ANNUAL REPORT AND ACCOUNTS 2003

مؤسسة الخليج للاستثمار
Gulf Investment Corporation

Mission Statement

Gulf Investment Corporation is a leading regional financial institution that was established under the auspices of the Gulf Cooperation Council and is equally owned by the governments of the six member states: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

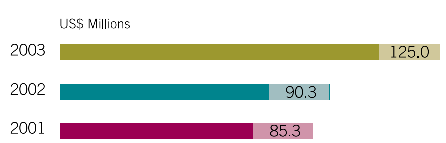
We are committed to provide a comprehensive range of financial services that support the development of private enterprise and economic growth in the Gulf region.

Contents

Financial Highlights

(US$ Million)	2003	2002	2001
For the year			
Net Interest Income	91.0	79.2	48.8
Other Income	87.2	43.6	51.7
Operating Expenses	30.2	28.0	26.9
Income from Discontinued Operations	-	-	26.7
Net Income	125.0	90.3	85.3
At year end			
Total Assets	6,695.3	5,804.9	5,541.0
Trading Securities & Managed Funds	411.9	308.7	220.6
Investment Securities	4,325.9	3,564.1	3,055.6
Loans & Credit Funds	445.8	426.8	487.9
Deposits	1,904.0	1,705.1	1,464.8
Shareholders' Equity	1,285.9	1,178.1	1,151.7
Selected Ratios (%)			
Profitability			
Return on Paid-up Capital	16.7	12.0	11.4
Return on Adjusted Shareholders' Equity	11.3	8.3	7.3
Capital			
BIS ratios			
- Total	38.5	35.0	35.9
- Tier 1	38.4	34.9	35.8
Shareholders' Equity as a % of Total Assets	19.2	20.3	20.8
Asset Quality			
Loans & Credit funds as a % of Total Assets	6.7	7.4	8.8
Marketable Securities as a % of Total Assets	64.7	60.1	55.1
GCC & OECD country risk as a % of Total Assets	99.2	99.3	95.9
Liquidity			
Liquid Assets Ratio	79.5	76.3	71.7
Productivity			
Operating Income as Multiple of Operating Expenses	5.9	4.4	3.7

Net Income



Total Assets

Shareholders' Equity

Board of Directors

Sultanate of Oman

H.E. Darwish bin Ismail bin Ali Al-Bulushi §
Chairman
Undersecretary of Financial Affairs
Ministry of Finance

H.E. Abdul Kader Askalan §§
Chief Executive Officer
Oman Arab Bank

State of Qatar

H.E. Shaikh Fahad bin Faisal Al-Thani *
Deputy Chairman
Deputy Governor, Qatar Central Bank

H.E. Dr. Hussain Al-Abdulla §§
Deputy Secretary General for Investment Affairs
Supreme Council for Economic Affairs and Investment

State of Kuwait

H.E. Dr. Yousef Hamad Al-Ebraheem §
Advisor to the Prime Minister of
the State of Kuwait

H.E. Mr. Abdulmohsen Yousef Al-Hunaif **
Undersecretary, Ministry of Finance

United Arab Emirates

H.E. Mr. Rashed Ahmed Rasheed §§
Deputy General Manager
Emirates Management Services Corporation

H.E. Mr. Shabib Ahmed bin Rashed bin Shabib §
Director of Industrial Development Department
Ministry of Finance and Industry

Kingdom of Bahrain

H.E. Mr. Khalid A. Al-Bassam §§
Deputy Governor
Bahrain Monetary Agency

H.E. Dr. Zakaria Ahmed Hejres §
Assistant Undersecretary for Economic Affairs
Ministry of Finance and National Economy

Kingdom of Saudi Arabia

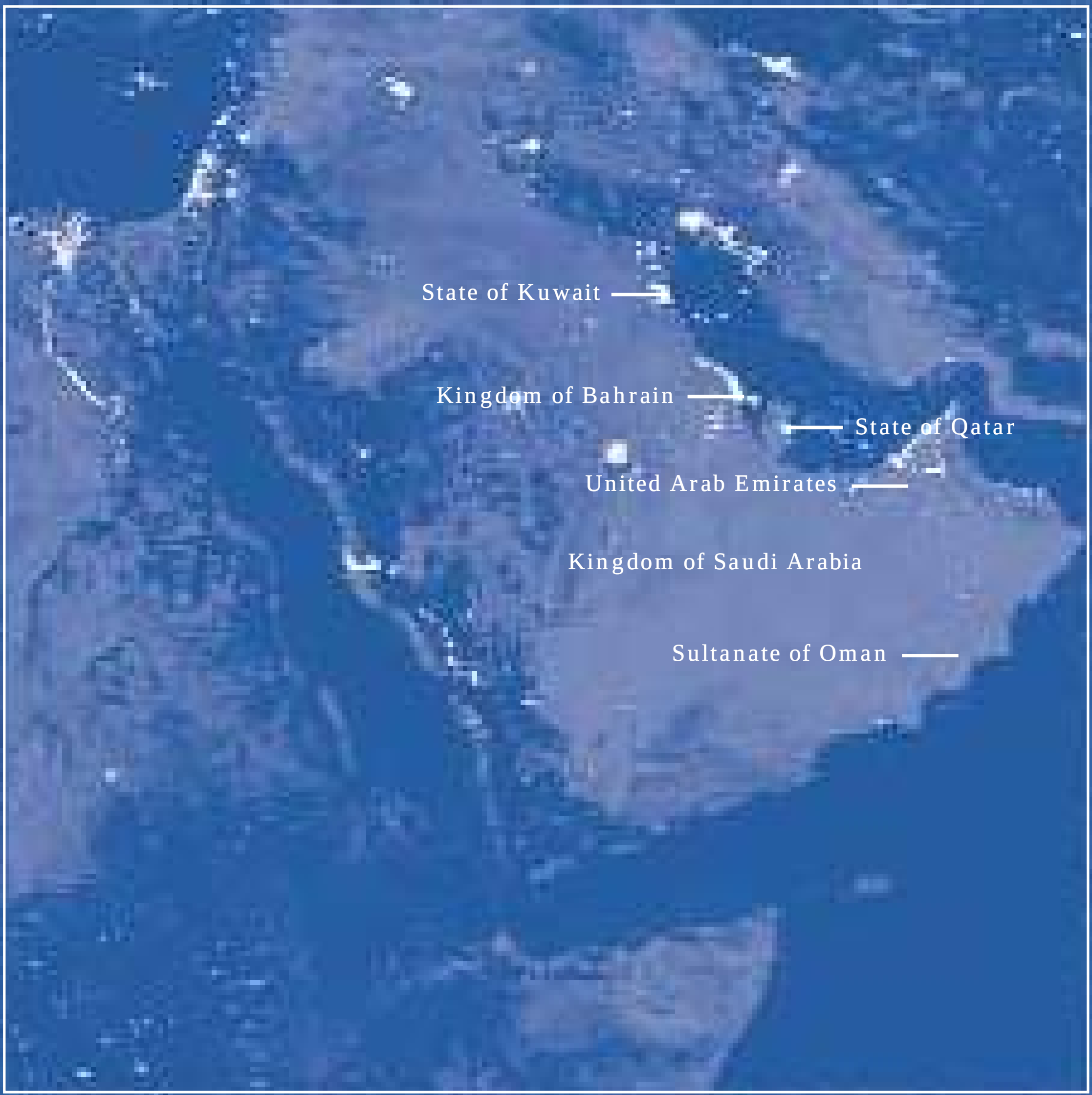
H.E. Mr. Ibrahim M. Al-Romaih §
Assistant Secretary General
Public Investment Fund, Ministry of Finance

H.E. Mr. Mohammed S. Dobaib §§
Acting Assistant Director General (Projects)
Saudi Industrial Development Fund

Senior Management

Mr. Hisham Abdulrazzak Al-Razzuqi
Chief Executive Officer

* Chairman of the Executive Committee
§ Member of the Executive Committee
** Chairman of the Audit Committee
§§ Member of the Audit Committee



*** Image Above:** Satellite Photograph of the Middle East at night

Chairman's Statement

On behalf of the Board of Directors, I have the privilege to present the Annual Report and Accounts of Gulf Investment Corporation for the year 2003.

2003 was a landmark year for the Corporation, which celebrated its twentieth anniversary and achieved record results: gross income increased over 45.1% to reach US$ 178.2 and total balance sheet assets grew by 15.3% to US$ 6,695.3 million. Net income for 2003 was US$ 125 million, an increase of 38.5% compared to the previous year, representing a return on shareholders' equity of 11.3% and a return on paid-up capital of 16.7%. This performance reflects the success of our strategic initiatives to expand and diversify income sources, and to effectively manage our risks and react to market changes.

As a result of a continuing strategic re-orientation, initiated in 2001 subsequent to the sale of Gulf International Bank, the Corporation has performed strongly in the last three years, and I am confident that this will continue in the future. GIC will continue to emphasise it's position as a GCC institution and play a leading role as an investor in projects and ventures that add economic value to the region. Earnings from such GCC based projects made significant contributions to corporate profits in 2003. GIC has started to provide asset management and marketing services in the region and has grown our fee-based income during the year. During 2003, our proprietary investments, fund management and client portfolio investment activities were successful in taking advantage of the strong performance of the regional markets. GIC will continue to invest in and develop these activities with the aim of enhancing profitability and providing regional investors with a range of products suitable to their needs.

The corporation's capital strength was further enhanced during 2003 with shareholders' equity reaching US$ 1,285.9 million at 31st December 2003, a year-on-year increase of approximately 9.2%.

To compliment the implementation of the Corporation's business strategy, the corporate governance structure was changed during the year with the appointment of new Board members. Additionally, we have formalised a new Audit Committee of the Board of Directors.

Over the past two decades GIC has established itself as a regional financial institution with a strong capital base, diversified business franchise, clear strategic goals, excellent management team and dedicated professional staff. As GIC embarks on a new era in its history, I am confident that the corporation will successfully face the challenges ahead and take advantage of the array of opportunities in our dynamic region.

In line with the earlier mentioned change in the corporate governance structure, I would like to welcome to the Board the nine new members and also express my appreciation and gratitude to the outgoing members for the crucial guidance role played by them in providing strategic direction and support during past years. In the future, I am confident that the members who joined will continue to steer the corporation towards successfully achieving its corporate goals.

I would like to thank my predecessor His Excellency Ahmed Macki for all his efforts and diligence during his term as Chairman of the Board. I also wish to express my appreciation to the management and staff at GIC for their contributions toward the commendable financial results of the year.

Darwish Bin Ismail Bin Ali Al-Bulushi
Chairman

Chief Executive Officer's Review

In 2003 the Gulf Investment Corporation reported record earnings with net income for the year rising by 38% to reach US$ 125 million, as a result of the continuing diversification of business lines.

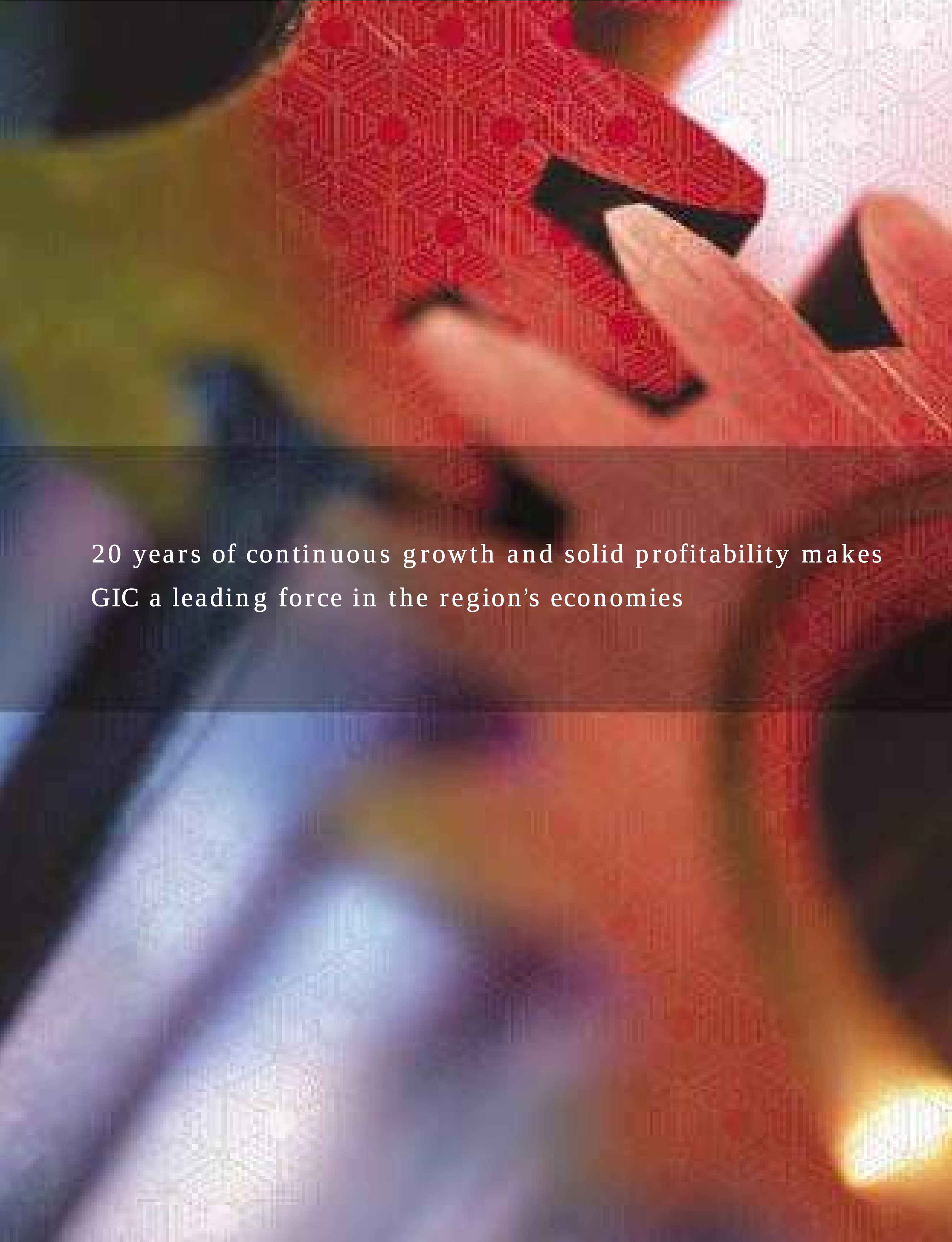
2003 was the third consecutive year of increased profitability, productivity and efficiency at GIC: the return on shareholders' equity increased from 7.3% in 2001 to 8.3% in 2002 and 11.3% in 2003. Productivity, expressed in terms of total operating income as a multiple of operating expenses, rose from 3.7% in 2001 to 4.4% in 2002 and 5.9% in 2003. Earnings growth has been reported in all core businesses, including a commendable contribution from fee related activities. Going forward, we are diversifying our income sources in alternative assets, equities and Islamic banking products. We will continue to maintain a sharp focus and discipline in our cost structure by managing recurring costs while improving efficiency through investment in technology, systems and training.

It is significant to note that, including this year's normal and special dividend payments, in the last three years we have paid to shareholders 84% of the paid up capital and still maintain healthy shareholders' equity in excess of US$ 1.1 billion. Additionally, through a rigorous and conservative provisions policy, we have made substantial provisions in the last three years totaling US$ 74 million.

In line with our aim of optimizing capital utilization through the growth of total assets and an emphasis on risk adjusted return criterion in asset allocation decisions, total assets during the year reached US$ 6,695.3 million, up 15.3% over the previous year end. This expansion resulted from growth in both our main business lines – the **Principal Investing** activities and **Global Markets** businesses. With shareholders' equity reaching US$ 1,285.9 million at 31st December 2003, GIC remains one of the most strongly capitalized financial institutions in the region. We view this strong capital base as a key competitive advantage and platform for future growth.

Net contributions from our **Principal Investing** activity rose strongly during 2003, reflecting an enhancement in operating margins of the companies in our portfolio of direct investments. The principal investing team seeks opportunities to promote sustainable non-oil development in the Gulf through investment in productive economic businesses, which should also provide a commercial rate of return to GIC. GIC is also actively studying the viability of exit from some of our more mature investments via initial public offerings or private sale.

During 2003, the principal investing team actively participated in the management of existing investments, made new investments in two new projects, conducted exhaustive appraisals for several others. GIC was proactive in the establishment of a new card processing company Delta Gulf Service, in Dubai Internet City, UAE, and took a 50% investment in the company. This joint venture, in partnership with Delta Singular, will provide a range of out-sourcing services targeting the financial services sector. The second new investment, Gulf Paramount Electrical Services Company, is based in Kuwait and is also a joint venture, with


20 years of continuous growth and solid profitability makes
GIC a leading force in the region's economies

GIC being the major shareholder. The company will manufacture, market and service electric coils for motors, generators and other electrical equipment.

Other potential projects that were under study and review during the year include: a venture to develop Oman's large mineral wealth, participation in the setting up of a Calcined Coke plant in Kuwait, investment within the textile sector based in UAE, and the setting up of a steel cold rolling complex in Abu Dhabi.

Global Markets activities include investments in both regional and international capital markets covering a range of strategies for both proprietary and third party asset management. Proprietary assets are managed by both internal and externally selected professionals. Our diversified portfolio of proprietary assets include debt securities, public and private equities, alternative and hedge strategy funds and Islamic transactions. In the last few years we have benefited from a favourable interest rate environment, in anticipation of which the Corporation built a large investment portfolio which has been a key contributor to the Group's performance. However, the strategic diversification of assets and, therefore, income continues. During the year, there was a significant growth in fee income, in particular from the increase in third party assets from US$ 202.6 million at 31st December 2002 to US$ 412 million at 31st December 2003. Similarly, the performance of our GCC focused equity and bond portfolios also exceeded targets.

Islamic banking activities are expanding, targeting a sector with great potential. Earnings from these businesses, and a significant increase in earnings from the alternative assets portfolio and GCC equity portfolio, resulted in a more balanced revenue stream and an improved risk profile.

With the objective of reducing the sensitivity of future earnings to interest rate fluctuations, a major portion of the long duration fixed rate debt securities was hedged during 2003 using derivative transactions. Within the alternative assets program, fresh investments were made in emerging market hedge fund strategies, and private equity funds focused on the real estate sector.

During 2003, Standard & Poors, the international rating agency, changed the outlook for GIC to "Positive" from "Stable", and reaffirmed both our long-term and short-term ratings. Moody's, which had raised our long-term and short-term ratings in 2002, also reaffirmed both ratings for 2003. We believe that the Corporation's enhanced rating is indicative of a sound business model and future business potential.

Twenty Years On: established in 1983 by the six member states of the Gulf Cooperation Council (GCC), the Gulf Investment Corporation has grown from strength to strength. The financial position of GIC over the years reveals a pattern of steady consolidation. Total assets rose by an average annual rate over the period of approximately 14.1%, reaching US$ 6,695.3 million at the end of 2003 (from US$ 475.2 million at the end of the first year of operations in 1984). Shareholders' equity reached US$ 1,285.9 million at the end of 2003 (US$ 466.4 million as at 31st December 1984). As a result of a strong but conservative policy, dividends have been paid every year to shareholders, with the exception of two start-up years 1984 and 1985 and the Gulf war in 1990/1991.

The Corporation has survived two Gulf wars: in 1990 we survived by moving to Bahrain and business continued; in the 2003 crisis period, our corporate strengths were recognized and we remained liquid and maintained our cost of funds.
A highlight of our first two decades was the acquisition of Gulf International Bank B.S.C. in 1990, and its rebuilding into a strong institution to standalone in 2001, when it was sold to our shareholders. Additionally, we have reviewed approximately 400 potential direct equity investments and, due to our strict approval criteria, invested in around 40 projects of which 34 projects are now included in our portfolio. Our corporate goal of growth with a stable financial performance has been accomplished through entrepreneurship, imagination and diligence. The Corporation has developed acknowledged expertise in its fields of business and is capable of transacting and providing a range of sophisticated financial products and services. We have demonstrated an ability to comprehend and manage the diverse and complex risks inherent in a continuous and rapidly changing business environment.

In addition to a strong capital base, unique ownership, and leadership status, the professional staff of GIC are a key competitive advantage. Over the years the Corporation has recruited many graduates and welcomes that they are now placed in leading roles throughout the Gulf. As we begin our third decade, I am confident that we will be able to leverage our strengths and meet our financial targets and the strategic goal of promoting economic enterprise and growth in the GCC states.

I would like to take this opportunity to thank our shareholders, as represented by the Board of Directors, for their support and guidance, which has facilitated our success. I would also like to compliment the dedicated and professional staff at GIC for another excellent performance. I am privileged to lead such a team and confident that, going forward, we will achieve our objectives and goals to the benefit of our shareholders and the region we serve.

Hisham Abdulrazzaq Al-Razzuqi
Chief Executive Officer

A strategy of diversification enables GIC to balance risk and maximise returns.

Economic Review

Sea changes have taken place during the year, not only in the GCC economies but also in the world at large. The year started on a cautious note, with gathering evidence of an impending American-led military action to change the regime in Iraq. By April, a cloud had been lifted off the region with the demise of the old Iraqi regime. The story for the rest of the year can be summed up as: positive developments in world economies in growth and asset values and for our region, one of the best years in terms of robust economic growth and excellent equity markets.

World Capital Market

For the first time in 4 years, equity indices in the US, Europe and Asia show positive results. Particularly in the US, the change of heart by investors was obvious and inescapable. Nasdaq Composite moved up by about 50% on the year. S&P 500 and DJIA moved up by a quarter (Table 1). The story was similar in Europe, where major indices moved up by 37% in Germany, 16% in France and 13% in the UK. In Asia, Japan has also done well with Nikkei 225 up by 24% and the Hang Seng showing 35% gain.

But equities were not the favourites for investors during the first quarter of the year, due to the geopolitical risks hovering over the world economies. On 11 March 2003, less than 10 days before the start of military action in Iraq, all three major equity indices in the US (Nasdaq Composite, DJIA and S&P 500) reached their lows for the year. These lows were remarkably down on the highs of the year (which coincided with year-end closing values). The difference between the high and the low for Nasdaq was 58%, for DJIA 39%, and for S&P 500 39%. A similar situation happened in Europe with major indices in Germany, France and the UK showing their low of the year on 12 March 2003 (Table 1). However, with all the positives in 2003, most world equity indices were substantially lower than their peaks during the bubble years (Table 2). Nasdaq closing on 31st December 2003 was 60% below the peak it reached in March 2000. S&P 500 was lower by 27% and DJIA was lower by only 11% compared with its peak on 14th January 2000.

Table 1
Global Equity Indices for 2003 **(in local currencies)**

Index	31-Dec-02	31-Dec-03	% Change	High 2003	Low 2003
North America					
DJIA	8,341.63	10,453.92	25.32	10,453.92 (31-Dec-03)	7,524.06 (11-Mar-03)
S&P 500	879.82	1,111.92	26.38	1,111.92 (31-Dec-03)	800.73 (11-Mar-03)
NASDAQ Composite	1,335.51	2,003.37	50.01	2,009.88 (30-Dec-03)	1,271.47 (11-Mar-03)
Europe					
FTSE 100	3,940.40	4,476.90	13.62	4,476.90 (31-Dec-03)	3,287.00 (12-Mar-03)
XETRA DAX*	2,892.63	3,965.16	37.08	3,965.16 (30-Dec-03)	2,202.96 (12-Mar-03)
CAC-40	3,063.91	3,557.90	16.12	3,557.90 (31-Dec-03)	2,403.04 (12-Mar-03)
Asia					
Nikkei 225*	8,578.95	10,676.64	24.45	11,161.71 (20-Oct-03)	7,607.88 (28-April-03)
Hang Seng	9,321.29	12,575.94	34.92	12,594.42 (12-Dec-03)	8,409.01 (25-April-03)

* Last day of trading was 30th Dec. for both 2002 and 2003.

Source: Bloomberg.

Table 2

World Equity Indices High & Low Values for the Period: 01/01/1999 – 31/12/2003

North American	High	Date	Low	Date
DJIA	11,722.98	14th Jan. 00	7,286.27	09th Oct. 02
S&P 500	1,527.46	24th Mar. 00	776.76	09th Oct. 02
NASDAQ COMP	5,048.62	10th Mar. 00	1,114.11	09th Oct. 02
European				
FTSE 100	6,930.20	30th Dec. 99	3,287.00	12th Mar. 03
XETRA DAX	8,064.97	07th Mar. 00	2,202.96	12th Mar. 03
CAC – 40	6,922.33	04th Sept. 00	2,403.04	12th Mar. 03
Asian				
Nikkei 225	20,833.21	12th Apr. 00	7,607.88	28th Apr. 03
Hang Seng	18,301.69	28th Mar. 00	8,409.01	25th Apr. 03

Source: Bloomberg.

The other major development in the year was the erosion of the value of US Dollar versus major currencies, especially the Euro. By year-end the Dollar was 21% lower against the Euro, and 11% lower against both the Japanese Yen and the Pound Sterling. It is difficult to explain why the US Dollar fell by so much in value against other major currencies. Most the reasons cited for the fall: widening US current account deficit, growing US budget deficit and low interest rates on the Dollar compared to the UK Pound and the Euro, were obvious for at least one year earlier. On the other hand, the growth differentials (i.e., the pace of GDP growth in the US compared to that in the Euro area or in Japan) was remarkable. GDP growth in the US in 2003 is estimated at 3.1% vs. 0.5% for the Euro economies, 2.1% for the UK and 2.7% for Japan. Also, the returns on assets – in local currency terms – were higher in the US compared to other markets in Europe and Asia as Table 1 shows.

The important story of 2003 is, of course, the noticeable improvement in the performance of the world economy.
At present, it is estimated that the world economy has grown by 3.4% during the year. China, in particular, is a major force

in the world economic growth and indeed its imports have grown by 40% in value terms compared to the growth in US imports of 4%. According to estimates published in January 2004, Asia at large (including Japan, China, South Korea, Taiwan, Hong Kong, Singapore, Thailand, Malaysia, Philippines, Indonesia, India, Australia and New Zealand) grew by over 4%, with China at 9.1% and Emerging Asia (which includes all Asia ex-Japan, Australia and New Zealand) by more than 6%.

The growth momentum was indeed driven by the relaxed geopolitical atmosphere that followed the short Iraq war and the fact that most economies were coming out of recession or growth hiccups in 2001-2002. An indicator of the turnaround in the world economy could be seen in two areas: commodity prices, and returns on high-yield (junk) bonds. The commodity index was up by 14% in 2003, and the returns on junk bonds were at 22%. Another good indication is default rates in junk bonds in the US, which have fallen from 9.8% in 2001 (recession year) to 7.4% in 2002 and 5.7% for 2003.

Investment grade bonds have actually performed in line with conventional wisdom (i.e., lower in up cycles compared with down economic cycles). Citigroup US 10-year benchmark treasuries returned 5.69%. Merrill Lynch Global Bond Market Corporate Index returned 6.60% in 2003, compared with 8.64% in 2002.

It is important to note that the value of US equity markets increased by US$ 3 trillion between January and December 2003. We make comments every year on the impact of developments in world capital markets on the GCC public and private investors. In 2002 we ventured to say that public investors fared better than their private counterparts because they mostly invest in liquid high grade debt instruments (treasuries and high grade corporates), while private investors (companies, high networth family investors and individual investors) invest mostly in equity or equity related instruments. During 2003, the picture was reversed and we would propose that a majority of private sector investors in the GCC, benefited from the increase in wealth created in world equity markets. The only caveat we would raise in this regard in that Gulf investors are US Dollar-based. Therefore, their gains in Euro-based assets was substantially reduced by the strength of the Euro (eg., one dollar invested in a Euro-based asset in January was valued at 80 cents by December, so unless the returns on that asset exceeded 20%, the investor did not gain).

Oil Market Developments

The price of oil, a major determinant in the economic fortunes of the GCC region, was influenced by several main considerations during the year. The first, and with the highest impact, was the geopolitical uncertainties surrounding the Iraq situation. Other major factors influencing the price of oil were: the remarkable pace of growth in world economies especially after the end of the Iraq war, the cutbacks in Venezuelan and Nigerian production during the year as a result of political or social unrest, and the generally below average stock build-up in major oil consuming nations, the US in particular and especially in the last quarter of the year.

These major influences were imaged in oil prices during the year. The uncertainties surrounding an impending war in Iraq led to the highest oil prices in the year for both Brent and WTI in March. Brent futures reached US$ 34.93 per barrel on March 7th, and West Texas Intermediate (WTI) traded on NYMEX at US$ 37.83 (the highest nominal price since October 1990) on March 12th.

To get an idea of how these variables influenced oil prices, it is important to note that the average Brent price for 2003 was US$ 28.81, compared with US$25.03 for 2002. The same is true of OPEC Basket prices, with the average for 2003 at US$ 28.10 above that of 2002 which was US$ 24.36.

Oil prices during 2003, according to predictions made at the beginning of the Iraq war, were supposed to collapse with the end of hostilities, in view of the fact that Iraqi oil fields were not destroyed during the war. Also, the world economy was expected to grow less robustly than it actually did. So oil prices kept firm for most of the year as a result of instability in Iraq after the end of the war, a stronger world economic performance and continuing supply problems in producing countries and weak inventory build-up in major consuming nations.

As a consequence of strong oil prices during the year, most GCC governments enjoyed strong revenue boost. Saudi Arabia had a budget surplus during the year – the first since 2000 and the second in two decades – and other countries enjoyed surpluses compared to expected deficits. Also, the balance of payments and external finances for the six members of the GCC were better than they had been since 2000 and in some cases, better than they had been in a decade.

Regional Economies

The GCC economies had one of their best years during 2003, thanks to the dramatic change in outlook with the end of the Iraq war in early April. Table 3 shows real GDP growth estimates by the IMF for the six economies. Kuwait and Saudi Arabia, both with major contributions of oil to GDP, show a substantial improvement on 2002. The U.A.E. exhibits particularly strong performance (moving from 1.5% growth in 2002 to 6.3% in 2003) because of the benefits accruing from strong oil prices but also the spectacular growth in trade and tourism in Dubai and other emirates. Both Qatar and Bahrain show strong growth (4% or above) and the only country with modest GDP growth – Oman, has suffered from declining oil production during the year.

so that even with the price of oil appreciating by 15% during 2003, the drop in the value of the dollar by 20% against the Euro during the year has reduced the purchasing power of oil

Table 3

Real Gross Domestic Product Growth in GCC (%) (2000-2003)

	2000	2001	2002	2003*
Bahrain	5.3	4.8	4.1	4.1
Kuwait	1.4	-1.1	-0.9	4.7
Oman	5.5	9.3	2.3	2.2
Qatar	11.6	7.2	3.0	4.0
Saudi Arabia	4.9	1.3	1.0	4.7
United Arab Emirates	10.0	3.8	1.5	6.3

* Estimates.

Source: IMF, World Economic Outlook, Sept. 2003.

The drop in the value of the US Dollar has affected the GCC economies that have fixed exchange rates to the Dollar (all except the Kuwaiti Dinar). But even the value of the Kuwaiti Dinar, which used to be determined by a basket of currencies dominated by the Dollar, have been fixed (within a band) to the Dollar at the beginning of 2003.

The drop in the value of the Dollar has reduced the purchasing power of holders of GCC currencies – including governments –

revenues in terms of other major currencies (since the Dollar also depreciated against the Yen and the UK Pound).

Table 4 tries to assess the impact of the drop in US Dollar on inflation in the GCC economies. If imports represent 27% of GDP and Dollar-based imports (from the US and China which has a peg to the US Dollar) represents about 17% of total imports, then 83% of imports are in Euro, UK, Yen, etc. Assuming these currencies appreciated – on average – by 15%, then imported inflation would be about 3%*. This of course could be compounded by the impact of the higher-paced economic activities in those GCC economies closer to Iraq (particularly Kuwait). However, our expectation is that imported inflation will be lower due to the substitution effect, i.e., that more imports will be obtained from US or China or other Dollar-pegged economies substituting imports from Europe and Japan. Moreover, the re-export business would decrease the proportion of imports as percentage of GDP. For example, imports represent 55% of UAE GDP but in reality it is much less because of the re-export business that flourishes in Dubai.

Table 4

GCC Imports as Percentage of GDP 2002

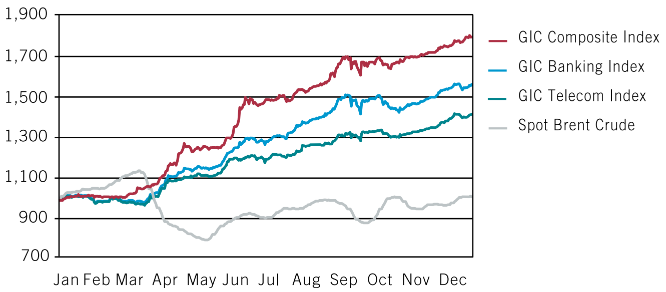
(mn US$)	Imports (fob)	GDP at current prices	Imports as % of GDP	US Dollar based Imports (US & China)	
Bahrain	4,673	8,417	55.5%	US	9.2%
				China	1.3%
Kuwait	8,117	35,332	23.0%	US	12.5%
				China	3.2%
Oman	5,633	20,295	27.8%	US	6.5%
				China	1.1%
Qatar	4,325	17,466	24.8%	US	8.5%
				China	1.3%
Saudi Arabia	29,642	188,479	15.7%	US	16.3%
				China	5.7%
United Arab Emirates	39,140	70,973	55.1%	US	8.0%
				China	7.7%
Total GCC	**91,530**	**340,962**	**26.8%**	**US**	**10.9%**
				China	**5.8%**

Source: IMF, Direction of Trade, Sept. 2003 and GIC, GCC Economic Statistics, 2003.

* 27% times 83% times 15%.

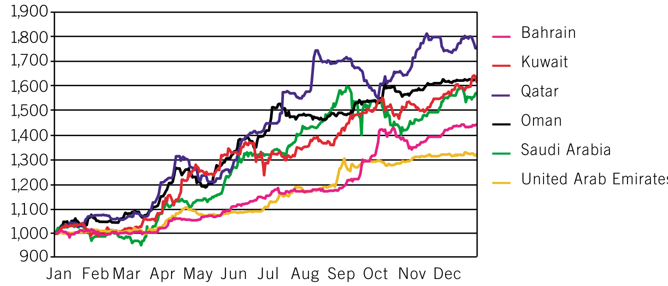
Figure:1

Composite & Sector Performance Relative to Crude Oil During 2003



Source: GIC Equity Research, Reuters

Individual Country Indices Performance (Normalized) During 2003



Source: GIC Equity Research

GCC Equity Markets

The lifting of the clouds of uncertainty over the region was a major boon to GCC economies. However, the real star performance was reserved for equity markets, which ended the year with spectacular results (Table 5). Qatar, Oman and Kuwait were the lead performers, with returns above 60% on the year, followed by Saudi Arabia. Since GIC has adopted a strategy that focuses on GCC capital markets, we shall review in some detail the performance of GCC equity markets during 2003 and will try to put this performance in perspective by comparing the region's markets with international capital markets.

GCC stock markets were markedly higher across the board during 2003. The GIC Composite Index closed the year at 2,483.00 up 57.4%. This comes on top of the 17.7% rise recorded during 2002. Saudi Arabia contributed the most to this performance, with 29.8 percentage points of the total rise in the GIC Composite Index coming from that country, with Kuwait coming in second at 17 percentage points. Qatar's very strong performance during the year pushed it to third place on the return contribution chart, despite its lower weight in the index compared to the UAE.

Even as world markets rallied quite strongly through most of the year, regional markets still outperformed. Compared to the GIC Composite

Table 5

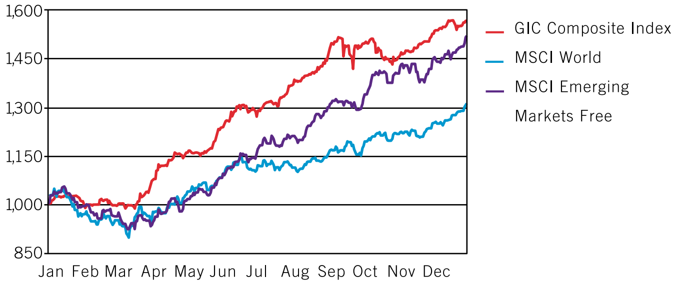
GCC Stock Market Performance (As reflected by GIC Indices)* (y/y % change)

	2000	2001	2002	2003
Bahrain	-19.3	0.0	8.1	44.3
Kuwait	14.4	44.8	26.9	62.4
Oman	-9.9	-37.4	54.7	62.9
Qatar	1.4	57.0	38.5	76.5
Saudi Arabia	12.9	14.2	7.0	59.9
United Arab Emirates	-16.2	36.4	20.7	32.2

* GIC indices, which were started on January 1st, 2000, are a group of cap-weighted total return indices for GCC equity markets.

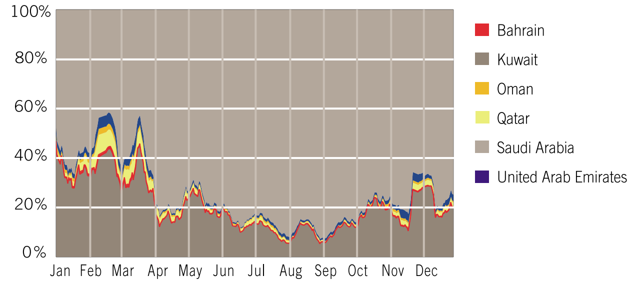
Source: GIC Equity Research.

Figure:2
Relative Performance Vs. World Markets During 2003



Source: GIC Equity Research, Morgan Stanley Capital International

Figure:3
Contributions to Value Traded During 2003



Source: GIC Equity Research

Index, the 2003 gains of Morgan Stanley Capital International's (MSCI) World Index and Emerging Markets Free (EMF) Index were less spectacular at 30.8% and 51.5%, respectively.

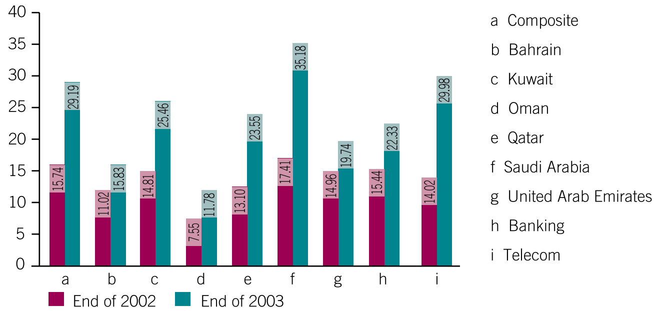
Volumes also increased, as trading activity picked up in all six countries; value traded during the year was more than 3.7 times the level seen in the previous year, coming in at US$ 148.4 billion. This high level of liquidity averages about US$ 483 million per trading day over the whole year. However, excluding the first quarter, which saw major political uncertainties due to the war in Iraq, the average rises to US$ 597 million. In line with previous years, Saudi Arabia and Kuwait contributed the

Table 6

Return Contribution Analysis	
GIC Composite Index Closing Value	2,483.00
Value Traded (US$ mn)	148,386
Value Traded Previous Year (US$ mn)	40,045
Change During Year	57.4%
Change During Previous Year	17.7%
Market Cap (US$ mn) (December 31, 2003)	115,507
Country Contribution	
Bahrain	1.4%
Kuwait	17.0%
Oman	1.4%
Qatar	6.2%
Saudi Arabia	29.8%
United Arab Emirates	1.7%
Sector Contribution	
Banking	20.1%
Telecom	16.0%
Other sectors	21.3%

Source: GIC Equity Research.

Figure:4
Trailing PE Changes During 2003



Source: GIC Equity Research, regional exchanges

overwhelming bulk of trading liquidity in the region, with 75% and 20%, respectively, compared to 63% and 28% in 2002.

With the exception of Oman, volatility increased during the year compared to the three preceding years. This is a somewhat expected side effect of strong performance, with the late summer period experiencing the most volatility, as volumes were relatively low and valuations were approaching their peaks for the year. Another factor that contributed to the rise in volatility was the high level of political uncertainty during the first few months of the year.

Despite higher volatility, returns outstripped the increased risk by a wide margin. This is clearly shown by the dramatic rise in Sharpe Ratios* for all markets without exception.

Table 7

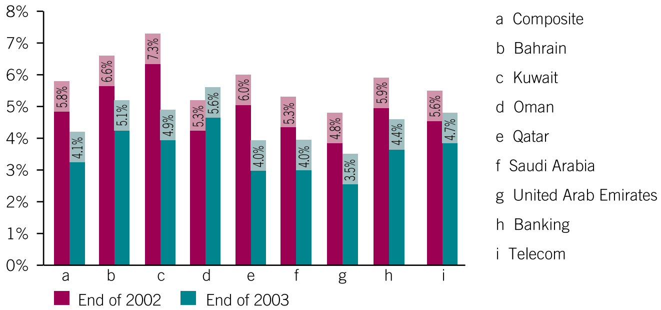
Risk/Return Analysis for 2003

Index	Annualized Return	Annualized Standard Deviation of Daily Returns (12 Months of Data)	Sharpe Ratio*
Composite	57.4%	11.3%	4.9
Bahrain	44.3%	9.1%	4.6
Kuwait	62.4%	16.4%	3.7
Oman	62.9%	12.1%	5.0
Qatar	76.5%	13.9%	5.4
Saudi Arabia	59.9%	18.4%	3.1
United Arab Emirates	32.2%	7.6%	4.0
Banking	42.0%	9.6%	4.2
Telecom	78.0%	12.6%	6.1
MSCI World	30.8%	13.8%	2.1
MSCI EMF	51.5%	13.6%	3.6

Source: GIC Equity Research, Morgan Stanley Capital International.

* The Sharpe Ratio is a measure of excess realized returns relative to volatility over the same period. It is obtained by dividing the returns realized above the risk-free rate by the standard deviation as a measure of volatility. Higher Sharpe Ratios indicate relatively stable investments with high returns, and vice versa.

Figure:5
Dividend Yield Changes During 2003



Source: GIC Equity Research, regional Exchanges

Table 8

Risk/Return Analysis for 2000-2002

Index	Annualized Return	Annualized Deviation Standard of Daily Returns (12 Months of Data)	Sharpe Ratio*
Composite	16.4%	7.8%	1.6
Bahrain	-4.5%	9.8%	NM
Kuwait	28.1%	13.5%	1.8
Oman	-4.4%	17.2%	NM
Qatar	30.2%	12.4%	2.1
Saudi Arabia	11.3%	11.5%	0.6
United Arab Emirates	11.4%	7.0%	1.1
Banking	15.1%	8.8%	1.3
Telecom	15.6%	7.6%	1.5
MSCI World	-17.7%	17.8%	NM
MSCI EMF	-16.2%	17.6%	NM

Source: GIC Equity Research, Morgan Stanley Capital International.

NM: Not Meaningful.

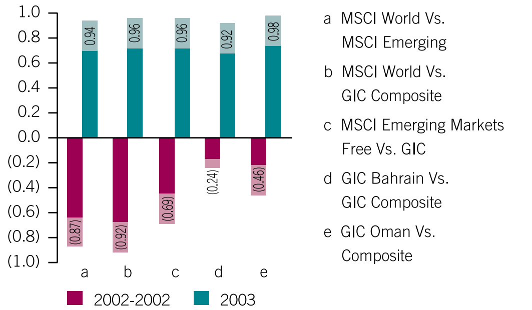
While part of the rise in stock prices during 2003 was surely linked to higher levels of reported profits and dividend distributions, a sizeable portion of the appreciation resulted in expansions of earnings multiples (PEs) and reductions in yield; signs of higher future growth expectations and lower perceptions of risk.

Another factor contributing to the higher PEs and lower yields during 2003 was the listing and subsequent inclusion of a number of high growth, low dividend paying stocks, Saudi Telecom being a prominent example.

* The Sharpe Ratio is a measure of excess realized returns relative to volatility over the same period. It is obtained by dividing the returns realized above the risk-free rate by the standard deviation as a measure of volatility. Higher Sharpe Ratios indicate relatively stable investments with high returns, and vice versa.

Figure:6

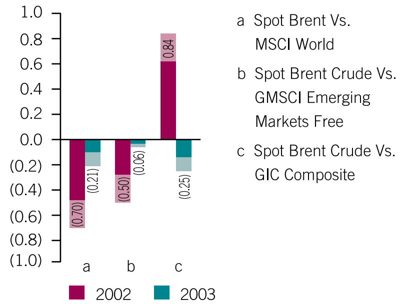
Correlations among Stock Indices



Source: GIC Equity Research, Morgan Stanley Capital International

Figure:7

Changes in Correlation with Crude Oil



Source: GIC Equity Research, Morgan Stanley Capital International

In the following we review major trends in GCC equity markets during the year.

High Correlation with World Markets

Unlike the trend prevailing in previous years, where the region's markets were highly negatively correlated with the rest of the world, 2003 saw the convergence of markets. Correlation between the MSCI World Index and the GIC Composite Index went from -0.92 in the period 2000-2002 to +0.96 during 2003. Similarly, correlation between the MSCI EMF Index and the GIC Composite moved from -0.69 during the same period to +0.96 in 2003.

This phenomenon can be partially explained by the relatively stable (but high) crude oil prices prevailing in 2003, which provided two major inputs to the markets:

- High levels of oil prices contributed to the continued strong performance of the region's stock markets.

- The relative stability of oil prices throughout the year allowed the rally in world markets to gain steam (as world economies adjusted to higher energy price levels).

Along with this strong upward trend in markets, correlation coefficients converged. In the preceding few years, which witnessed rising oil prices, the environment was generally seen as positive for the region (thus partially responsible for higher stock prices) but negative for the rest of the world. This was conducive of diverging trends between the region and the rest of the world.

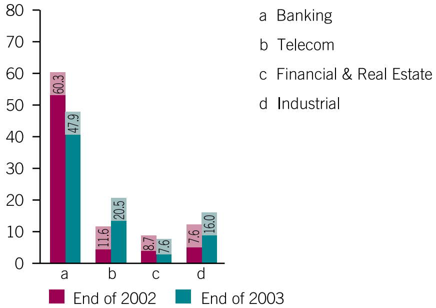
Within the region, the smaller markets of Bahrain and Oman, which were traditionally less correlated to the rest of the region in previous years, saw their trends converge with larger markets in 2003. Figure 6 above shows that correlation coefficients of the GIC Bahrain Index and the GIC Oman Index versus the GIC Composite Index went from -0.24 and -0.46, respectively, during the period 2000-2002, to +0.92 and +0.98 in 2003.

Decline in Weight of Banking Stocks

As companies from a wider variety of sectors are opening up to private sector investments across the region, and are therefore listed on regional exchanges, the traditional make-up of markets is also changing. 2003 witnessed the beginning of a trend, whereby every quarterly review of the GIC Indices brought with it a precipitous decline in the weight of banking stocks. Ending 2002 at a weight of 60.3% of the GIC Composite Index, the banking sector represented 47.9% of that index by the end of 2003.

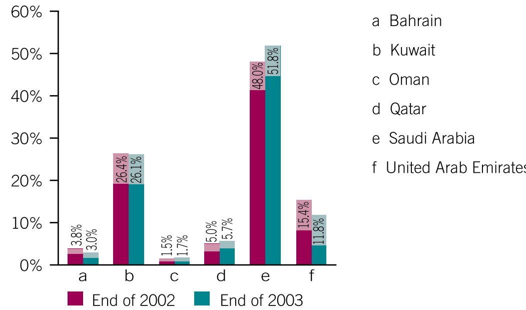
Picking up the extra weight were various sectors, chief among them is the telecom sector, both because of the addition of

Figure:8
Changes in Sector Weights



Source: GIC Equity Research

Figure:9
Changes in Country Weights



Source: GIC Equity Research

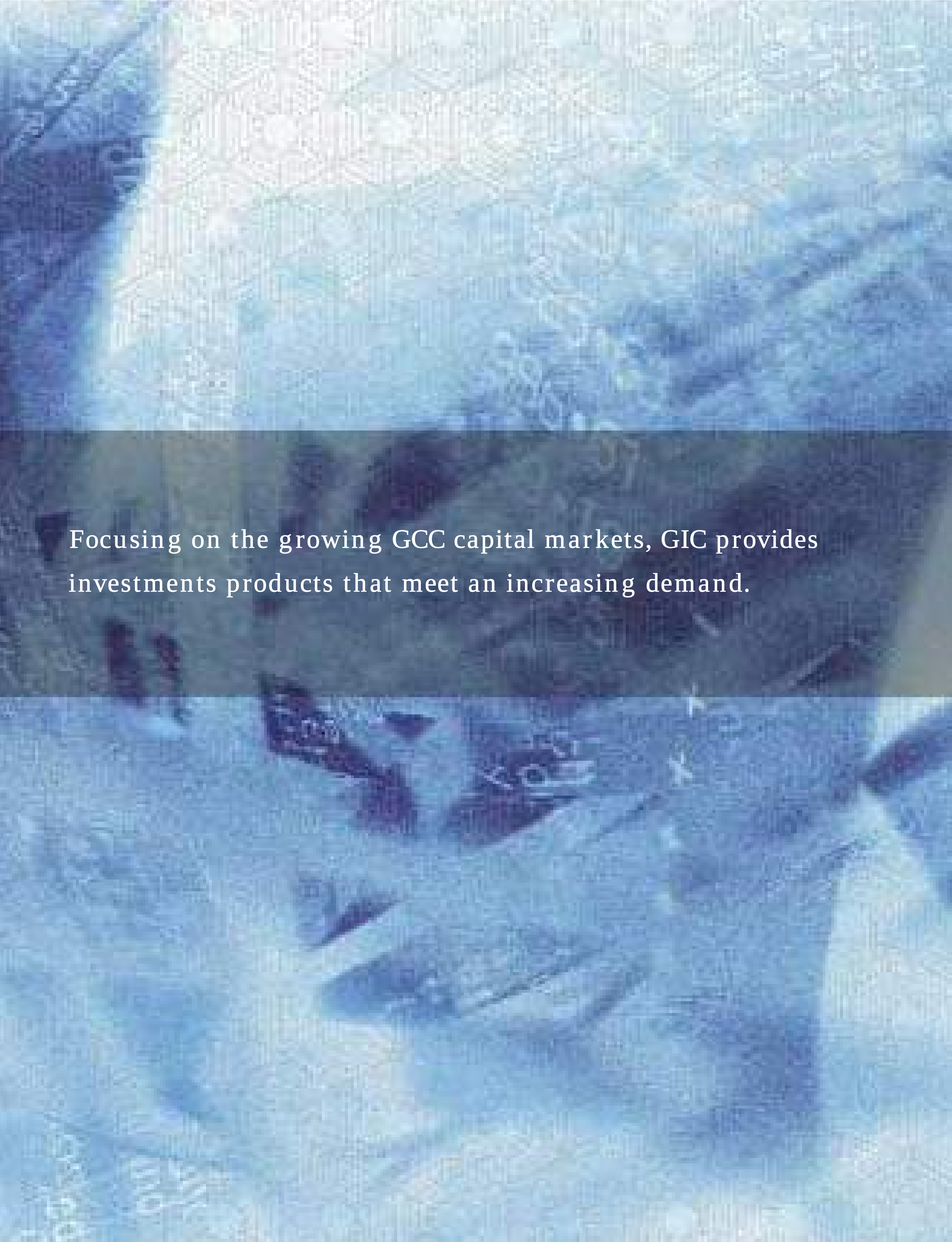
Saudi Telecom and the general above-trend price appreciation of telecom stocks throughout the year. The Industrial Sector also saw its weight increase slightly during the year.

Increase in Weight of Saudi Stocks

The inclusion of a number of new Saudi companies, including Saudi Telecom, coupled with the out performance of that market relative to the UAE market; a weight swap in the GIC Composite Index occurred between Saudi Arabia and the UAE during 2003. The Saudi market went from 48.0% of the Composite Index at the end of 2002 to 51.8% at the end of 2003, while the UAE market declined from 15.4% to 11.8% over the same period.

Good performance of Qatari stocks also helped increase that country's weight in the GIC Composite Index during 2003 from 5.0% to 5.7%, while a general lag in both performance and new listings in Bahrain caused that market to decline in weight from 3.8% to 3.0%.

To sum up, GCC economies enjoyed good performance during the year due to several positive developments: strong oil prices, relaxed geopolitical environment following the Iraq war and a robust growth in world economies. This was reflected in strong government finances, positive trade balances and particularly vibrant equity markets. The erosion in the value of the dollar was certainly a negative development for the GCC economies in terms of reduced purchasing power of oil revenues and a potential increase in imported inflation. On balance, however, the year is one of the best in recent history for the region's economies.



Focusing on the growing GCC capital markets, GIC provides investments products that meet an increasing demand.

Financial Review

Our Financial Goal: To maximize long-term shareholder value through consistently superior financial performance while maintaining strong financial condition.

Our Financial Performance Objective: To consistently achieve target earnings growth and return on equity, with an appropriate dividend payout.

Our Financial Condition Objective: To efficiently manage the various forms of risks associated with our business and maintain strong asset quality, capital base and liquidity, while achieving target balance sheet growth.

Net Income Analysis

2003, the twentieth anniversary of operations for Gulf Investment Corporation (GIC), was another excellent year in terms of growth and diversification in earnings. Net income for the year reached US$ 125.0 million, a year-on-year increase of approximately 38.4%. This net income represented a return on shareholders' equity of 11.3% and return on paid up capital of 16.7%. A doubling of 'other operating income' was the principal driver of this growth in profits. Net interest income, the other component of operating income, rose by approximately 14.9% during the year.

A diversification in income sources was achieved during 2003: fee based businesses recorded a twofold increase in profits. During 2003, an Islamic banking unit was set up, targeting a sector with future potential. Additionally, through investments in a range of fresh alternative asset strategies, we were successful in enhancing the overall risk-return profile. The strategic initiatives taken over the past two years have helped in building a sound foundation for future growth.

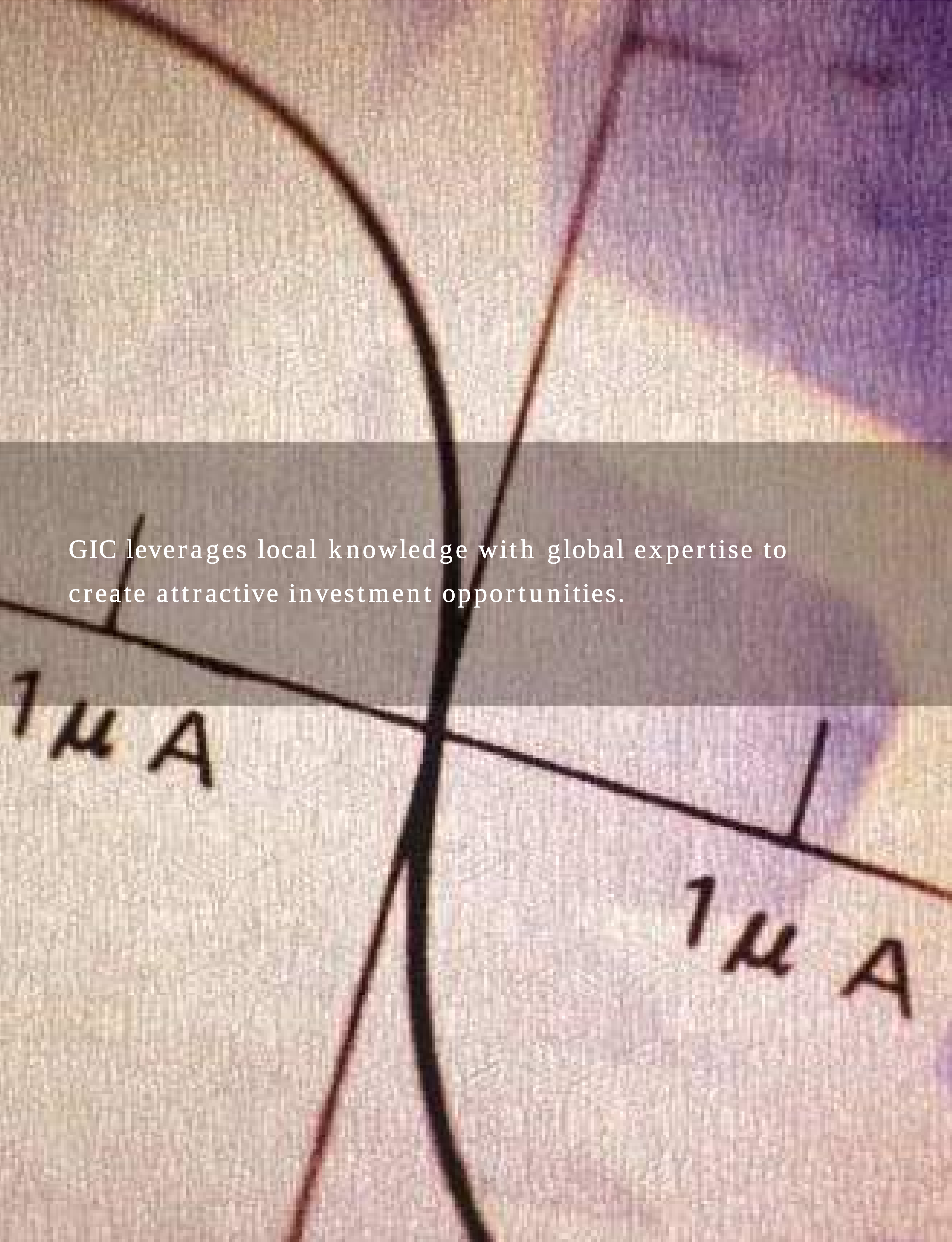
Net Interest and Similar Income

Gross interest and similar income grew 7.2% to US$ 240.8 million during 2003. The proportionately lower 2.9% increase in interest expense resulted in a net interest income of US$ 91.0 million, 14.9% higher than that of the previous year. Spread income from the debt securities portfolio continued to be the major contributor to interest income. The other key components of interest income include earnings from credit funds and loans, return on the outstanding receivable from shareholders' and proceeds from the money book.

The Corporation has benefited from a favourable interest rate environment, in anticipation of which management expanded the debt securities portfolios, resulting in a higher average volume and improved spreads for 2003. Consequently, total net spread income from the portfolio rose by approximately 34.2% during the year. During the last quarter of 2003, a major portion of the long duration fixed rate debt securities was hedged against a possible increase in interest rates. This also enabled us to lock-in future earnings at the most opportune time.

The outstanding "due from shareholders", arising from the sale of GIB in 2001, earned a competitive return of approximately 4.5% during 2003. Income from this receivable decreased to US$ 18.7 million from US$ 21.1 million in 2002 due to the reduction in the outstanding balance. (Details of this transaction are provided in Note 7 of the Financial Statements.)

Investments in credit funds have been made as loan replacement vehicles, with credit funds offering superior risk adjusted returns. As a result, income from these credit funds,



GIC leverages local knowledge with global expertise to create attractive investment opportunities.

constituting over 86% of aggregate income from the loans and credit funds category, registered a year-on-year increase of approximately 4.7%. Income from the declining loan book was US$ 2.0 million in 2003 compared to US$ 4.3 million in 2002.

The Corporation's interest rate sensitivity gap is set out in Note 22 to the Financial Statements. Exposure to interest rate risk is restricted due to the limited mismatch between the repricing of a majority of the Corporation's assets and liabilities.

Other Operating Income

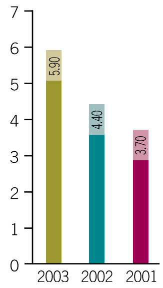
Other operating income for the year doubled to US$ 87.2 million, boosted by strong growth in earnings from proprietary asset management (both internally and externally managed) and a portfolio of direct project investments. Additionally, fee related income increased. In 2003, "other operating income" constituted almost 48.9% of total operating income, compared to just 35.5% in 2002, reflecting a more balanced revenue stream and improved risk profile. A detailed breakdown of other operating income is available in Note 16 to the Financial Statements. The key constituents of other operating income are discussed below.

The net gain on trading securities and managed funds rose to US$ 28.6 million in 2003 from US$ 10.3 million in 2002. At US$ 24.6 million, earnings from market-neutral and hedge fund investments, formed the major component of this category. Such investments cover a broad range of strategies including relative value, event driven, long-short, managed futures, global macro, and are managed by a well diversified pool of external managers. Through the close monitoring and continuous optimization of the alternative investments portfolio, profits tripled in 2003. Gains from GCC equity trading amounted to US$ 3.7 million for the year, buoyed by strong performance of the regional markets. The balance of income in this category represents gains from the trading bond portfolio.

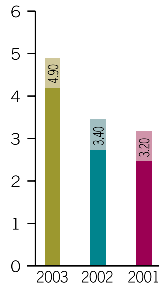
A gain of US$ 0.8 million was realized as a result of sale of holdings within the investment securities portfolio. The gain on disposal of available for sale securities, totaling US$ 3.6 million, represents realizations transferred out of shareholders' equity on sale of such assets. A substantial portion of this US$ 3.6 million related to profits earned from subordinated notes of a structured finance transaction managed by GIC. Gains were also realized on the sale of holdings within the GCC equity portfolio categorized as available for sale.

Income from investments in international private equity funds increased to US$ 5.1 million in 2003 from US$ 3.0 million the previous year. Management believe that the gradual recovery witnessed by the global private equity sector during 2003 is likely to continue in the future.

Operating Income as a Multiple of Operating Expenses



Net Revenue as a Multiple of Operating Expenses



Earnings from projects and equity participations activities increased 80.6%, compared to the prior year, to US$ 26.0 million – representing GIC's share of profits from unconsolidated subsidiary and associated companies. Additionally, dividend income of approximately US$ 4.7 million was earned in 2003 and is included within the 'Dividend income' category. The excellent performance during the year can be primarily attributed to enhanced operating margins for several of the companies within GIC's portfolio of project investments. With representation on the Board of Directors of most of the ventures, the principal investing team plays an active role in the strategic management of these companies and continuously monitors performance. GIC adheres to a policy of strict financial discipline while evaluating and managing project investments, seeking ventures that will provide a commercial rate of return. Several of the project participations are green field in nature and still in start-up mode. Earnings from such participations are expected to grow with the maturing of these projects.

Dividend income of US$ 6.6 million comprises receipts from private equity participations, equity portfolios and project investments.

Fees, commissions and sundry income earned totalled US$ 15.9 million, an increase of almost 250% over 2002 earnings. As a result of initiatives undertaken over the past two years to expand asset management, fees from this business during 2003 was the principal contributor to this increase in income. The GCC equities team doubled third party assets under management to US$ 412 million by 31st December 2003. Fee income was also generated by the financial advisory and underwriting service. The marketing team aims to deliver a range of financial products available in the international markets, to a regional clientele, in addition to the sale of internally developed GCC investment products to clients in and outside the region. Emphasis will continue to be on expansion of fee-based revenues to help diversify revenue sources into lower risk assets with lower capital utilisation. This income category includes US$ 5.3 million received from a previously written off loan, benefit form which was transferred to GIC as part of the partial sale of Gulf International Bank in 1999.

Operating Expenses

Management of expenses remains a priority for the corporation. We continue to maintain a sharp focus and discipline in our cost structure by managing recurring costs while improving efficiency through investment in technology, systems and training.

Productivity, expressed in terms of total operating income as a multiple of operating expenses, improved from 3.7 in 2001 to 4.4 in 2002 and 5.9 in 2003. Net revenue, after reducing loss provisions for the year, as a multiple of operating expenses also increased to 4.9 in 2003 from 3.4 in 2002. The amortization of goodwill, excluded from the operating expenses aggregate in computing the ratios mentioned above, was marginal. Inclusion of these expenses will not have a material impact on the above ratios.

Operating expenses are made up of employee compensation and benefits, occupancy, information technology, and other expenses. Staff costs, the major component, include incentive compensation, which varies in accordance with individual as well as Corporate performance. Information technology costs include expenditure relating to ongoing enhancement of computer systems.

Provisions for Credit Losses

We maintain provisions to absorb losses inherent in our traditional extensions of credit that we believe are probable and that can be reasonably estimated. Given the varied nature of businesses, these may arise from our lending, treasury and investment activities. Estimating losses is inherently uncertain and depends on many factors, including general macroeconomic and political conditions, rating migration, risk concentrations, structural changes within industries, and other external factors such as legal and regulatory requirements. The corporation periodically reviews such factors and reassesses the adequacy of the provisions.

As a result of our conservative provisioning policy, the net charge for the year in provisions was US$ 31.0 million in 2003, up US$ 2.7 million from the US$ 28.3 million charge in 2002. Provisions for the current year included US$ 25.5 million relating to projects and equity participations, US$ 5.7 million for a decline in the value of private equity funds and US$ 3.0 million against an overdue deposit receivable from a bank now in liquidation. US$ 3.0 million of provisions made against certain debt securities during the previous year were reversed in 2003 due to an improvement in market value. A detailed break down is provided in Note 17 to the Financial Statements.

Extraordinary Income

During the year under review, GIC received the remaining US$ 9.3 million of the US$ 34.3 million awarded to it by The United Nations Compensation Commission (“UNCC”) in respect of the claim filed by the corporation for losses incurred as a result of the Iraqi invasion and occupation of Kuwait in 1990. During 2002, US$ 25.0 million was received as a first installment. Details are provided in Note 18 to the Financial Statements.

Balance Sheet Analysis

In line with our aim of optimizing capital utilization through the growth of total assets and an emphasis on risk adjusted return criterion in asset allocation decisions, total assets during the year reached US$ 6,695.3 million, up 15.3% over the previous

Asset Mix by Category

2003 2002 2001

	2003	2002	2003
Investment Securities	64.6%	61.4%	55.1%
Loans and Credit Funds	6.7%	7.4%	8.8%
Trading Securities and Managed funds	6.2%	5.3%	4.0%
Investment in Projects, Equity participations and Equity funds	6.3%	6.6%	7.6%
Placements & other Interest bearing assets	7.0%	7.9%	10.3%
Other Asset Categories	9.2%	11.4%	14.2%

year end. 2003 witnessed a more balanced expansion in assets with the investment securities, trading securities and private equity portfolios registering double-digit growth. The principal investing activity and our portfolio of credit funds also registered increases. Diversification in sources of revenue was further enhanced during 2003 with the setting up of a new Islamic banking unit. Investments were made in Islamic Sukuk, Islamic real estate funds and other Islamic products with superior risk-return characteristics. The outstanding receivable balance “due from shareholders” was further reduced by US$ 87.2 million during 2003.

The corporation’s strategic focus continues to be on the GCC states and their major trading partners in the industrialized world. Note 25 to the Financial Statements sets out the geographic distribution of the Corporation’s assets. The following sections provide details on the key asset categories.

Investment Securities

As at 31st December 2003, the investments securities portfolio made up 64.6% of GIC’s total balance sheet assets. This portfolio was established to provide stable coupon/spread income and as a reserve of additional liquidity. With almost 80% of the portfolio allocated to securities within North America and Europe, and covering a wide range of sectors, geographic and industry risk diversification is also achieved vis-à-vis GIC’s other GCC based investments. The investment securities portfolio is composed mostly of investment grade marketable debt securities. Investments in equities and funds, at US$ 120.0 million, form less than 2.8% of this portfolio.

Investment securities totaled US$ 4,325.9 million at December 31,2003 as against US$ 3,564.1 million at end of 2002. The investment securities portfolio includes securities available for sale of US$ 3,797.8 million and securities held to maturity of US$ 528.1 million. Approximately three quarters of the debt portion of the investment portfolio is made up of plain floating rate notes or fixed rate notes swapped into floating rate using interest rate swaps. The balance comprises fixed rate securities. During the last quarter of 2003, approximately US$ 498 million of fixed rate securities were hedged into floaters, neutralizing the effect of any potential adverse change in interest rates. As of end of 2003, the remaining fixed rate securities were of a short duration.

The high quality of the portfolio is reflected in the unrealized gains associated with the portfolio: approximately US$ 90.0 million in unrealized gains relating to investment securities available for sale were included within shareholders’ equity as at year end 2003. Within the held to maturity portion, the fair value of holdings exceeds book value by approximately US$ 8.5 million. These significant increases in market value are indicative of the superior quality holdings within the portfolio. Within the held to maturity portion, US$ 3.0 million of provisions were reversed during the year as a result of improvements in quality. As of 31st December 2003, just US$ 2.3 million of provisions were required against potential diminution in value on the US$ 4.3 billion investment securities portfolio. A credit risk analysis of the investment securities portfolio is provided in the risk management section on page 36, and other details, including ratings profile, are contained in Note 5 to the Financial Statements.

Loans and Credit Funds

This category includes loans and advances of US$ 85.8 million and investments in credit funds of US$ 360.0 million. Outstanding loans declined by almost 29.6% year-on-year, in line with the strategic decision to discontinue this business and allow loans to run-off. A further 53.7% of currently outstanding loans are due to mature by the end of 2004. As a replacement asset, investments in credit funds increased 18.0% compared to 2002 levels. Credit funds, yielding higher spreads than GIC's loan portfolio, are managed by experienced external international fund managers and offer enhanced risk adjusted returns. As of 31 December 2003, loans and advances were entirely to customers within the GCC countries, of which US$ 32.3 million were to GCC country governments. There were no significant concentrations by industrial sector at the year end.

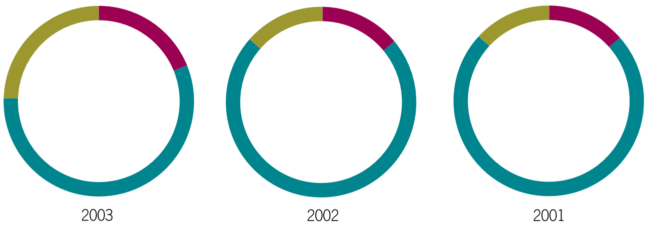
Investments in credit funds were distributed among several managers within North America.

Based on contractual maturities at the balance sheet date, approximately 75.5% of the outstanding loans and investments in credit funds was due to mature within five years, with 18.9% due to mature within one year. Details of the maturity profile are given in Note 21 to the Financial Statements and other details including loss provisions made are contained in Note 6.

Total loan loss provisions including loan guarantees amounted to US$ 7.2 million at December 31,2003. Counterparty specific provisions amounted to US$ 5.0 million while general provisions were US$ 2.2 million. The US$ 5.0 million specific provisions were made against loans, guarantees and related exposures to project investments. Specific provisions for loans are made to the full extent of the estimated potential loss while general provisions are maintained to cover possible future losses which as yet have not been specifically identified. It is the Corporation's policy to write off loans after all reasonable restructuring and collection activities have taken place and the possibility of further recovery is considered to be remote.

As of 31 December 2003, there were no non-performing loans within GIC's loan book.

Loans and Credit funds Maturity Profile



	2003	2002	2003
Within 1 year	18.9%	13.7%	13.1%
1 to 5 years	56.6%	73.3%	73.5%
Over 5 years	24.5%	13.0%	13.4%

Trading Securities and Management Funds

Trading securities and managed funds grew 33.4% during 2003 to reach US$ 411.9 million. The bulk of the portfolio comprises of investments in a range of alternative asset strategies, managed by a diverse pool of external managers. The portfolio of alternative asset investments in continuously monitored and restructured to fit GIC's risk-return profile, while gradually expanded in line with growth targets. Fresh investments of US$ 50 million was made during the year, bringing the overall exposure to market-neutral and hedge funds strategies to approximately US$ 365.6 million at 31st December 2003. The Alternative Strategies Fund (ASF), managed by GIC in association with internationally reputed managers, had another successful year.

The proprietary trading portfolios within this category are managed by the corporation's asset management team and cover the GCC bond and equity markets. This portfolio of US$ 40.6 million is made up of a trading bond portfolio of US$ 27.6 million and an exposure to GCC equity markets of approximately US$ 13.0 million. GIC is committed to the gradual expansion of the GCC debt and equity portfolios, taking advantage of its unique knowledge of the region. Details of the Corporation's trading portfolio are given in Note 4 to the Financial Statements. Trading securities and managed funds are accounted for at market value.

Placement and Other Interest Bearing Assets

Placements totaled US$ 412.8 million at the 2003 year end. Reciprocity is a key feature of our placement policy. Notes 21 and 25 to the Financial Statements provide the maturity profile and geographic distribution of placements, respectively. Almost US$ 353.7 million or 85.7% of total placements matured within twelve months. Of this US$ 273.0 million had a maturity within three months. Only 16.5% of total placements were with non-bank financial institutions. Other liquid assets at the balance sheet date included US$ 46.5 million securities purchased under resale agreements and US$ 11.5 million cash and bank balances.

Equity Funds

Equity funds amounted to US$ 141.0 million at December 31,2003, up 30.6% compared to the prior year. The portfolio is principally invested in equity investments of a structured finance nature with a wide range of externally managed private equity funds. These funds invest in leveraged and unleveraged acquisitions, privatisations, recapitalisations, rapidly growing companies, expansion financings, turnaround situations, and other special equity situations.

With the exception of listed equity investments, where fair value is reliably discernable, investments in equity funds are carried at cost. Provisions for other than temporary decline in value, determined on an individual basis, amounted to US$ 22.0 million at the reporting year end. During 2003, approximately US$ 14.4 million of related provisions were utilized against written off investments and additional provisions of US$ 5.7 million were made against expected value diminution in certain investments. Details on equity funds are provided in Note 8 to the financial statements.

Investment in Projects and Equity Participations

Investments in projects and equity participations amounted to US$ 282.3 million at the end of 2003, compared to the US$ 275.8 million at the end of 2002. This category includes a mix of investments in unconsolidated GCC subsidiaries and equity stakes in GCC companies.

During 2003, the principal investing team made investments in two new projects, and conducted exhaustive appraisals for several others. GIC was proactive in the establishment of a new card processing company Delta Gulf Service, in Dubai Internet City, UAE, and took a 50% investment in the company. This joint venture, in partnership with Delta Singular, will provide a range of out-sourcing services targeting the financial services sector. The second new investment, Gulf Paramount Electrical Services Company, is based in Kuwait and is also a joint venture, with GIC being the major shareholder. The company will manufacture, market and service electric coils for motors, generators and other electrical equipment.

Net provisions during the year increased by US$ 25.5 million. Most of the increase resulted from a charge of US$ 21.0 million made against the investment in Arabian Industrial Fibers Company based in Saudi Arabia. Detailed analysis of the portfolio, including a breakdown of unconsolidated subsidiaries and associated companies, is contained in Note 9 to the Financial Statements. A list of the corporation’s direct investments is also given on page 71.

Receivable from Shareholders

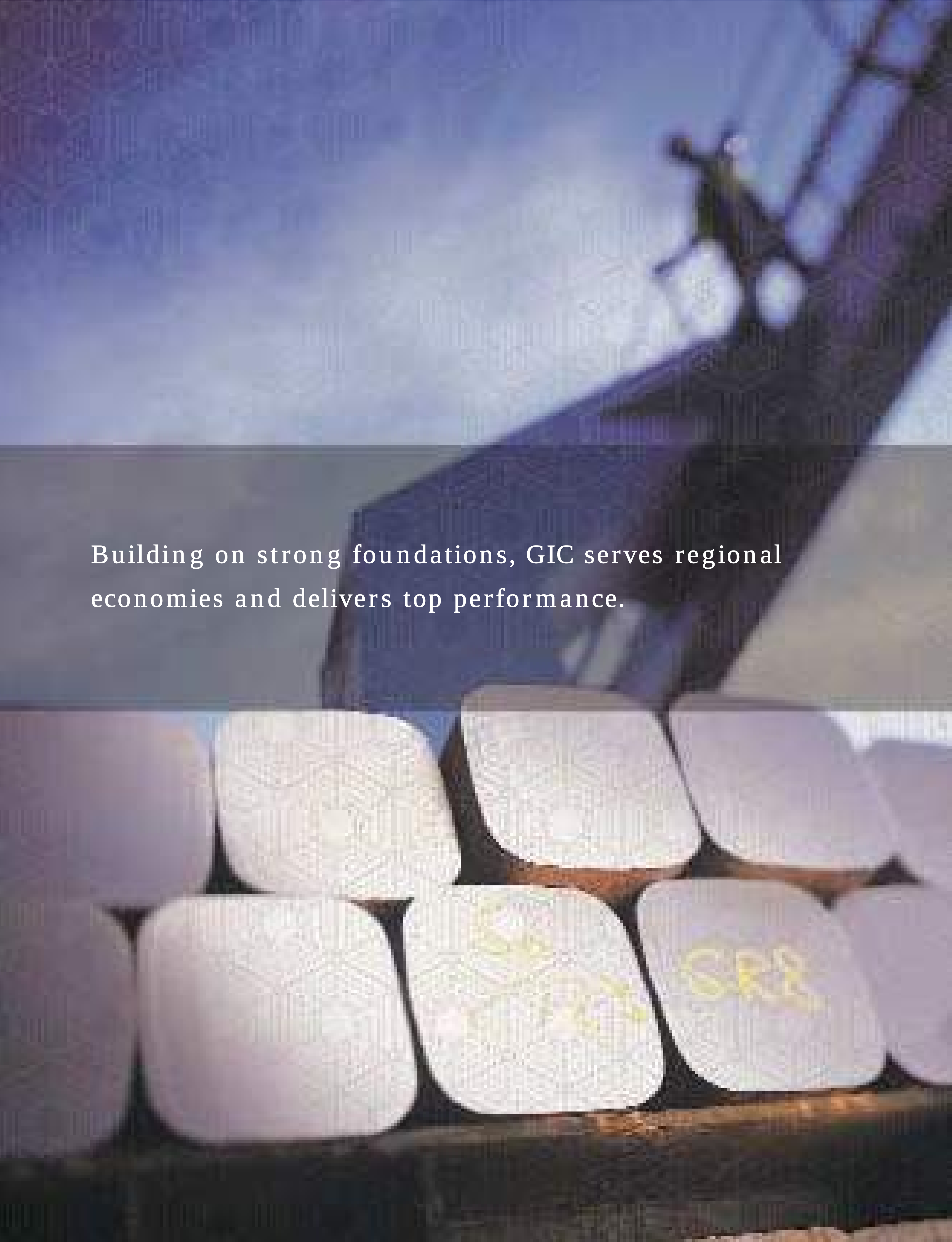
The receivable from shareholders amounted to US$ 399.7 million at the end of 2003. Subsequent to the sale of Gulf International Bank (GIB) in 2001, US$ 577.1 million relating to proceeds from the sale was outstanding from the shareholders at 31st December 2001. During 2002 and 2003 US$ 177.4 million was repaid by the shareholders resulting in a balance of US$ 399.7 million at 31st December 2003. The outstanding balance earns a competitive rate of return. As demonstrated in the past two years, the shareholders’ intend to repay this outstanding over the next few years through dividends received from GIB and the corporation. Note 7 to the financial statements provide additional details.

Property and Other Assets

Including property and fixed assets, total other assets amounted to US$ 217.9 million at December 31,2003. Of this US$ 26.2 million related to property and other fixed assets. The remaining

US$ 191.7 million comprised of accrued interest receivable, goodwill arising on acquisitions, revaluation gain on derivatives, pension fund, accounts receivable, prepaid expenses and other miscellaneous assets. Details are set out in Notes 10 and 11 to the financial statements.

A more detailed discussion on liquidity and funding, the various risks associated with our business activities, and capital strength is included in the Risk management section that follows.



Building on strong foundations, GIC serves regional economies and delivers top performance.

Risk Management

The financial goal of the Corporation is to consistently earn competitive returns, while maintaining risks within acceptable levels. Recognizing the relationship between returns and risk, the management of risk forms an integral part of the Corporation's strategic objective.

The continuous and rapidly changing business environment has increased the complexity and diversity of risks. The goal of risk management is not to avoid risks, but to understand and manage them.

The various business activities of the corporation generate a wide spectrum of risks. The four primary risks assessed are credit, market, liquidity and operational. Management of these risks through investment in knowledge and systems has been a priority at GIC. A combination of competent and experienced staff, quantitatively based analytical tools, and ongoing investment in technology are the key resources used to manage our risks effectively. The qualitative and quantitative techniques utilized to optimize the risk return profile incorporate information from the past, trends in the present business environment, and expectations of the future.

Risk management begins with management defining its risk appetite. This is followed by a three step process: identifying and measuring the various risks generated, monitoring and controlling them, and finally optimizing in relation to return. The primary function of the independent Risk Management Division is to develop and maintain a common risk management framework that serves as a basis for setting policies and limits and for enhancing GIC's ability to manage risks, evaluate performance and allocate capital. This unit acts as a critical link between management and the risk taking divisions – assisting management in defining / quantifying its risk appetite and then effectively communicating this to the risk takers and ensuring that the risk taking activity is within management's acceptable levels.

Within the corporation, responsibility for management of risks is not restricted to a single division. The philosophy adopted has been to encourage a culture of prudent risk management across all business and support areas.

From the perspective of control, the process of risk management is facilitated through a set of independent functions in addition to the Risk Management Division. These units, which report directly to senior management, include Financial Control, Internal Audit, Compliance and Credit. This multi faceted approach aids the effective management of risks by identifying and monitoring risks from a variety of perspectives.

The process of managing the four risk categories identified above are discussed in more detail in the following sections.

Credit Risk

Credit risk is the possibility of loss arising from the failure of an obligor to completely fulfill its contractual obligations. In its various on and off-balance sheet business activities,

Sources of Credit Risk (Weighted Credit Risk Exposure)

Investment Securities	8.0%
Loans and Credit Funds	37.0%
Investment in Projects, Equity, Participations and Equity funds	27.7%
Placements & other Interest bearing assets	7.0%
Other Asset Categories	10.0%
Off balance sheet	10.3%

Principal Investing (Projects) by Industry

Chemicals	16.1%
Construction Materials	19.7%
Distributors	7.8%
Financial Services	1.9%
Food Products	7.1%
Metals & Mining	16.4%
Diversified	9.0%
Telecommunications	11.2%
Other	10.8%

the corporation seeks opportunities to take credit risk prudently and manage it effectively to achieve competitive returns. Credit risk is managed concurrently at the transaction, obligor and portfolio levels.

An activity-wise break down of the principal sources of credit risk is illustrated in the pie chart above. The proportions reflect Credit Risk Weighted Exposure, computed based on BIS capital adequacy guidelines.

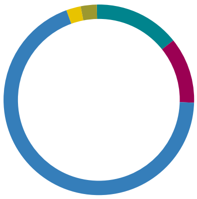
The primary tool used in the management of credit risk is a set of well defined credit policies and procedures. In addition to communicating management's risk appetite in the form of limits for country, product, industry and obligor, these policies detail the process of measurement, monitoring and reporting. The stringent credit approval framework mandates a rigorous and thorough evaluation of creditworthiness of each obligor, after which limits are approved by management. A country risk review system is utilized to set country limits. Additionally, limits for product and industry are also defined to ensure broad diversification of credit risk. Credit policies and procedures are designed to identify, at an early stage, exposures which require more detailed monitoring and review. The credit risk management process utilizes statistical methods as well, to estimate expected and unexpected loss amounts for the various business activities.

Although, business units are responsible for maintaining exposures within limits, actual exposures are continuously monitored by independent control functions including Risk Management, Financial Control, Compliance and Internal Audit. Technology is a key element in the monitoring process and in this regard, cutting edge systems, capable of close to real time monitoring and control of risk taking activities, are being effectively utilized.

As of end 2003, the key components of the corporation's total credit exposure were loans and credit funds; principal equity investments and equity funds; and investment securities. Within the portfolio of loans and advances, there has been a deliberate emphasis on GCC countries, a region whose dynamics we comprehend well and where we have a better understanding of the inherent risks. Credit funds, managed by a range of experienced and highly rated fund managers, are invested in superior quality structured finance transactions.

Over the years, the principal investing activity has reviewed over 400 investment proposals and as of 31 December 2003 had invested in 34 projects. A rigorous evaluation process is followed prior to investment. As is highlighted in the graph above, a healthy diversification across industry sectors is maintained within this portfolio. With regards to the investment securities portfolio, the rating profile, illustrated in the graph

Rating Profile-of Investment Securities



AAA / Aaa rated debt securities	15.1%
GCC Government securities	11.0%
Debt securities of other investment grade issuers	68.6%
Other Debt securities	2.5%
Equities	2.8%

above, highlights the superior quality of assets held. Debt securities issued by GCC governments and other investment grade issuers constitute over 94.7% of the portfolio.

Off-balance sheet Financial Instruments

In the normal course of its business, the corporation utilizes derivative and foreign exchange instruments to meet the financial needs of its customers, to generate trading revenues and to manage its exposure to market risk.

For derivative and foreign exchange transactions, procedures similar to on balance sheet products are used for measuring and monitoring credit risk. Credit risk weighted exposure to off balance sheet products amounted to about 10.3% of total credit risk weighted exposure. This amount represents the mark-to-market or replacement cost of these transactions. In terms of maturity, over 96.2% of trading foreign exchange and interest rate contracts were short term with maturities within one year. Credit risk amounts arising from these transactions relate to major banks. Off balance sheet transactions also include credit-related contingent items designed to meet the financial requirement of the corporation's customers. A detailed credit risk analysis of credit-related contingent items, derivatives and foreign exchange products is set in Notes 23 and 24 to the financial statements.

Although, detailed and thorough analysis is conducted prior to taking on credit risk, unforeseen events could trigger a decline in the creditworthiness associated with a transaction, resulting in loss. Adequate levels of provisions are set aside to cover such losses. The corporation's provisioning philosophy, including numerical analysis, is discussed in the financial review section on page 29.

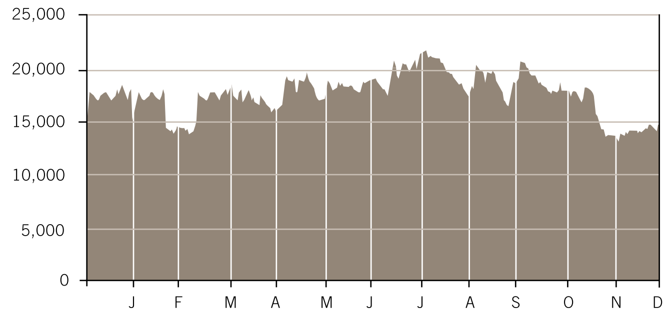
Market Risk

Market risk is the possibility of loss in value of financial instruments, resulting from an adverse change in market factors. Within the corporation, market risk is made up of three key risk constituents – interest rate risk, equity risk and foreign exchange risk. A breakdown, based on risk constituents, is provided on page 39 for the combined mark-to-market and investment activities. The percentages reflect average VaR amounts, considered independently, and ignore the effects of diversification across risk classes.

Market risk is measured, monitored and managed, both on a notional basis, and using a Value at Risk (VaR) concept. Quantitative statistical methods combined with judgement and experience are used to effectively manage market risk. A system of limits and guidelines restrain the risk taking activity with regard to individual transactions, net positions, volumes, maturities, concentrations, maximum allowable losses, and

Market Risk Constituents-Overall

Profile of daily VaR - 25 day holding period, 95% confidence level (US$ 000's)



ensure that risks are within the acceptable levels in terms of notional amounts. The VaR based system provides a more dynamic measure of market risk, capturing in a timely manner, the impact of changes in the business environment on the value of the portfolio of financial instruments.

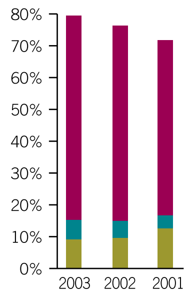
VaR is calculated and reported to senior management on a daily basis at various levels of consolidation including portfolio, business unit and Corporation. The average, minimum and maximum value at risk amounts for the combined mark-to-market and investment activities are tabulated below. These VaR measures are based on a 95% confidence level, 25 day holding period, and using exponentially weighted historical market data. A profile of daily VaR is charted above. At US$ 17.7 million, the average overall VaR for 2003 was similar to the average overall level for 2002. During the last quarter of 2003, a portion of the long duration fixed rate securities was hedged using interest rate swaps, resulting in a considerable decrease in interest rate VaR. This was however partly offset by an increase in equity related VaR due to increased exposures. The value at risk associated with exposures to alternative investment strategies is also quantified and aggregated with risk components of GIC's more conventional on and off balance sheet asset classes. At year end 2003, the overall VaR was US$ 14.7 million.

Scenario analysis is an essential component of the market risk management framework. The assumption of normality on which the statistical models are based may become invalid due to the occurrence of certain events. Future scenarios, which result in a breakdown of the historical behavior and relationships between risk constituents, are projected, and potential loss amounts are determined. Most of these scenarios are derived from macroeconomic events of the past, modified with the expectations for the future.

2003 Value at Risk – 25 day holding period, 95% confidence level

US$ 000's	Average	Minimum	Maximum	31 Dec 2003
Interest rate	11,596	3,738	16,633	3,738
Equity	12,012	10,108	14,013	14,013
Foreign Exchange	1,219	659	2,310	761
Total	17,680	13,401	21,449	14,713

Liquid Assets Ratio



	2003	2002	2001
Placements & Other Liquid Assets	9.1%	9.6%	12.5%
Trading Securities & managed funds	6.2%	5.3%	4.1%
Investment Securities	64.2%	61.4%	55.1%
Total	79.5%	76.3%	71.7%

Liquidity Risk

Liquidity risk is the risk of being unable to meet financial obligations at reasonable prices. Liquidity risk arises due to

(1) Cash flow illiquidity, arising from the potential inability to procure funds at reasonable rates and required maturities.
(2) Asset illiquidity, relating to the possibility of having to sell assets on a forced basis.

The corporation adopts a conservative approach to liquidity management with an objective of maintaining sufficient levels of funds and funding capacity to meet our commitments, both on and off balance sheet. In addition to historical data and current information, a vital element in our liquidity measurement methodology is to forecast future scenarios of a tightening in liquidity due to adverse events which may affect both the corporation and the wider financial system. Extreme event scenarios are evaluated both on the assets and liability side. GIC considers that a strong capital position is integral to its ability to manage liquidity by ensuring its secure and continuous access to deposits from both, customers and banks. Liquidity controls are in place to closely monitor the profile of future cash flows from maturing assets and liabilities to ensure that the resultant liquidity requirements are within prudently established limits.

A measure of the corporation's liquidity coverage is highlighted in the following paragraphs.

Liquid Assets Ratio

At 79.5%, the liquid asset ratio reflects the high level of liquid assets maintained in the balance sheet. Comparatively, the ratio at year end 2002 was 76.3%. The ratio is computed by determining the proportion of total assets that can be readily converted into cash, without incurring undue capital losses. Liquid assets include bank balances, money market instruments, securities purchased under resale agreements, placements and securities. Investment securities, constituting over 80.8% of the liquid assets, are primarily made up of superior grade debt securities which are readily realizable.

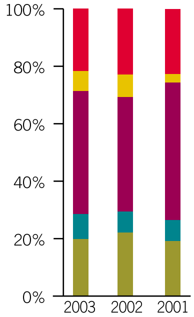
Diversified sources of funding

GIC consistently endeavors to diversify its funding profile and in this regard the corporation issued US$ 300 million 5-year floating rate notes in July 2002. The corporation's solid financial condition, augmented by its good standing in the regional and international markets, contributed towards achieving the objective of extending and diversifying its funding base.

As the chart on page 41 illustrates, we are continuously trying to achieve an optimal mix of sources of funding.

Risk Management continued

Diversified Sources of funding



	2003	2002	2001
GCC deposits	19.9%	22.1%	19.2%
International deposits	8.6%	7.3%	7.3%
Repo financing	42.9%	39.8%	47.8%
Term financing	6.9%	7.9%	2.9%
Shareholders' funds & others	21.7%	22.9%	22.8%

Over the years, the corporation has applied its marketing skills to develop a reliable source of deposits, both regionally and in international markets. At December 31st 2003, deposits from various sources totaled US$ 1,904.0 million, of which deposits from GCC governments and central banks and other institutions headquartered in the GCC states amounted to US$ 1,329.9 million.

Maturity profile of assets and liabilities

A detailed breakdown of the maturity profile by individual asset and liability category is provided in Note 21 to financial statements. At December 31st 2003, roughly 23.7% of total assets were due to mature within 12 months. Approximately to 75.9% of assets with longer maturities were readily realizable securities. The maturity profile is based on contractual repayment arrangements and as such does not take account of effective maturities of deposits. The corporation's GCC retention record shows that short maturity deposits from GCC governments, central banks and other regional financial institutions have been regularly renewed over the past several years.

Credit Rating

During 2003, Standard & Poors, the international rating agency, changed the outlook for GIC to "Positive" from "Stable", and reaffirmed both our long-term and short-term ratings. Moody's, which had raised our long-term and short-term ratings in 2002, also reaffirmed both ratings for 2003. We believe that the Corporation's enhanced rating is indicative of a sound business operation and future business potential.

	Moody's	Standard & Poor's
Long-term Deposits	Baa1	BBB+
Short-term Deposits	P2	A2
Bank Financial Strength (BFSR)	C-	-

These ratings reflect the Corporation's strong capital position, its ownership structure and position in the Gulf region, good profitability, asset quality, loan loss experience, the high level of professionalism of our staff and effective management.

Capital Strength

Capital represents the shareholder's investment and is a key strategic resource which supports the corporation's risk taking business activities. In line with the corporation's financial objective, management strives to deploy this resource in an efficient and disciplined manner to earn competitive returns. Capital also reflects financial strength and security to the corporation's creditors and depositors. Capital management is fundamental to GIC's risk management philosophy, and takes into account economic and regulatory requirements.

Regulatory Capital

At the end of the year under review, the Total and Tier 1 capital ratios were 38.5% and 38.4% respectively. The higher capital ratios, reflect an increase in the capital base and a lower risk weighted exposure. The corporation's strong capital base was further enhanced during 2003 with the substantial rise in profits and retained earnings. Additionally, the unrealized gain on available for sale securities included in revaluation reserves increased the overall capital base. The improved quality of exposures is reflected in the lower overall risk weighted exposure. The ratios are computed based on the Capital Adequacy guidelines of the Basle Committee on Banking Supervision, incorporating the capital charge in respect of market risk as well.

BIS Capital Ratio Computations

US$ Million	2003	2002	2001
Tier 1 Capital (A)	1,263.7	1,155.7	1,128.1
Total Capital Base (B)	1,265.9	1.158.3	1.131.9
Risk Weighted Exposure (C)	3,290.8	3,307.9	3,155.0
BIS Capital ratios (%)			
Tier 1 capital ratio (A/C*100)	38.4	34.9	35.8
Total capital ratio (B/C*100)	38.5	35.0	35.9

With the objective of optimizing capital allocation, GIC has developed a program of phased and gradual growth to be executed over the next few years. This build up will be governed predominantly on risk-return objectives.

Economic Capital

In addition to maintaining capital reserves based on regulatory requirements, economic capital sufficiency based on internal models is also determined. The economic capital computation process has three fundamental objectives: determine economic capital sufficiency, in addition to regulatory capital adequacy; assist in equitable / standardized performance measurement of businesses, on a 'real' (risk adjusted) basis; and assist in optimizing resource allocation to achieve target risk adjusted ROE for the corporation. Economic capital computations are based on extreme scenarios, and cover all types of risks.

Operational Risk

Operational risk is the potential for financial and reputational loss arising from a breakdown in internal controls, operational processes or the various systems that support them. It also includes human errors, criminal acts and natural disasters. Operational risk factors can be categorized into internal and external. Internal risk factors are managed through the establishment of effective segregation of responsibilities, infrastructure and controls within the corporation. External risk factors are managed by anticipating the occurrence of adverse events, preparing contingency plans and implementing sound back-up systems.

Internal Audit & Control

The Internal Audit division plays an important role in the risk management process, particularly in managing operational risk. Operational risk is managed through an effective infrastructure of internal controls including systems and procedures to monitor transactions, positions, confirmations and documentation. The Internal Audit division ensures that these control mechanisms, which cover the front and back office functions, are adhered to and adequately functioning and reports directly to the Audit Committee of the Board of Directors. In addition to internal audits, the corporation's system of internal controls is regularly examined and evaluated by external auditors, as required by the local regulatory body.

The influence of technology has increased substantially over the recent past and this trend is likely to accelerate in future. Keeping this in perspective, considerable resources have been allocated to managing the system side of operational risk. An EDP audit function within the Internal Audit Division works in close conjunction with the Risk Management division to oversee system risk issues.

Financial Statements

Contents

Auditors' Report

The Shareholders, Gulf Investment Corporation G.S.C., State of Kuwait

We have audited the accompanying balance sheet of Gulf Investment Corporation G.S.C. ("the Corporation") as at December 31, 2003 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended.

Respective responsibilities of management and auditors

These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with the International Standards on Auditing as promulgated by the International Federation of Accountants. 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and of the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Other regulatory matters

We further report that we have obtained all the information and explanations that we required for the purpose of our audit and the financial statements include the information required by the Kuwait Commercial Companies Law of 1960, as amended, and the Corporation's articles and memorandum of association. In our opinion, proper books of account have been kept by the Corporation, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the report of the Chairman agrees with the books of account. We have not become aware of any contravention, during the year ended December 31, 2003, of the Kuwait Commercial Companies Law of 1960, as amended, or of the Corporation's articles and memorandum of association, or of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business and its related regulations, that would materially affect the Corporation's activities or its financial position.

KPMG

KPMG
Public Accountants
Kuwait
January 14, 2004

Balance Sheet as at December 31, 2003

(US$ million)	Note	2003	2002
Assets			
Cash and bank balances		11.5	3.5
Placements and money market funds	3	412.8	442.3
Securities purchased under resale agreements		46.5	10.2
Trading securities and managed funds	4	411.9	308.7
Investment securities	5	4,325.9	3,564.1
Loans and credit funds	6	445.8	426.8
Receivable from shareholders	7	399.7	486.9
Equity funds	8	141.0	108.0
Investment in projects and equity participations	9	282.3	275.8
Property and other fixed assets	10	26.2	28.7
Other assets	11	191.7	149.9
Total assets		**6,695.3**	**5,804.9**
Liabilities and shareholders' equity			
Liabilities			
Securities sold under repurchase agreements		2,873.1	2,310.8
Deposits	12	1,904.0	1,705.1
Term finance	13	460.0	460.0
Other liabilities	14	172.3	150.9
Total liabilities		**5,409.4**	**4,626.8**
Shareholders' equity			
Share capital		750.0	750.0
Reserves		421.5	371.5
Unrealised gain on available-for-sale assets		114.4	56.6
Total shareholders' equity	15	**1,285.9**	**1,178.1**
Total liabilities and shareholders' equity		**6,695.3**	**5,804.9**

The accompanying notes are an integral part of the financial statements.

Darwish bin Ismail bin Ali Al-Bulushi
Chairman

Hisham Abdulrazzaq Al-Razzuqi
Chief Executive Officer

Statement of Income for the year ended December 31, 2003

(US$ million)	Note	2003	2002
Interest and similar income		240.8	224.7
Interest expense and similar charges		(149.8)	(145.5)
Net interest income		**91.0**	**79.2**
Other operating income	16	87.2	43.6
Gross operating income		**178.2**	**122.8**
Provision for impairment losses	17	(31.0)	(28.3)
Staff cost		(19.4)	(18.0)
Premises		(2.6)	(2.5)
Reversal of restructuring provision		-	1.0
Amortization of goodwill		(1.3)	(1.2)
Other operating expenses		(8.2)	(8.5)
Net income from ordinary activities		**115.7**	**65.3**
Extraordinary item	18	9.3	25.0
Net income for the year		**125.0**	**90.3**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Shareholders' Equity for the year ended December 31, 2003

(US$ million)	Capital	Reserves: Compulsory reserve	Reserves: Voluntary reserve	Reserves: Retained earnings	Subtotal reserves	Unrealised gain on available-for-sale assets	Total
Balance as at January 1, 2002	750.0	144.3	135.8	76.1	356.2	45.5	1,151.7
Dividend for 2001	-	-	-	(75.0)	(75.0)	-	(75.0)
Net gains on disposal of available-for-sale assets transferred to income statement	-	-	-	-	-	(5.9)	(5.9)
Change in fair value of available-for-sale assets	-	-	-	-	-	17.0	17.0
Net income for the year	-	-	-	90.3	90.3	-	90.3
Transfer to compulsory reserve	-	9.0	-	(9.0)	-	-	-
Balance as at December 31, 2002	**750.0**	**153.3**	**135.8**	**82.4**	**371.5**	**56.6**	**1,178.1**
Balance as at January 1, 2003	750.0	153.3	135.8	82.4	371.5	56.6	1,178.1
Dividend for 2002	-	-	-	(75.0)	(75.0)	-	(75.0)
Net gains on disposal of available-for-sale assets transferred to income statement	-	-	-	-	-	(3.6)	(3.6)
Change in fair value of available-for-sale assets	-	-	-	-	-	61.4	61.4
Net income for the year	-	-	-	125.0	125.0	-	125.0
Transfer to compulsory reserve	-	12.5	-	(12.5)	-	-	-
Balance as at December 31, 2003	**750.0**	**165.8**	**135.8**	**119.9**	**421.5**	**114.4**	**1,285.9**

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows for the year ended December 31, 2003

(US$ million)	2003	2002
Cash flows from operating activities:		
Net income for the year before extraordinary item	115.7	65.3
Extraordinary item	9.3	25.0
Adjustments to reconcile net income to net cash (outflow)/inflow from operating activities:		
Income receivable from the shareholders (see note 7)	(18.7)	(21.1)
Provision for impairment losses	31.0	28.3
Amortisation of goodwill	1.3	1.2
(Gain)/loss on sale of investment securities	(0.8)	5.3
Gain on sale of investment in equity participation	-	(4.8)
Income from projects and equity participations	(26.0)	(14.4)
Amortisation of premium on investment securities	7.7	3.1
Depreciation	2.8	3.1
Increase in fair value of available-for-sale investments	(16.3)	(35.4)
Increase in trading securities and managed funds	(103.2)	(88.2)
(Increase)/decrease in other assets and other liabilities (net)	(43.6)	64.4
Net cash (outflow)/inflow from operating activities	**(40.8)**	**31.8**
Cash flows from investing activities:		
Decrease/(increase) in placements	30.2	(51.6)
(Increase)/decrease in securities purchased under resale agreements	(36.3)	166.2
(Increase)/decrease in loans and credit funds	(18.7)	61.2
Sale and maturity of investment securities	700.4	892.0
Purchase of investment securities	(1,395.7)	(1,354.6)
Increase in investment in equity funds	(32.3)	(7.8)
Sale of equity participation	-	17.1
Decrease in investment in projects and equity participations	9.4	10.4
Purchase of property and other fixed assets	(0.3)	(0.4)
Received from shareholders	30.9	36.2
Net cash outflow from operating activities	**(712.4)**	**(231.3)**
Cash flows from financing activities:		
Increase/(decrease) in deposits and repurchase agreements	761.2	(99.9)
Term finance	-	300.0
Net cash inflow from financing activities	**761.2**	**200.1**
Increase in cash and cash equivalents	8.0	0.6
Cash and cash equivalents at beginning of year	3.5	2.9
Cash and cash equivalents at end of year	**11.5**	**3.5**

Cash and cash equivalents comprise of cash and bank balances.

The accompanying notes are an integral part of the financial statements.

1. INCORPORATION AND ACTIVITY

The Gulf Investment Corporation G.S.C. ("the Corporation") is an investment company incorporated in the State of Kuwait as a Gulf Shareholding Company. It is equally owned by the governments of the six member states of the Gulf Co-operation Council ("GCC") – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The Corporation is engaged in all aspects of investment banking activities.

The Corporation is domiciled in Kuwait and its registered office is at Jaber Al Mubarak Street, Al Sharq, Kuwait. The total number of staff employed by the Corporation as at December 31, 2003 was 139 (2002: 136).

The financial statements were approved and authorised for issue by the Board of Directors on January 14, 2004.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee of the IASB and the requirements of the Kuwait Commercial Companies Law of 1960, as amended, Ministerial Order No.18 of 1990, Law No. 32 of 1968 concerning currency, the Central Bank of Kuwait and the Organisation of Banking Business and subsequent amendments thereto and the Corporation's memorandum and articles of association.

2.2 Basis of presentation

The Corporation's functional currency is United States Dollars and the figures presented in the financial statements are rounded to the nearest million.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

The accounting policies have been consistently applied by the Corporation and are consistent with those used in the previous year.

2.3 Subsidiaries

Subsidiaries are those enterprises controlled by the Corporation. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The investments in Bitumat Company Limited and Gulf Paramount Electronic Services WLL, subsidiary companies, are not material to the financial statements of the Corporation. Accordingly, these subsidiaries are included under 'Investment in Projects and Equity Participations' and are accounted for using the equity method.

2. SIGNIFICANT ACCOUNTING POLICIES continued

2.4 Financial instruments

(i) Classification

Trading instruments are those that the Corporation principally holds for the purpose of short-term profit taking. These include trading securities and managed funds, derivative contracts that are not designated as effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as part of other assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as part of other liabilities.

Originated loans and receivables are loans and receivables created by the Corporation providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise deposits with banks and financial institutions, securities purchased under resale agreements, loans and advances to customers (other than purchased loans), receivables from shareholders and debt instruments purchased at original issuance.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Corporation has the intent and ability to hold to maturity. These include credit funds and certain debt instruments.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Corporation, or held-to-maturity. Available-for-sale instruments include money market funds, certain investment securities, equity funds and certain investments in projects.

(ii) Recognition

The Corporation recognizes financial assets held to maturity, held for trading and available-for-sale assets on the trade date i.e. the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognized.

Originated loans and receivables are recognized on the settlement date.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses (see note 2.9).

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses (see note 2.9). Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price (bid price for assets and offer price for liabilities) at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available then the fair value of the instrument is estimated using pricing models or discounted cash flow techniques or market price of similar financial instruments.

Where discounted cash flow techniques are used, estimated future cashflows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Corporation would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current credit worthiness of the counterparties.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale assets are recognized directly in shareholders' equity. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognized in shareholders' equity is transferred to the income statement.

Gains and losses arising from a change in the fair value of trading instruments are recognized in the statement of income.

(vi) Derecognition

A financial asset is derecognized when the Corporation no longer has control over the contractual rights that comprise the asset. This occurs when the rights are realized, expired or are surrendered. A financial liability is derecognized when it is extinguished.

Held-to-maturity, available-for-sale assets and assets held for trading are derecognized using trade date accounting. The Corporation uses the weighted average method to determine the gain or loss on derecognition.

Originated loans and receivables are derecognized on the day they are transferred by the Corporation.

(vii) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Corporation has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis.

2. SIGNIFICANT ACCOUNTING POLICIES continued

2.5 Repurchase and resale arrangements

The Corporation enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. The amounts paid are recognized as securities purchased under resale agreements. Investments sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or held-to-maturity or available-for-sale, as appropriate. The proceeds from the sale of the investments are reported as part of liabilities as securities sold under repurchase agreements.

The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest.

2.6 Investment in projects and equity participations

Investment in enterprises in which the Corporation holds 20% or more of the voting capital and/or exercises significant control or influence over the financial and operating policies ("associates") are accounted for using the equity method. Provision is made for any impairment losses and recognized in the income statement.

Other investments in projects and equity participations are classified as available-for-sale assets. Provision is made for any impairment losses (see note 2.9) on an individual investment basis and is recognized as set out in note 2.9.

2.7 Property and other fixed assets

Property and other fixed assets are carried at cost less accumulated depreciation and impairment losses (see note 2.9). Depreciation is computed on a straight-line basis over the estimated useful life of each asset category as follows:

Buildings	20 years
Installations	5 – 10 years
Office equipment	3 – 4 years
Furniture	4 – 6 years
Motor vehicles	3 years

2.8 Amortisation of goodwill

Goodwill arising on acquisition of an associate, jointly controlled entity or subsidiary company represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses (see note 2.9). Goodwill is amortised over its useful life not exceeding twenty years.

2.9 Impairment

Property, other fixed assets, goodwill and financial assets are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Property, other fixed assets and goodwill
An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of assets is the greater of their net selling price and value in use. The impairment losses are recognized in the statement of income.

Originated loans and advances, receivables and held-to-maturity assets
The recoverable amount of originated loans and advances, receivables and purchased loans that are classified as held-to-maturity, is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and advances and receivables are carried at amortised cost less specific and general allowances for uncollectibility. Specific provision for impairment is established if there is an objective evidence that the Corporation will not be able to collect all amounts due. The amount of specific provision is determined as the difference between the carrying amount and the recoverable amount of the asset. General provision for impairment is made in accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, as amended.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the income statement.

Financial assets remeasured to fair value directly through shareholders' equity
The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of expected future cash flows discounted at the current market rate of interest. Where an asset remeasured to fair value directly through shareholders' equity is impaired, and a write-down of the asset was previously recognized directly in shareholders' equity, the write down is transferred to the income statement and recognized as part of the impairment loss. Where an asset measured to fair value directly through shareholders' equity is impaired, and an increase in the fair value of the asset was previously recognized in shareholders' equity, the increase in fair value of the asset recognized in shareholders' equity is reversed to the extent the asset is impaired. Any additional impairment loss is recognized in the income statement.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

2.10 Other provisions
Other provisions are recognised in the balance sheet when the Corporation has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

2. SIGNIFICANT ACCOUNTING POLICIES continued

2.11 Fiduciary activities

Assets managed for third parties or held in trust or in a fiduciary capacity are not treated as assets of the Corporation and accordingly are not included in these financial statements.

2.12 Hedge accounting

A hedging relationship exists where:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the reporting period; and
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss.

Where there is a hedging relationship between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value. The treatment of any resultant gains and losses is set out below.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of trading instruments (refer accounting policy 2.4 (iv)).

Where a derivative financial instrument hedges the exposure to changes in the fair value of a recognized asset or liability, the hedged item is stated at fair value in respect of the risk being hedged. Gains or losses on remeasurement of both the hedging instrument and the hedged item are recognized in the income statement.

Where a derivative financial instrument hedges the exposure to variability in the cash flows of recognized assets or liabilities (or homogeneous groups/portfolios thereof) or anticipated transactions or firm commitments, the effective part of any gain or loss on remeasurement of the hedging instrument is recognized directly in shareholders' equity. The ineffective part of any gain or loss is recognized in the income statement.

When a hedged anticipated transaction or firm commitment results in the recognition of an asset or liability, the cumulative gain or loss on the hedging instrument recognized in shareholders' equity is removed from shareholders' equity and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss recognized in shareholders' equity is transferred to the income statement at the same time that the hedged transaction affects net profit or loss and included in the same line item as the hedged transaction.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognized in shareholders' equity remains in shareholders' equity and is recognized in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognized in shareholders' equity is recognized in the income statement immediately.

2.13 Interest, fee income and dividend income

Interest income and expense is recognized on an accrual basis taking into account the effective yield of the asset or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other difference between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis. Fee income is recognized when earned. Dividend income is recognized when the right to receive payment is established.

2.14 Foreign currency

The reporting currency of the Corporation is the US Dollar. The share capital of the Corporation is also denominated in US Dollars. Transactions in foreign currencies are converted to US Dollars at the rate of exchange prevailing at the date of the transaction. Foreign currency monetary assets and liabilities are converted into US Dollars at market rates of exchange prevailing on the balance sheet date. Realised and unrealised foreign exchange gains and losses are included in the statement of income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to US Dollars at foreign exchange rates ruling at the dates the values were determined. Non-monetary assets and liabilities denominated in foreign currency that are stated at historical cost or amortised cost, are recorded at the exchange rate ruling at the date of transaction.

3. PLACEMENTS AND MONEY MARKET FUNDS

Placements and money market funds at December 31, 2003 included placements with non-bank financial institutions amounting to US$ 68.3 million (2002: US$ 78.5 million) and money market funds amounting to US$ 59.1 million (2002: US$ Nil).

4. TRADING SECURITIES AND MANAGED FUNDS

(US$ million)	2003	2002
Managed funds	408.6	305.3
Equities	-	0.1
Listed debt securities	3.3	3.3
	411.9	**308.7**

5. INVESTMENT SECURITIES

(US$ million)	2003	2002
Debt and other interest bearing instruments available-for-sale		
AAA/Aaa rated debt securities	608.0	705.9
GCC Government securities	302.0	221.5
Debt securities of other investment grade issuers	2,671.0	1,772.2
Other debt securities	96.8	60.1
	3,677.8	**2,759.7**
Debt and other interest bearing instruments held-to-maturity		
AAA/Aaa rated debt securities	45.2	52.0
GCC Government securities	172.6	275.2
Debt securities of other investment grade issuers	298.5	371.6
Other debt securities	11.8	2.3
	528.1	**701.1**
Equity investments available-for-sale		
Listed equity investments	48.0	23.6
Unlisted equity investments	72.0	79.7
	120.0	**103.3**
Total	**4,325.9**	**3,564.1**

Investment securities amounting to US$ 2,826.6 million (2002: US$ 2,300.6 million) are pledged as security in respect of borrowings under securities sold under repurchase agreements.

During the year, a provision of US$ 3.0 million was released (2002: charge US$ 5.7 million). The investments shown above are net of provision.

6. LOANS AND CREDIT FUNDS

(US$ million)	2003	2002
Loans and advances to customers	85.8	121.8
Credit funds	360.0	305.0
	445.8	**426.8**

Loans and advances to customers at December 31, 2003 include lendings to a GCC Country Government Agency of US$ 32.3 million (2002: US$ 49.7 million).

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

a) Provision for loan losses

The movements in the provision for loan losses were as follows:

(US$ million)	2003	2002
Balance at beginning of the year	4.0	4.7
Amount utilised	-	(0.8)
Net (write back)/charge for the year	(0.4)	0.1
Balance at end of the year	**3.6**	**4.0**

b) Provision for loan guarantees

(US$ million)	2003	2002
Balance at beginning of the year	3.4	3.4
Net charge for the year	0.2	-
Balance at end of the year	**3.6**	**3.4**

7. RECEIVABLE FROM SHAREHOLDERS

This primarily represents the unpaid balance from the sale of Gulf International Bank (“GIB”) to its shareholders on April 7, 2001. Repayment of this outstanding balance will be from any future dividends received by the shareholders from GIB and from the Corporation. The outstanding balance carries a rate of return to be computed annually. The rate for 2003 was 4.49% (2002: 4.19%).

8. EQUITY FUNDS

(US$ million)	2003	2002
Listed equity investments	17.8	9.6
Unlisted equity investments	145.2	129.1
	163.0	138.7
Provision for impairment	(22.0)	(30.7)
	141.0	**108.0**

Unlisted equity securities held by the equity funds are carried by the Corporation at cost less any impairment losses, since the fair value of these investments cannot be reliably determined. There is no active market for these investments and there have not been any recent transactions that provide evidence of the current fair value.

The following is a summary of movements in the balance of provisions for impairment of equity funds.

(US$ million)	2003	2002
Balance at beginning of the year	30.7	21.3
Amounts utilised	(14.4)	-
Charge for the year	5.7	9.4
Balance at end of the year	**22.0**	**30.7**

9. INVESTMENT IN PROJECTS AND EQUITY PARTICIPATIONS

(US$ million)	2003	2002
Project investments equity accounted	127.2	104.3
Other project investments and equity participations	210.7	201.6
	337.9	305.9
Provision for impairment	(55.6)	(30.1)
	282.3	**275.8**

a) Investments equity accounted

Details of investment in projects which are equity accounted are as follows:

	Registered capital (US$ million)	Share of capital held %	Carrying value (US$ million) 2003	Carrying value (US$ million) 2002
Bitumat Company Ltd.	6.7	100.0	18.7	20.8
Gulf Paramount for Electric Services WLL	3.0	90.0	3.0	-
Gulf Industrial Investment Co.	80.0	50.0	39.7	36.4
Delta Gulf Services FZ LLC	1.0	50.0	0.5	-
Bahrain Industrial Pharmaceutical Co.	2.8	40.0	0.7	0.7
The National Titanium Dioxide Co.	46.7	33.0	31.7	27.2
A'saffa Poultry Farms SAOG	13.0	30.9	4.2	4.0
Al Manar Plastics Product Co.	3.5	30.0	0.6	0.7
Kuwait International Advanced Industries Co.	6.7	25.0	0.7	0.7
Dhofar Fisheries Industries Co.	20.8	23.8	-	0.8
Interplast Co. Ltd.	27.2	23.5	13.1	-
Celtex Weaving Mills Co.	10.6	23.0	1.2	1.0
Rawabi Emirates (PJSC)	42.5	22.5	13.1	12.0
			127.2	**104.3**

All the above entities are incorporated within GCC.

Interplast Co. Ltd. was included within equity participations in the previsous year.

b) Other project investments and equity participations

(US$ million)	2003	2002
Listed investments	71.2	55.9
Unlisted investments	139.5	145.7
	210.7	**201.6**

Unlisted investments are carried at cost less any impairment losses, since the fair value of these investments cannot be reliably determined. There is no active market for these investments and there have not been any recent transactions that provide evidence of the current fair value.

9. INVESTMENT IN PROJECTS AND EQUITY PARTICIPATIONS continued

c) Provision for impairment in investment in projects and equity participations

The movement in the provisions was as follows:

(US$ million)	2003	2002
Balance at beginning of the year	30.1	21.7
Amounts utilized	-	(4.7)
Net charge for the year	25.5	13.1
Balance at end of the year	**55.6**	**30.1**

10. PROPERTY AND OTHER FIXED ASSETS

(US$ million)	Cost	Accumulated depreciation	2003 Net book value	2002 Net book value
Building and installations	28.7	5.0	23.7	25.4
Furniture, equipment and motor vehicles	10.5	8.0	2.5	3.3
	39.2	**13.0**	**26.2**	**28.7**

There were no significant additions or disposals during the year. The depreciation charge for the year is US$ 2.8 million (2002: US$ 3.1 million).

11. OTHER ASSETS

(US$ million)	2003	2002
Accrued interest, fees and commissions	78.0	66.1
Derivative assets used for hedging	54.7	27.9
Employees' end of service benefit asset	28.9	29.6
Goodwill arising on acquisitions	22.2	22.5
Prepayments	1.0	1.4
Other, including accounts receivable	6.9	2.4
	191.7	**149.9**

12. DEPOSITS

(US$ million)	2003	2002
Deposits from Central Banks	308.9	303.1
Deposits from other banks	914.3	755.5
Islamic deposits	490.6	437.8
Other deposits	190.2	208.7
	1,904.0	**1,705.1**

At December 31, 2003 deposits from GCC Country Governments, Central Banks and other institutions headquartered in the GCC States amounted to US$ 1,329.9 million (2002: US$ 1,280.0 million).

13. TERM FINANCE

(US$ million)	2003	2002
Saudi Riyal Floating rate loan due in 2004	160.0	160.0
GIC Floating Rate Note due in 2007	300.0	300.0
	460.0	**460.0**

14. OTHER LIABILITIES

(US$ million)	2003	2002
Accrued interest	52.5	48.9
Derivative liabilities used for hedging	72.4	57.2
Employees' end of service benefits	31.4	32.7
Other provision	3.6	3.4
Other, including accounts payable and accrued expenses	12.4	8.7
	172.3	**150.9**

15. SHAREHOLDERS' EQUITY

15.1 The authorised and issued capital comprises of 2.1 million shares of US$ 1,000 each (2002: 2.1 million shares of US$ 1,000 each). The paid up capital is US$ 750 million (2002: US$ 750 million).

15.2 In accordance with the Kuwait Commercial Companies' Law and the Corporation's Articles of Association, 10 percent of the net income for the year is required to be transferred to the non-distributable compulsory reserve until the reserve reaches a minimum of 50 percent of share capital.

15.3 No transfer has been made to the voluntary reserve for the years ended December 31, 2003 and 2002 based on a resolution adopted in the general assembly meeting of the shareholders.

15.4 The unrealised gain on available-for-sale assets comprises the cumulative net change in the fair value of available-for-sale assets held by the Corporation.

16. OTHER OPERATING INCOME

(US$ million)	2003	2002
Net gain on trading securities and managed funds	28.6	10.3
Net gain/(loss) on investment securities	0.8	(5.3)
Net gain on sale of investment in projects and equity participations	-	4.8
Net gain on disposal of available-for-sale		
investments transferred from shareholders' equity	3.6	5.9
Income from equity funds	5.1	3.0
Income from projects and equity participations	26.0	14.4
Profit on foreign exchange	0.6	0.3
Dividend income	6.6	5.6
Fees, commissions and sundry income	15.9	4.6
	87.2	**43.6**

17. PROVISION FOR IMPAIRMENT LOSSES

(US$ million)	2003	2002
Equity funds	(5.7)	(9.4)
Projects and equity participations	(25.5)	(13.1)
Loans and loan guarantees	0.2	(0.1)
Investment securities	3.0	(5.7)
Accounts receivables	(3.0)	-
	(31.0)	**(28.3)**

18. EXTRAORDINARY ITEM

This represents compensation received from the United Nations Compensation Commission (“UNCC”) in settlement of the claim filed by the Corporation for losses incurred as a result of the Iraqi invasion and occupation of Kuwait in 1990.

19. RETIREMENT AND OTHER TERMINAL BENEFITS

The Corporation has defined voluntary contribution and end of service indemnity plans which cover all its employees. Contribution to the voluntary plan is based on a percentage of pensionable salary and consists of contribution by employees and a matched contribution up to a certain limit by the Corporation. Contribution to the end of service indemnity plan is based on a percentage of pensionable salary and number of years of service by the employees. The amounts to be paid as the end of service benefits are determined by reference to the amounts of the contributions and investment earnings thereon. The Corporation also pays contributions to government defined contribution pension plan for certain employees in accordance with the legal requirements in Kuwait.

The total cost of retirement and other end of service benefits included in staff expenses for the year ended December 31, 2003 amounted to US$ 3.2 million (2002: US$ 2.8 million).

20. DIVIDEND

The shareholders in the general assembly meeting held on February 11, 2004 approved a dividend of US$ 100 per share for the year ended December 31, 2003 (2002: US$ 100 per share) and also a special dividend of US$ 100.0 million. These will be utilized to settle receivable from shareholders (see note 7)

21. ASSET AND LIABILITY MATURITY PROFILE

(US$ million)	Within 3 mths	3 mths to 1 year	1 to 5 years	Over 5 years	Total
At December 31, 2003					
Assets					
Cash and bank balances	11.5	-	-	-	11.5
Placements and money market funds	273.0	80.7	-	59.1	412.8
Securities purchased under resale agreements	46.5	-	-	-	46.5
Trading securities and managed funds	-	-	-	411.9	411.9
Investment securities	138.5	696.7	2,260.9	1,229.8	4,325.9
Loans and credit funds	39.5	44.7	252.3	109.3	445.8
Receivable from shareholders	110.0	-	289.7	-	399.7
Equity funds	0.8	1.6	43.6	95.0	141.0
Investments in projects and equity participations	-	-	-	282.3	282.3
Property and other fixed assets	-	-	-	26.2	26.2
Other assets	108.1	32.6	6.0	45.0	191.7
Total assets	**727.9**	**856.3**	**2,852.5**	**2,258.6**	**6,695.3**
Liabilities and shareholders' equity					
Securities sold under repurchase agreements	1,685.8	1,187.3	-	-	2,873.1
Deposits	1,661.1	239.4	3.5	-	1,904.0
Term finance	-	160.0	300.0	-	460.0
Other liabilities	48.9	90.8	-	32.6	172.3
Shareholders' equity	75.0	-	-	1,210.9	1,285.9
Total liabilities and shareholders' equity	**3,470.8**	**1,677.5**	**303.5**	**1,243.5**	**6,695.3**
At December 31, 2002					
Total assets	**758.2**	**501.8**	**2,721.3**	**1,823.6**	**5,804.9**
Total liabilities and shareholders' equity	**2,585.5**	**1,445.4**	**526.7**	**1,247.3**	**5,804.9**

The asset and liability maturity profile is based on contractual repayment arrangements and as such does not take account of the effective maturities of deposits as indicated by the Corporation's deposit retention records and of borrowers' right to prepay obligations with or without prepayment penalties. Formal liquidity controls are based on contractual asset and liability maturities.

22. ASSET AND LIABILITY REPRICING PROFILE AND EFFECTIVE INTEREST RATES

(US$ million)	Within 3 mths	3 mths 1 year	Over 1 year	Non-interest bearing items	Total	Effective interest rate %
At December 31, 2003						
Assets						
Cash and bank balances	11.5	-	-	-	11.5	-
Placements and money market funds	273.0	80.7	-	59.1	412.8	2.43
Securities purchased under resale agreements	46.5	-	-	-	46.5	1.32
Trading securities and managed funds	-	-	3.3	408.6	411.9	7.13
Investment securities :						
Fixed rate	119.5	611.0	487.5	-	1,218.0	5.01
Floating rate	1,837.6	1,150.3	-	-	2,987.9	2.26
Equities	-	-	-	120.0	120.0	-
Loans and credit funds	406.4	40.4	-	(1.0)	445.8	2.30
Receivable from shareholders	110.0	-	289.7	-	399.7	4.49
Equity funds	-	-	-	141.0	141.0	-
Investment in projects and equity participations	-	-	-	282.3	282.3	-
Property and other fixed assets	-	-	-	26.2	26.2	-
Other assets	-	-	-	191.7	191.7	-
Total assets	**2,804.5**	**1,882.4**	**780.5**	**1,227.9**	**6,695.3**	
Liabilities & shareholders' equity						
Securities sold under repurchase agreements	1,685.8	1,187.3	-	-	2,873.1	1.60
Deposits	1,664.6	239.4	-	-	1,904.0	1.79
Term finance	460.0	-	-	-	460.0	1.84
Other liabilities	-	-	-	172.3	172.3	-
Shareholders' equity	-	-	-	1,285.9	1,285.9	-
Total liabilities and shareholders' equity	**3,810.4**	**1,426.7**	**-**	**1,458.2**	**6,695.3**	
Derivative instruments	374.9	(374.9)	-	-	-	
Interest rate sensitivity gap	(631.0)	80.8	780.5	(230.3)	-	
Cumulative interest rate sensitivity gap	**(631.0)**	**(550.2)**	**230.3**	**-**	**-**	
At December 31, 2002						
Interest rate sensitivity gap	(852.7)	(886.7)	2,106.9	(367.5)	-	
Cumulative interest rate sensitivity gap	**(852.7)**	**(1,739.4)**	**367.5**	**-**	**-**	

The repricing profile is based on the remaining period to the next interest repricing date. The repricing profiles of floating rate investment securities and loans incorporate the effect of interest rate swaps used to modify the interest rate characteristics of specific transactions. The general provision for loan losses is deducted from non-interest bearing assets.

23. COMMITMENTS AND CONTINGENT LIABILITIES

In the usual course of meeting the requirements of customers, the Corporation has commitments to extend credit and provide financial guarantees and letters of credit to guarantee the performance of customers to third parties. The credit risk on these transactions is generally less than the contractual amount. The table below sets out the notional principal amounts of outstanding commitments and the risk-weighted equivalents calculated in accordance with the capital adequacy guidelines of the Bank for International Settlements.

Credit Risk Amounts

(US$ million)	2003 Notional principal amount	2003 Risk-weighted equivalent	2002 Notional principal amount	2002 Risk-weighted equivalent
Transaction-related contingent items	95.4	95.4	53.8	53.8
Undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	7.4	1.8	24.7	6.2
Total	**102.8**	**97.2**	**78.5**	**60.0**

The above commitments and contingent liabilities have off balance-sheet credit risk because only origination fees and accruals for probable losses are recognized in the balance sheet until the commitments are fulfilled or expired. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

24. DERIVATIVES AND FOREIGN EXCHANGE PRODUCTS

Derivatives and foreign exchange instruments are utilised by the Corporation to meet the needs of its customers, to generate trading revenues and as part of its asset and liability management (ALM) activity to hedge its own exposure to market, interest rate and currency risk.

In the case of derivative transactions the notional principal typically does not change hands. It is simply a quantity, which is used to calculate payments. While notional principal is a volume measure used in the derivatives and foreign exchange markets, it is neither a measure of market nor credit risk. The Corporation's measure of credit exposure is the cost of replacing contracts at current market rates should the counterparty default prior to the settlement date. Credit risk amounts represent the gross unrealised gains on transactions before taking account of any collateral held or any master netting agreements in place.

Hedge accounting

Interest rate swaps under which the Corporation pays a fixed rate and receives a floating rate are used in fair value hedges of fixed interest securities available-for-sale.

As at the balance sheet date the notional amount of interest rate swaps used to hedge interest rate risk amounted to US$ 1,837.9 million (2002: US$ 560.6 million) and its net fair value was a swap loss of US$ 73.7 million (2002: US$ 57.2 million). The corresponding gain on the hedged fixed income securities amounted to US$ 71.0 million (2002: US$ 54.7 million).

Trading activities

The table below summarises the aggregate notional, net fair value and credit risk amounts of foreign exchange and derivative financial instruments held for trading.

(US$ million)	Notional amounts	Net fair values	Credit risk amounts
As at December 31, 2003			
Foreign exchange contracts:			
Unmatured spot, forward and futures contracts	654.3	0.5	0.7
Options purchased	-	-	-
Options written	-	-	-
Total	**654.3**	**0.5**	**0.7**
Interest rate contracts:			
Interest rate swaps	35.8	-	0.4
Total	**35.8**	**-**	**0.4**
Grand Total	**690.1**	**0.5**	**1.1**
As at December 31, 2002			
Foreign exchange contracts:			
Unmatured spot, forward and futures contracts	833.7	0.7	1.1
Options purchased	113.1	(3.6)	-
Options written	113.1	3.6	3.6
Total	**1,059.9**	**0.7**	**4.7**
Interest rate contracts:			
Interest rate swaps	51.5	-	0.9
Total	**51.5**	**-**	**0.9**
Grand Total	**1,111.4**	**0.7**	**5.6**

24. DERIVATIVES AND FOREIGN EXCHANGE PRODUCTS continued

Counterparty analysis

(US$ million)	Banks	Total
At December 31, 2003		
Credit risk amounts		
OECD countries	0.6	0.6
GCC countries	0.5	0.5
Total	**1.1**	**1.1**
At December 31, 2002		
Credit risk amounts		
OECD countries	5.4	5.4
GCC countries	0.2	0.2
Total	**5.6**	**5.6**

Maturity analysis

(US$ million)	Year 1	Years 2 & 3	Total
At December 31, 2003			
Notional amounts			
Foreign exchange contracts	654.3	-	654.3
Interest rate contracts	10.0	25.8	35.8
Total	**664.3**	**25.8**	**690.1**
At December 31, 2002			
Notional amounts			
Foreign exchange contracts	1,059.9	-	1,059.9
Interest rate contracts	20.0	31.5	51.5
Total	**1,079.9**	**31.5**	**1,111.4**

25. GEOGRAPHIC DISTRIBUTION OF RISK ASSETS

(US$ million)	Cash and bank balances, placements and money market funds and securities purchased under resale agreements	Trading, investment securities and managed funds	Loans and credit funds and receivable from shareholders
GCC	356.2	741.1	485.5
Other Middle East and North Africa	-	10.6	-
Europe	113.7	1,774.8	125.0
North America	0.8	2,009.3	235.0
Asia	0.1	202.0	-
Total	**470.8**	**4,737.8**	**845.5**

(US$ million)	Equity funds, investment in projects and equity participations	Commitments and contingent liabilities	2003 Total	2002 Total
GCC	282.3	102.8	1,967.9	1,983.6
Other Middle East and North Africa	-	-	10.6	11.3
Europe	34.0	-	2,047.5	1,605.7
North America	104.8	-	2,349.9	1,943.7
Asia	2.2	-	204.3	160.5
Total	**423.3**	**102.8**	**6,580.2**	**5,704.8**

An analysis of derivatives and foreign exchange products is set out in note 24.

26. FAIR VALUE INFORMATION

As at the balance sheet date the fair value of financial assets and financial liabilities that are not carried at fair value is not materially different from their carrying amounts, except for debt and other interest bearing instruments held-to-maturity (see note 5), whose fair value is US$ 8.5 million higher than its carrying value (2002: US$ 7.4 million higher than its carrying value) and certain unlisted equity securities whose fair value cannot be reliably determined (see note 8).

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 Corporation 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.

27. RELATED PARTY TRANSACTIONS

During the year certain transactions were conducted with parties that have a direct or indirect relationship with the Corporation's shareholders. These comprised standard money market, foreign exchange, investment, lending and securities transactions and were conducted on an arm's length basis at open market prices. The volume of such transactions are disclosed in respective notes to the financial statements.

28. FIDUCIARY ACTIVITIES

At December 31, 2003 third party assets under management amounted to US$ 412.4 million (2002: US$ 202.6 million). These assets are managed in a fiduciary capacity and are therefore excluded from the balance sheet.

Direct Investment in the GCC Region

(US$ million)	Location	Total Shareholders' Equity	GIC's Share of Capital (%)
Non-consolidated subsidiary and associated companies			
Bitumat Company	Saudi Arabia	18.7	100.0
Gulf Paramount for Electric Services WLL	Kuwait	3.0	90.0
Gulf Industrial Investment Company	Bahrain	79.3	50.0
Delta Gulf Services (DGS)	UAE	1.0	50.0
Bahrain Industrial Pharmaceutical Company	Bahrain	1.8	40.0
National Titanium Dioxide Company (CRISTAL)	Saudi Arabia	96.1	33.0
A'saffa Poultry Farms SAOG	Oman	13.6	30.9
Al-Manar Plastic Product Company	Saudi Arabia	1.9	30.0
Kuwait International Advanced Industries Co.	Kuwait	3.0	25.0
Dhofar Fisheries Industries Company	Oman	-	23.8
Interplast Company Limited	UAE	55.7	23.5
Celtex Weaving Mills Company	Bahrain	5.1	23.0
Rawabi Emirates (PJSC)	UAE	58.2	22.5
Equity Participations			
Gulf Stone Company	Oman	1.3	19.5
Advanced Electronics Company (AEC)	Saudi Arabia	53.4	15.0
National Environmental Services Company (NESCO)	Kuwait	1.8	15.3
Arab Pesticide Industries Company (MOBEED)	Saudi Arabia	2.7	12.5
National Petrochemical Industrialization Company	Saudi Arabia	179.2	12.0
Arab Qatari Company for Dairy Products	Qatar	14.9	10.8
Al-Salam Aircraft Company	Saudi Arabia	50.7	10.0
Gulf Ferro Alloys Company (Sabayek)	Saudi Arabia	8.8	10.0
Jarir Marketing Company	Saudi Arabia	105.1	10.0
National Aluminum Products Company	Oman	15.7	10.0
Ras Laffan Power Company	Qatar	72.8	10.0
Zamil Industrial Investment Company (ZIIC)	Saudi Arabia	118.5	10.0
National Pharmaceutical Industries Company	Kuwait	9.1	6.5
Securities & Investment Company (SICO)	Bahrain	42.0	8.0
Al-Jubail Chemical Industrial Company (JANA)	Saudi Arabia	54.0	7.5
Gulf Aluminum Rolling Mill Company (GARMCO)	Bahrain	88.4	5.9
Arabian Industrial Fibers Company (Ibn Rushd)	Saudi Arabia	535.1	4.7
International Fish Farming Company	UAE	66.2	4.0
United Power Company	Oman	128.1	2.3
Oasis International Leasing Company (WAHA)	UAE	142.3	2.0
Thuraya Satellite Telecommunications Company	UAE	314.8	1.6
Qatar Telecom Company (Q-TEL)	Qatar	713.0	0.6

Corporate Directory

Senior Management

Chief Executive Officer
Hisham Abdulrazzaq Al-Razzuqi

Global Markets

Head of Global Markets & Proprietary Asset Management
Richard Swomley

Head of Treasury
Yacoub Al-Awadi

Debt Capital Markets
Abdulaziz Al-Mulla

Funding & Liquidity
Martin Joy

Money Markets
Mathew Abraham

Islamic Products
Nabeel Al-Bader

Head of Marketing
Hamza Behbehani

Alternative Investments
Romeo Briones

GCC Fund Management
Waleed Al-Braikan

GCC Client Portfolios
Talal Al-Tawari

Principal Investing

Head of Utilities, Financial Services & Corporate Finance
Shafic Ali

Head of Corporate Finance
Mahmoud Rateb

Head of Manufacturing Projects
Khaled Al-Qadeeri

Head of GCC Diversified Projects
Mohammad Al-Melhem

Corporate Office

Head of Economics & Strategy
Dr. Soliman Demir

Equity Research
Omar Abdallah

Market Risk Analysis
Sebastian Vadakumcherry

Credit Risk Analysis
Hargurmit Singh

Financial Control
Moajeb Al Otaibi

Head of Internal Audit
Anthony Ede

Secretary to the Board
Rasheed Al-Badah

Operations & Administration

Head of Human Resources & Administration
Hani Al-Meer

Head of Information Technology
Hani Al-Shakhs

Head of Operations
Shawki Khalaf

Contact Details

Mailing Address
P.O. Box 3402
Safat 13035
Kuwait

Courier Address
Sharq
Jaber Al Mubarak Street
Kuwait

Web Site Address
www.gulfinvestmentcorp.com
Email gic@gic.com.kw

S.W.I.F.T.
GCOR KWKW
Telephone (+965) 222 5000
Facsimile (+965) 244 8894