a precautionary contingency measure to generate additional liquidity immediately following the events of 11th September.

Term Financing at 31st December 2001 totalled US\$ 980.0 million. During the second half of the year, the Bank further enhanced its funding profile through the issue of two 10 year subordinated loan facilities for US\$ 100 million and US\$ 50 million. In addition, US\$ 80.0 million of three and five year senior term financing was raised during the year, largely replacing US\$ 100.0 million of maturing term financing facilities. Further commentary on liquidity and funding is provided in the Risk Management section of the Financial Review.

RISK MANAGEMENT

The GIB Group maintains a prudent and disciplined approach to risk taking by maintaining a comprehensive set of risk management limits, policies and processes, 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.

In recognition of the importance of risk management at GIB, the Board of Directors has created from among its members a Board Risk Policy Committee to review the Bank's risk taking activities and report to the Board in this regard. The Board sets the overall risk parameters and risk tolerances within which the Bank conducts its activities, periodically reviews the Bank's risk profile and significant risk positions as well as the Bank'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 Risk Committee, chaired by the Head of Risk Management, assists the Management Committee to perform its risk related functions. The Risk Committee comprises the Bank's most senior risk professionals. It provides a forum for the review and approval of new products, risk measurement methodologies, and risk control processes. The Committee also reviews all risk policies and limits that require approval by the Management Committee.

From a control perspective, the process of risk management is facilitated through a set of independent functions which report directly to senior management. These functions include Risk Management, Credit Risk Control, Market Risk Control, Financial

Controls and Internal Audit. This multi-faceted approach aids the effective management of risk by identifying, measuring and monitoring risks from a variety of perspectives. Risks associated with off-balance sheet derivative instruments are managed as part of the overall risk management framework. Financial and risk management disclosures with respect to off-balance sheet financial instruments are set out in Note 26 to the Consolidated Financial Statements. The disclosure provides details of derivative and foreign exchange transactions at 31st December 2001 analysed by type of product, counterparty and maturity.

The major risks associated with GIB's business are credit, market, liquidity and operational risks. These risks and the related risk management processes are commented on in Note 22 to the Consolidated Financial Statements and discussed in detail in the following sections.

Credit Risk

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

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. The creditworthiness of each counterparty is assessed, and appropriate credit limits are established within delegated authority by the Credit Committee. Credit limits are also established for countries, utilising a country risk review system. Overall exposures are also evaluated to ensure a broad diversification of credit risk. Potential concentration risks by product, industry, single obligor, risk grade and geography are regularly assessed with a view to improving overall portfolio diversification. Established limits and actual levels of exposure are regularly reviewed by the Chief Credit Officer and senior management. Credit policies and procedures are designed to identify, at an early stage, exposures which require more detailed monitoring and review. A credit risk rating system, together with an associated classification system, is used in the determination of the appropriate level of provisions for credit losses.

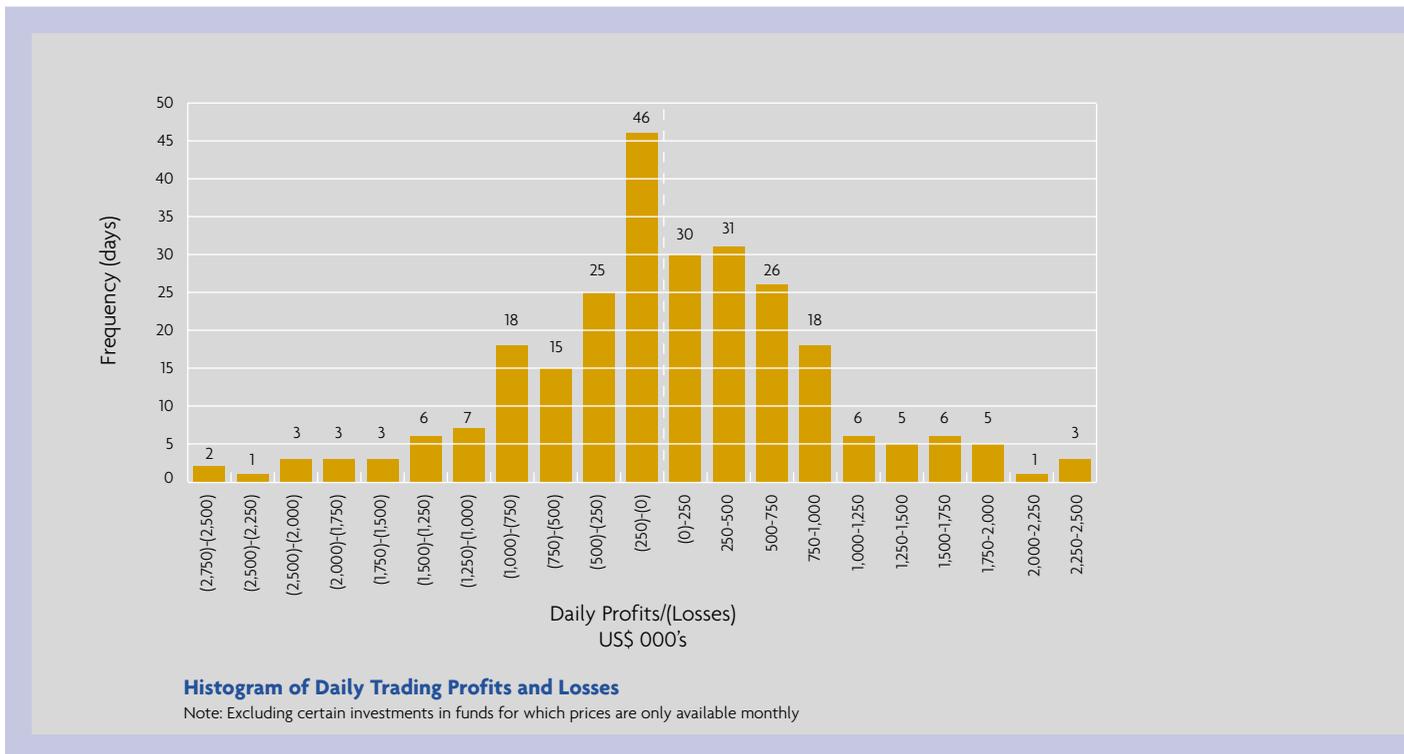
The credit risk associated with foreign exchange and derivative instruments is assessed in a manner similar to that associated with on-balance sheet activities. However, unlike on-balance sheet products, where the principal amount and interest generally represent the maximum credit exposure, the notional 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 derivatives instruments is therefore more appropriately considered to be their replacement cost at current market rates plus an add-on amount commensurate with the position's volatility and remaining life. The current gross positive market values or credit risk amounts of foreign exchange and derivative transactions are set out in Note 26 to the Consolidated Financial Statements. The total credit risk amount in respect of all such transactions outstanding at the 2001 year end amounted to US\$ 286.3 million before taking account of the risk-reducing benefits of any collateral held or legally enforceable netting agreements. The note highlights that 93.2 per cent of the total credit risk was concentrated on major OECD-based banks and was predominantly short-term in nature with 57.9 per cent, or a little over half of transactions outstanding at the end of 2001 due to mature within one year. Transactions maturing beyond one year represented either hedging transactions entered into for asset and liability management purposes or fully offset customer transactions.

Market Risk

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

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

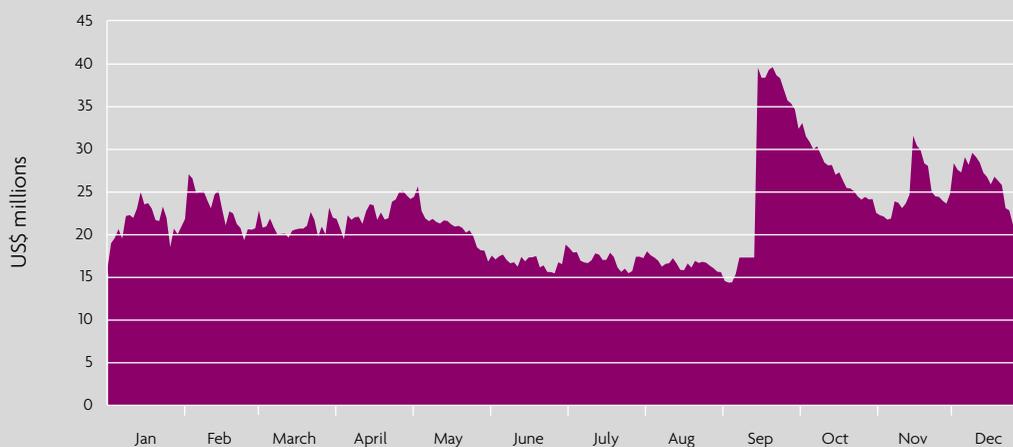
For internal risk management purposes, GIB measures losses that are anticipated to occur within a 95 per cent confidence level. This implies that there is a 5 per cent or 1 in 20 chance of a loss exceeding the VaR over the prescribed time horizon or holding period. GIB measures VaR utilising a one month assumed holding period.



The graph below sets out the total Value-at-Risk of all activities for the Group in both the trading and banking books at the close of business each day throughout the year. The figures are calculated at the 5 per cent risk level (1.65 standard deviations) and at the one-month horizon based on the DataMetrics™ data set. On this basis, VaR over the year averaged US\$ 22.1 million and varied within the range of US\$ 14.4 million to US\$ 39.6 million. At the 2001 year end VaR amounted to US\$ 21.8 million.

GIB conducts daily VaR back testing for both regulatory compliance with the Basel Committee on Banking Supervision market risk capital rules and for internal evaluation of VaR against trading revenues. During 2001, there were no occasions on which a daily trading loss exceeded the trading VaR at the close of business on the previous business day. This is within the maximum of five excesses permitted under the Basel Committee's guidelines on back testing beyond which the multiplication factor determined by the regulator must be increased.

GIB believes that the stability of revenues from market risk activities is enhanced through the measurement, control and management of risk exposures to extreme stress events. Whereas VaR captures exposures in normal market conditions, stress testing is used to determine the risk of unlikely but plausible events in abnormal markets. Portfolio stress testing is an integral market risk measurement and control tool. Stress tests are built around changes in market rates and prices that result from pre-specified economic scenarios, including both actual historical and hypothetical market events. Historical scenarios include the 1994 bond market sell-off, the 1995 Mexican Peso crisis and the 1998 Russian crisis. Stress test calculations are performed for all material trading and investment portfolios.



Consolidated Value-at-Risk (VaR) Daily Development

A major objective of asset and liability management is the maximisation of net interest income through the proactive management of the asset and liability repricing profile based on anticipated movements in interest rates. Nominal gap and VaR-based limits are utilised to control fluctuations in interest earnings resulting from changes in interest rate levels. The asset and liability repricing profile and details of the effective interest rates prevailing at the year end on the various asset and liability categories are set out in Note 25 to the Consolidated Financial Statements. Derivative financial instruments that have been used for asset and liability purposes to hedge exposure to interest rate risk are incorporated in the repricing profiles of the related hedged assets and liabilities. As illustrated in Note 25, the substantial majority of assets and liabilities reprice within one year. The volume of net interest-bearing assets repricing over one year amounted to only US\$ 996.1 million or 6.5 per cent of Total Assets. This largely represented the investment of the Group's net free capital through fixed rate securities, the modified duration of which was 2.36 at the year end.

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

2001	75.1
2000	71.0
1999	71.3

Liquid Assets Ratio (Per cent)

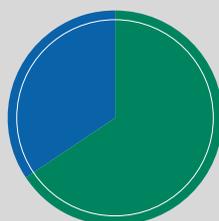
2001	3.56
2000	3.13
1999	3.02

Deposits to Loans Cover (Times)

Liquidity Risk and Funding

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

GIB's liquidity management policies are designed to ensure that it has access to adequate funds to meet its obligations, even under adverse conditions. In normal conditions the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to provide the flexibility to capitalise on opportunities for business expansion. These objectives are met through the application of a prudent mix of liquidity controls. These controls provide security of access to liquidity without undue exposure to increased costs from the liquidation of assets or the aggressive bidding for deposits. The liquidity controls ensure that over the short term the future profile of cash flows from maturing assets is adequately matched to the maturity of liabilities. Liquidity is managed and monitored on a daily basis at the parent company and subsidiary levels, enabling senior management to identify changes and to react accordingly to fluctuations in market conditions. Liquidity controls also provide for the maintenance of a stock of liquid and marketable assets and also an adequately diversified deposit base in terms of both maturities and range of counterparties. The funding base is enhanced through term financing of US\$ 980 million. Deposits from Customers provide a further stable source of funding. Contingency plans also exist and could be implemented on a timely basis to minimise the risk associated with dramatic changes in market conditions.



	US\$ millions	Per cent
GCC Countries	7,180.6	65.6
Other Countries	3,769.1	34.4

Deposits – Geographic Profile

Total **10,949.7** **100.0**

The asset and liability maturity profile by individual asset and liability category based on contractual repayment arrangements is set out in Note 24 to the Consolidated Financial Statements. At the 2001 year end 41.5 per cent, or a little under half, of Total Assets were due to mature within one year. A significant portion of assets with longer-term maturities comprised readily realisable securities. With regard to deposits, retention records demonstrate that there is considerable divergence between their contractual and effective maturities. By way of example, average deposits in 2001 from those with deposits over US\$ 10 million at the 2001 year end amounted to US\$ 10,244 million. These deposits of a core nature together with Shareholders' Equity and Term Financing were two and a half times the least liquid asset category, Loans and Advances. The loan portfolio is also comfortably exceeded by the more stable deposits from the GCC region. Deposits from GCC country governments and central banks and other institutions headquartered in the GCC states at 31st December 2001 amounted to US\$ 7,180.6 million. GCC deposits to total loans cover was therefore 2.2 times. Total deposits and term financing coverage to loans was 3.6 times while the liquid assets ratio, which expresses bank balances, money market instruments, placements with banks and securities as a percentage of total assets, was a very high 75.1 per cent.

Operational Risk

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

While operational risk cannot be eliminated entirely, the Group endeavours to minimise it by ensuring that the appropriate infrastructure, controls, systems and trained and competent people are in place throughout the organisation. The various procedures used to manage operational risk include segregation of duties, effective training, performance management, communication of risk tolerance, risk monitoring and financial management and reporting. The Group also possesses back-up capabilities to support ongoing business operations in the event of adverse conditions.

A database of operational risks has been compiled using a risk assessment process and the controls required to mitigate these risks are constantly under review. Business units monitor risk indicators on a regular basis and a reporting methodology to senior management is currently being developed.

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

FINANCIAL STATEMENTS

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated financial statements of Gulf International Bank B.S.C. (the Bank) and its subsidiaries (the Group) as at, and for the year ended, 31st December 2001 set out on pages 35 to 69.

Respective responsibilities of directors and auditors

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

Basis of opinion

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31st December 2001, the results of its operations, its cash flows and its changes in shareholders' equity for the year then ended, in accordance with International Accounting Standards as adopted by the International Accounting Standards Board. Additionally, in our opinion the Bank has complied with the terms of its banking licence, the provisions of the Bahrain Monetary Agency Law 1973 (as amended) and the provisions of the Bahrain Commercial Companies Law 1975 (as amended).

Other regulatory matters

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

To the best of our knowledge and belief, no violations of the Agreement of Establishment and Articles of Association have occurred during the year that might have had a material adverse effect on the business of Gulf International Bank B.S.C. or on its financial position. Satisfactory explanations and information were provided to us by management in response to all our requests.



KPMG

Public Accountants

Manama, Bahrain

3rd March 2002

CONSOLIDATED BALANCE SHEET

	Note	At 31.12.01 US\$ millions	At 31.12.00 US\$ millions
Assets			
Cash and other liquid assets	3	91.2	137.3
Placements with banks	4	2,693.6	3,065.0
Trading securities	5	1,006.7	465.8
Available-for-sale securities	6	7,641.7	7,062.1
Loans and advances	7	3,309.4	3,923.1
Fixed assets	8	22.5	27.2
Other assets	9	466.9	439.0
Total assets		15,232.0	15,119.5
Liabilities			
Deposits from banks	11	6,191.0	6,514.5
Deposits from customers	11	4,758.7	4,900.0
Securities sold under agreements to repurchase		1,422.4	1,164.6
Securities sold but not yet purchased		122.6	44.5
Other liabilities	12	563.6	440.1
Senior term financing	13	830.0	850.0
Subordinated term loans	14	150.0	-
Total liabilities		14,038.3	13,913.7
Shareholders' equity			
Share capital	15	1,000.0	1,000.0
Share premium		7.6	7.6
Reserves	16	134.3	93.7
Retained earnings		51.8	104.5
Shareholders' equity		1,193.7	1,205.8
Total liabilities & shareholders' equity		15,232.0	15,119.5

The consolidated financial statements were approved by the Board of Directors on 3rd March 2002 and signed on their behalf by:



Ebrahim Bin Khalifa Al Khalifa
Chairman



Dr. Khaled M. Al-Fayez
Chief Executive Officer

The notes on pages 39 to 69 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

		Year ended 31.12.01	Year ended 31.12.00
	Note	US\$ millions	US\$ millions
Interest revenue			
Interest on securities		434.0	424.3
Interest and fees on loans		224.4	319.2
Interest on placements and other liquid assets		127.7	230.6
		786.1	974.1
Interest expense			
		590.7	804.4
Net interest income			
		195.4	169.7
Provisions for securities	6	69.9	13.8
Provisions for loans and advances	7	(17.8)	22.4
Net interest income after provisions			
		143.3	133.5
Other income			
	18	68.3	127.3
Net interest and other income			
		211.6	260.8
Operating expenses			
Staff		66.5	83.5
Premises		9.7	10.8
Restructuring costs	19	8.4	-
Other		33.5	38.0
		118.1	132.3
Net income before tax			
		93.5	128.5
Taxation (credit)/charge on overseas activities	20	(7.0)	10.4
Net income after tax			
		100.5	118.1
Earnings per share	31	US\$ 0.10	US\$ 0.12

The notes on pages 39 to 69 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31.12.01 US\$ millions	Year ended 31.12.00 US\$ millions
Operating activities		
Net income	100.5	118.1
Adjustments to reconcile net income to net cash (outflow)/inflow from operating activities:		
Provisions for securities	69.9	13.8
Provisions for loans and advances	(17.8)	22.4
Profit on available-for-sale securities	(9.4)	(27.6)
Amortisation of available-for-sale securities	8.3	6.9
Depreciation of fixed assets	9.7	13.0
Decrease/(increase) in accrued interest receivable	73.3	(81.4)
(Decrease)/increase in accrued interest payable	(58.1)	57.3
Decrease/(increase) in other net assets	22.5	(61.3)
Net (increase)/decrease in trading securities	(540.9)	70.0
Net cash (outflow)/inflow from operating activities	(342.0)	131.2
Investing activities		
Net decrease in placements with banks	371.4	1,629.6
Net decrease in loans and advances	631.5	92.5
Purchase of available-for-sale securities	(3,135.7)	(4,039.3)
Sale and maturity of available-for-sale securities	2,482.6	2,435.5
Purchase of fixed assets	(5.0)	(10.7)
Net cash inflow from investing activities	344.8	107.6
Financing activities		
Net (decrease)/increase in deposits from banks	(323.5)	555.5
Net decrease in deposits from customers	(141.3)	(603.4)
Net increase/(decrease) in securities sold under agreements to repurchase	257.8	(543.1)
Net increase/(decrease) in securities sold but not yet purchased	78.1	(62.6)
(Decrease)/increase in senior term financing	(20.0)	100.0
Increase in subordinated term loans	150.0	-
Dividends paid	(50.0)	(50.0)
Net cash outflow from financing activities	(48.9)	(603.6)
Decrease in cash and cash equivalents	(46.1)	(364.8)
Cash and cash equivalents at 1st January	137.3	502.1
Cash and cash equivalents at 31st December	91.2	137.3

Movements in trading securities and available-for-sale securities for the year ended 31st December 2001 are stated net of inter portfolio transfers.

The notes on pages 39 to 69 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January 2000	1,000.0	7.6	76.3	53.8	1,137.7
Dividend for 1999	-	-	-	(50.0)	(50.0)
Net income for the year	-	-	-	118.1	118.1
Transfers from retained earnings	-	-	17.4	(17.4)	-
At 31st December 2000 as previously reported	1,000.0	7.6	93.7	104.5	1,205.8
Effect of adopting IAS 39:-					
- Available-for-sale securities remeasured to fair value	-	-	-	(45.2)	(45.2)
- Derivative transactions not qualifying as hedges remeasured to fair value	-	-	-	(19.4)	(19.4)
- Derivatives qualifying as fair value hedges remeasured to fair value	-	-	-	(21.4)	(21.4)
- Hedged loans, placements and deposits remeasured to fair value	-	-	-	(3.4)	(3.4)
- Derivatives qualifying as cash flow hedges remeasured to fair value	-	-	0.7	-	0.7
Opening balances restated	1,000.0	7.6	94.4	15.1	1,117.1
Arising in the year:					
- Available-for-sale securities:- net fair value gains	-	-	6.2	-	6.2
- Cash flow hedges: net fair value gains	-	-	6.9	-	6.9
Transfers in the year:-					
- Transfer to net income on disposal/impairment	-	-	-	13.0	13.0
Net gains not recognised in net income	-	-	13.1	13.0	26.1
Dividend for 2000	-	-	-	(50.0)	(50.0)
Net income for the year	-	-	-	100.5	100.5
Transfers from retained earnings	-	-	26.8	(26.8)	-
At 31st December 2001	1,000.0	7.6	134.3	51.8	1,193.7

The notes on pages 39 to 69 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2001

1 Incorporation and registration

The parent company of the Group (the Group), Gulf International Bank B.S.C. (the Bank), is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain by Amiri Decree Law No. 30 dated 24th November 1975 and is registered as an offshore banking unit with the Bahrain Monetary Agency. The registered office of the Bank is located at Al-Dowali Building, 3 Palace Avenue, Manama, 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 617.

2 Accounting policies

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

2.1 Basis of presentation

The consolidated financial statements have been prepared in accordance with International Accounting Standards and Interpretations of the Standing Interpretations Committee. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of trading securities, available-for-sale securities and derivative financial instruments as explained in more detail in the following accounting policies. Recognised assets and liabilities that are hedged by derivative financial instruments are also stated at fair value in respect of the risk that is being hedged. The accounting policies have been consistently applied by the Bank and its subsidiaries and are consistent with those of the previous year with the exception of changes in certain accounting policies resulting from the adoption of International Accounting Standard No. 39 as described in more detail below.

On 1st January 2001 the Group adopted International Accounting Standard (IAS) No. 39 – Financial Instruments: Recognition and Measurement. The adoption of IAS 39 resulted in changes in the accounting policies in respect of the recognition and measurement of derivative financial instruments, securities, loans and advances, and provisions for impairment. IAS 39 was applied prospectively in accordance with the requirements of the standard. Comparative information has therefore not been restated. The financial effects of adopting IAS 39 are reported in the consolidated statement of changes in shareholders' equity. The changes in the accounting policies of the Group resulting from the adoption of IAS 39 are described in more detail in the relevant accounting policies and the related notes to the consolidated financial statements.

2.2 Consolidation principles

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

2.3 Trade and settlement date accounting

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2001

2 Accounting policies continued

2.4 Foreign currencies

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

2.5 Offsetting

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

2.6 Derivative financial instruments

Derivative financial instruments are contracts the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange and equity markets.

On the adoption of IAS 39, the Group recognised for the first time the fair value of all derivative financial instruments in the consolidated balance sheet as either assets (positive fair values) or liabilities (negative fair values). Prior to the adoption of IAS 39, only the fair values of derivative financial instruments entered into for trading purposes were recognised in the consolidated balance sheet. Derivative financial instruments entered into for hedging purposes were accounted for at cost and related gains and losses deferred and recognised as income or expense on an amortisation basis over the life of the hedged asset or liability. Following the adoption of IAS 39, all derivative financial instruments are initially recognised in the consolidated balance sheet at cost, including transaction costs, and subsequently remeasured to fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate. In the consolidated balance sheet, derivative financial instruments with positive fair values (unrealised gains) are included in other assets and derivative financial instruments with negative fair values (unrealised losses) are included in other liabilities.

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

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

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

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

Changes in the fair values of derivative financial instruments that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk, are included in other income in the consolidated statement of income together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk that is being hedged. Unrealised gains and losses on hedged assets or liabilities which are attributable to the hedged risk are adjusted against the carrying amounts of the hedged assets or liabilities. 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 shareholders' equity. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are recognised in other income in the consolidated statement of income.

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

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

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

2.7 Interest income and expense

Interest income and interest expense are recognised for all interest-bearing financial instruments on an accruals basis using the effective yield method based on the original settlement amount. Loan origination fees are deferred and recognised as an adjustment to the effective yield on the loan. Interest income is suspended when interest or principal on a credit facility is overdue by more than 90 days whereupon all unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities are restored to accrual status only after all delinquent interest and principal payments have been brought current and future payments are reasonably assured.

2.8 Securities financing arrangements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralised lending and borrowing transactions and are recorded in the consolidated balance sheet at the amounts the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are included in interest income and interest expense respectively. Securities purchased under agreements to resell are included in cash and other liquid assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2001

2 Accounting policies continued

2.9 Securities

Prior to the adoption of IAS 39, debt and equity securities that were intended to be held for the long term were categorised as investment securities and stated at amortised cost less provision for impairment. On the adoption of IAS 39, all investment securities were reclassified as available-for-sale and remeasured to fair value. The unrealised gains and losses arising on the remeasurement of available-for-sale securities to fair value at 1st January 2001 were accounted for as an adjustment to the opening balance of retained earnings. Available-for-sale securities are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity, changes in interest rates or concerns with respect to credit deterioration.

Trading securities are securities which are either acquired for generating a profit from short-term fluctuations in price or are included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost, including transaction costs, and subsequently remeasured to fair value based on quoted market prices. Realised and unrealised gains and losses are included in other income. Interest earned on trading securities and interest incurred on securities sold but not yet purchased are included in interest income and interest expense respectively.

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

Dividends received on trading and available-for-sale securities are included in other income.

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

2.10 Loans and advances

Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at the drawdown date are categorised as loans originated by the Group. Originated loans are stated at amortised cost less provision for impairment.

All purchased loans, including sub-participations acquired subsequent to the provision of the original loan, are intended to be held to maturity and are accordingly categorised as held-to-maturity assets and stated at amortised cost less provision for impairment.

Prior to the adoption of IAS 39, all loans and advances were stated at amortised cost less provision for impairment.

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

2.11 Provisions for impairment

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

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

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

The adoption of IAS 39 had no impact on the Group's overall level of provisions for impairment at 1st January 2001, and does not affect the Group's policies in respect of income recognition, write offs or recoveries.

2.12 Other provisions

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

2.13 Fixed assets

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

Generally, costs associated with the maintenance of existing computer software are recognised as an expense when incurred. However, expenditure that enhances and extends the benefits of computer software programs beyond their original specifications and lives is recognised as a capital improvement and capitalised as part of the original cost of the software.

2.14 Post retirement benefits

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

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

The pension contributions 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. The contributions are determined by a qualified actuary on the basis of a full valuation of the plan conducted 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2001

2 Accounting policies continued

2.15 Deferred income taxes

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

2.16 Cash and cash equivalents

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

2.17 Segment reporting

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

2.18 Fiduciary activities

The Group administers and manages assets owned by clients which are not reflected in the consolidated financial statements. Asset management fees are earned for providing investment management services and for managing mutual fund products. Asset administration fees are earned for providing custodial services. Fees are recognised as the services are provided and are included in other income.

2.19 Comparatives

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

3 Cash and other liquid assets

	31.12.01	31.12.00
	US\$ millions	US\$ millions
Cash and balances with banks	42.5	67.8
Certificates of deposit	36.4	68.0
Treasury bills	1.2	1.5
Securities purchased under agreements to resell	11.1	-
	91.2	137.3

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

4 Placements with banks

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

Placements with banks at 31st December 2001 included placements with non-bank financial institutions amounting to US\$ 173.7 million (2000: US\$ 146.9 million).

5 Trading securities

	31.12.01	31.12.00
	US\$ millions	US\$ millions
Government bonds	136.5	69.9
Listed debt securities	637.4	236.8
Unlisted debt securities	23.7	11.2
Managed funds	184.3	108.7
Equities	24.8	39.2
	1,006.7	465.8

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

6 Available-for-sale securities

Prior to the adoption of IAS 39 on 1st January 2001, all debt and equity securities that were intended to be held for the long term were categorised as investment securities and stated at amortised cost less provision for impairment. On the adoption of IAS 39, all investment securities were reclassified as available-for-sale and remeasured to fair value. The adjustment to fair value arising on the adoption of IAS 39 is reported in the consolidated statement of changes in shareholders' equity.

In March 2001, US\$ 615 million of debt securities were transferred from the available-for-sale category to the held-for-trading category at fair value on the date of transfer. No material gain or loss arose in the consolidated statement of income as a result of the transfer.

Available-for-sale securities at 31st December 2001 included US\$ 94.3 million of unquoted and illiquid equity investments for which fair values cannot be reliably measured. These investments are stated at cost less provision for impairment. They principally comprise investments in special purpose vehicles, 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 recoverable amounts of the investments are considered to be not materially dissimilar to their carrying amounts.

a) Classification of available-for-sale securities

	31.12.01	31.12.00
	US\$ millions	US\$ millions
AAA/Aaa rated debt securities	1,088.7	1,447.2
Debt securities of other investment grade issuers	5,103.4	4,221.9
Other debt securities	888.2	962.5
Equities and equity funds	561.4	430.5
	7,641.7	7,062.1

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

Debt securities of other investment grade issuers at 31st December 2001 included GCC country government securities of US\$ 1,017.2 million (2000: US\$ 588.4 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2001

6 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:

	2001	2000
	US\$ millions	US\$ millions
At 1st January	24.2	49.6
Amounts utilised	(13.7)	(39.2)
Charge for the year	69.9	13.8
At 31st December	80.4	24.2

7 Loans and advances

	31.12.01	31.12.00
	US\$ millions	US\$ millions
Loans originated by the Group	3,823.6	4,488.1
Loans purchased by the Group		
- held to maturity	227.8	227.9
Gross loans and advances	4,051.4	4,716.0
Provisions for impairment	(742.0)	(792.9)
Net loans and advances	3,309.4	3,923.1

a) Concentrations of loans and advances

Net loans and advances at 31st December 2001 included exposure to GCC country governments of US\$ 352.2 million (2000: US\$ 520.6 million) and OECD country central government and agency risk of US\$ 165.7 million (2000: US\$ 205.4 million).

There were no significant concentrations by industrial sector at 31st December 2001 and at 31st December 2000.

b) Provisions for impairment

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

	2001			2000		
	Individually significant loans	Other loans	Total	Individually significant loans	Other loans	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January	602.2	190.7	792.9	643.7	194.8	838.5
Exchange rate and other movements	(13.3)	(0.3)	(13.6)	(14.7)	-	(14.7)
Amounts utilised	(19.5)	-	(19.5)	(53.3)	-	(53.3)
(Release)/charge for the year	(17.8)	-	(17.8)	26.5	(4.1)	22.4
At 31st December	551.6	190.4	742.0	602.2	190.7	792.9

At 31st December 2001 there was no accrued but uncollected interest on impaired loans included in interest income (2000: nil).

c) Past due loans

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

	31.12.01		31.12.00	
	Gross	Net book value	Gross	Net book value
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Sovereign	405.7	0.6	417.6	0.7
Corporate	135.0	52.2	132.6	54.5
Financial Institutions	9.2	3.2	10.8	2.4
	549.9	56.0	561.0	57.6

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

	31.12.01	31.12.00
	US\$ millions	US\$ millions
Within 6 months	25.4	60.0
7 months to 1 year	-	6.1
2 to 5 years	73.8	30.0
Over 5 years	450.7	464.9
	549.9	561.0

At 31st December 2001 uncollected interest-in-suspense on past due loans amounted to US\$ 464.2 million (2000: US\$ 432.9 million).

8 Fixed assets

	Freehold land	Buildings	Premises and equipment	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 31st December 2001				
Cost	8.9	26.9	53.0	88.8
Accumulated depreciation	-	26.2	40.1	66.3
Net book value	8.9	0.7	12.9	22.5
At 31st December 2000				
Net book value	8.9	0.4	17.9	27.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2001

9 Other assets

	31.12.01	31.12.00
	US\$ millions	US\$ millions
Accrued interest, fees and commissions	216.2	289.5
Derivative financial instruments	114.9	74.3
Outstanding security settlements	68.9	-
Prepaid pension cost	19.5	19.5
Other prepayments	4.3	3.2
Other, including accounts receivable	43.1	52.5
	466.9	439.0

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 26 (a).

10 Post-retirement benefits

The Group contributes to defined benefit and defined contribution pension plans which cover substantially all its employees.

The Bank maintains defined contribution pension plans for the majority of its employees. Contributions are based on a percentage of salary. The amounts to be paid as retirement benefits are determined by reference to the amounts of the contributions and investment earnings thereon. The total cost of contributions to defined contribution pension plans for the year ended 31st December 2001 amounted to US\$ 3.4 million (2000: US\$ 3.5 million).

The Bank's principal subsidiary, Gulf International Bank (UK) Limited (GIBUK), maintains a defined benefit pension plan for substantially all its employees. The assets of the plan are held independently of the subsidiary's assets in a separate trustee administered fund. The pension contributions are charged to the consolidated statement of income so as to spread the regular cost of the pensions over the service lives of the employees. The contributions are determined on the basis of a full valuation of the plan conducted by an independent, qualified actuary every three years using the projected unit credit method. The latest actuarial valuation was carried out at 1st January 2001.

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

	31.12.01	31.12.00
	US\$ millions	US\$ millions
Fair value of plan assets	64.6	76.0
Present value of fund obligations	69.7	61.4
	(5.1)	14.6
Unrecognised actuarial loss	24.6	4.9
Net asset in the consolidated balance sheet	19.5	19.5

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

	2001 US\$ millions	2000 US\$ millions
At 1st January	19.5	21.3
Net expense included in staff expenses	(1.5)	(1.8)
Contributions	1.5	-
At 31st December	19.5	19.5

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

	2001 US\$ millions	2000 US\$ millions
Current service cost	3.7	4.5
Interest cost	3.1	3.3
Expected return on plan assets	(5.3)	(6.0)
Total included in staff expenses	1.5	1.8

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

	2001	2000
Discount rate	5.0%	5.5%
Expected return on plan assets	7.0%	7.0%
Future salary increases	4.5%	4.5%

11 Deposits

The geographical composition of total deposits was as follows:

	31.12.01 US\$ millions	31.12.00 US\$ millions
GCC countries	7,180.6	7,043.5
Other countries	3,769.1	4,371.0
	10,949.7	11,414.5

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

Deposits from customers include deposits from central banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2001

12 Other liabilities

	31.12.01	31.12.00
	US\$ millions	US\$ millions
Derivative financial instruments	224.2	74.2
Accrued interest	184.4	242.5
Outstanding security settlements	85.1	7.1
Deferred items	17.5	43.6
Restructuring provision	-	5.8
Other, including accounts payable and accrued expenses	52.4	66.9
	563.6	440.1

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 26 (a).

13 Senior term financing

	31.12.01	31.12.00
	US\$ millions	US\$ millions
US\$ Floating rate loan due between 2001 and 2003	150.0	250.0
US\$ Floating rate note due in 2002	200.0	200.0
US\$ Floating rate loan due in 2004	50.0	-
US\$ Floating rate loan due in 2005	400.0	400.0
US\$ Floating rate loan due in 2006	30.0	-
	830.0	850.0

14 Subordinated term loans

	31.12.01	31.12.00
	US\$ millions	US\$ millions
US\$ Floating rate loan due 2011	100.0	-
US\$ Floating rate loan due 2011	50.0	-
	150.0	-

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

15 Share capital

The authorised share capital at 31st December 2001 comprised 3.0 billion shares of US\$ 1 each (2000: 3.0 billion shares of US\$ 1 each). The issued share capital at 31st December 2001 comprised 1.0 billion shares of US\$ 1 each (2000: 1.0 billion shares of US\$ 1 each). All issued shares are fully paid.

16 Reserves

	Compulsory reserve	Voluntary reserve	Cash flow hedge reserve	Available-for- sale securities revaluation reserve	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January 2000	69.4	6.9	-	-	76.3
Transfers from retained earnings	8.7	8.7	-	-	17.4
At 31st December 2000 as previously reported	78.1	15.6	-	-	93.7
Effect of adopting IAS 39:-					
- Cash flow hedges remeasured to fair value	-	-	0.7	-	0.7
Opening balances restated	78.1	15.6	0.7	-	94.4
Arising in the period:-					
- Available-for-sale securities:					
net fair value gains	-	-	-	6.2	6.2
- Cash flow hedges:					
net fair value gains	-	-	6.9	-	6.9
Net gains not recognised in net income	-	-	6.9	6.2	13.1
Transfers from retained earnings	13.4	13.4	-	-	26.8
At 31st December 2001	91.5	29.0	7.6	6.2	134.3

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

17 Dividends

Dividends are not accounted for until they have been ratified at the general assembly meeting. The dividend ratified in respect of 2001 will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31st December 2002.

18 Other income

	2001 US\$ millions	2000 US\$ millions
Dividend income	40.4	28.5
Investment banking and management fees	11.7	13.9
Profit on available-for-sale securities	9.4	27.6
Commissions on letters of credit and guarantee	7.2	6.6
Profit on foreign exchange	2.0	7.5
Loan recoveries	1.0	-
Sundry income	0.6	1.3
(Loss)/profit on trading securities	(4.0)	38.9
Profit on partial sale of associated company	-	3.0
	68.3	127.3

Dividend income comprised dividends of US\$ 2.1 million and US\$ 38.3 million received from equities and equity funds in the trading and available-for-sale security portfolios respectively (2000: US\$ 2.3 million and US\$ 26.2 million respectively). The funding cost in respect of the equities and equity funds is included in interest expense in the consolidated statement of income.

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19 Restructuring costs

Net income for the year ended 31st December 2001 included a pre-tax charge of US\$ 8.4 million in connection with strategic restructuring initiatives involving the reorganisation and streamlining of support functions and the realignment of certain business activities. The charge included costs associated with staff reductions and the write off of certain fixed assets. All restructuring costs were incurred during the year.

20 Deferred income taxes

A deferred tax asset of US\$ 7.1 million associated with an IAS 39-related consolidation adjustment in relation to a subsidiary company has not been recognised in the consolidated financial statements due to the uncertainty of the recovery of the tax losses against future taxable profits.

21 Segmental information

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

a) Business segments

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

- Corporate and institutional banking – the provision of wholesale commercial financing and other credit facilities for corporate and institutional customers.
- Treasury and financial markets – the provision of a broad range of treasury and capital market products and services to corporate and financial institution clients, money market, proprietary trading and investment activities and the management of the Group's balance sheet, including funding.
- Investment management and banking – the provision of investment management and financial advisory services, including asset management and services relating to structured financing, privatisations, IPO's and mergers and acquisitions.

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

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

The business segment analysis is as follows:

	Corporate and institutional banking US\$ millions	Treasury and financial markets US\$ millions	Investment management and banking US\$ millions	Corporate and other US\$ millions	Total US\$ millions
2001					
Net interest and other income	90.9	35.7	6.5	78.5	211.6
Segment result	79.3	16.7	(1.3)	78.5	173.2
Unallocated overhead					(71.3)
Restructuring costs					(8.4)
Taxation credit on overseas activities					7.0
Net income after tax					100.5
Segment assets	4,565.9	10,227.1	20.2	418.8	15,232.0
Segment liabilities	-	12,973.4	-	1,064.9	14,038.3
Shareholders' equity					1,193.7
Total liabilities and shareholders' equity					15,232.0
2000					
Net interest and other income	60.1	111.4	10.0	79.3	260.8
Segment result	46.1	85.7	0.6	79.3	211.7
Unallocated overhead					(83.2)
Taxation charge on overseas activities					(10.4)
Net income after tax					118.1
Segment assets	5,228.6	9,478.0	3.1	409.8	15,119.5
Segment liabilities	-	12,967.5	-	946.2	13,913.7
Shareholders' equity					1,205.8
Total liabilities and shareholders' equity					15,119.5

b) Geographical segments

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

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

	2001 US\$ millions	2000 US\$ millions
GCC countries	188.0	129.6
Other countries	23.6	131.2
	211.6	260.8

The geographical analyses of deposits and risk assets are set out in Notes 11 and 23 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22 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. All significant risk management policies are approved by the Board of Directors. A Group Risk Committee oversees the management and control of all the risks involved in the Group's businesses. 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 helps to further strengthen the risk management environment.

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

Credit risk

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

The geographical distribution of risk assets is set out in Note 23. An analysis of the credit risk in respect of foreign exchange and derivative financial instruments is set out in Note 26 (a) while the notional and risk-weighted exposures for credit-related financial instruments are detailed in Note 26 (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 and equity markets. The Group manages and controls the market risk within its trading portfolios through limit structures of both a VaR and non-VaR nature. Non-VaR based constraints relate, inter alia, to positions, volumes, concentrations, allowable losses and maturities. VaR is a risk measurement concept which uses statistical models to estimate, within a given level of confidence, the maximum potential negative change in the market value of a portfolio over a specified time horizon resulting from an adverse movement in rates and prices. The Group supplements daily VaR calculations with portfolio stress testing which measures the impact of simulated abnormal changes in market rates and prices on the market values of the portfolios. It is recognised that VaR is not a measure of the absolute limit of market risk and that losses in excess of the VaR amounts will, on occasion, arise. The composition of the debt and equity trading securities is set out in Note 5. An analysis of derivative financial instruments, including the VaR of foreign exchange and derivative trading contracts, is set out in Note 26 (a).

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

	31.12.01	2001 Average	31.12.00	2000 Average
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Interest rate risk	6.8	5.0	3.5	4.2
Foreign exchange risk	1.3	1.4	1.1	1.7
Equity risk	6.7	6.8	8.5	4.3

- Non-trading market risk: Structural interest rate risk arises in the Group's core balance sheet as a result of mismatches in the repricing of interest rate sensitive financial assets and liabilities. The associated interest rate risk is managed within VaR limits and through the use of models to evaluate the sensitivity of earnings to movements in interest rates. The repricing profile and related interest rate sensitivity of the Group's financial assets and liabilities is set out in Note 25. The Group does not maintain material non-trading foreign currency open positions. In general, the Group's policy is to match assets and liabilities in the same currency or to mitigate currency risk through the use of currency swaps. Details of significant foreign currency net open positions are set out in Note 26 (a).

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

Liquidity risk

Liquidity management policies are designed to ensure that funds are available at all times to meet the funding requirements of the Group, even in adverse conditions. In normal conditions the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to facilitate business expansion. These objectives are met through the application of prudent liquidity controls. These controls provide security of access to funds without undue exposure to increased costs from the liquidation of assets or the aggressive bidding for deposits. The Group's liquidity controls ensure that, over the short term, the future profile of cash flows from maturing assets is adequately matched to the maturity of liabilities. Liquidity controls also provide for the maintenance of a stock of liquid and readily realisable assets and a diversified deposit base in terms of both maturities and range of depositors.

An analysis of available-for-sale securities by rating classification is set out in Note 6 (a). The maturity profile of assets and liabilities is set out in Note 24.

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22 Risk management continued

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 Group's 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.

23 Geographical distribution of risk assets

	31.12.01				31.12.00	
	Placements & other liquid assets	Securities	Loans and advances	Credit-related contingent items	Total	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
GCC	873.0	1,056.4	2,264.7	1,183.7	5,377.8	4,859.6
Other Middle East & North Africa	141.3	139.9	223.0	129.3	633.5	622.3
Europe	1,394.1	3,581.8	486.2	403.8	5,865.9	6,124.1
North America	80.0	3,312.0	222.4	616.2	4,230.6	4,160.7
Japan & other Asia	296.4	417.6	113.1	49.5	876.6	1,342.6
Latin America	-	140.7	-	0.1	140.8	111.4
	2,784.8	8,648.4	3,309.4	2,382.6	17,125.2	17,220.7

An analysis of derivative and foreign exchange instruments is set out in Note 26 (a).

24 Maturities of assets and liabilities

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

	Within 3 months US\$ millions	4 months to 1 year US\$ millions	Years 2 and 3 US\$ millions	Years 4 and 5 US\$ millions	Over 5 years and other US\$ millions	Total US\$ millions
At 31st December 2001						
Cash and other liquid assets	88.2	3.0	-	-	-	91.2
Placements	2,486.4	207.2	-	-	-	2,693.6
Securities	1,220.3	279.4	1,506.9	1,188.1	4,453.7	8,648.4
Loans and advances	948.2	654.1	830.0	391.4	485.7	3,309.4
Fixed & other assets	359.2	79.5	-	-	50.7	489.4
Total assets	5,102.3	1,223.2	2,336.9	1,579.5	4,990.1	15,232.0
Deposits	8,988.1	1,808.9	152.7	-	-	10,949.7
Securities sold under agreements to repurchase	1,222.4	200.0	-	-	-	1,422.4
Securities sold but not yet purchased	122.6	-	-	-	-	122.6
Other liabilities	481.5	60.3	-	-	21.8	563.6
Term financing	-	300.0	100.0	430.0	150.0	980.0
Shareholders' equity	-	-	-	-	1,193.7	1,193.7
Liabilities & shareholders' equity	10,814.6	2,369.2	252.7	430.0	1,365.5	15,232.0
At 31st December 2000						
Total assets	4,811.8	1,822.2	2,082.7	1,792.9	4,609.9	15,119.5
Liabilities & shareholders' equity	11,327.6	1,614.7	486.5	400.0	1,290.7	15,119.5

The asset and liability maturities are based on contractual repayment arrangements and as such do not take account of the effective maturities of deposits as indicated by the Group's deposit retention records. Counterparties each with deposits over US\$ 10 million at 31st December 2001 had average deposits throughout 2001 amounting to US\$ 10,244 million (2000: US\$ 8,511 million). Formal liquidity controls are nevertheless based on contractual asset and liability maturities.

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25 Interest rate risk

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

	Within 3 months US\$ millions	Months 4 to 6 US\$ millions	Months 7 to 12 US\$ millions	Over 1 year US\$ millions	Non-interest bearing items US\$ millions	Total US\$ millions	Effective interest rates %
At 31st December 2001							
Cash and other liquid assets	55.7	3.0	-	-	32.5	91.2	2.04
Placements	1,961.4	234.1	198.1	300.0	-	2,693.6	3.99
Trading securities	797.6	-	-	-	209.1	1,006.7	3.73
Available-for-sale securities:-							
- Fixed rate	57.2	32.6	27.1	686.5	-	803.4	6.49
- Floating rate	5,538.8	700.8	37.3	-	-	6,276.9	4.16
- Equities & equity funds	-	-	-	-	561.4	561.4	-
Loans and advances	2,313.3	1,071.8	105.1	9.6	(190.4)	3,309.4	3.65
Fixed & other assets	-	-	-	-	489.4	489.4	-
Total assets	10,724.0	2,042.3	367.6	996.1	1,102.0	15,232.0	
Deposits	9,604.7	880.0	465.0	-	-	10,949.7	2.82
Securities sold under agreements to repurchase	1,222.4	200.0	-	-	-	1,422.4	2.63
Securities sold but not yet purchased	122.6	-	-	-	-	122.6	4.62
Other liabilities	-	-	-	-	563.6	563.6	-
Term financing	705.0	275.0	-	-	-	980.0	2.96
Shareholders' equity	-	-	-	-	1,193.7	1,193.7	-
Liabilities & shareholders' equity	11,654.7	1,355.0	465.0	-	1,757.3	15,232.0	
Interest rate sensitivity gap	(930.7)	687.3	(97.4)	996.1	(655.3)	-	
Cumulative interest rate sensitivity gap	(930.7)	(243.4)	(340.8)	655.3	-	-	
At 31st December 2000							
Cumulative interest rate sensitivity gap	(1,470.4)	51.8	216.1	792.0	-	-	

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 homogeneous impaired loans provision is deducted from non-interest bearing assets.

The substantial majority of assets and liabilities reprice within one year. Accordingly there is a limited exposure to interest rate risk. The investment of the Group's net free capital through the use of fixed receive interest rate swaps and fixed rate securities represents the principal interest rate risk beyond one year. At 31st December 2001 the modified duration of these interest rate swaps and fixed rate securities was 2.36 (2000: 1.45). 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 interest rate swaps and fixed rate securities was US\$ 330,000 (2000: US\$ 137,000).

Based on the repricing profile at 31st December 2001, and assuming that the financial assets and liabilities were to remain until maturity or settlement with no action taken by the Group to alter the interest rate risk exposure, an immediate and sustained 1% 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\$ 6.5 million and US\$ 8.9 million respectively. The impact on the Group's equity represents the cumulative effect of the increase in interest rates over the entire duration of the mismatches in the repricing profile of the interest rate sensitive financial assets and liabilities.

The Value-at-Risk by risk class for the Group's trading positions is set out in Note 22. The market risk relating to foreign exchange and derivative trading instruments is set out in Note 26 (a).

26 Off-balance sheet financial instruments

a) Derivative and foreign exchange instruments

The Group utilises derivative and foreign exchange instruments to meet the needs of its customers, to generate trading revenues and as part of its asset and liability management (ALM) activity to hedge its own exposure to market risk. Derivative instruments are contracts whose value is derived from one or more financial instruments or indices. They include futures, forwards, swaps and options in the interest rate, foreign exchange and equity markets. 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.

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26 Off-balance sheet financial instruments continued

a) Derivative and foreign exchange instruments continued

The Group's principal interest rate-related derivative transactions are interest rate swaps, forward rate agreements, futures and options. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount for an agreed period. The settlement, which generally occurs at the start of the contract period, is the discounted present value of the payment that would otherwise be made at the end of that period. An interest rate future is an exchange traded contract for the delivery of a standardised amount of a fixed income security or time deposit at a future specified date. Interest rate options, including caps, floors and collars, provide the buyer with the right, but not the obligation, either to purchase or sell an interest rate financial instrument at a specified price or rate on or before a specified future date.

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

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

Product analysis

	Notional amounts			Credit risk
	Trading US\$ millions	Hedging US\$ millions	Total US\$ millions	amounts US\$ millions
At 31st December 2001				
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	2,400.5	1,377.8	3,778.3	26.4
Options purchased	30.1	-	30.1	0.1
Options written	8.5	-	8.5	-
	2,439.1	1,377.8	3,816.9	26.5
Interest rate contracts:-				
Futures	3,360.5	-	3,360.5	-
Forward rate agreements	-	26.7	26.7	0.2
Interest rate swaps and swaptions	6,030.6	5,361.4	11,392.0	158.2
Options, caps and floors purchased	15,396.6	11.0	15,407.6	101.4
Options, caps and floors written	17,338.5	5.0	17,343.5	-
	42,126.2	5,404.1	47,530.3	259.8
Total	44,565.3	6,781.9	51,347.2	286.3
At 31st December 2000				
Total	55,308.6	4,800.6	60,109.2	314.3

Financial futures are exchange traded and therefore not subject to credit risk. There is no credit risk in respect of options, caps and floors written as they represent obligations of the Group.

At 31st December 2001 the Value-at-Risk of the foreign exchange and interest rate-related derivative trading contracts analysed in the table above, as calculated in accordance with the basis set out in Note 28, was US\$ 0.6 million and US\$ 0.6 million respectively (2000: US\$ 0.1 million and US\$ 2.3 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.

Counterparty analysis

	31.12.01			31.12.00
	Banks	Other	Total	Total
Credit risk amounts	US\$ millions	US\$ millions	US\$ millions	US\$ millions
OECD countries	266.7	6.7	273.4	300.6
GCC countries	10.7	2.1	12.8	13.3
Other countries	0.1	-	0.1	0.4
	277.5	8.8	286.3	314.3

Credit risk is concentrated on major OECD-based banks.

Maturity analysis

	Year 1	Years	Years	Over	Total
	US\$ millions	2 & 3	4 & 5	5 years	
Notional amounts	US\$ millions				
At 31st December 2001					
Foreign exchange contracts	3,743.0	73.9	-	-	3,816.9
Interest rate contracts	25,950.1	9,382.2	6,630.4	5,567.6	47,530.3
	29,693.1	9,456.1	6,630.4	5,567.6	51,347.2
At 31st December 2000					
Total	39,225.8	14,281.8	1,304.5	5,297.1	60,109.2

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

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26 Off-balance sheet financial instruments continued

a) Derivative and foreign exchange instruments continued

Fair value analysis

	31.12.01		31.12.00	
	Positive	Negative	Positive	Negative
	fair value	fair value	fair value	fair value
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Derivatives held for trading:-				
Forward foreign exchange contracts	2.7	-	54.4	(57.5)
Currency options	0.3	(0.2)	1.0	(0.9)
Interest rate futures	4.7	(0.1)	0.1	-
Forward rate agreements	-	-	2.3	-
Interest rate swaps and swaptions	67.8	(114.4)	77.4	(84.0)
Interest rate options, caps and floors	99.0	(85.9)	55.6	(48.3)
	174.5	(200.6)	190.8	(190.7)
Derivatives held as fair value hedges:-				
Interest rate swaps	41.7	(132.5)	-	-
Derivatives held as cash flow hedges:-				
Interest rate swaps	7.6	-	-	-
Gross positive/(negative) fair value	223.8	(333.1)	190.8	(190.7)
Effect of master netting agreements	(108.9)	108.9	(116.5)	116.5
Net amount included in other assets/(other liabilities)	114.9	(224.2)	74.3	(74.2)

Significant net open positions

At 31st December 2001 the Group had a US\$ 21.2 million long (2000: US\$ 24.0 million long) Omani Riyal net open currency position. This related to Omani government investment security holdings.

There were no other significant derivative trading or foreign currency net open positions at 31st December 2001 and at 31st December 2000.

b) Credit-related financial instruments

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

	31.12.01		31.12.00	
	Notional principal amount US\$ millions	Risk- weighted exposure US\$ millions	Notional principal amount US\$ millions	Risk- weighted exposure US\$ millions
Direct credit substitutes	139.1	107.3	159.2	81.7
Transaction-related contingent items	649.1	303.6	762.3	357.4
Short-term self-liquidating trade-related contingent items	151.3	24.0	146.8	20.9
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	1,443.1	539.4	1,499.1	503.4
	2,382.6	974.3	2,567.4	963.4

27 Contingent liabilities

Litigation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2001

28 Capital adequacy

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

	31.12.01	31.12.00		
	US\$ millions	US\$ millions		
Regulatory capital base				
Tier I capital:-				
Shareholders' equity	1,193.7	1,205.8		
Adjustment to exclude net fair value losses	42.0	-		
Adjusted Tier I capital	1,235.7	1,205.8		
Tier II capital:-				
Subordinated loans	150.0	-		
Non-specific loan provision subject to 1.25% risk-weighted exposure limitation	152.0	147.2		
Total Tier II capital	302.0	147.2		
Total regulatory capital base	(a) 1,537.7	1,353.0		
Risk-weighted exposure				
	Notional principal amount US\$ millions	Risk- weighted exposure US\$ millions	Notional principal amount US\$ millions	Risk- weighted exposure US\$ millions
Credit risk				
Balance sheet items:-				
Cash and other liquid assets	91.2	16.0	137.3	27.1
Placements	2,693.6	677.5	3,065.0	694.5
Securities	8,648.4	6,274.9	7,527.9	5,520.0
Loans and advances	3,309.4	2,836.1	3,923.1	3,279.3
Fixed & other assets	489.4	318.8	466.2	204.0
	15,232.0	10,123.3	15,119.5	9,724.9
Off-balance sheet items:-				
Credit-related contingent items	2,382.6	974.3	2,567.4	963.4
Foreign exchange-related items	3,816.9	9.1	4,155.5	28.9
Interest rate-related items	47,530.3	36.0	55,944.8	79.1
Equity-related items	-	-	8.9	-
	53,729.8	1,019.4	62,676.6	1,071.4
Credit risk-weighted exposure		11,142.7		10,796.3
Market risk				
General market risk		558.3		576.7
Specific market risk		461.6		404.3
Market risk-weighted exposure		1,019.9		981.0
Total risk-weighted exposure		(b) 12,162.6		11,777.3
Risk asset ratio [(a)/(b) x 100]		12.6%		11.5%

In accordance with the capital adequacy guidelines of the Bank's regulator, the Bahrain Monetary Agency (BMA), gains and losses arising on the remeasurement to fair value of available-for-sale securities and derivative cash flow hedging transactions are excluded from Tier I capital with the exception of gains and losses arising on the remeasurement to fair value of equity securities classified as available-for-sale. At 31st December 2001, Tier I capital included a net fair value loss of US\$ 1.1 million in respect of equity securities classified as available-for-sale. There was no fair value adjustment for available-for-sale securities at 31st December 2000.

The Group calculates the capital requirement for general market risk using a Value-at-Risk model in accordance with the provisions of the Amendment to the Capital Accord to Incorporate Market Risks issued by the Basle Committee in January 1996. The use of the internal model approach for the calculation of the capital requirement for general market risk has been approved by the Bank's regulator, the BMA. The multiplication factor to be applied to the Value-at-Risk calculated by the internal model has been set at the regulatory minimum of 3.0 (2000: 3.5) by the BMA.

Value-at-Risk is calculated based on a 99 per cent confidence level, a ten-day holding period and a twelve-month historical observation period of unweighted data from the DataMetrics™ regulatory data set. Correlations across broad risk categories are excluded. Prescribed additions in respect of specific risk are made to the general market risk. The resultant measure of market risk is multiplied by 12.5, the reciprocal of the 8 per cent minimum capital ratio, to give market risk-weighted exposure on a basis consistent with credit risk-weighted exposure.

29 Fiduciary activities

The Group conducts investment management and other fiduciary activities on behalf of clients. Assets held in trust or in a fiduciary capacity are not assets of the Group and accordingly have not been included in the consolidated financial statements. The aggregate amount of the funds concerned at 31st December 2001 was US\$ 6,670.1 million (2000: US\$ 5,334.1 million).

30 Fair value of financial instruments

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

	Book value US\$ millions	Fair value US\$ millions	Excess/(shortfall) US\$ millions
At 31st December 2001			
Assets			
Cash and other liquid assets	91.2	91.2	-
Placements with banks	2,693.6	2,693.6	-
Trading securities	1,006.7	1,006.7	-
Available-for-sale securities	7,641.7	7,641.7	-
Loans and advances	3,309.4	3,342.4	33.0
Fixed & other assets	489.4	489.4	-
Liabilities			
Deposits	10,949.7	10,949.7	-
Securities sold under agreements to repurchase	1,422.4	1,422.4	-
Securities sold but not yet purchased	122.6	122.6	-
Other liabilities	563.6	563.6	-
Term financing	980.0	980.0	-
Off-balance sheet financial instruments	-	-	-
Excess of net fair values over net book values			33.0

At 31st December 2000

Shortfall in net fair values against net book values (64.6)

Based on the valuation methodologies outlined below, the net fair values of all on- and off-balance sheet financial instruments exceeded their net book values as at 31st December 2001 by US\$ 33.0 million (2000: US\$ 64.6 million shortfall).

a) Securities

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

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for the year ended 31st December 2001

30 Fair value of financial instruments continued

b) Loans and advances

The fair value of floating rate loans was principally estimated at book value less provisions for impairment. The fair value of troubled sovereign debt was based on market bid prices. The fair value of impaired loans was estimated at the recoverable amount, measured as the present value of expected future cash flows discounted based on the interest rate at the inception of the loan. The fair value of fixed rate loans was estimated on a discounted cash flow basis utilising discount rates equal to prevailing market rates of interest in the respective currencies for loans of similar residual maturity and credit quality. The repricing profile of loans and advances is set out in Note 25. All but US\$ 9.6 million (2000: US\$ 7.3 million) of loans and advances reprice within one year.

c) Term financing

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

d) Other on-balance sheet financial instruments

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

e) Off-balance sheet financial instruments

The fair values of foreign exchange and derivative financial instruments were based on market prices, discounted cash flow models or option pricing models as appropriate. The fair values of foreign exchange and derivative financial instruments are included in the book values of other assets and other liabilities.

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

31 Earnings per share

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

	2001	2000
Net income after tax (US\$ millions)	100.5	118.1
weighted average number of shares in issue (US\$ millions)	1,000.0	1,000.0
Basic earnings per share	US\$ 0.10	US\$ 0.12

32 Principal subsidiaries

The principal subsidiary companies were as follows:

	Country of Incorporation	Ownership Interest	
		31.12.01	31.12.00
		%	%
Gulf International Bank (UK) Limited	United Kingdom	100	100
GIB (UK) Capital Investments Limited	United Kingdom	100	-
SIB Financial Advisory Services Limited	United Kingdom	100	100
GIBINVEST E.C.	Bahrain	100	100

33 Average consolidated balance sheet

The average consolidated balance sheet was as follows:

	2001	2000
	US\$ millions	US\$ millions
Assets		
Cash and other liquid assets	179.8	202.7
Placements with banks	2,794.3	3,500.4
Trading securities	1,068.5	452.9
Available-for-sale securities	7,060.3	6,196.1
Loans and advances	3,656.9	3,927.0
Fixed & other assets	462.6	508.5
Total assets	15,222.4	14,787.6
Liabilities & shareholders' equity		
Deposits from banks	6,676.3	6,316.7
Deposits from customers	4,988.0	4,868.9
Securities sold under agreements to repurchase	965.6	1,024.9
Securities sold but not yet purchased	85.8	91.2
Other liabilities	471.5	406.4
Senior term financing	819.0	896.2
Subordinated term loans	71.6	-
Total liabilities	14,077.8	13,604.3
Shareholders' equity	1,144.6	1,183.3
Total liabilities & shareholders' equity	15,222.4	14,787.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31st December 2001

34 Parent company

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

a) Condensed balance sheet

	At 31.12.01	At 31.12.00
	US\$ millions	US\$ millions
Assets		
Cash and other liquid assets	55.7	70.8
Placements with banks	2,662.0	2,508.1
Trading securities	170.3	117.3
Available-for-sale securities	5,273.1	4,400.8
Investment in GIB(UK) Limited	395.2	395.2
Loans and advances	3,210.3	3,888.2
Fixed other assets	264.3	275.6
Total assets	12,030.9	11,656.0
Liabilities & shareholders' equity		
Deposits from banks	4,818.8	5,085.5
Deposits from customers	3,334.8	3,141.5
Securities sold under agreements to repurchase	1,319.3	1,159.8
Securities sold but not yet purchased	10.9	-
Other liabilities	309.9	242.8
Senior term financing	830.0	850.0
Subordinated term loans	150.0	-
Total liabilities	10,773.7	10,479.6
Shareholders' equity	1,257.2	1,176.4
Total liabilities & shareholders' equity	12,030.9	11,656.0

The investment in GIB(UK) Limited is stated at cost less pre-acquisition dividends received.

b) Condensed income statement

	Year ended 31.12.01 US\$ millions	Year ended 31.12.00 US\$ millions
Interest income	570.6	743.8
Interest expense	444.0	627.0
Net interest income	126.6	116.8
Provisions for securities	16.8	2.9
Provisions for loan and advances	(17.8)	27.1
Net interest income after provisions	127.6	86.8
Dividend received from GIBUK	12.5	-
Other income	63.8	55.8
Net interest and other income	203.9	142.6
Operating expenses	58.6	58.7
Restructuring costs	11.3	-
Net income before tax	134.0	83.9
Taxation charge/(credit) on overseas activities	0.3	(3.5)
Net income after tax	133.7	87.4

Gulf International Bank B.S.C.

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Chief Executive Officer

Matthew Snyder
Head of Merchant Banking

Bachir Barbir
Head of Treasury

Mohannad Farouky
Head of Risk Management

Dr. Fouad Sinan
Head of Operations & Administration

Merchant Banking

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Abbas Ameer
Head of Relationship
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