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annual report

2002

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بنك الخليج
GULF BANK

Our Customers Come First

H. H. Sheikh Jaber Al-Ahmed Al-Jaber Al-Sabah

Amir of the State of Kuwait

H. H. Sheikh Saad Al-Abdullah Al Salem Al-Sabah

Crown Prince and Prime Minister

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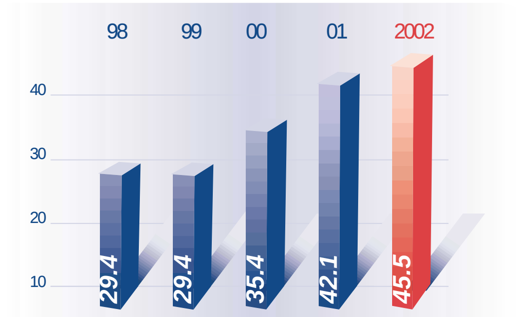
board of directors

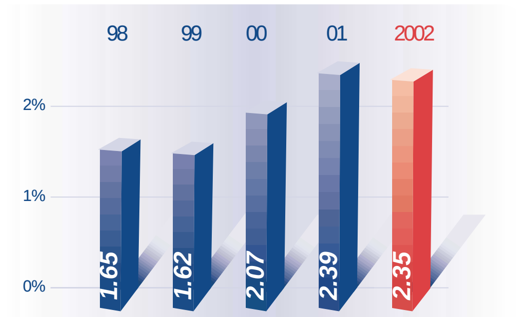
2002

Bassam Yusuf Alghanim	Chairman & Managing Director
Salah Khalid Al-Fulaij	Deputy Chairman
Hussain Ahmed Qabazard	Board Member
Khaled Saoud Al-Hasan	Board Member
Adel Mohammed Rida Behbehani	Board Member
Abdul Aziz Abdul Rahman Al-Shaya	Board Member
Abdulkareem Abdulla Al-Saeed	Board Member
Faisal Saoud Al-Fozan	Board Member
Naser Yousef Bourisli	Board Member

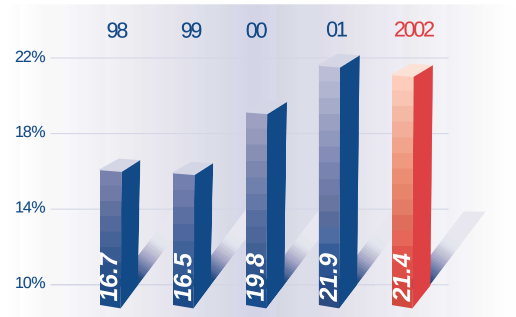
financial highlights



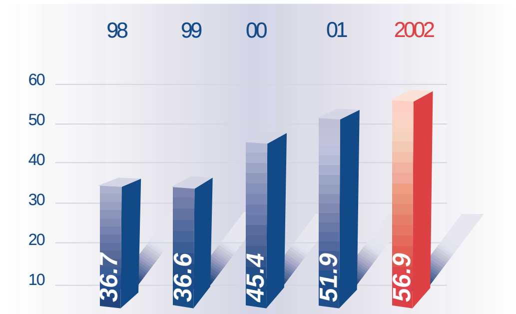
Profit for the year (KD millions)



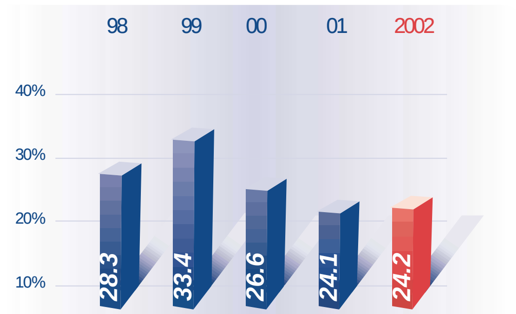
Return on Average Assets %



Return on Average Shareholders' Funds %



Earnings per Share (fils)



Cost to Income Ratio%

chairman's statement

the Bank was upgraded to "A" status

"Bank of the Year 2002" was confirmation of the Bank's success resulting from the "Transformation Strategy", started in 2001. In 2002 the Bank received an upgrade to "A" status from major Ratings Agencies and consistently grew core earnings at a rate, which outperformed the Banking sector in Kuwait. The Bank's "Transformation Strategy", initiated in 2001, is significantly benefiting the Bank, rewarding our customers, and generating record results for our shareholders. In addition, the Bank has earned a reputation as the home for talented, performance focused and career-minded Kuwaiti professionals. Gulf Bank's transformation into a customer focused and performance driven Bank is succeeding and we are closing the gap on competition. For the first time in the Bank's history, Gulf Bank has earned the title of Kuwait's Bank of the Year.

The Bank's strong and consistent growth in core earnings outperformed the market and resulted in a record profit of KD 45.5 million (US$ 152 million) for 2002. Net Profit was up 8% in 2002, and Earnings per Share increased by 10% to 56.9 fils. Return on Assets was strong at 2.35% despite the significant adverse impact of lower interest rates and intense price competition in the market. Gulf Bank continues to maintain the lowest cost to income ratio in Kuwait and the Region at 24.2% inspite of the significant investments in new branches, products, IT and people. All of the Bank's key financial indicators demonstrate the growing strength of Gulf Bank's brand and its ability to effectively compete, and win, in a highly competitive market.

Gulf Bank continues to maintain the lowest cost to income ratio in Kuwait and the Region

Retail Banking expanded its network to 29 branches in 2002. In addition to the Bank's investment in four new branches, two major branches were totally re-built in-line with the Bank's award winning branch design. The expansion and refurbishment program will continue in 2003 to better serve the growing customer base.

Retail Banking also increased the number of 24/7 self-service lobbies to 12 throughout the Branch network. Further enhancements were made to the Bank's internet banking service (e-gulfbank.com) and mobile phone banking channels (SMS and WAP), and additional functionality was introduced to the 24/7 Telebanking service (805 805). Telebanking has grown in popularity, with customer traffic running over 200% up since 2001, and service levels greatly exceed that of our competitors.

The Bank continued to introduce a range of innovative and competitive products and promotions throughout 2002. Notably, a new salary program, Al Afdal, designed to offer Kuwaiti customers a total banking relationship in one simple package was introduced in March. On-line trading was introduced in association with Ameritrade, a World Cup program was launched with Mastercard, and a range of innovative credit card programs introduced with Visa. The Bank's Al Danah account continues to grow and now offers the richest cash prize in Kuwait of US$ 1 million.

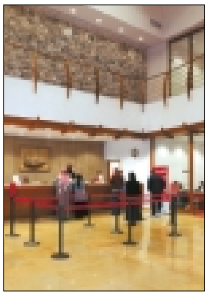
The Bank's customer service levels continued to improve in 2002 and we extended branch operating hours, particularly during the Holy month of Ramadan. Our staff are committed to putting our customers first and our objective remains clear and unchanged, we will be the best.

The Bank's Corporate Banking unit achieved significant growth in providing existing and new clients with value added fee based products throughout 2002. The growth in revenue, new customer relationships and new service initiatives were instrumental in confirming Gulf Bank's reputation as "the Businessman's Bank". Despite the intense price competition and low interest rate environment, Gulf Bank's performance was strong, a solid reflection of the depth and quality of its corporate relationships.

The Bank's International Banking unit continued to focus on the oil, financial and multinational trade sectors. Gulf Bank was successful in capitalizing on a range of new sector opportunities during the year and jointly arranged financing for the largest capital project in Kuwait during 2002.

Gulf Bank has earned the title of Kuwait's Bank of the Year

Significant investment was made in upgrading and augmenting the Bank's IT platform during 2002. The Bank's IT strategy and systems are focused on providing the business units with enabling solutions to their business needs. Our systems and our people are geared to delivering the most cost effective and fastest service for our customers, both internal and external. Major IT projects undertaken in 2002 included the replacement of the Bank's Trade Finance and Wholesale Banking systems, replacement of the Branch networking infrastructure and the replacement of the Bank's Credit Card systems. Additionally, new products, services and functionalities were developed on existing platforms. The Bank has continued to invest in and develop, its data management and data warehousing facilities in order to provide users with quality customer information, when required. Our investment in upgrading the Banks technology platform will continue throughout 2003 in order to support the Bank's growth and service plans.



The Bank's Human Resource and Development plan was a major component of the Bank's success over the past three years and will be a key business enabler as we continue with our growth plans in 2003. Despite a 10% increase in staffing levels during 2002, the Bank's staff continue to be amongst the most productive banking staff in Kuwait and the region, with net profit per employee in excess of KD 60,000 (US$ 200,000). Frontline staffing levels increased by 10%, enhancing the Bank's customer focus and service. The Bank continues to maintain the reputation as the employer of choice for talented, performance driven and ambitious Kuwaiti professionals. Kuwaiti recruits accounted for over 40% of all staff recruited during the year.

We will be the best

Gulf Bank, which had the lowest level of Government Debt Bonds in the banking sector in 2001, made a further significant reduction of 43% in 2002. This brought Gulf Bank's level of Government Debt Bonds down to a minimal 1.6% of total assets, substantially lower than other Banks and the lowest in the Kuwaiti banking sector.

The Bank is determined to continue its growth in to 2003, uninterrupted. The Bank's transformation will continue and although the gap with competition is closing, we will remain focused and determined. We will be the best.

Bassam Yusuf Alghanim

B. Y. Alg

Chairman and Managing Director

financial review

2002

financial review

Summary of financial performance

(KD millions)	**2002**	2001
Net interest income	**51.1**	49.1
Other operating income	**18.1**	14.7
Operating income	**69.2**	63.8
Operating expenses	**(16.7)**	(15.3)
Operating profit before provisions	**52.5**	48.5
Provisions	**(5.4)**	(4.9)
Operating profit	**47.1**	43.6
Directors' emoluments	**(0.1)**	(0.1)
KFAS/National Labour Support Tax	**(1.5)**	(1.4)
Net profit	**45.5**	42.1

Gulf Bank achieved a net profit of KD45.5 million in 2002, an increase of KD3.4 million or 8% over 2001. Operating profit before provisions grew by KD4 million or 8% to KD52.5 million.

Gulf Bank achieved a net profit of KD45.5 million in 2002

Net interest income increased by KD2 million or 4% to KD51.1 million. The benefits of Retail and Corporate loan growth and reduced funding costs more than offset the significant adverse impact of lower interest rates in 2002.

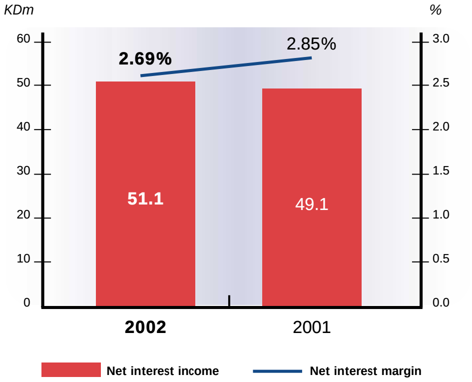
Other operating income improved by KD3.4 million or 23%, reflecting across the board improvements in fee income and foreign exchange earnings and a return to more normal levels of investment income.

Operating expenses increased by KD1.4 million or 9%. Staff costs were KD1.8 million (19%) higher due to performance related incentive payments and headcount growth in Retail Banking as a result of the opening of four new branches. Other costs were KD0.4 million (6%) lower. The Bank's cost:income ratio remained broadly unchanged, at 24.2%, since the cost growth of 9% was matched by a corresponding 8.5% growth in operating income.

across the board improvements in fee income

Provisions were KD0.5 million higher than 2001. The 2002 provisions charge of KD5.4 million comprised specific provisions of KD2.3 million, and general provisions of KD3.1 million in accord with the Central Bank of Kuwait (CBK) requirement to provide a 2% general provision against the growth in loans and off-balance-sheet facilities.

Net interest income - up 4%



Net interest income

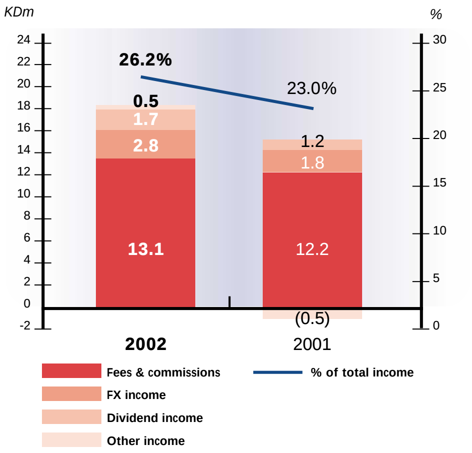
	2002	2001
Net interest income *(KDm)*	**51.1**	49.1
Average interest-earnings assets *(KDm)*	**1,902**	1,724
Net interest margin *(per cent)*	**2.69%**	2.85%
Average KD Discount Rate *(per cent)*	**3.88%**	5.31%

Net interest income improved by KD2 million in 2002

Net interest income improved by KD2 million in 2002. Average interest-earning assets grew by KD178 million (10%) to KD1.9 billion. The Bank's overall net interest spread was broadly maintained (only 5 basis points lower), despite the intense competition in the market, particularly with respect to the pricing of corporate loans. The net interest margin was 16 basis points lower, at 2.69%, due to the adverse impact of lower interest rates on the Bank's net free funds. (The average KD Discount Rate was 143 basis points, or 27 per cent, lower in 2002, at 3.88%).

The growth in net interest income arose mainly in Retail Banking and Corporate Banking. Retail lending grew by almost a third as the Bank opened new branches and continued to increase its Retail market share. Corporate lending grew more slowly as the Bank selectively targeted specific customer segments in order to maintain lending margins and credit quality.

Other operating income - up 23%



Other operating income

(KD millions)	2002	2001
Net fees and commissions	**13.1**	12.2
Foreign exchange and derivatives income	**2.8**	1.8
Dividend income	**1.7**	1.2
Other income/(losses)	**0.5**	(0.5)
Total other operating income	**18.1**	14.7

Other operating income (continued)

Other operating income increased by KD3.4 million in 2002. Net fees and commissions were KD0.9 million (7%) higher, mainly due to business volume related growth in Corporate Banking, where letters of credit and guarantee volumes grew by 42% as a result of the Bank's successful strategy to focus on fee income growth.

Foreign exchange earnings were KD1 million higher, mainly reflecting increased customer business volumes and a small increase in proprietary trading income.

Dividend income grew by KD0.5 million, mainly due to increased dividend income from the Bank's local equity investments. Other income showed a KD1 million turnaround, from a net loss of KD0.5 million in 2001 to a net profit of KD0.5 million in 2002. This reflected a return to more normal levels of income from investment disposals following the losses incurred in 2001 on the sale of overseas investment portfolios post the events of "September 11th".

Other operating income increased by KD3.4 million, 23%, in 2002

Operating expenses

(KD millions)	**2002**	2001
Staff costs	**11.2**	9.5
Occupancy costs	**0.9**	0.7
Depreciation	**1.3**	1.3
Other expenses	**3.3**	3.9
Total operating expenses	**16.7**	15.3
Cost:income ratio *(per cent)*	**24.2%**	24.1%
Period end headcount	**756**	689

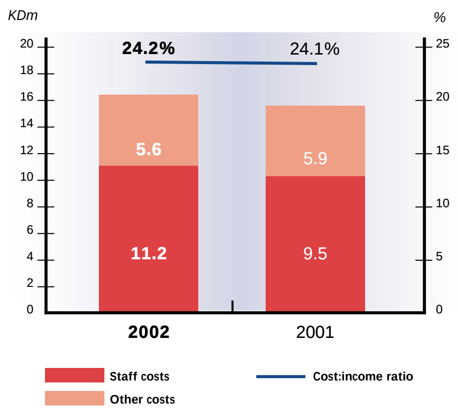
Industry beating cost:income ratio maintained

Operating expenses increased by KD1.4 million (9%) in 2002 as the Bank continued to invest in its franchise. Staff costs grew by KD1.7 million (18%) as a result of higher performance related incentive payments (in line with increased profitability), and headcount growth of 10% mainly in Retail Banking frontline staff.

Occupancy costs were up KD0.2 million due to the opening of four new branches and the renewal of existing branch leases at higher rents. Depreciation costs increased only marginally, since the depreciation costs of the Bank's recent investments in new branches and systems were mostly offset by the run-off of fully depreciated assets.

Other expenses were KD0.6 million lower in 2002 as a result of continuing tight cost control.

Operating expenses



Operating expenses (continued)

The cost:income ratio was maintained broadly unchanged, at 24.2%. This ratio measures operating efficiency and Gulf Bank has achieved the lowest ratio in Kuwait and the region for the past two years, despite annual cost growth of around 10% per annum. This demonstrates Gulf Bank's success in growing its business and increasing its market share so that income growth matches or exceeds the costs of investing in branches, people, new products and systems.

Provisions

Asset quality remains good

The provisions charge for the impairment of financial assets was KD0.5 million (11%) higher in 2002, at KD5.4 million. Specific provisions of KD2.3 million were provided, mainly against Retail consumer loans and credit card balances, in accord with the Bank's prudent adoption of IAS 39 and the provision requirements of CBK. General provisions of KD3.1 million were applied, in accord with CBK requirements, to cover the growth in loans and letters of credit and guarantee facilities in 2002.

Asset quality remains good. Non-performing loans (NPLs) were KD8.5 million (21%) lower at 31 December 2002, compared with end 2001, and the proportion of NPLs to total loans improved from 3.9% in 2001 to 2.8% at 31 December 2002. Specific provisions cover improved from 53.4% of NPLs in 2001 to 71.1% of NPLs at 31 December 2002. Total provisions cover, including general provisions, improved from 97.2% to 130.8% over the same period.

Balance sheet analysis

Total provisions cover, including general provisions, improved from 97.2% to 130.8%

Selected balance sheet data (KD millions)	**31 Dec 2002**	31 Dec 2001
Treasury bills and bonds	**436**	361
Loans and advances to banks	**126**	79
Loans and advances to customers	**934**	908
Government debt bonds	**32**	55
Total assets	**1,997**	1,878
Medium term loans from banks	**155**	-
Customer deposits	**1,150**	1,190
Shareholders' funds	**222**	204

Key ratios (per cent)

Return on average assets	**2.35%**	2.39%
Return on average equity	**21.4%**	21.9%
Capital adequacy ratio	**18.0%**	17.8%

Balance sheet analysis (continued)

Total assets increased by KD119 million or 6%, from KD1.9 billion at end 2001 to KD2 billion at 31 December 2002.

Treasury bills and bonds increased by KD75 million (21%) to KD436 million, as the Bank diversified the deployment of its surplus liquidity and "locked in" interest income in the face of falling interest rates.

Loans and advances to banks rose by KD47 million (59%) to KD126 million. The increase reflected the redeployment of the US dollar funds raised as part of the Bank's medium term loan borrowing programme.

Loans and advances to customers increased by KD26 million (3%). A strong growth in Retail and International lending was partly offset by a reduction in year end Corporate loan balances as a result of repayments and limited new lending opportunities (at an acceptable margin and asset quality) in the fourth quarter of 2002.

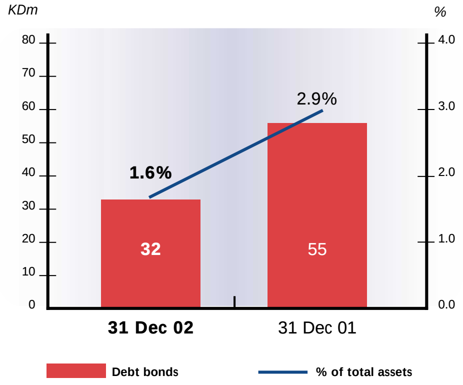
Government debt bonds reduced by KD23 million (43%), falling from 2.9% of total assets at end 2001 to 1.6% of total assets at 31 December 2002. Gulf Bank continues to benefit from having achieved the lowest ratio of these low yielding assets of any bank in Kuwait.

Medium term loans (MTL) from banks were obtained in 2002 to provide long term, stable funding for the Bank's growth in consumer lending. A total of KD155 million of MTL funding was drawn down at 31 December 2002, comprising 3 and 5 year KD and US dollar loans from other Kuwaiti banks.

Customer deposits were KD40 million lower, totalling KD1,150 million at 31 December 2002. The reduction reflects the substitution of the highest cost customer deposits with MTL funding. MTL is a more efficient means of funding Retail loan growth, since 30% of the proceeds of MTL funding can be used for consumer lending (compared with only 12% of eligible customer deposits). In addition to the net reduction, there was a substantial improvement in the mix of customer deposits. Retail deposits grew by 16% and there was a significant and deliberate reduction in higher cost, "hot money" deposits in Treasury and Corporate Banking.

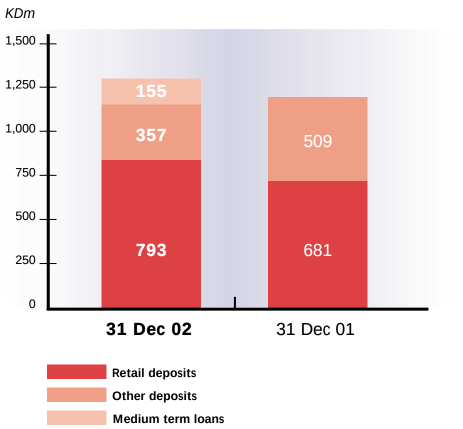
Shareholders' funds increased by KD18 million (9%) to KD222 million. The growth mainly reflects the increases in retained earnings (up KD8 million) and statutory reserves (up KD5 million), and an increase in the fair valuation reserve of KD6 million. The Bank had unrealised gains on its "available for sale" financial assets of KD10.6 million at 31 December 2002.

Government debt bonds - down 43%



Customer/MTL funding

Retail deposits up 16%



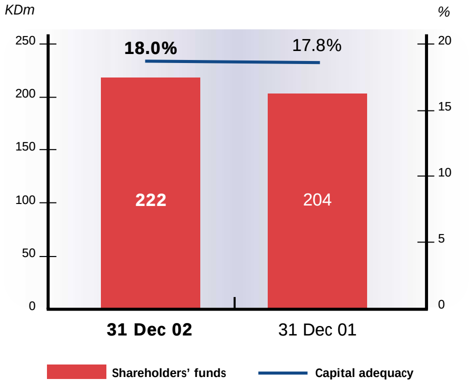
Balance sheet analysis (continued)

The return on average assets declined only marginally, falling by 4 basis points from 2.39% in 2001 to 2.35% in 2002. The significant adverse impact of lower interest rates on the income from net free funds was mostly offset by more efficient balance sheet utilisation (through the use of MTL funding), lower funding costs (due to lower interest rates and the improved mix of customer deposits), and the successful maintenance of corporate lending spreads in the face of intense price competition in the market.

The return on average equity was also broadly maintained. It declined by only 50 basis points (2 per cent), from 21.9% to 21.4% in 2002, despite a 10% increase in average equity over 2001.

The capital adequacy ratio improved from 17.8% at end 2001 to 18.0% at 31 December 2002. This is well above the CBK minimum ratio of 12.0% and leaves the Bank strongly capitalised and well able to support the continued expansion of its business activities in 2003.

Shareholders' funds & Capital adequacy



Bank ratings

Long-term foreign currency ratings	**2002**	2001
FitchRatings	**A-**	BBB+
Moody's Investors Service	**A2**	Baa1
Capital Intelligence	**A-**	BBB+
Standard & Poor's	**BBB+**	not rated

The Bank's long-term foreign currency ratings were upgraded to 'A' status during 2002 by FitchRatings, Moody's Investors Service and Capital Intelligence. The Bank also received its first ever rating ('BBB+') from Standard & Poor's.

The rating upgrades, and the receipt of the 'Bank of the Year' award for Kuwait from the Financial Times/Banker Magazine, reflect the financial strength, strong profit growth, good asset quality and well focused and effective business strategy of Gulf Bank. The Bank continues to increase its market share and build on its position as Kuwait's second largest bank, despite the increasing competition in the market.

financial statements

2002

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Auditors' Report to the Shareholders

We have audited the accompanying balance sheet of Gulf Bank K.S.C as of 31 December 2002 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2002, the results of its operations, its cash flows and changes in equity for the year then ended in accordance with International Accounting Standards.

Furthermore, in our opinion proper books of account have been kept by the Bank and the financial statements, together with the contents of the report of the Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Bank's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violation of the Commercial Companies Law of 1960, as amended , or of the Articles of Association have occurred during the year ended 31 December 2002 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our examination, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the year ended 31 December 2002.

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Waleed A. Al Osaimi
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Ernst & Young

Al Aiban, Al Osaimi & Partners
07 January 2003
Kuwait