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2001 annual report

بنك الخليج
GULF BANK

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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2001 table of **contents**

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board of directors

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Bassam Yusuf Alghanim
Chairman & Managing Director

Salah Khaled Al-Fulaij
Deputy Chairman

Adel Mohammed Redha Behbehani
Board Member

Abdul Aziz Abdul Rahman Al-Shaya
Board Member

Abdulkareem Abdulla Al-Saeed
Board Member

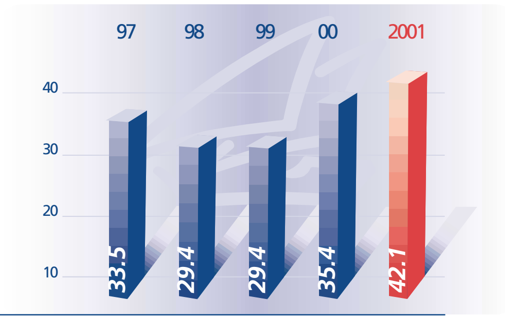
Hussain Ahmed Qabazard
Board Member

Khaled Saoud Al-Hasan
Board Member

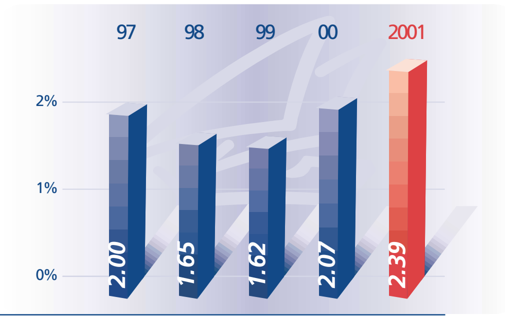
Naser Yousef Bourisli
Board Member

Saleh Saleh Al-Selmi
Board Member

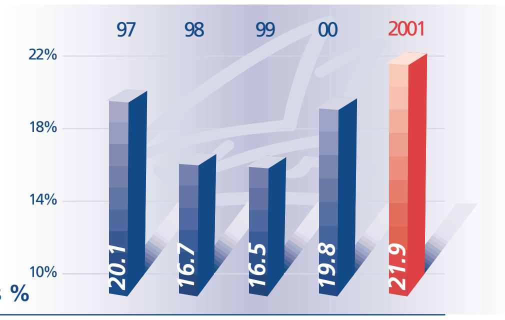
2001 financial highlights



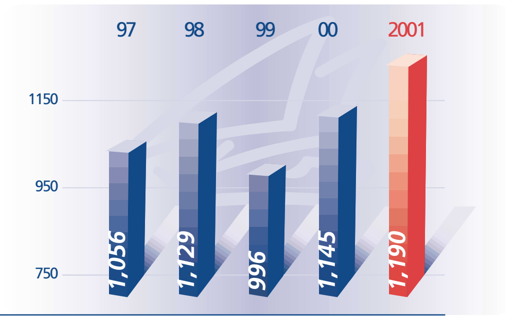
Profit for the year (KD Millions)



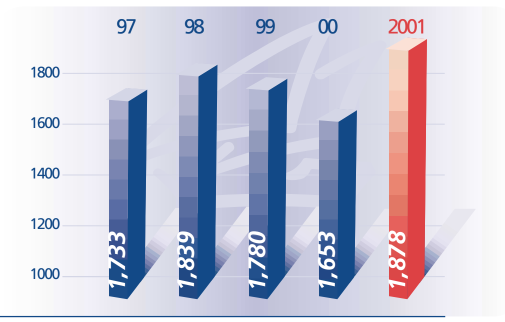
Return on Average Assets %



Return on Average Shareholders Funds %



Customer Deposits (KD Millions)



Total Assets (KD Millions)

2001 chairman's **message**

We now offer more and better products to more customers than ever before.

The Bank's record results reflect our success in transforming and re-energising our core business

The net profit of KD 42.1 m clearly demonstrates the strong underlying performance of all business divisions

Transforming Gulf Bank
2001 in review

At the start of 2001 we established a clear agenda for transforming Gulf Bank into a customer driven, sales focused and growing Bank. During 2001 we set about making the necessary improvements to deliver on our 'transformation' targets. Our commitment was to make Gulf Bank a stronger and better Bank for our customers, the results speak for themselves. We now offer more and better products to more customers than ever before and we have generated record business through stronger and better relationships with our key customers. We have achieved this with a more highly skilled and customer focused workforce, motivated by the desire to provide our customers with the premiere banking service in Kuwait. Their drive and will to succeed in this highly competitive market has been instrumental in re-establishing our reputation as a major force in Kuwaiti banking and in the region. This has been the first full year of our 'transformation' program and there is much more to come.

The Bank's record results reflect our success in transforming and re-energising our core business. The net profit of KD 42.1 m clearly demonstrates the strong underlying performance of all business divisions within the Bank. Net profits is up 19% on last year, Return on Assets is up from 2.07% in 2000 to 2.39% in 2001, a growth of 15% and Earnings per Share are up from 45.4 fils in 2000 to 51.9 fils in 2001. The Bank's Cost to Income ratio, a key indicator of our operational efficiency and effective cost controls, improved from 26.6% in 2000 to 24.1% in 2001. Return on Equity increased by 11%, from 19.8% in 2000 to 21.9% in 2001. The Bank's strong financial ratios and the substantial improvement in all key financial indicators during 2001 demonstrate the Bank's readiness to benefit from whatever changes may occur in the local or regional markets.

Solid growth in the Bank's retail market share was stimulated by the introduction of over 22 new products and services and our strong customer focus. The Bank's focus on innovation was not exclusively limited to product development. Gulf Pearls, the Bank's credit card loyalty program was introduced during the year in addition to the Bank's Al Danah TV show.

A three-year branch opening and branch refurbishment program commenced in May. Gulf Bank's branch design creates a new standard in banking, both regionally and internationally, and enhances the Bank's retail franchise. As part of this new design the Bank introduced its 24/7 self-service branch, unique for Kuwait.

The Bank completed the introduction of its comprehensive e-Banking solution, during the year. Gulf Bank's e-Banking includes Telebanking (805 805), Internet banking (e-gulfbank.com), internet banking over the mobile phone (WAP), SMS for mobile phones and 24/7 self-service automated banking.

The Bank has made substantial improvements in its customer service, closing the historical gap that had existed. The radical back-to-basics approach to process improvement and work methods has yielded results. Extended opening hours, stronger customer focus and improved systems has resulted in a faster, professional and more rewarding experience for our customers. We aim to provide the 'best' customer service.

The introduction of Priority Banking in late 2001 has given us the opportunity to provide our most valued clients with a highly differentiated and personalized banking service. At Gulf Bank, **Our Customers Come First.**

Our Customers Come First.

Gulf Bank's Corporate Banking unit achieved new performance milestones during 2001. The unit attracted new blue-chip clients and provided them with a 'total' banking solution, resulting in a broadening of the Bank's revenue stream. The Bank's focus on providing its business clients with a complete and efficient service gained it the reputation of 'The Businessman's Bank'. During 2001, Corporate Banking successfully grew market share by focusing on the needs of targeted business sectors. This was achieved through the recruitment and training of skilled bankers, dedicated to the particular needs of their business clients. Additionally, a Small Business Unit was established to satisfy the specific needs of that emerging and important business sector.

The Bank's International Banking Unit continued to focus on the oil, multinational trade and financial sectors, and specifically in areas where it could generate added-value for our clients. Gulf Bank remains one of the most active and experienced banks supporting the oil and oil-related sectors. Throughout 2001, the Bank was successful in the selective penetration of regional and global financial markets in order to obtain high quality international credits.

Our Human Resource plan in 2001 was aligned with our business objectives and was pivotal in our 'transformation' into a customer focused and sales driven Bank. Our staff are amongst the most productive Banking staff regionally, with net profit per employee in excess of KD 61,000. Gulf Bank has become the bank of choice for talented Kuwaiti graduates and bankers. The Bank's success in recruiting, training and retaining these talented high achievers resulted in Kuwaiti managers accounting for 40% of all Bank management. Additionally, despite staff attrition, the Bank increased the share of Kuwaiti professionals in its workforce to 34%. During the year, over 48% of staff recruited for the Bank were Kuwaitis, the trend is increasing as talented, ambitious Kuwaiti managers excel in the Bank's high performance culture.

The Bank's success in recruiting, training and retaining these talented high achievers resulted in Kuwaiti managers accounting for 40% of all Bank management.

Substantial investment has been made in upgrading the Bank's IT platform. Completing the first phase of a three year development plan, the Bank's IT unit has transformed into a "business enabler". The Bank's enhanced technology platform has enabled it to close the historical competitive technology gap.

During 2001 our systems supported significant levels of product development, the introduction of e-Banking and the re-engineering of major operational processes. Our IT strategy is focused on delivering our products and services to our customers in a faster, easier and user friendly manner, at the lowest possible cost. Our IT investment is aligned to meet these objectives.

The Bank broadened its revenue streams into value-added, non-interest based services, a trend which will continue as the Bank's corporate and retail customer base continues to expand. The Bank also reduced its level of Governments Debt Bonds, during the year, to the lowest level in the Kuwaiti Banking sector.

The three major rating agencies, Fitch, Capital Intelligence and Moody's recognized the level and pace of change at the Bank throughout 2001. All three agencies improved their outlook for Gulf Bank and are optimistic that the Bank's improved performance will continue into 2002 and beyond.

Gulf Bank is now a stronger and more customer focused bank and we will continue with our 'transformation' into 2002 and beyond. The Bank is robust, clear and determined in its strategy and capable of maintaining these exceptional levels of performance.

We are a more focused bank and will continue our transformation, driven by our strategy to acquire, satisfy and retain loyal customers. Our success is clearly demonstrated by our excellent results.

Bassam Yusuf Alghanim

B.Y.Alg

Chairman and Managing Director

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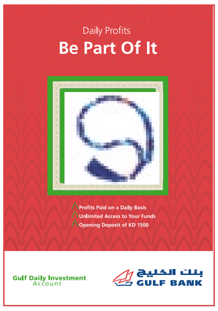
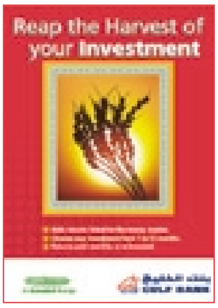
2001
business review

Retail Banking



Daily Investment



Al Sanabel

Gulf Point Card

Al Danah Show

Our Retail Banking unit underwent some significant changes in 2001, which benefited our customers and enhanced our market share. Gulf Bank is the second largest commercial bank in Kuwait.

Over 22 new products and services were introduced throughout the year, closing gaps in Gulf Bank's product portfolio. The highly innovative Daily Investment and Al Sanabel savings accounts with returns linked to Kibor have proved popular with customers wanting flexibility in an uncertain interest rate environment. The new Gulf Connect service provides Gulf Bank customers with international calls without having to obtain an international telephone line, prepaid internet access and prepaid mobile phone subscriptions all through a dedicated telephone number '88 99 00'. Our innovativeness in providing products which address specific customer needs has allowed us to broaden our product range while retaining our focus on delivering professional customer service.

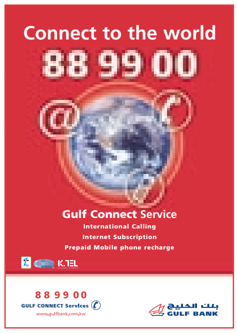
The Bank's credit card business experienced strong growth throughout 2001. Improvements in customer services and transaction acceptance rates and the introduction of a customer loyalty program "Gulf Pearls" enhanced our customer card usage levels. Growth in the credit cards customer base was achieved through better focus on cross selling, to both existing and new customers. Continued growth is expected for 2002 and after, with substantial investment planned for systems replacements and enhancements in 2002.

Our 3-year new branch-opening and branch refurbishment programs commenced in May. The new retail designs create a new retail standard in retail banking, both regionally and internationally, and enhances Gulf Bank's retail franchise.

As part of the enhanced retail branch designs, the Bank has introduced its 24/7 self-service branch. This new feature allows customers access to a comprehensive range of cash, cheque, telebanking, Internet and FX services whenever they need them. Gulf Bank is unique in offering such services in Kuwait.

The introduction of Gulf Bank's total e-Banking solution set it apart from competitors. Now, Gulf Bank offers the most comprehensive total e-Banking in Kuwait, 24 hours a day, everytime, from everywhere in every way. The Bank introduced the first 24-hour, dedicated Telebanking solution in the country. This unit is a highly sophisticated and integrated sales and service channel handling over 6 million calls annually and providing a total banking solution to customers whenever they call Gulf Bank's e-Banking includes Telebanking (805 805), internet banking (e-gulfbank.com), internet banking through mobile phones (WAP), and in SMS service for mobile phones. Additionally, their ease of use has greatly aided the speed of acceptance and usage among customers.

The quality of our customer service, which we independently monitor, has greatly improved throughout 2001, closing the competitive gap that had existed. These improvements were made possible through the radical back to basics approach to process improvements and work methods. We now serve customers faster, improving customer satisfaction while creating opportunities to improve product penetration. Although we have achieved much in improving our processes, there is much more to do. Operational improvements will continue in order to provide our customers with a faster, professional and more rewarding interaction with the Bank. Our objective is clear; we aim to provide the 'best' customer service.



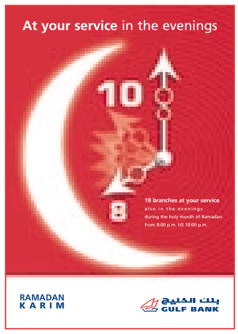
Gulf Connect

We have invested heavily in raising the technical and sales skills of our staff and they are now among the best trained and motivated banking staff in Kuwait. We have established clear career progression plans for high performers and succession plans for all key staff. In addition, we have been very successful in recruiting experienced and customer focused bankers from both local and international markets to augment our current retail team. All our staff are committed to providing the Bank's customers with a personalised quality service delivered in a professional, friendly and efficient manner. Our remuneration and incentive programs are focused on achieving this result.

Gulf Pearls

In the latter part of 2001 the Bank established a Priority Banking unit, focused on providing our most valued clients with a highly differentiated and personalised banking service. This team are geared to providing both existing and new highly valued customers with a tailored service and product package designed to surpass their expectations and develop this market segment for the Bank.

Our branches now open longer and more frequently than our competitors. Gulf Bank has pioneered extended evening opening hours and during the Holy Month of Ramadan, the Bank was first in offering evening opening services, a move that was greatly welcomed by customers. In addition to the regular 5-day banking week, 2 branches open on Saturdays, providing Gulf Bank with banking services 6 full days per week.



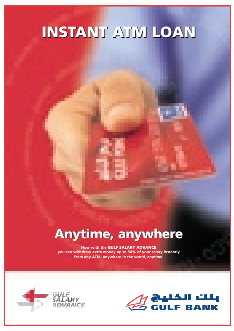
Ramadan Opening Hours

Our Retail team are winning market share because we are satisfying and surpassing our customers' expectations. We are not complacent, we know that excellent service must be delivered everyday to every customer if we are to achieve our 'transformation' targets. Our Retail strategy in 2002 directly addresses the need to further refine and improve our product range, excel in delivering exceptional customer service consistently and enhance our market share.

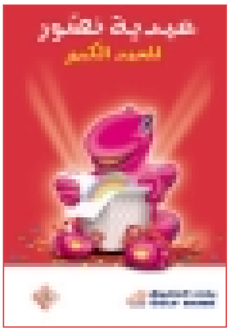
Corporate Banking

During 2001 Gulf Bank's Corporate Banking Unit achieved several major milestones in the growth of its business-to-business banking.

The Bank's corporate client portfolio was augmented with the attraction of several new 'blue chip' clients. This not only enhanced the value and volume of business undertaken by our Corporate unit, but vindicated the Bank's strategy of attracting



Gulf Salary Advance



Nassour's Children Account

Renovated Salmiyah Co-op Branch

Renovated Branch Interior

24/7 Self Service Branch

clients where it could deepen the relationship by focusing on the provision of a 'total' banking solution. This initiative also resulted in the growth of our merchant acquisition program, the increased utilisation of the Bank's centralised Cash Management Services and the broadening of its electronic point-of-sale network. Corporate Banking quickly gained the reputation of 'The Businessman's Bank' in 2001.

During 2001 we pursued our strategy of increasing market share in key business sectors by creating specialist business teams, focused solely on the needs of clients in those sectors. Through these experienced and specialists, focused on the needs of their respective business sector, the Bank was able to enhance its margins and broaden its customer base. The establishment of a Small Business Unit was also completed in 2001 and it will be fully operational in early 2002. It has a clear mission and is staffed by experienced bankers who are committed to growing the Bank's market share in this important business sector.

Significant improvements were made to our operations and risk management functions. By the end of 2001 the Bank had improved the level of collateral coverage on corporate loans to 55%. This had been made possible by enhancing the prudent and thorough credit evaluation process used by the Bank and selecting those ventures which offer the benchmark risk adjusted return. The Bank's transformation program continues, with further enhancements planned for 2002.

International Banking

International Banking focused their resources in sectors where the Bank could generate added value and support key clients, internationally. In particular, the Bank's support for clients in the Oil, Multinational Trade and the Financial sectors increased in response to the Bank's proactive marketing to these sectors.

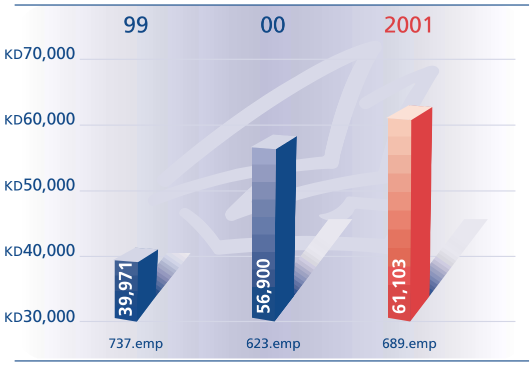
Gulf Bank remains one of the most active and experienced Kuwaiti banks supporting the oil and oil related sectors. A strong focus on improving the Bank's margins while deepening relationships led to bottom line improvements as well as a diversification of earnings from overseas. International Banking's new business thrust will continue into 2002 as the team benefit from the broadening of its business base in 2001.

During 2001 the Bank was successful in obtaining high quality international credits and improving its margins by the selective penetration of new regional and international markets. In 2002 the Unit will continue to actively increase business by focusing on areas of higher margin potential, which offer the appropriate risk-weighted return. It will continue its improved penetration within the region and selective international markets, in addition to supporting the needs of our domestic customers who can benefit from our correspondent network and expertise.

Human Resources

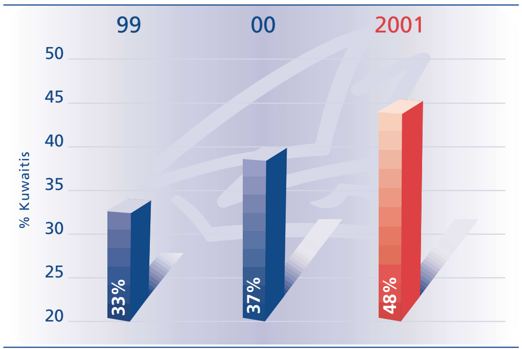
Our Human Resource plan in 2001 was focused on building a dynamic, customer focused and sales driven team. Our staff and our strategy are focused on results. Gulf Bank's staff now produce amongst the highest net profit per employee in the Kuwaiti banking sector.

Net Profit per Employee



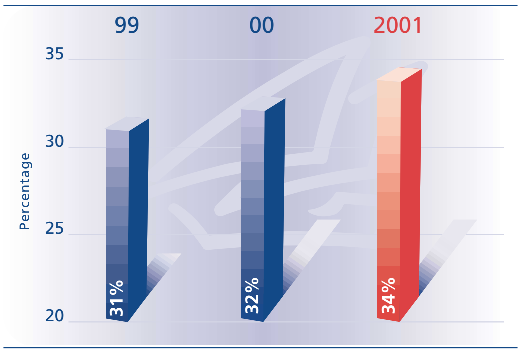
The Bank actively recruits talented and experienced staff from within and outside Kuwait, using internationally certified assessment tools and interviewing techniques. We sourced Kuwaiti graduates and post-graduates in campuses in Kuwait, USA and other countries. Once on board, employees benefit from training programs developed specifically to upgrade their job skills and enhance their career prospects.

Kuwaitis Recruited in 1999 to 2001



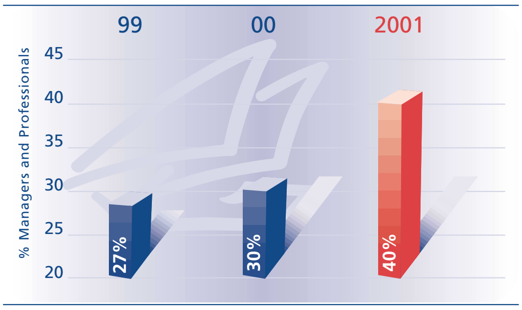
The Bank maintained an aggressive Kuwaitization initiative throughout 2001, achieving superior results by attracting more and better skilled staff.

Kuwaiti % Bankwide
16% increase in Kuwaiti staff



We believe that these talented Kuwaiti graduates, following the appropriate training and work experience, who display high levels of performance will become the Bank's management in the future. We continue to develop and up-skill Kuwaitis through our extensive training programs, paving the way for them in the organization.

Kuwaiti Managers & Professionals

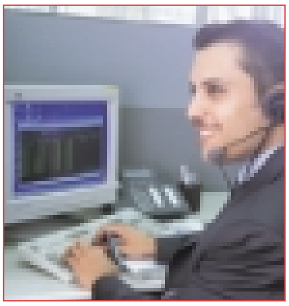


Increase in Kuwaiti Managers and Professionals from 1999 to 2001

e-banking

Information Technology

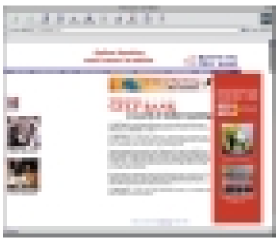
The Bank's IT and operations team have provided a stable and secure platform from which all new product and service initiatives have been launched. The IT unit has been transformed from a traditional support unit to a business enabler .



24 hour Call center (805 805)

Gulf Bank has made major improvements to its technology base through the use of open system platforms, allowing for the speedier module integration and upgrades. This enhanced technology platform now enables the Bank to close the historical gap with competitors and provides a basis for gaining a competitive advantage. Our IT team have a strong customer focus and they have re-aligned our systems to develop and launch new products faster than ever before, create more innovative and dynamic services than previously attempted and reduce our operating costs through greater efficiencies and office automation.

We have completed year one of an ambitious three year investment plan in IT. In 2001 we introduced new e-banking delivery channels, supported the introduction of the most advanced Telebanking solution in the Middle East, upgraded the ATM operating infrastructure in order to support our 24 hour self-service branches and supported the launch of 22 new products. In addition we upgraded and replaced out-dated systems, which fell short of our new service standards.



e-gulfbank.com

In Gulf Bank, IT is a business enabler. We believe in technology that serves a defined end and we are focused on delivering our products and services to our customers in a faster, easier and user friendly manner at the lowest possible cost. Our IT investment is aligned to meet these objectives.

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2001 financial review

PricewaterhouseCoopers
Bader & Co.
P. O. Box 20174
13062 Safat, Kuwait

Ernst & Young
Al Aiban, Al Osaimi & Partners
P. O. Box 74
13001 Safat, Kuwait

Auditors' Report to the Shareholders

We have audited the accompanying balance sheet of Gulf Bank K.S.C as of 31 December 2001 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 2001, the results of its operations and its cash flows 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, nor of the Articles of Association have occurred during the year ended 31 December 2001 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 2001.

Bader A. Al-Wazzan
Licence No. 62 A
Of PricewaterhouseCoopers

Waleed A. Al Osaimi
Licence No. 68 A
Of Ernst & Young

6 January 2002
Kuwait

Balance Sheet *As at 31 December 2001*

	Note	2001 KD 000's	2000 KD 000's
ASSETS			
Cash and short term funds	3	**342,053**	63,568
Treasury bills and bonds	4	**361,357**	373,056
Deposits with banks and other financial institutions	5	**25.072**	116,036
Loans and advances to banks	6	**79,021**	186,711
Loans and advances to customers	6	**908,039**	750,110
Investment securities	7	**84,334**	56,478
Government debt bond	8	**55,310**	74,311
Other assets	9	**12,935**	23,297
Premises and equipment		**10,088**	9,907
TOTAL ASSETS		**1,878,209**	1,653,374
LIABILITIES & EQUITY			
LIABILITIES			
Due to banks	10	**294,207**	226,201
Deposits from financial institutions	10	**127,103**	41,706
Customer deposits	11	**1,190,199**	1,145,253
Other liabilities	12	**30,616**	31,808
		1,642,125	1,444,968
SHAREHOLDERS' EQUITY			
Share capital	13	**82,086**	82,086
Reserves	14	**135,335**	112,836
Treasury shares		**(13,322)**	(13,838)
		204,099	181,084
Proposed dividend	15	**31,985**	27,322
		236,084	208,406
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**1,878,209**	1,653,374

These financial statements have been approved for issue by the Board of Directors on 6th of January, 2002 and signed on its behalf by:

Bassam Yusuf Alghanim
(Chairman & Managing Director)

David Pace
(Corporate Controller)

KD 1 = US$ 3.26 STG 2.25 EUR 3.68
The attached notes 1 to 24 form part of these financial statements

Income Statement *Year ended 31 December 2001*

	Note	2001 KD 000's	2000 KD 000's
Interest income	16	**108,229**	124,415
Interest expense	17	**59,075**	84,444
NET INTEREST INCOME		**49,154**	39,971
Net fees and commissions		**12,236**	8,861
Net gains from dealing in foreign currencies & derivatives		**1,757**	1,608
Other income		**683**	1,885
OPERATING INCOME		**63,830**	52,325
Staff Expenses		**9,471**	8,925
Occupancy Costs		**713**	611
Depreciation		**1,274**	1,334
Other expenses		**3,895**	3,049
OPERATING EXPENSES		**15,353**	13,919
Provisions for impairment of financial assets		**4,856**	2,197
		20,209	16,116
OPERATING PROFIT		**43,621**	36,209
Contribution to Kuwait Foundation for the Advancement of Sciences		**785**	652
Directors' emoluments		**108**	108
National labour support tax		**591**	-
NET PROFIT FOR THE YEAR		**42,137**	35,449
EARNINGS PER SHARE (Fils)	18	**51.895**	45.383

KD 1 = US$ 3.26 STG 2.25 EUR 3.68
The attached notes 1 to 24 form part of these financial statements

Cash Flow Statement *Year ended 31 December 2001*

	2001 KD 000's	2000 KD 000's
OPERATING ACTIVITIES		
Net Profit for the year	**42,137**	35,449
Adjustments:		
Depreciation	**1,274**	1,334
Provisions for impairment of financial assets	**4,856**	2,197
Dividend income	**(1,165)**	1,072
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	**47,102**	40,052
(Increase) decrease in operating assets:		
Treasury bills and bonds	**11,699**	7,849
Deposits with banks and other financial institutions	**90,964**	83,945
Loans and advances to banks	**107,690**	(101,735)
Loans and advances to customers	**(161,700)**	(146,864)
Government debt bonds	**19,001**	173,510
Other assets	**10,262**	(11,780)
Increase (decrease) in operating liabilities:		
Due to banks	**66,714**	(270,341)
Deposits from financial institutions	**86,689**	(7,968)
Customer deposits	**44,946**	149,288
Other liabilities	**(2,177)**	(2,494)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**321,190**	(86,538)
INVESTING ACTIVITIES		
Purchase of premises and equipment	**(1,257)**	(72)
Sale of investment securities	**25,063**	35,560
Purchase of investment securities	**(45,545)**	(16,828)
Dividends received	**1,165**	1,768
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(20,574)**	20,428
FINANCING ACTIVITIES		
Dividends paid	**(27,422)**	(26,266)
Sale (purchase) of treasury shares	**5,291**	(4,133)
NET CASH USED IN FINANCING ACTIVITIES	**(22,131)**	(30,399)
NET INCREASE (DECREASE) IN CASH AND SHORT-TERM FUNDS	**278,485**	(96,509)
CASH AND SHORT-TERM FUNDS AT 1 JANUARY	**63,568**	160,077
CASH AND SHORT-TERM FUNDS AT 31 DECEMBER	**342,053**	63,568

KD 1 = US$ 3.26 STG 2.25 EUR 3.68
The attached notes 1 to 24 form part of these financial statements

Statement of Changes in Equity

Year ended 31 December 2001

		RESERVES										
	SHARE CAPITAL KD 000's	STATUTORY RESERVE KD 000's	GENERAL RESERVE KD 000's	SHARE PREMIUM KD 000's	PROPERTY REVALUATION RESERVES KD 000's	TREASURY SHARE RESERVE KD 000's	FAIR VALUATION RESERVE KD 000's	RETAINED EARNINGS KD 000's	SUBTOTAL RESERVES KD 000's	TREASURY SHARES KD 000's	PROPOSED DIVIDEND KD 000's	TOTAL KD 000's
At 31 December 1999	82,086	30,656	2,356	46,044	6,794	-	-	19,185	105,035	(9,705)	25,762	203,178
Net profit for year	-	-	-	-	-	-	-	35,449	35,449	-	-	35,449
Proposed dividend	-	-	-	-	-	-	-	(27,322)	(27,322)	-	27,322	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	(25,762)	(25,762)
Transfers from profit	-	3,621	-	-	-	-	-	(3,621)	-	-	-	-
Surplus on revaluation of properties	-	-	-	-	(326)	-	-	-	(326)	-	-	(326)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(4,133)	-	(4,133)
At 31 December 2000	**82,086**	**34,277**	**2,356**	**46,044**	**6,468**	**-**	**-**	**23,691**	**112,836**	**(13,838)**	**27,322**	**208,406**
Restatement in accordance with IAS 39	-	-	-	-	-	-	-	3,487	3,487	-	-	3,487
Ammended balance at 1 January 2001	**82,086**	**34,277**	**2,356**	**46,044**	**6,468**	**-**	**-**	**27,178**	**116,323**	**(13,838)**	**27,322**	**211,893**
Net profit for year	-	-	-	-	-	-	-	42,137	42,137	-	-	42,137
Sale of treasury shares	-	-	-	-	-	-	-	-	-	13,532	-	13,532
Profit on sale of treasury shares	-	-	-	-	-	4,775	-	-	4,775	-	-	4,775
Proposed dividend	-	-	-	-	-	-	-	(31,985)	(31,985)	-	31,985	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	(27,322)	(27,322)
Effect of changes in fair values of "available for sale" financial assets as at 31/12/2001	-	-	-	-	-	-	4,466	-	4,466	-	-	4,466
Net realised (gains) during the year	-	-	-	-	-	-	-	(579)	(579)	-	-	(579)
Transfers from profit	-	4,362	-	-	-	-	-	(4,362)	-	-	-	-
Surplus on revaluation of properties	-	-	-	-	198	-	-	-	198	-	-	198
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(13,016)	-	(13,016)
At 31 December 2001	**82,086**	**38,639**	**2,356**	**46,044**	**6,666**	**4,775**	**4,466**	**32,389**	**135,335**	**(13,322)**	**31,985**	**236,084**

The attached notes 1 to 24 form part of these financial statements

Notes to Financial Statements *31 December 2001*

1 Incorporation and Registration

Gulf Bank K.S.C. is a public shareholding company incorporated in Kuwait on 29th October 1960 and is registered as a bank with the Central Bank of Kuwait and its registered office is at Mubarak Al Kabir Street, P O Box 3200, 13032 Safat, Kuwait. The number of employees as of 31 December 2001 was 689 (2000: 623).

2 Significant Accounting Policies

a) Basis of presentation

These financial statements have been prepared in conformity with International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC) and interpretations issued by the Standing Interpretations Committee of the IASC . The financial statements are prepared under the historical cost basis of measurement as modified by the revaluation of financial assets held as available for sale, all derivative contracts and land and buildings.

The financial statements have been presented in Kuwaiti Dinars.

In 2001, the Bank adopted IAS 39 Financial Instruments: Recognition and Measurement. The financial effects of adopting IAS 39 are reported in the Statement of Changes in Equity. Further information is disclosed in the accounting policies. IAS 39 has been applied prospectively in accordance with the requirements of the standard and therefore comparative financial information has not been restated.

b) Recognition, classification and measurement of financial instruments

In accordance with IAS 39 the Bank reclassified financial instruments as “loans and receivables originated by the bank” and “available for sale”; the Bank did not have any financial instruments that required to be classified as “held for trading” and “held for maturity”. Those classified as “available for sale” are carried at fair values. Those classified as “loans and receivables originated by the bank” are carried at amortised cost. Any adjustment of the opening carrying amounts arising from such re-measurement has been recognised as an adjustment of the opening retained earnings.

A financial asset or a financial liability is recognised when the bank becomes a party to the contractual provisions of the instrument. A financial asset is de-recognised when the bank loses control of the contractual rights that comprise the financial asset and a financial liability is de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

All financial assets are initially recognised at cost (which includes transaction costs) or amortised cost (where applicable).

On subsequent re-measurement of financial instruments, unrealised gains and losses arising from changes in fair value of those classified as "available for sale" are taken to fair valuation reserve in equity. When the "available for sale" asset is disposed of, or impaired, the related accumulated fair value adjustments are transferred to the income statement as gains or losses. Fair values are based on quoted closing bid prices or using the current market rate of interest for that instrument. Fair values for unquoted equity instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

"Loans and receivables originated by the bank" are carried at amortised cost using the effective yield method, less any provision for impairment.

Derivative instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently measured at their fair value.

The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet. The resultant gains and losses are included in income.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset, or a group of similar assets, may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined based on the net present value of future cash flows, discounted at original interest rates and any impairment loss is recognised in the statement of income.

The provision for impairment of loans and advances also covers losses where there is objective evidence that probable losses are present in components of the loans and advances portfolio at the balance sheet date. These have been estimated based on the historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic environment in which the borrowers operate.

A loss is recognised in income when a financial asset is impaired.

c) Loans and advances

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are classified as "loans and receivables originated by the bank". Third party expenses such as legal fees, incurred in granting a loan are treated as part of the cost of the transaction.

All loans and advances are recognised when cash is advanced to borrowers or a facility to overdraw is provided.

Loans and advances are written off when there is no realistic prospect of recovery.

d) Investment securities

Securities acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in value, interest rates or exchange rates are classified as "available for sale".

Debt instruments acquired directly from the original issuer and not held for trading are classified as "loans and receivables originated by the bank".

Management determines the appropriate classification of this investment at the time of acquisition.

e) Provisions

Provisions are recognised when, as a result of past events, it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation and the amount can be reliably estimated.

f) Treasury shares

The cost of the Bank's own shares purchased, including directly attributable costs, is recognised as a change in equity. Gains or losses arising on sale are separately disclosed under shareholders' equity and in accordance with the instructions of Central Bank of Kuwait, these amounts are not available for distribution.

g) Revenue recognition

Interest receivable and payable are recognised on a time proportion basis taking account of the principal outstanding and the rate applicable. Once a financial instrument categorised as "loans and receivables originated by the bank" is written down to its estimated recoverable amount, interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Other fees receivable or payable including loan commitment fees are recognised when due. Dividend income is recognised when the right to receive payment is established.

h) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

i) Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognised using settlement date accounting. Changes in fair value between the trade date and settlement date are recognised in income. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

j) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies and the forward foreign exchange contracts outstanding at the year-end are translated into Kuwaiti Dinars at rates of exchange ruling at the balance sheet date. Any resultant gains or losses are taken to the income statement.

3 Cash and Short Term Funds

	2001 KD 000's	2000 KD 000's
Balances with the Central Bank of Kuwait	**172,095**	22,473
Cash on hand and in current accounts with other banks	**11,740**	14,919
Money at call and short notice	**51,003**	2,680
Deposits with banks and other financial institutions maturing within one month	**107,215**	23,496
	342,053	63,568

Cash and short term funds consist of cash in hand and on current account with other banks together with money at call and deposits with banks and other financial institutions maturing within one month.

Cash and short term funds are classified as "loans and receivables originated by the bank".

4 Treasury Bills and Bonds

These financial instruments are issued by the Central Bank of Kuwait on behalf of the Ministry of Finance. They mature within a period not exceeding one year.

Treasury bills and bonds are classified as "loans and receivables originated by the bank"

5 Deposits with Banks and Other Financial Institutions

	2001 KD 000's	2000 KD 000's
Time deposits	**25,072**	116,036

Deposits with banks and other financial institutions are classified as "loans and receivables originated by the bank".

6 Loans and Advances to Banks and Customers

Loans and advances represent monies paid to banks and customers and are classified as "loans and receivables originated by the bank". The Bank's assessment of the credit risk concentration, based on the primary purpose of the loans and advances given, is provided below.

At 31 December 2001:

Loans and advances to customers

	KUWAIT KD 000's	OTHER MIDDLE EAST KD 000's	WESTERN EUROPE KD 000's	ASIA AND PACIFIC KD 000's	REST OF WORLD KD 000's	TOTAL KD 000's
Personal	**172,780**	**-**	**-**	**-**	**-**	**172,780**
Financial	**107,522**	**116**	**19**	**-**	**5**	**107,662**
Trade and commerce	**162,253**	**7,626**	**-**	**-**	**-**	**169,879**
Crude oil and gas	**7,067**	**2,359**	**-**	**-**	**-**	**9,426**
Construction	**81,257**	**2,130**	**989**	**992**	**-**	**85,368**
Government	**-**	**-**	**-**	**-**	**1,248**	**1,248**
Others	**84,822**	**3,822**	**-**	**999**	**-**	**89,643**
Manufacturing	**38,458**	**-**	**-**	**-**	**-**	**38,458**
Real estate	**271,535**	**-**	**-**	**-**	**-**	**271,535**
	925,694	**16,053**	**1,008**	**1,991**	**1,253**	**945,999**
	Less:	provision for impairment				**37,960**
						908,039
Loans and advances to banks	**18,231**	**6,883**	**40,699**	**10,136**	**3,686**	**79,635**
	Less:	provision for impairment				**614**
						79,021

At 31 December 2000:

Loans and advances to customers

	KUWAIT KD 000's	OTHER MIDDLE EAST KD 000's	WESTERN EUROPE KD 000's	ASIA AND PACIFIC KD 000's	REST OF WORLD KD 000's	TOTAL KD 000's
Personal	125,405	-	-	-	-	125,405
Financial	55,929	978	840	-	-	57,747
Trade and commerce	143,200	6,129	-	750	-	150,079
Crude oil and gas	9,298	436	-	2,36	-	9,970
Construction	68,563	3,839	975	-	-	73,377
Government	-	1,051	-	-	4,154	5,205
Others	75,286	3,032	-	889	-	79,207
Manufacturing	38,053	162	-	-	-	38,215
Real estate	249,533	-	-	-	-	249,533
	765,267	15,627	1,815	1.875	4,154	788,738
	Less:	provision for impairment				38,628
						750,110
Loans and advances to banks	90,638	6,796	34,907	27,554	26,816	**186,711**
	Less:	provision for impairment				**-**
						186,711

Loans and Advances to Banks and Customers "CONTINUED"

Movement in provisions for impairment

	SPECIFIC KD 000's	GENERAL KD 000's	2001 TOTAL KD 000's	SPECIFIC KD 000's	GENERAL KD 000's	2000 TOTAL KD 000's
At 1 January	24,320	14,308	38,628	36,458	10,146	46,604
Exchange adjustments	108	-	108	(201)	-	(201)
Reclassification	3	25	28	(3,225)	4,406	1,181
Recoveries	196	-	196	333	-	333
Amounts written off	(3,676)	-	(3,676)	(10,896)	-	(10,896)
Amounts to be ceded to Central Bank of Kuwait	(300)	-	(300)	(346)	-	(346)
Income statement	520	3251	3,771	2,197	-	2,197
Transfer to pre-invasion L/C provision	-	-	-	-	(244)	(244)
Transfer to provision for "assets sold"	-	(226)	(226)	-	-	-
At 31 December	**21,171**	**17,358**	**38,529**	24,320	14,308	**38,628**

The policy of the Bank for the calculation of the impairment provisions for loans and advances complies in all material respects with the specific and general provision requirements of the Central Bank of Kuwait. The Central Bank of Kuwait requires a general provision of 2% on all credit facilities not subject to specific provision. The analysis of specific and general provision set out above is based on the requirements of the Central Bank of Kuwait. Current year provision for cash facilities is KD 38,529,000 in addition to KD 45,000 as interest in suspense. In addition to provision for cash facilities, the available provision for non-cash facilities of KD 4,934,000 is included in other liabilities.

As at 31 December 2001, non-performing loans and advances amounted to KD 39,657,000 (2000: KD 42,596,000) split between facilities granted pre-invasion and post-liberation as follows:

	2001		2000	
	LOANS & ADVANCES KD 000's	PROVISIONS KD 000's	LOANS & ADVANCES KD 000's	PROVISIONS KD 000's
Pre-invasion	**14,108**	**14,108**	18,467	16,592
Post-Liberation	**25,549**	**7,063**	24,129	7,728
Total	**39,657**	**21,171**	**42,596**	**24,320**

In accordance with Decree No. 32/1992, when the pre-invasion provisions are no longer required they must be repaid to the Central Bank of Kuwait.

7 Investment Securities

	2001 KD 000's	2000 KD 000's
Debt securities		
Quoted	**31,548**	-
Unquoted	**6,937**	7,733
	38,485	7,733
Equity securities		
Quoted	**10,584**	24,011
Unquoted	**35,265**	33,605
	45,849	57,616
Less:		
Provision for impairment	**-**	(8,871)
	84,334	**56,478**

On adoption of IAS 39 effective 1 January 2001, the Bank classified its investment securities as "available for sale" assets and re-measured them at fair value resulting in an unrealised gain of KD 3,487,000 which was taken to opening retained earnings as of 1 January 2001. During the year the Bank recognised KD 4,111,000 in equity as the net gain arising from the fair valuation of investment securities and re-cycled a profit of KD 224,000 to income arising from the disposal of "available for sale" investment securities.

8 Government Debt Bonds

Government debt bonds are classified as "loans and receivables originated by the bank".

The Central Bank of Kuwait purchased resident Kuwaiti and GCC customers' debts existing at 1 August 1990, in addition to related interest up to 31 December 1991, on behalf of the Government of Kuwait in accordance with Decree Law No. 32/1992 and Law No. 41/1993, as amended by Law No. 80/1995, in respect of the financial and banking sector. Pursuant to the provisions of Law No. 41/1993, some amendments may be made to customers' debt balances, which are being reviewed by the Central Bank of Kuwait.

The purchase value of these debts was determined in accordance with the Decrees and was settled by the issue of a bond, with a value date of 31 December 1991. The bond matures over a maximum period of twenty years from the value date. The Central Bank of Kuwait has redeemed during 2001, amounts of KD 19,001,000 (2000 KD 173,510,000). Interest on the bonds is at a rate fixed semi-annually by the Central Bank of Kuwait and is payable semi-annually in arrears; the average rate for 2001 was 4.346% (2000: 5.495%).

The Bank is required to manage the purchased debts without remuneration in conformity with the regulations as promulgated by Decree Law No. 32/1992 in this respect.

9 Other Assets

	2001 KD 000's	2000 KD 000's
Accrued interest receivable	**11,715**	21,264
Sundry debtors	**1,220**	1,933
	12,935	**23,197**

Other assets are classified as "loans and receivables originated by the Bank".

10 Due to Banks and Deposits from Financial Institutions

	2001 KD 000's	2000 KD 000's
Due to banks		
Current accounts and demand deposits	**67,405**	23,744
Time deposits	**226,802**	202,457
	294,207	**226,201**
Deposits from financial institutions		
Current accounts and demand deposits	**18,253**	8,460
Time deposits	**108,850**	33,246
	127,103	**41,706**

11 Customer Deposits

	2001 KD 000's	2000 KD 000's
Current accounts	**170,293**	146,660
Savings accounts	**183,011**	178,230
Certificates of deposit	**61,929**	95,147
Time deposits	**774,966**	725,216
	1,190,199	**1,145,253**

12 Other Liabilities

	2001 KD 000's	2000 KD 000's
Interest payable	**11,588**	16,210
Deferred income	**5,071**	2,995
Other	**4,989**	5,680
Provision for non cash facilities	**4,934**	3,849
Provisions to be ceded to the Central Bank of Kuwait	**300**	346
Provision for assets sold	**226**	-
Contribution to Kuwait Foundation for the Advancement of Sciences	**785**	652
Staff related provisions	**2,132**	2076
National labour support tax	**591**	-
	30,616	**31,808**

13 Share Capital

	2001 KD 000's	2000 KD 000's
Authorised, issued and fully paid ordinary Shares	**82,086**	82,086
	82,086	82,086

The number of authorised, issued and fully paid ordinary shares of KD 0.100 each as at 31 December 2001 is 820,858,550 (2000: 820,858,550).

As at 31 December 2001 the Bank held 21,229,236 (2000: 40,223,974) of its treasury shares, equivalent to 2.59% (2000: 4.90%) of the total share capital at that date.

The market value of the treasury shares at 31 December 2001 is KD 13,586,711 (2000: KD 19,709,747).

14 Reserves

In accordance with the law of Commercial Companies and the Bank's Articles of Association, 10% of the Bank's profit for the year is transferred to statutory reserve.

Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount. Also part of this reserve, equivalent to the cost of the treasury shares, has been earmarked as non-distributable.

The general reserve represents the surplus general provision on credit facilities arising on implementation of Central Bank of Kuwait instructions issued on 18 December 1996 as well as additional instructions issued on 1 June 1999, and dividends distributed on treasury shares up until the end of 1997.

The property revaluation reserve represents the surplus of market value over carrying value of freehold lands and buildings owned by the Bank.

The balances in share premium account and treasury shares reserve cannot be distributed and those in property revaluation reserve and fair valuation reserve are taken to income when disposed of. Fair valuation reserve of KD 4,466,000 is arrived at after recycling a loss of KD 355,000 to income arising from the disposal of "available for sale" investment securities during the year.

15 Proposed Dividend

At 31 December 2001, a cash dividend of KD 0.040 per share has been proposed and will be submitted for formal approval at the Annual General Meeting. This dividend (totalling KD 31,985,000) has not been recognised as a liability at 31 December 2001.

During 2000, a cash dividend of KD 0.035 per share proposed as of 31 December 2000, was approved at the 2000 Annual General

Meeting and was paid in 2001 following that approval. That dividend (totalling KD 27,322,000) was not recognised as a liability at 31 December 2000.

16 Interest Income

	2001 KD 000's	2000 KD 000's
Government debt bonds, treasury bills and other investments	**25,247**	32,054
Placements with banks	**12,188**	20,050
Advances to customers	**70,794**	72,311
	108,229	**124,415**

17 Interest Expense

	2001 KD 000's	2000 KD 000's
Call accounts	**2,320**	2,817
Savings accounts	**3,244**	5,209
Time deposits	**40,181**	45,621
Bank borrowings	**13,330**	30,797
	59,075	**84,444**

18 Earnings Per Share

Earnings per share is based on the net profit of KD 42,137,000 (2000: KD 35,449,000) and the weighted average number of ordinary shares of KD 0.100, of 811,959,588 (2000: 781,102,412), after adjusting for treasury shares.

19 Related Party Transactions

Certain related parties (directors and officers of the Bank, their families and companies of which they are principal owners) were customers of the Bank in the ordinary course of business. Such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties, and did not involve more than a normal amount of risk.

Related Party Transactions "CONTINUED"

The year-end balances included in the balance sheet are as follows:

DESCRIPTION	No. of Board or Executive Management Members	No. of Related Parties	Value KD 000's
2001:			
Board Members			
Loans	**5**	**1**	**32,020**
Commitments & Contingent Liabilities	**-**	**2**	**91**
Deposits	**2**	**-**	**11**
Executive Management			
Loans	**4**	**-**	**99**
Deposits	**2**	**-**	**3**
2000:			
Board Members			
Loans	1	2	7,310
Commitments & Contingent Liabilities	-	2	50
Deposits	7	-	33
Executive Management			
Loans	8	-	131
Deposits	7	-	43

20 Financial Instruments

i) Strategy in using financial instruments

As a commercial bank, the Bank's activities are principally related to the use of financial instruments including derivatives. It accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. It also seeks to increase these margins by consolidating short term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that may fall due.

With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

ii) Risk management

The use of financial instruments also brings with it the associated inherent risks. The Bank recognises the relationship between returns and risks associated with the use of financial instruments and the management of risk forms an integral part of the Bank's strategic objectives.

The strategy of the Bank is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the Bank's major risk-based lines of business. The Bank continuously reviews its risk management policies and practices to ensure that the Bank is not subject to large asset valuation volatility and earnings volatility.

Financial Instruments “CONTINUED”

The following sections describe the several risks inherent in the banking process, their nature and how they are managed.

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank’s performance to developments affecting a particular industry or geographic location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business. It also obtains security when appropriate.

Concentration of assets, liabilities and off-balance-sheet items

a. Credit risk concentration

The credit risk concentration within loans and advances, which form the significant portion of assets subject to credit risk, is given in Note 6.

Financial Instruments "CONTINUED"

b. Geographical concentration of assets, liabilities and off-balance-sheet items

At 31 December 2001:

	KUWAIT KD 000's	OTHER MIDDLE EAST KD 000's	WESTERN EUROPE KD 000's	U.S.A AND CANADA KD 000's	ASIA AND PACIFIC KD 000's	REST OF WORLD KD 000's	TOTAL KD 000's
Assets:							
Cash and short term funds	271,208	18,149	50,694	494	1,508	-	342,053
Treasury bills and bonds	361,357	-	-	-	-	-	361,357
Deposits with banks and other financial institutions	25,072	-	-	-	-	-	25,072
Loans and advances to banks	18,231	6,883	40,699	-	10,136	3,072	79,021
Loans and advances to customers	901,967	3,031	222	-	1,975	844	908,039
Investment securities	13,094	41,387	13,849	83	14	15,907	84,334
Government debt bonds	55,310	-	-	-	-	-	55,310
Other assets	12,935	-	-	-	-	-	12,935
Premises and equipment	10,088	-	-	-	-	-	10,088
	1,669,262	69,450	105,464	577	13,633	19,823	1,878,209
Liabilities:							
Due to banks	134,889	96,266	60,573	293	2,163	23	294,207
Deposits from financial institutions	119,212	7,891	-	-	-	-	127,103
Customer deposits	1,169,478	19,976	360	46	260	79	1,190,199
Other liabilities	30,616	-	-	-	-	-	30,616
Shareholders' equity	236,084	-	-	-	-	-	236,084
	1,690,279	124,133	60,933	339	2,423	102	1,878,209
Commitments and contingent liabilities	278,258	11,202	5,629	1,634	77,742	8,305	382,770

At 31 December 2000:

	KUWAIT KD 000's	OTHER MIDDLE EAST KD 000's	WESTERN EUROPE KD 000's	U.S.A AND CANADA KD 000's	ASIA AND PACIFIC KD 000's	REST OF WORLD KD 000's	TOTAL KD 000's
Assets:							
Cash and short term funds	38,007	9,913	13,182	1,927	539	-	63,568
Treasury bills and bonds	373,056	-	-	-	-	-	373,056
Deposits with banks and other financial institutions	98,500	17,536	-	-	-	-	116,036
Loans and advances to banks	90,638	6,796	34,907	-	27,554	26,816	186,711
Loans and advances to customers	743,084	408	995	-	702	4,921	750,110
Investment securities	8,792	11,688	17,881	7,768	40	10,309	56,478
Government debt bond	74,311	-	-	-	-	-	74,311
Other assets	23,197	-	-	-	-	-	23,197
Premises and equipment	9,907	-	-	-	-	-	9,907
	1,459,492	46,341	66,965	9,695	28,835	42,046	1,653,374
Liabilities:							
Due to banks	60,705	38,956	108,644	7,827	10,069	-	226,201
Deposits from financial institutions	35,244	5,718	-	744	-	-	41,706
Customer deposits	1,144,095	1,158	-	-	-	-	1,145,253
Other liabilities	31,808	-	-	-	-	-	31,808
Shareholders' equity	208,406	-	-	-	-	-	208,406
	1,480,258	45,832	108,644	8,571	10,069	-	1,653,374
Commitments and contingent liabilities	222,256	5,836	9,543	5,290	68,382	10,870	322,277

Financial Instruments "CONTINUED"

i) Financial instruments with contractual amounts representing credit risk

The primary purpose of these instruments is to ensure that funds are available to a customer as required. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. However, the total contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

	2001 KD 000's	2000 KD 000's
Letters of credit:		
Sight	**51,020**	55,772
Syndicated	**39,877**	36,989
Acceptance	**28,472**	8,410
Confirmed	**19,492**	1,735
	138,861	**102,906**

ii) Financial instruments with contractual or notional amounts that are subject to credit risk

These derivative financial instruments, comprising foreign exchange and interest rate contracts, allow the Bank and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The amount subject to credit risk is insignificant and is limited to the current replacement value of instruments that are favourable to the Bank, which is only a fraction of the contractual or notional amounts used to express the volumes outstanding. This credit risk exposure is managed as part of the overall borrowing limits granted to customers. Collateral security is not usually obtained for credit risk exposures on these instruments.

Notional Amounts At 31 December 2001	Terms of maturity				
	Up to 1 month KD 000's	**1-3 months KD 000's**	**3-12 months KD 000's**	**Over 1 year KD 000's**	**Total KD 000's**
Foreign exchange contracts Spot and forward	34,914	147,556	96,479	-	278,949

At 31 December 2000	Terms of maturity				
	Up to 1 month KD 000's	**1-3 months KD 000's**	**3-12 months KD 000's**	**Over 1 year KD 000's**	**Total KD 000's**
Foreign exchange contracts Spot and forward	23,423	7,533	22,546	-	53,502

Financial Instruments "CONTINUED"

b) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance-sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

A majority of the Bank's assets and liabilities reprice within one year. Accordingly there is a limited exposure to interest rate risk. The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is an historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The Bank's interest sensitivity position was as follows:

At 31 December 2001:

	UP TO 1 MONTH KD 000's	1-3 MONTHS KD 000's	3-12 MONTHS KD 000's	OVER 1 YEAR KD 000's	NON INTEREST TOTAL KD 000's	KD 000's
Assets:						
Cash and short term funds	326,218	-	-	-	15,835	342,053
Treasury bills and bonds	29,904	50,509	280,944	-	-	361,357
Deposits with banks and other financial institutions	-	5,072	20,000	-	-	25,072
Loans and advances to banks	3,779	40,088	28,765	7,003	(614)	79,021
Loans and advances to customers	141,182	423,273	271,269	110,275	(37,960)	908,039
Investment securities	-	-	6,937	31,548	45,849	84,334
Government debt bonds	-	-	55,310	-	-	55,310
Other assets	-	-	-	-	12,935	12,935
Premises and equipment	-	-	-	-	10,088	10,088
	501,083	518,942	663,225	148,826	46,133	1,878,209
Liabilities:						
Due to banks	237,870	23,767	28,948	-	3,622	294,207
Deposits from financial institutions	79,460	40,236	7,407	-	-	127,103
Customer deposits	708,418	208,195	265,542	1,601	6,443	1,190,199
Other liabilities	-	-	-	-	30,616	30,616
Shareholders' equity	-	-	-	-	236,084	236,084
	1,025,748	272,198	301,897	1,601	276,765	1,878,209

Financial Instruments "CONTINUED"

At 31 December 2000:

	UP TO 1 MONTH KD 000's	1-3 MONTHS KD 000's	3-12 MONTHS KD 000's	OVER 1 YEAR KD 000's	NON INTEREST SENSITIVE KD 000's	TOTAL KD 000's
Assets:						
Cash and short term funds	63,568	-	-	-	-	63,568
Treasury bills and bonds	44,766	55,472	272,818	-	-	373,056
Deposits with banks and other financial institutions	-	82,036	34,000	-	-	116,036
Loans and advances to banks	54,596	68,670	53,813	9,632	-	186,711
Loans and advances to customers	123,235	427,708	144,761	93,034	(38,628)	750,110
Investment securities	-	-	-	16,704	39,774	56,478
Government debt bonds	-	-	74,311	-	-	74,311
Other assets	-	-	-	-	23,197	23,197
Premises and equipment	-	-	-	-	9,907	9,907
	286,165	633,886	579,703	119,370	34,250	1,653,374
Liabilities:						
Due to banks	71,009	39,625	80,497	33,516	1,554	226,201
Deposits from financial institutions	31,182	3,976	5,326	1,222	-	41,706
Customer deposits	615,359	184,102	294,298	12,478	39,016	1,145,253
Other liabilities	-	-	-	-	31,808	31,808
Shareholders' equity	-	-	-	-	208,406	208,406
	717,550	227,703	380,121	47,216	280,784	1,653,374

Effective Interest Rates

At 31 December 2001:

	0%-3% KD 000's	3%-6% KD 000's	6%-9% KD 000's	9%-12% KD 000's	NON INTEREST SENSITIVE KD 000's	TOTAL KD 000's
Assets:						
Cash and short term funds	140,481	185,737	-	-	15,835	342,053
Treasury bills and bonds	-	301,668	59,689	-	-	361,357
Deposits with banks and other financial institutions	3,072	22,000	-	-	-	25,072
Loans and advances to banks	23,848	38,239	17,548	-	(614)	79,021
Loans and advances to customers	110,149	297,283	518,587	19,980	(37,960)	908,039
Investment securities	2,359	2,157	2,421	31,548	45,849	84,334
Government debt bonds	-	55,310	-	-	-	55,310
Other assets	-	-	-	-	12,935	12,935
Premises and equipment	-	-	-	-	10,088	10,088
	279,909	902,394	598,245	51,528	46,133	1,878,209
Liabilities:						
Due to banks	237,829	52,456	300	-	3,622	294,207
Deposits from financial institutions	38,440	88,663	-	-	-	127,103
Customer deposits	551,056	631,465	1,235	-	6,443	1,190,199
Other liabilities	-	-	-	-	30,616	30,616
Shareholders' equity	-	-	-	-	236,084	236,084
	827,325	772,584	1,535	-	276,765	1,878,209

At 31 December 2000:

	0%-3% KD 000's	3%-6% KD 000's	6%-9% KD 000's	9%-12% KD 000's	NON INTEREST SENSITIVE KD 000's	TOTAL KD 000's
Assets:						
Cash and short term funds	7,045	12,085	31,988	-	12,450	63,568
Treasury bills and bonds	-	-	373,056	-	-	373,056
Deposits with banks and other financial institutions	-	-	116,036	-	-	116,036
Loans and advances to banks	954	3,335	133,452	48,970	-	186,711
Loans and advances to customers	42,744	15	464,958	281,021	(38,628)	750,110
Investment securities	-	-	16,704	-	39,774	56,478
Government debt bonds	-	74,311	-	-	-	74,311
Other assets	-	-	-	-	23,197	23,197
Premises and equipment	-	-	-	-	9,907	9,907
	50,743	89,746	1,136,194	329,991	46,700	1,653,374
Liabilities:						
Due to banks	40,319	2,516	177,266	6,100	-	226,201
Deposits from financial institutions	14,639	12,080	14,987	-	-	41,706
Customer deposits	139,028	324,252	642,957	-	39,016	1,145,253
Other liabilities	-	-	-	-	31,808	31,808
Shareholders' equity	-	-	-	-	208,406	208,406
	193,986	338,848	835,210	6,100	279,230	1,653,374

c) Currency Risk

The Bank views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. Hedging transactions are used to manage any significant risk in other currencies.

The Bank had the following significant net exposures denominated in foreign currencies as at 31 December 2001.

	2001 KD 000's	2000 KD 000's
Net assets (liabilities):		
US Dollars	**(6,977)**	(6,468)
Euros	**(17)**	7,409
Sterling Pounds	**56**	(14)
Japanese Yen	**31**	(15)
Jordanian Dinar	**-**	6,102
Others	**(585)**	(7,962)
	(7,492)	**(948)**

Financial Instruments "CONTINUED"

d) Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure that adequate liquidity is maintained.

The maturity profile of the assets and liabilities at the year end based on contractual repayment arrangements is as follows:

At 31 December 2001:

	UP TO 1 MONTH KD 000's	1-3 MONTHS KD 000's	3-6 MONTHS KD 000's	6 MONTHS TO 1 YEAR KD 000's	1 TO 3 YEARS KD 000's	OVER 3 YEARS KD 000's	TOTAL KD 000's
Assets:							
Cash and short term funds	342,053	-	-	-	-	-	342,053
Treasury bills and bonds	29,904	50,509	81,038	199,906	-	-	361,357
Deposits with banks and other financial institutions	-	5,072	10,000	10,000	-	-	25,072
Loans and advances to banks	94	16,905	13,253	32,405	14,828	1,536	79,021
Loans and advances to customers	95,676	68,859	148,240	143,466	132,306	319,492	908,039
Investment securities	-	-	-	42,132	42,202	-	84,334
Government debt bonds	-	-	-	-	-	55,310	55,310
Other assets	12,935	-	-	-	-	-	12,935
Premises and equipment	-	-	-	-	-	10,088	10,088
Total assets	480,662	141,345	252,531	427,909	189,336	386,426	1,878,209
Liabilities:							
Due to banks	239,937	23,767	28,951	-	-	1,552	294,207
Deposits from financial institutions	79,460	40,236	2,582	4,825	-	-	127,103
Customer deposits	714,861	208,195	131,152	134,051	1,940	-	1,190,199
Other liabilities	22,187	-	5,071	3,358	-	-	30,616
Shareholders' equity	-	31,985	-	-	-	204,099	236,084
Total liabilities	1,056,445	304,183	167,756	142,234	1,940	205,651	1,878,209
Net liquidity gap	(575,783)	(162,838)	84,775	285,675	187,396	180,775	-

Financial Instruments "CONTINUED"

At 31 December 2000:

	UP TO 1 MONTH KD 000's	1-3 MONTHS KD 000's	3-6 MONTHS KD 000's	6 MONTHS TO 1 YEAR KD 000's	1 TO 3 YEARS KD 000's	OVER 3 YEARS KD 000's	TOTAL KD 000's
Assets:							
Cash and short term funds	63,568	-	-	-	-	-	63,568
Treasury bills and bonds	44,766	55,472	120,333	152,485	-	-	373,056
Deposits with banks and other financial institutions	-	82,036	32,000	2,000	-	-	116,036
Loans and advances to banks	38,126	53,950	54,347	29,013	9,748	1,527	186,711
Loans and advances to customers	117,766	73,525	16,928	90,445	162,036	289,410	750,110
Investment securities	-	-	-	13,590	42,888	-	56,478
Government debt bonds	-	-	-	-	-	74,311	74,311
Other assets	21,264	-	-	1,933	-	-	23,197
Premises and equipment	-	-	-	-	-	9,907	9,907
Total assets	285,490	264,983	223,608	289,466	214,672	375,155	1,653,374
Liabilities:							
Due to banks	71,009	39,625	24,720	55,779	35,068	-	226,201
Deposits from financial institutions	31,182	3,976	1,350	3,974	1,224	-	41,706
Customer deposits	654,375	184,102	152,347	141,951	11,562	916	1,145,253
Other liabilities	26,737	-	2,995	2,076	-	-	31,808
Shareholders' equity	-	27,322	-	-	-	181,084	208,406
Total liabilities	783,303	255,025	181,412	203,780	47,854	182,000	1,653,374
Net liquidity gap	(497,813)	9,958	42,196	85,686	166,818	193,155	-

21 Fair Value of Financial Assets and Liabilities

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

Fair values of interest bearing financial assets and liabilities not represented on the Bank's balance sheet at fair values have been estimated using prevailing interest rates for debts with similar credit risk and residual maturity. The carrying value of such financial instruments generally approximates their fair values.

Fair value of government debt bonds cannot be determined with sufficient reliability as future cash flows cannot be determined reliably.

22 Contingent Liabilities and Commitments

	2001 KD 000's	2000 KD 000's
Guarantees:		
Contract	**113,034**	116,754
Tender	**64,159**	39,827
Syndicated	**20,109**	17,956
Other	**46,607**	44,834
	243,909	**219,371**

The financial statements do not reflect the following commitments and contingent liabilities which arise in the normal course of business.

Irrevocable commitments to extend credit at the balance sheet date amounted to KD 41,070,180 (2000: KD 21,907,000). All of the commitments expire within 5 years.

23 Segmental Analysis

i) By Business Units

As at 31 December 2001	TREASURY & INTERNATIONAL KD 000's	DOMESTIC BANKING KD 000's	TOTAL KD 000's
Income Statements:			
Interest Income from external Sources	45,157	63,072	108,229
Net Profit	7,975	34,162	42,137
Balance Sheets:			
Assets			
Net Assets	949,964	928,245	1,878,209
Liabilities			
Deposits	688,011	923,498	1,611,509
Other Liabilities	24,610	6,006	30,616
Central Treasury	1,259	(1,259)	-
Shareholders' Equity	236,084	-	236,084
	949,964	928,245	1,878,209

Segmental Analysis "CONTINUED"

As at 31 December 2000	TREASURY & INTERNATIONAL KD 000's	DOMESTIC BANKING KD 000's	TOTAL KD 000's
Income Statements:			
Interest Income from external Sources	69,245	55,170	124,415
Net Profit	5,350	30,099	35,449
Balance Sheets:			
Assets			
Net Assets	878,595	774,779	1,653,374
Liabilities			
Deposits	650,428	762,732	1,413,160
Other Liabilities	-	31,808	31,808
Central Treasury	19,761	(19,761)	-
Shareholders' Equity	208,406	-	208,406
	878,595	774,779	1,653,374

ii) By Geographical Area

All significant segment revenue from external customers is derived from customers based in Kuwait. Geographic segment information relating to location of assets is given in note 20 A.

24 Reclassification

Certain comparative amounts have been reclassified.