Annual Report and Accounts

مؤسسة الخليج للإستثمار
Gulf Investment Corporation

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Mission Statement

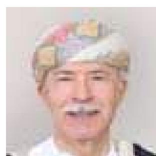
GIC's mission is to foster the economic growth, the economic diversity and the capital markets development of the GCC.

Financial Highlights

(US$ million)	2012	2013	2014
For the year			
Gross Operating and Other Income	222	302	336
Operating Expenses	66	66	67
Net Profit / (Loss)	130	163	201
At year end			
Total Assets	6,292	5,704	5,186
Interest Bearing Securities and Funds	2,045	1,750	1,691
Equities and Managed Funds	601	660	483
Projects and Equity Participations	2,085	2,278	1,856
Deposits	1,092	1,109	772
Shareholders' Equity	2,286	2,559	2,729
Selected Ratios (%)			
Profitability			
Return on Paid-up Capital	6.2	7.8	9.6
Return on Adjusted Shareholders' Equity	5.7	6.7	7.6
Capital			
BIS Ratios			
– Total	29.5	36.0	42.6
– Tier 1	29.5	36.0	42.6
Shareholders' Equity as a % of Total Assets	36.3	44.9	52.6
Asset Quality			
Marketable Securities as a % of Total Assets	35.3	41.6	38.5
GCC Country Risk as a % of Total Assets	60.7	71.2	71.1
Liquidity			
Liquid Assets Ratio	66.8	59.8	62.0
Productivity			
Operating Income as Multiple of Operating Expenses	3.4	4.6	5.0

Board of Directors

Sultanate of Oman



H.E. Mr. Abdul Kader Ahmed Askalan ** ***
Chairman of the Board -
Gulf Investment Corporation

H.E. Mr. Darwish Ismail Ali Al-Bulushi * ****
Minister Responsible for Financial Affairs
Ministry of Finance

State of Qatar

H.E. Shaikh Fahad Faisal Al-Thani * ****
Vice Chairman of the Board
& Chairman of the Executive Committee -
Gulf Investment Corporation
Deputy Governor, Qatar Central Bank

H.E. Dr. Hussain Ali Al-Abdulla ** ***
Minister of State and Board Member
Qatar Investment Authority

State of Kuwait

H.E. Mr. Bader Ajeel Al-Ajeel * ***
Executive Director - General Reserve Sector
Kuwait Investment Authority

H.E. Mr. Faisal M. H. Boukhadour ** ****
Chairman of the Audit Committee -
Gulf Investment Corporation
Advisor in the Diwan of H.H., the Prime Minister

United Arab Emirates

H.E. Mr. Faisal Ali Almansouri * ***
Chairman of the Risk Management Committee -
Gulf Investment Corporation
Director of Strategic Plannning
& Performance Department
Minister Office, Ministry of Finance

H.E. Mr. Saeed Rashed AlYateem ** ****
Assistant Undersecretary of Budget and Revenue
Ministry of Finance

Kingdom of Bahrain

H.E. Dr. Zakaria Ahmed Hejres * ****
Chairman of Remuneration and
Human Resources Committee -
Gulf Investment Corporation
Chief Executive Officer
Global Banking Corporation B.S.C. (closed)

H.E. Mr. Khalid A. Al-Bassam ** ***
Chairman,
Al-Bassam Investment Company

Kingdom of Saudi Arabia

H.E. Mr. Khaled S. Al-Khattaf * ***
Deputy CEO,
Lafana Investment Company

H.E. Mr. Turki Ibrahim Al-Malik ** ****
Deputy Chief Executive Officer
Chief Operations Officer,
Saudi Arabian Investment Co.
(Sanabil Investments)

Senior Management Team

Mr. Ibrahim Ali AlQadhi
Chief Executive Officer

Mr. Shafiq Ali
Group Head of Principal Investment

Mr. Hani Shakhs
Group Head of Support

* Member of the Executive Committee
** Member of the Audit Committee
*** Member of the Risk Management Committee
**** Member of the Remuneration and Human Resources Committee

Message from the Chairman

To the Shareholders of Gulf Investment Corporation,

On behalf of the Board of Directors of the Gulf Investment Corporation, it is my privilege to present GIC's annual report for 2014.

2014 was an excellent year for GIC with achievements on several fronts. Significant among which was the sustained growth in profits and return to our shareholders. Net profits grew by 23% to USD 201 million compared to prior year, representing a return on average equity of 7.6%. These results reflect the successful execution of corporate strategy that aims to optimize returns, asset quality, diversification, liquidity, capital adequacy and overall risk profile.

With a strong capital base of USD 2.7 billion, GIC continues to play a significant role in the economic development of GCC countries, supporting the private sector within our region. GCC investments represent 70% of the balance sheet and comprise of capital market investments, and direct investments in a range of sectors including infrastructure, power, services, metals, and petrochemicals.

GIC's strong track record, resilience to economic adversities, solid capital position and excellent

Net profits grew by 23% to USD 201 million compared to prior year, representing a return on average equity of 7.6%

human resources have established GIC as a regional leader in the chosen fields of business, well positioned to capitalize on the emerging opportunities.

GIC's exposure to the GCC region is well balanced by investments in the global markets, across an array of asset classes and investment strategies, providing diversification of GIC's total assets and contributing to the Corporation's profit. The access and expertise derived from the global markets activity help GIC achieve its aim of becoming world class financial institution.

Another significant achievement during 2014 was the multi-notch rating upgrades, a reflection of consistent and strong improvements on key financial indicators. Moody's upgraded GIC's ratings by three notches to A2, while Fitch upgraded the rating by two notches to A-, both carry a stable outlook. These rating enhancements are all the more gratifying given the global economic scenario fraught with uncertainties, and is also a positive indication of the Corporation's future prospects.

On behalf of my colleagues in GIC's Board of Directors, I would like to take this opportunity to extend my appreciation to their Royal Highnesses, Kings, Amirs, and Rulers of the GCC countries for their continuous support, and special thanks to the State of Kuwait for hosting GIC's headquarters and extending all the support needed. Our thanks also go to their Excellences, the Ministers of Finance of the GCC countries, for their support.

I would like to express my appreciation to the Members of the Board of Directors, the Executive Management, and all the staff members for their dedication and commitment during the year in achieving the Corporation's goals.

Abdul Qader Bin Ahmad Askalan
Chairman of the Board of Directors

Chief Executive Officer's Message

Gulf Investment Corporation (GIC) continued on its path of strong profit growth during 2014, with net profits reaching USD 201 million, a 23% year-on-year increase.

GIC has successfully managed to steer through challenging economic conditions and uncertainties that have taken over international markets, having relied upon its prudent risk-based corporate strategy. During the year under review, net operating income before provisions grew by 14% to USD 267 million, boosting shareholders' equity to USD 2.7 billion, up 7% compared to the previous year end. Return on average equity reached 7.6% for the year 2014.

The corporation's strong performance and solid financial strength contributed to multiple notch credit rating upgrades. Moody's upgraded GIC's long term credit rating by three notches, from Baa2 to A2, while the short term rating was upgraded to P1, the highest in this category. Fitch as well upgraded our long term credit rating by two notches, from BBB to A-, and the short terms rating to F1. All ratings carry a stable outlook.

Our principal investments portfolio demonstrated commendable performance during the year with an 18% increase in income, mostly driven by capital gains generated from planned exits from some of

Gulf Investment Corporation (GIC) continued on its path of strong profit growth during 2014, with net profits reaching USD 201 million, a 23% year-on-year increase.

our investments such as the partial exit of National Titanium Dioxide Co.-Crystal. This transaction enabled GIC unlock latent value, realize profits, reduce concentration and ultimately recycle capital into fresh projects. Meanwhile, the portfolio of interest bearing securities and funds registered a 17% growth in income compared to previous year, exceeding set targets by a comfortable margin.

During 2014, GIC was also successful in enhancing its liability structure and liquidity ratios, increasing operational efficiency through effective cost management tools. In addition, a restructuring of organizational and administrative structure was implemented to improve productivity and efficiency. GIC maintained its conservative provisioning policy, allocating USD 66 million towards impairment changes, for potential or unexpected decline in the value of our principal investment portfolio and private equity funds.

GIC pays special attention to the GCC manpower, where every effort has been made towards developing talents and skills of GCC staff members, through specialized custom tailored training courses and programs both in-house and external.

Strategically, we continue to strive towards realizing our aspirations of initiating and participating in potential regional investment opportunities, while maintaining a prudent risk framework. Our strategic objective remains dedicated to playing an active role towards contributing to the economic growth of the Gulf region and the development of its private sector.

I would like to take this opportunity to thank the shareholders, board of directors and its sub-committees for their constant support and guidance. I would also like to express my appreciation of the efforts, commitment and dedication of GIC staff. We are all proud of the achievements during 2014 and will continue to be motivated to realize our targets and to contribute towards the economic development of the GCC countries, striving to add value to our esteemed shareholders.

Ibrahim Ali AlQadhi
Chief Executive Officer

Economic Review

Latest estimates indicate that the global economy grew by

2.6%

y-o-y, in 2014, below the 4% average during 2000-2008

Advanced economies realized growth rates at

1.8%,

below the

2.5%

average during 2000-08.

Introduction

Several dynamics occurred during 2014 that impacted the GCC economies and triggered growth retraction and uncertainty. Firstly, OPEC oil prices dropped sharply from an average of $105.4pb during the first half of the year to an average of $87.2pb during the second half of the year.

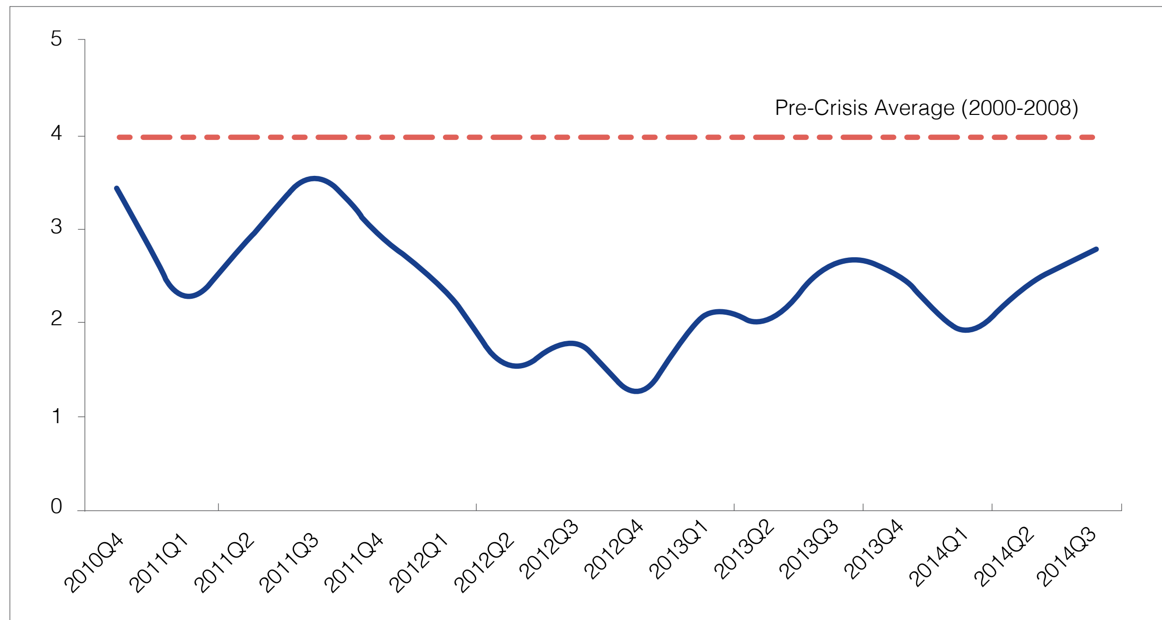
Secondly, an environment of slower economic growth characterized the global economy, notably in the EU and parts of Asia with notable declines in the growth of global trade. Thirdly, overall financial markets witnessed sharp changes with ebbs in the flows of capital to Emerging Market economies. Some of these dynamics were a result of orchestration while others were induced by technological changes and geopolitical events.

This annual review is in four sections. The first deals with global, regional and country-level developments that affected the pace and stability of growth. The second reviews oil market dynamics. The third covers the GCC economies, while the last section tracks developments in equity markets both regionally and globally.

1. The Global Economy

Latest estimates indicate that the global economy grew by 2.6 % y-o-y in 2014 below the 4% average during 2000-2008, as shown in Figure 1. The slowdown resulted from a consortium of forces including the corrective measures that countries took after the global financial crisis and companion global recession as well as the initial slowing growth in the US and geopolitical tensions in Eastern Europe and MENA region. Advanced economies realized growth rates at 1.8%, below the 2.5% average during 2000-08[1].

Figure 1: The Global Economy: Quarterly Real GDP Growth



Source: World Bank database, December 2014.

Global economic activity strengthened in the second half of 2014, following relatively moderate growth in the first half of the year. While remaining gradual and uneven, a recovery was supported largely by the sound fundamentals in a number of major advanced economies, despite signs of moderation in economic momentum in the fourth quarter. Growth picked up in the US and the UK but stagnated or declined in the Euro Area's core economies, reflecting persistent imbalances and heightened geopolitical tensions.

In the meantime, Japan fell into a technical recession as GDP shrank by 0.5% annualized rate in the third quarter of 2014 after plunging 1.7% in Q2 following the consumption tax increase in April 2014 which affected consumer spending adversely. Likewise, growth differentials were widespread among the major EM economies. For instance, economic activity was fundamentally strong in India, Indonesia and in China partly due to macroeconomic policy stimulus. In the other BRIC countries, GDP contracted or stagnated at low growth during the year due to falling commodity and oil prices, rising political uncertainties, as well as international sanctions and tightened financial conditions in Russia.

The largest world economy, the US, grew by 2.2% y-o-y in 2014 due to the recovery of both domestic and foreign demands while inflation remained stable. In the UK, the pace of economic activity was largely robust throughout the year driven by strong domestic demand, private consumption and housing investments. GDP grew by 3.2% y-o-y in 2014 supported by weaker inflationary pressures as inflation has remained below the target rate of 2% in the course of 2014[2].

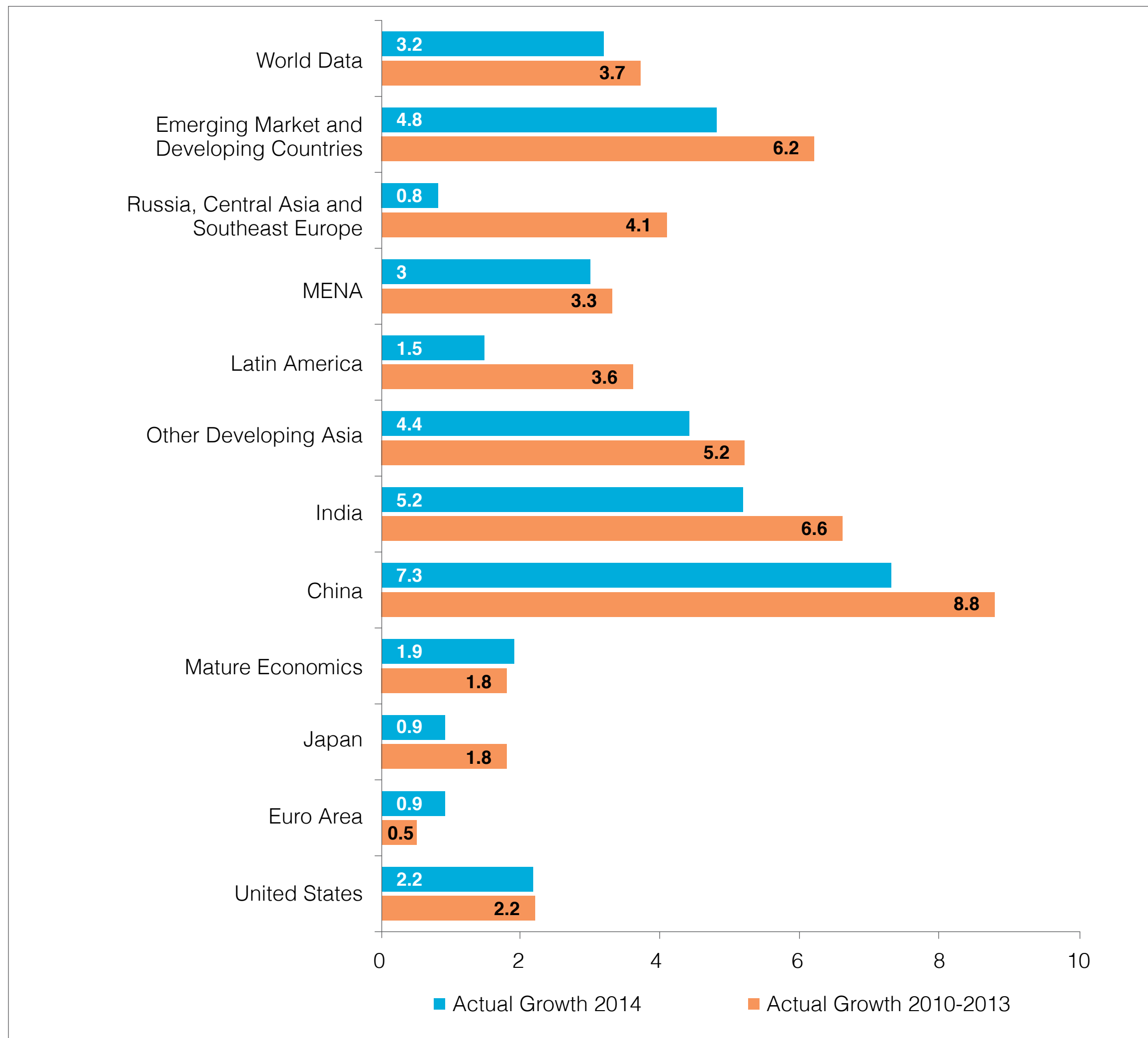
[1] World Bank database, December 2014.
[2] OECD Economic Outlook, November 2014.

In the Euro Area, real GDP grew by 0.8% in 2014 on the heels of a 0.4% contraction in 2013 as growth headwinds remained operative, including high unemployment, low capacity utilization and the growth-restraining impact of high levels of both public and private sector debt. By contrast, Japan's GDP growth decelerated to 0.9% y-o-y in 2014 down from 1.5% in 2013[3].

In China, GDP growth was pulled back by the property market correction which gathered pace in 2014. Real GDP growth fell from 7.7% y-o-y in 2013 to 7.4% in 2014. In India, economic growth was sustained in 2014 and became more broad-based with real GDP growing by 4.7%, up from 4.5% in 2013[4].

In Brazil, the recovery from a short recession in the first half of 2014 was modest and gradual while real GDP growth retracted from 2.5% in 2013 to a meagre 0.3% in 2014. The main cause was domestic demand growth which slowed down due to tight macroeconomic policies, low investment growth, weak external demand, and high inflation. In Russia, growth slowed visibly from 1.3% low in 2013 to 0.2% y-o-y in 2014 as economic sanctions, domestic import ban, and the sharp depreciation of the ruble all weakened overall confidence[5].

Figure 2: Economic Growth (%), 2010-2013 vs. 2014



Source: The Conference Board, 'Global Economic Outlook and Energy Outlook', February 2015.

3 IMF, WEO, October 2014.
4 IIF, China: Banking Industry Facing Challenges, December 10, 2014.
5 The World Bank, "Global Economic Prospects" June 2014.

1.1 Moderate Inflation in Mature Economies

The gradual and uneven recovery which was experienced by the advanced economies was induced by the low level of inflation due to softer energy and nonfuel commodity prices that fell by 3% in 2014 on the heels of a 1.2% fall in 2013. Global inflation moderated since June 2014, following a slight increase earlier in the year, with headline consumer price inflation in the OECD Area at 1.6% y-o-y in 2014. Persistent slack in the labor market and sharp falls in oil and food prices during H2 caused inflation to remain below target rates in many OECD countries and contributed to disinflationary pressures[6].

In advanced economies, consumer prices proceeded at differential rates. It declined in Japan to 2.9% y-o-y and in the Euro Area to 0.5% annualized rate, while remaining stable in the US at 1.4% and increased in the UK to 1.6%. Developments were also mixed among Emerging Market economies, with annual consumer price inflation remaining broadly unchanged in Brazil at 6.5% and China at 2.1%, while continuing to decline steadily in India reaching 8.3% from 10.4% in 2013, and climbing in Russia to 9.8% in 2014 from 6.5% in 2013[7].

1.2 Growth Differentials and Policy Dynamics

Fiscal and monetary policy were anchored on divergent courses in response to country-specific growth requirements and its imperatives. Tight fiscal policy and very accommodative monetary policy changed during 2014 as gross debt on average stabilized in advanced economies. Japan's excessive public deficit and debt continued to compromise its long term fiscal sustainability as well as its economic performance during the year. Its fiscal stance turned around sharply, from fiscal easing of 0.5% of GDP in 2013 to tightening of about 0.75% of GDP in 2014, much of it due to the 3% consumption tax increase in April.

In Emerging Market economies, the fiscal policy adjustment process was postponed in 2014 as the normalization of global liquidity conditions increased their borrowing costs. Fiscal balances as percent of GDP were in the negative territory and ranged between a deficit of 8.3% in Japan, 5.1% in the US, 3.9% in OECD, 2.6% in the Euro Area and a 1.1% deficit in China.

To a large extent, global monetary policies became less able to combat the potential threat of another recession using standard policy rates in a low inflation rate environment. Table 1 exhibits the level of short term interest rates pre and post global financial crisis. As global growth slowed, short term interest rates were reduced until they virtually approached zero in G4. They remained close to zero in nominal terms in 2014, and ranged between 0.1% in Japan, 0.2% in the Euro Area, 0.3% in the US and 0.5% in the UK.

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[6] OECD Economic Outlook, November 2014
[7] IMF, WEO, October 2014.

Table 1: Short-Term Policy Rates

Date	USA	Canada	Euro Area	UK	Japan	China	India
2008 Q1	2.61	3.50	4.00	5.25	0.5	6.57	6.00
2008 Q2	2.00	3.00	4.00	5.00	0.5	6.57	6.00
2008 Q3	1.81	3.00	4.25	5.00	0.5	6.21	6.00
2008 Q4	0.16	1.50	2.50	2.00	0.1	4.86	5.00
2009 Q1	0.18	0.50	1.50	0.5	0.1	4.86	3.50
2009 Q2	0.21	0.25	1.00	0.5	0.1	4.86	3.25
2009 Q3	0.15	0.25	1.00	0.5	0.1	4.86	3.25
2009 Q4	0.12	0.25	1.00	0.5	0.1	4.86	3.25
2010 Q1	0.16	0.25	1.00	0.5	0.1	4.86	3.50
2010 Q2	0.18	0.50	1.00	0.5	0.1	4.86	3.75
2010 Q3	0.19	1.00	1.00	0.5	0.1	4.86	5.00
2010 Q4	0.18	1.00	1.00	0.5	0.1	5.35	5.25
2011 Q1	0.14	1.00	1.00	0.5	0.1	5.60	5.75
2011 Q2	0.09	1.00	1.25	0.5	0.1	5.85	6.50
2011 Q3	0.08	1.00	1.50	0.5	0.1	6.10	7.25
2011 Q4	0.07	1.00	1.00	0.5	0.1	6.10	7.50
2012 Q1	0.13	1.00	1.00	0.5	0.1	6.10	7.50
2012 Q2	0.16	1.00	1.00	0.5	0.1	5.85	7.00
2012 Q3	0.14	1.00	0.75	0.5	0.1	5.60	7.00
2012 Q4	0.16	1.00	0.75	0.5	0.1	5.60	7.00
2013 Q1	0.14	1.00	0.75	0.5	0.1	5.60	6.50
2013 Q2	0.09	1.00	0.50	0.5	0.1	5.60	6.25
2013 Q3	0.08	1.00	0.50	0.5	0.1	5.60	6.50
2013 Q4	0.09	1.00	0.25	0.5	0.1	5.60	6.75
2014 Q1	0.08	1.00	0.25	0.5	0.1	5.60	7.00
2014 Q2	0.10	1.00	0.15	0.5	0.1	5.60	7.00
2014 Q3	0.09	1.00	0.05	0.5	0.1	5.60	7.00
2014 Q4	0.09	1.00	0.05	0.5	0.1	5.60	7.00

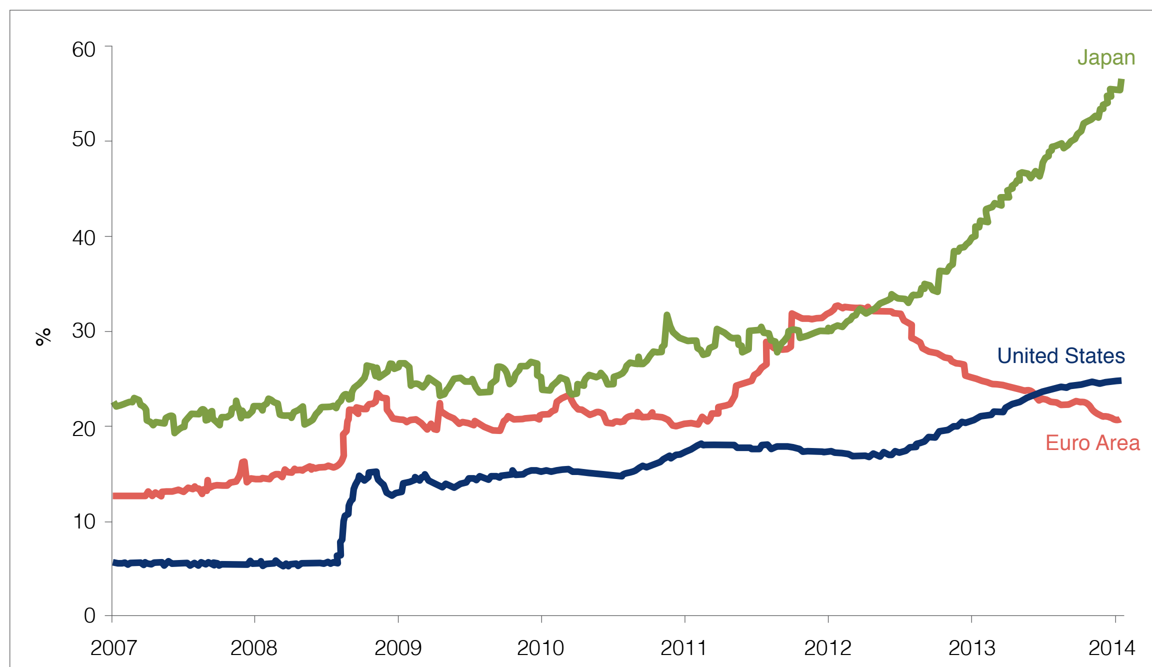
Source: Bloomberg, December 2014.
Note: For China the short-term policy rate used is the 6 month lending rate.

Expectedly, policy stance in 2014 diverged across countries given the different challenges they faced. The Fed ended its QE3 whereas the ECB and the BOJ continued to maintain their expansive asset purchases programs in response to GDP contraction in Japan and disinflationary pressures and weakening recovery in the Euro Area[8].

In tandem, the size of the central bank balance sheets as percent of GDP diverged across major central banks ranging between 21% for the ECB; around 25% in the US and 56% in Japan as shown in Figure 3. While the BOE maintained its asset purchase program on hold and flat during the latter part of the year, because of weakening inflationary pressures and lower productivity, the size of its balance sheet reached 35% of GDP in 2014.

[8] IIF, "Global Economy Chart book" November 2014.

Figure 3: Divergence in Central Bank Balance Sheets, Percent of GDP



Source: OECD Economic Outlook, September 2014.

In China, the slowdown in economic activity in early 2014 as well as a mild fall in inflation, from 2.6% in 2013 to 2.1% in 2014, triggered the application of a series of monetary stimulus, concluding most recently in a sizeable reduction in lending and deposit rates and reserve requirements ratio[9].

In India, consumer price inflation continued to decline steadily to 8.3% in 2014 from 10.4% in 2013, in response to a more credible and tighter monetary policy stance as well as due to some moderation in wages and food prices and lower commodity prices[10].

In Russia, the central bank moved to a free floating exchange rate regime and advanced its calendar for transition to full inflation targeting with a band of 3-6% consumer price inflation. The main policy rate was raised several times since the beginning of the year to stand at 9.5%. Tight monetary policy and reduced credit growth constrained private sector demand while the recent sharp declines in the oil prices led to discernible reductions in budget revenues[11].

1.3 Monetary Policy Divergence and the EM Capital Flows

Aggregate flows to Emerging Markets declined from an average of 2.4% of EM GDP in 2010-2012 to 2.0% in 2013-2014. Private capital inflows to EM declined by 6.4% to $1.2 trillion in 2014 relative to 2013 as shown in Table 2. Emerging Asia's share in total EM inflows increased to $699bn or 60.2% whereas flows to EM Europe were cut further to $84bn or 7.2% on the fall in flows to Russia.

Private capital inflows to Africa and the Middle East rose gradually to $95bn from $86bn in 2013, driven by an increase in FDI and equity investment. However, aggregate flows in nominal terms, equivalent to 4.4% of EM GDP, remained around 25% below their historic peak in 2007, due to modest commercial banking and FDI flows[12].

[9] IIF, China: Banking Industry Facing Challenges, December 10, 2014.
[10] IIF, India: Wind in the Sails, September 8, 2014.
[11] IIF, Russia: A Perfect Storm, December 11, 2014.
[12] 'Capital Flows to Emerging Market Economies', October 2014.

Table 2: Net Private Capital Inflows to EM ($BN)

Region	2012	2013	2014
Latin America	311	291	283
Emerging Europe	253	208	84
Africa / Middle East	85	86	95
Emerging Asia	607	656	699
Emerging Markets	1256	1241	1162

Source: IIF, "Capital Flows to Emerging Market Economies" October 2014.

1.4 Portfolio Debt and Equity Inflows in Emerging Market Economies

The period from March to July 2014 was marked by a surge in portfolio equity and debt inflows, averaging $37bn per month, but declined in August to $12bn and to $18bn in September as investors have taken a more cautious attitude towards EM assets. By year end, portfolio equity flows dipped to $3.7bn while portfolio debt flows fell to $7.8bn. Table 3 shows the evolution of both equity and bond flows during the period from 2011 until October, 2014[13].

Table 3: Net Non-Resident Purchase of EM Stocks and Bonds, $BN

	Portfolio Flows				
Equity Flows	Emerging Asia	Latin America	Emerging Europe	Africa & ME	Total
2011	0.5	1.8	1.5	-2.9	0.9
2012	67.0	17.2	10.9	-0.5	94.6
2013	29.4	17.6	4.5	-0.2	51.3
2014 till October	40.6	20.8	4.1	2.7	68.3
Regional Total	**231.0**	**97.3**	**32.5**	**3.2**	**364.1**
Debt Flows					
2011	78.1	102.5	27.7	1.5	209.8
2012	75.3	121.5	57.6	6.1	260.6
2013	47.3	88.8	16.3	-7.2	145.2
2014 till October	48.1	88.2	-9.7	-7.8	118.8
Regional Total	**311.8**	**521.1**	**120.4**	**-6.0**	**947.3**

Source: IIF, "Capital Flows to Emerging Market Economies" October 2014.

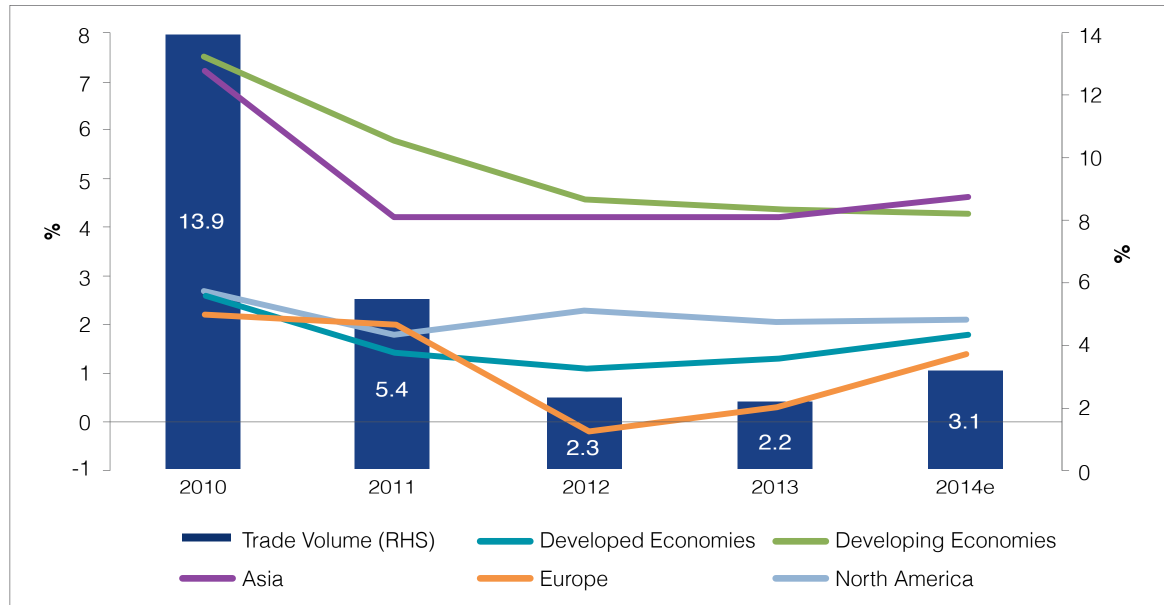
1.5 Global Trade: Gradual and Weak Recovery

Global trade continued to recover minutely and gradually in 2014 from levels of past years. After rising at the beginning of the year, world trade momentum waned off in the second quarter of the year, but recovered to 4.2% y-o-y in Q4 from 3.3% in Q2. The volume of world imports of goods increased by 2.1% in the third quarter and the recovery was broad based across advanced and Emerging Market economies, except for the US where merchandise trade weakened significantly.

Elsewhere, marked improvements were recorded in Japan, Emerging Asia and Latin America but the PMI for new manufacturing export orders decreased slightly in November, pointing to some moderation in global trade momentum towards the end of the year. The variability and volatility in trade growth was instigated by the notable slowdown in emerging Asia, Latin America, Russia and Central and Eastern Europe owing to country specific headwinds[14].

[13] 'Capital Flows to Emerging Market Economies', October 2014.
[14] WTO, "World Trade Report", 2014.

Figure 4: World Merchandise Trade and GDP, 2010-2014, Annual % change

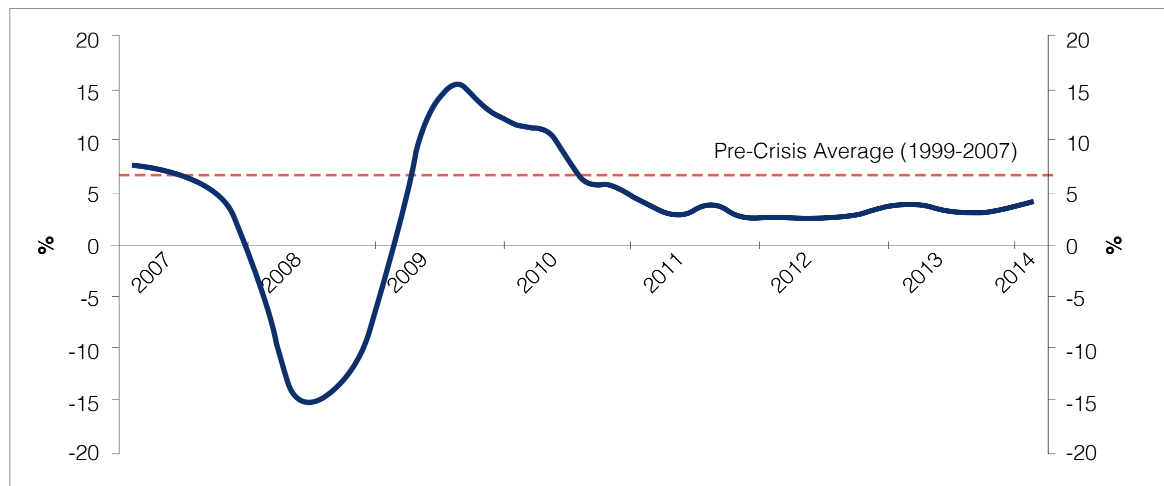


Figures for 2014 are estimates.
Source: WTO, September 2014.

Global imbalances, where current account surpluses in several Emerging Market economies helped fuel the credit booms and risk taking in major advanced deficit countries at the onset of the global financial crisis, halved since the onset of the crisis to around 2.25% of world GDP in the first half of 2014. During the year, surplus economies remained in the positive territory as their current account balances were in surplus, notably China ($237bn), Euro Area ($397bn) and Japan ($2bn) whereas deficit countries were the US ($379bn) and the OECD ($54bn).

Current account balance as percent of GDP ranged between a deficit of 2.2% in the US, a deficit of 0.1% in the OECD; a 0.1% surplus in Japan; a 2.4% surplus in China to 3.0% surplus in the Euro Area. World merchandise trade volume rose by 3.8% in 2014, more than the 3.0% increase of 2013. However, trade growth remained below its pre-crisis average for 1999-2007, at 6.9% as shown in Figure 5[15].

Figure 5: Volume of Trade in Goods and Services, year-on-year %



Source: OECD Economic Outlook, November 2014.

[15] WTO, "World Trade Report", 2014.

Table 4 summarizes trade growth estimates for 2014, which are conditional upon consensus estimates of real GDP at market exchange rates. The WTO expects the volume of world merchandise trade to have grown by 3.1% in 2014, up from 2.2% in 2013 as real GDP grew by 2.6% in 2014 following a 2.3% growth rate in 2013. On the export side, shipments from developed economies are expected to have increased by 2.5% in 2014 while exports of developing economies grew by 4.0% in 2014. Imports of developed economies are likely to have increased by 3.4% in 2014, while those of developing economies increased by 2.6% in 2014[16].

Table 4: Volume of world merchandise trade and Real GDP growth, 2011-2014, Annual % change

Year	Merchandise Trade Growth	Real GDP Growth
2011	5.4	2.8
2012	2.3	2.2
2013	2.2	2.3
2014[e]	3.1	2.6

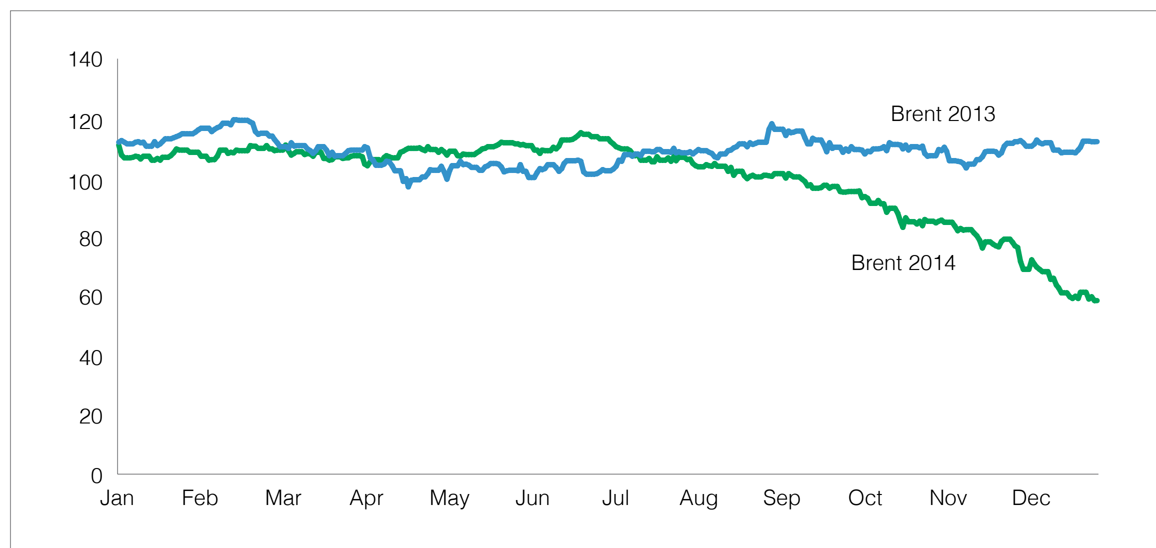
e: Estimate.
Source: WTO, International Trade Statistics, 2014.

2. Oil Dynamics

The recent sharp drop in oil prices surprised market watchers and investors since market expectations suggested that prices would remain above $100 per barrel for the first half of the year. OPEC, WTI and Brent prices declined by more than 50% during the second half of 2014, to settle at $52, $53.3 and $55.76 per barrel on December 31st 2014 respectively[17]. On average, oil prices lost between 15-20% during the second half of 2014, pulling volatilities to double digits levels. OPEC averaged $87.2 per barrel in H2 2014, compared to $105 per barrel at the beginning of the year and a volatility of $16.4 per barrel in contrast with $1.8 per barrel in H1 2014. Similarly, WTI and Brent's volatilities averaged $15.7 and $15.1 per barrel in the second half of the year compared to $3.6 and $2.2 per barrel by June 2014.

Despite higher volatilities towards the end of 2014, oil price indices remained less volatile than during H2 2008, when volatility of oil indices reached $34 per barrel. Geopolitical tensions, the shale oil revolution and its impact on crude oil, and market dynamics with oversupply and slowing demand stand as strong drivers to the oil drop.

Figure 6: Brent Prices in 2013 and 2014



Source: Bloomberg.

[16] WTO "Trade Statistics" September 2014.
[17] Bloomberg.

Table 5: OPEC, WTI, and BRENT Prices (Mean & Volatility in $ per barrel)

	OPEC		Brent		WTI	
	Mean	Volatility	Mean	Volatility	Mean	Volatility
H1 2011	106.5	8.8	98.3	8.1	111.0	9.4
H2 2011	108.1	3.4	91.8	6.7	111.2	4.0
H1 2012	112.0	9.8	98.1	8.3	113.8	10.0
H2 2012	106.8	4.4	90.2	3.9	110.2	4.5
H1 2013	105.1	4.9	94.2	2.4	107.9	5.7
H2 2013	106.7	2.3	101.7	5.1	109.8	2.7
H1 2014	105.4	1.8	100.9	3.6	108.9	2.2
H2 2014	87.2	16.4	85.5	15.1	89.2	15.7

Source: Bloomberg.

2.1 Oil Fundamentals and Prices

The recent dynamics call for longer-term perspective in order to suggest policy lessons. Looking back at the market dynamics throughout the last five years, we noticed that on several occasions there was an oversupply of oil, in tandem with rising oil prices. In January and April 2012, a 1.97mb and 1.16mb were pumped daily in excess of market demand as oil prices averaged $119 per barrel and oil demand growth slowed down by 1% q-o-q. Similarly, in January and April 2014, a 0.69mb and 1.06mb were pumped daily in excess of market demand as Brent price hovered around $108 per barrel with a steady oil demand. Globally, oil supply rose from 91mbd to 92.6mbd, or an increase of 1.6mbd. The second and third quarter of the year witnessed the increase in oil supply as oil production remained flat during the last quarter. Clearly there are episodes which differ from the current environment of ample supply, sluggish demand, and sliding oil prices.

According to the US Energy Information Administration (EIA), world oil demand in the last quarter of the year remained flat at 92.6mbd as OPEC production decreased by 0.1mbd as opposed to rising production by OECD countries, mainly the US by 0.3mbd. Hence Saudi Arabia, the swing producer, as well as the US kept their production levels high in the 4th quarter of 2014 despite the tumbling oil prices.

Table 6: International Petroleum and Other Liquids Production, mbd 2014

	Q1	Q2	Q3	Q4
OECD	24.9	25.4	25.7	25.9
U.S.	13.1	13.9	14.2	14.5
Canada	4.4	4.3	4.4	4.4
Mexico	2.9	2.9	2.9	2.8
North Sea	3.1	2.8	2.7	2.7
Other OECD	1.5	1.6	1.6	1.6
Non-OECD	66.0	66.3	66.9	66.7
OPEC	35.9	35.7	36.2	36.1
Crude Oil Portion	29.8	29.5	30.0	30.0
Other Liquids	6.2	6.2	6.1	6.1
Eurasia	13.6	13.6	13.6	13.6
China	4.5	4.5	4.4	4.5
Other Non-OECD	12.0	12.6	12.7	12.5
Total World	91.0	91.7	92.6	92.6

Source: EIA.

Overall, oil demand trended upward in 2014 from 90.3mbd in the first quarter to 92.4mbd in the last quarter of the year, driven mainly by rising demand from the US and Europe. The last quarter was much slower as oil demand receded in Europe and other Non-OECD countries by 0.2 mbd and 0.8 mbd respectively. China's demand increased from 10.6mbd in Q1 2014 to 11.2 mbd in the second quarter and remained flat for the rest of the year.

Table 7: International Petroleum and Other Liquids Consumption, mbd

	2014			
	Q1	Q2	Q3	Q4
OECD	45.7	44.8	46.2	46.7
U.S.	18.8	18.7	19.2	19.2
U.S. Territories	0.3	0.3	0.3	0.3
Canada	2.4	2.4	2.4	2.4
Europe	13.0	13.4	13.9	13.7
Japan	5.0	3.9	4.1	4.5
Other OECD	6.1	6.1	6.3	6.6
Non-OECD	44.5	45.9	46.3	45.7
Eurasia	4.6	4.6	4.8	4.8
Europe	0.7	0.7	0.7	0.7
China	10.6	11.2	11.1	11.1
Other Asia	11.4	11.6	11.2	11.5
Other Non-OECD	17.2	17.8	18.5	17.7
Total World	90.3	90.7	92.4	92.4

Source: EIA.

3. GCC Economies: A Thumbnail Review

GCC's real GDP grew at slower rates than those realized in the past years as shown in Table 8, where Qatar is expected to maintain economic growth rate above 5% in 2014. Bahrain's real GDP growth slowed down significantly in 2014 from 5.3% to 3.7% while UAE's growth rate declined from 5.2% in 2013 to 4.6%. Also, Oman slightly slowed down in terms of real GDP growth while Kuwait and Saudi Arabia realized a slight increase in growth levels.

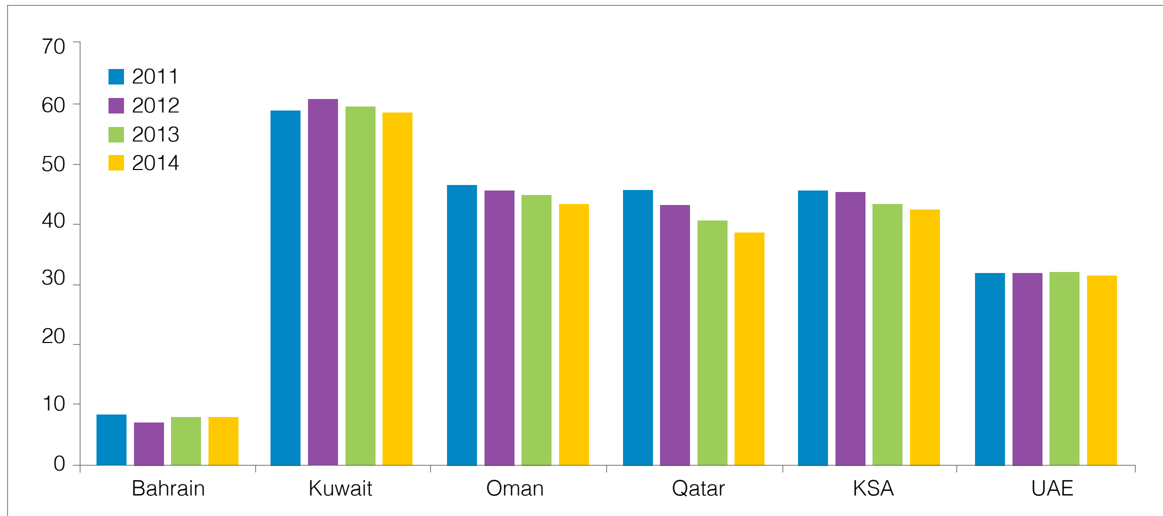
Table 8: Real GDP Growth, (% change)

Country	2011	2012	2013	2014f
Bahrain	1.9	3.4	5.3	3.7
Kuwait	10.2	8.3	2.1	2.6
Oman	0.9	5.9	4.8	4.5
Qatar	13.0	6.2	6.5	6.1
Saudi Arabia	8.6	5.8	4.0	4.3
United Arab Emirates	3.9	4.4	5.2	4.6

f: IIF Forecast.
Source: Institute of International Finance (IIF), GCC Country Database.

The contribution of hydrocarbons to real GDP in the GCC accounts for an average of 37% in 2014 with Kuwait being the most dependent on hydrocarbons as it constitutes more than 58% to its real GDP, Figure 7.

Figure 7: Hydrocarbon's Contribution to Real GDP in GCC (%), 2011-2014



Source: Institute of International Finance (IIF), Respective Country Database, 2 February 2015.

3.1 Inflation

Inflation was mild with rates ranging between 1.8% and 3.7% in 2014, restrained mostly by subdued prices of global food and commodity prices. The Qatari economy exhibited the highest inflation rate at 3.7% followed by Saudi Arabia at 3.2% while the rate for the rest of the GCC countries hovered around 2.5%.

Table 9: Consumer Prices, % change

Country	2011	2012	2013	2014f
Bahrain	-0.4	2.8	3.3	2.9
Kuwait	4.8	2.9	2.7	2.9
Oman	4.0	2.9	1.8	1.8
Qatar	1.9	1.9	3.1	3.7
Saudi Arabia	3.7	2.8	3.5	3.2
United Arab Emirates	0.9	0.7	1.1	2.2

f: IIF Forecast.
Source: Institute of International Finance (IIF), GCC Country Database.

3.2 GCC Trade

GCC's total exports declined in 2014 by 4% y-o-y with hydrocarbon exports constituting more than 60% of total exports. Saudi Arabia's hydrocarbon exports hit $316 billion followed by Qatar with $110 billion and the UAE with $108 billion while hydrocarbon exports of the rest of the countries did not exceed $100 billion.

GCC's total imports grew by 1.4% y-o-y, constituting a combined trade balance of $523 billion. Saudi Arabia and Bahrain recorded slightly lower levels of imports in 2014 accompanied with higher non-hydrocarbon exports which underscore the imperatives of higher diversification levels.

Table 10: GCC's Trade ($ billion)

	2011	2012	2013	2014f
Hydrocarbon Exports				
Bahrain	15.5	15.2	15.3	12.6
Kuwait	96.7	113.6	109.0	94.4
Oman	33.4	36.3	37.3	33.9
Qatar	105.3	122.3	125.0	110.3
KSA	317.6	337.7	322.3	315.9
UAE	111.7	118.1	121.2	108.7
Non-Hydrocarbon Exports				
Bahrain	4.4	4.8	6.0	6.2
Kuwait	6.2	6.1	6.7	6.8
Oman	13.7	15.8	19.1	17.0
Qatar	9.0	10.7	11.9	13.0
KSA	47.1	50.7	52.7	55.5
UAE	188.0	232.2	246.1	256.0
Total Imports				
Bahrain	12.1	13.2	13.7	13.0
Kuwait	22.1	24.0	26.0	29.4
Oman	21.5	25.6	31.8	28.3
Qatar	26.9	30.8	31.5	33.7
KSA	120.0	141.8	152.7	151.3
UAE	195.4	222.0	244.2	251.6

f: IIF Forecast.
Source: Institute of International Finance (IIF), Respective Country Database, 2 February 2015.

3.3 GCC's Competitiveness

The competitiveness of the GCC economies faired among global comparators with half of the members ranked among the top 20 while the other GCC countries ranked among the top 50. The index comprises an assessment for 144 countries taking into consideration the country's bundle of institutions, policies and factors that determine the level of productivity. Qatar outperformed the region in the 2013-14 index where it was ranked 13th globally followed by UAE in 19th place and Saudi Arabia in 20th.

Table 11: GCC Global Competitiveness Index Rankings

	2013-14	2014-15
Qatar	13	16
UAE	19	12
KSA	20	24
Oman	33	46
Kuwait	36	40
Bahrain	43	44

Source: The Global Competitiveness Report 2014-2015.

Similarly, all the GCC members were ranked in the top 50 on the Doing Business Index 2014 except for Kuwait which lagged behind ranking 104 out of 189 economies.

Table 12: GCC Ease of Doing Business Ranking

	2013	2014
UAE	26	23
KSA	22	26
Qatar	40	48
Bahrain	42	46
Oman	47	47
Kuwait	82	104

Source: Doing Business 2013 and Doing Business 2014.

3.4 Sovereign Wealth Funds

In 2014, GCC net foreign assets (NFA), including SWFs and official reserves, increased by 7.8% from $2.109 trillion in 2013 to $2.273 trillion. The main areas of investments of SWFs are real estate, infrastructure and financials. As per the Sovereign Wealth Funds transaction database, activity in the real estate sector investments exceeded $12,134 million in 2014 compared to their level of $3,346.5 million in 2012. On the other hand, the investments in the infrastructure reached $5,535 million driven mainly by the activities in Qatar, UAE and Saudi Arabia, Table 13.

Table 13: GCC Sovereign Wealth Fund Yearly Investments by Sector, (US$ millions)

	Energy	Financials	Health Care	Industry	IT	Infra-Structure	Real Estate
2011	5421.4	5794.46	N/A	120.42	14.63	1586.32	3283.5
2012	4803.9	616.56	87.89	387.06	884.74	2446.75	3346.5
2013	310.49	2513.99	163.53	864.84	942.21	1287.23	9619.08
2014	305.16	1173.85	559.57	259.7	358.66	5534.67	12134.42

Source: www.swftransaction.com.

3.5 Sovereign Credit Ratings

The strong and sound economic fundamentals enabled the GCC countries to maintain their sovereign credit ratings in the upper tiers of investment grade with Qatar, Kuwait and UAE holding the highest ratings at AA rating, followed by Saudi Arabia at AA- and Oman at A while Bahrain followed behind at BBB rating. Their credit ratings are on a par with robustly-growing economies such as Belgium, Austria, New Zealand, France and Japan and are justified by large fiscal surpluses, low levels of public debt, and robust non-oil GDP growth, at a 5.5% annualized rate in 2014[18].

Table 14: GCC Sovereign Credit Ratings: S&P Foreign Currency Long Term Debt (YTD 2014)

Country	Rating (S&P) YTD
Bahrain	BBB
Kuwait	AA
Oman	A
Qatar	AA
Saudi Arabia	AA-
UAE (Abu Dhabi)	AA
USA	AA+u

Note: The above ratings are as of 31 December 2014.
Source: Bloomberg Data Base, 12 January 2015.

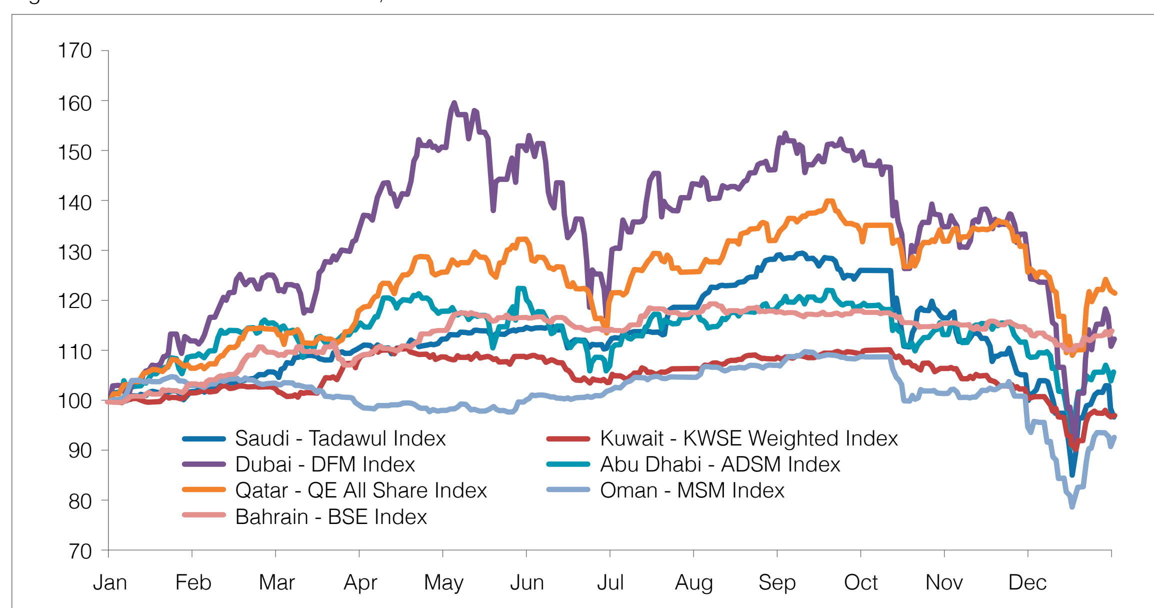
[18] "GCC: Strong Growth to Continue Despite Market Volatility" IIF, 23 December 2014.

4. Equity Markets Review

4.1 GCC Equity Markets Overview

In 2014, the GCC markets started on a good note with a fairly robust spurt in activity across most markets. Strong macro-economic fundamentals for the GCC countries, driven by a continued expansionary stance, along with strong oil prices in first half of 2014, fueled a rise in budgeted spending across the region. Despite the emergence of geopolitical tensions in the wider MENA region, strong fundamentals cushioned the GCC markets at the beginning of the year.

Figure 8: Performance of GCC Indices, 2014



Source: GIC Research, Bloomberg data.

Accordingly, the first half of the year was marked by rapid gains across most GCC markets, led by the twin markets of Dubai and Abu Dhabi in the UAE and Qatar. While Dubai was helped by resurgence in the real estate markets and revival of large construction projects targeting Expo 2020, investors were enthused by the strength in the Abu Dhabi economy and medium-term spending plans. Qatar's government is determined to accelerate the country's infrastructure spending, thus lending resilience to the equity market.

However, towards the end of the second quarter of the year, the GCC markets witnessed a set-back as the retreat in the global markets forced most GCC indices to cede much of their gains. Oman was the only market that remained relatively stable during this period, primarily because the market had not witnessed a similar rally as its peers during the previous months.

GCC indices witnessed a rebound at the beginning of the second half, lifted by Q2 earnings, an increase in foreign fund flows following the inclusion of UAE and Qatar to the MSCI EM index, and more importantly the momentum from the announcement of intent to open the Saudi Arabia bourse to wider foreign investments.

However, the markets witnessed a sharp reversal during the fourth quarter of the year, as the rapid slide in oil prices and weakening macroeconomic cues from Europe and China caused markets across the GCC to tumble, erasing most of their gains for the year.

Table 15: Volatility Index across the GCC Markets, 2014

	Year Opening	Year Closing	Year High	Year Low	Index Volatility
S&P GCC	161.25	162.24	208.61	143.55	17.6%
UAE – DFM Index	3369.81	3774.00	5374.11	3033.00	38.2%
UAE – ADSM Index	4290.30	4528.93	5253.41	3892.08	21.9%
Qatar – QE Index	2587.57	3151.00	3621.54	2622.47	20.1%
Saudi – Tadawul	8535.60	8333.30	11149.36	7330.30	20.7%
Oman – MSM 30 Index	6834.56	6343.22	7547.65	5409.41	15.8%
Bahrain – BSE Index	1248.86	1426.57	1494.03	1247.98	7.3%
Kuwait – KSWE (Weighted Index)	452.86	438.88	501.10	408.62	10.4%

Source: GIC Research, Bloomberg data.

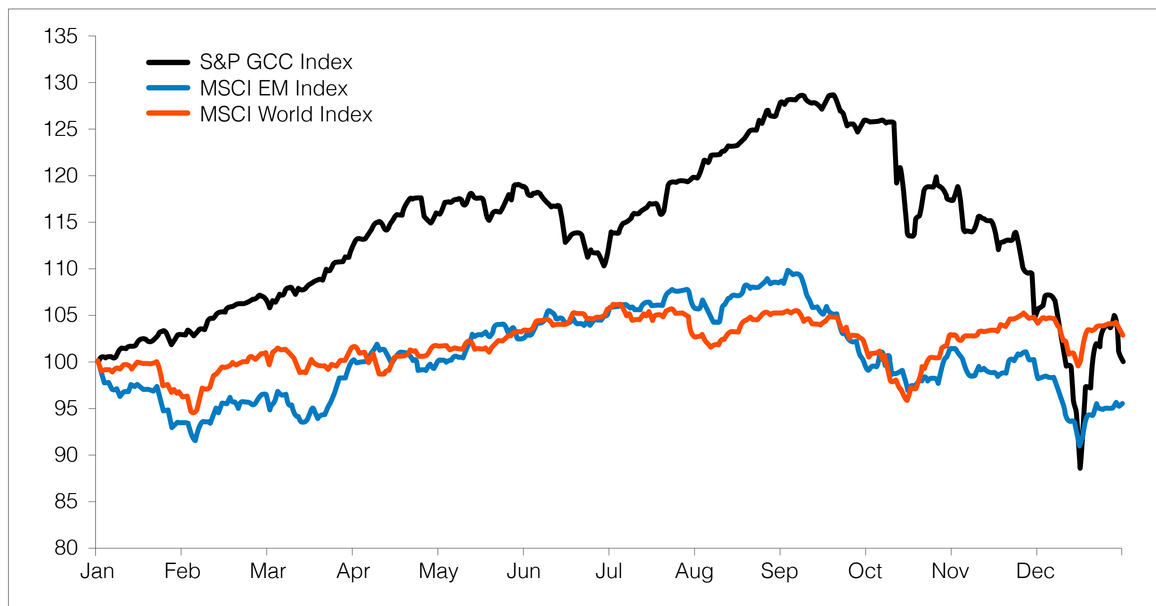
The recovery in the IPO market that started during 2013, continued during 2014 as well, with investors showing great appetite for new offerings that included landmark issuances in the UAE and Saudi Arabia, the largest of which was the $6bn IPO from the Saudi government-owned National Commercial Bank.

4.2 Relative Performance of S&P GCC Index to Global Benchmarks

While reaping positive gains the GCC index underperformed S&P during 2014. During 2014, the S&P GCC index recorded a net gain of +0.61%, compared to returns of +1.75% for the S&P Pan-Arab index, +2.93% for the MSCI World index, and negative returns of -4.63% for the MSCI EM index.

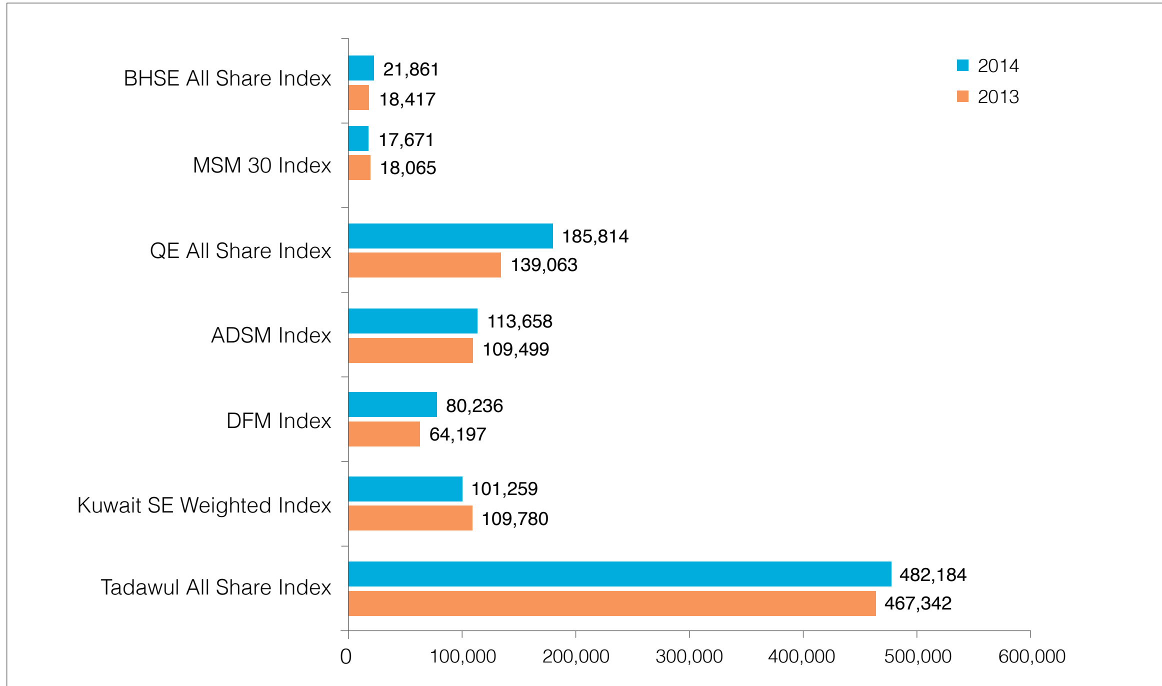
The GCC bourses continued to follow cues from the global markets, and general direction reflected such changes during most parts of the year, though the magnitude of change varied.

Figure 9: Relative Performance of S&P GCC Index, 2014



Source: GIC Research, Bloomberg data.

Figure 10: GCC Market Capitalization for 2013 and 2014 (US$ million)

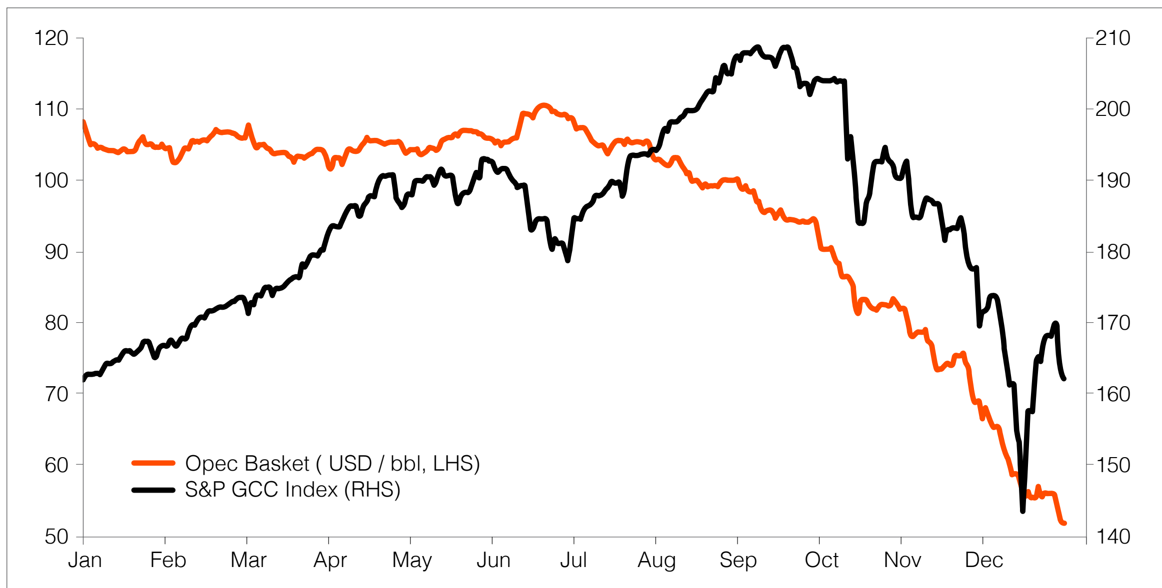


Source: Bloomberg.

4.3 Relative Performance of S&P GCC Index to Oil Prices

Though the correlation between the GCC composite Index and oil prices remained low during the first half of the year as it has during the past few years, the sharp and sustained fall in oil prices during the second half of 2014, influenced the direction of the GCC equity markets as well, as seen from the decline in the S&P composite index during most of the last six months of the year.

Figure 11: Relative Performance of S&P GCC Index vs. Oil Prices, 2014



Source: GIC Research, Bloomberg data.

4.4 Country Performances

During 2014, four out of the seven GCC indices closed with net positive gains for the year.

Table 16: Index Returns

	31 December 2013	31 December 2014	% Change
S&P GCC Index	161.25	162.24	0.6%
S&P Pan-Arab Index	1,768.94	1,799.88	1.7%
MSCI World Index	1.661.07	1,709.67	2.9%
MSCI EM Index	1.002.69	956.31	-4.6%
UAE – DFM Index	3,369.81	3,774.00	12.0%
UAE – ADSM Index	4,290.30	4,528.93	5.6%
Qatar – QE All Share Index	2,587.57	3,151.00	21.8%
Saudi Tadawul Index	8,535.60	8,333.30	-2.4%
Oman – MSM 30 Index	6,834.56	6,343.22	-7.2%
Bahrain – BSE Index	1,248.86	1,426.57	14.2%
Kuwait – KWSE (Weighted Index)	452.86	438.88	-3.1%

Source: GIC Research, Bloomberg data.

Qatar's QE All Share index emerged as the best-performing amongst its GCC peers, adding +21.77% for the year, having managed to hold on to a large portion of its YTD gains. In addition to the small-cap insurance sector, prominent sectors that posted the biggest gains for the year include the banks, transportation and industrials sectors.

Bahrain's BSE index managed to add a net +14.23% for the year, lifted by robust gains in the services and banking sectors. Sector returns remained mixed, with two sectors posting losses compared to three with gains.

The DFM index in Dubai managed to recover some ground during December, to close the year with a net gain of +11.99%, after having eroded more than 30% from the peak seen during the year. Banks and real estate emerged as the best-performing sectors at the end of the year, driven by the improvement in financial performance and the resurgence in Dubai's real estate sector. Meanwhile, the services, insurance and telecom sector indices sustained large losses.

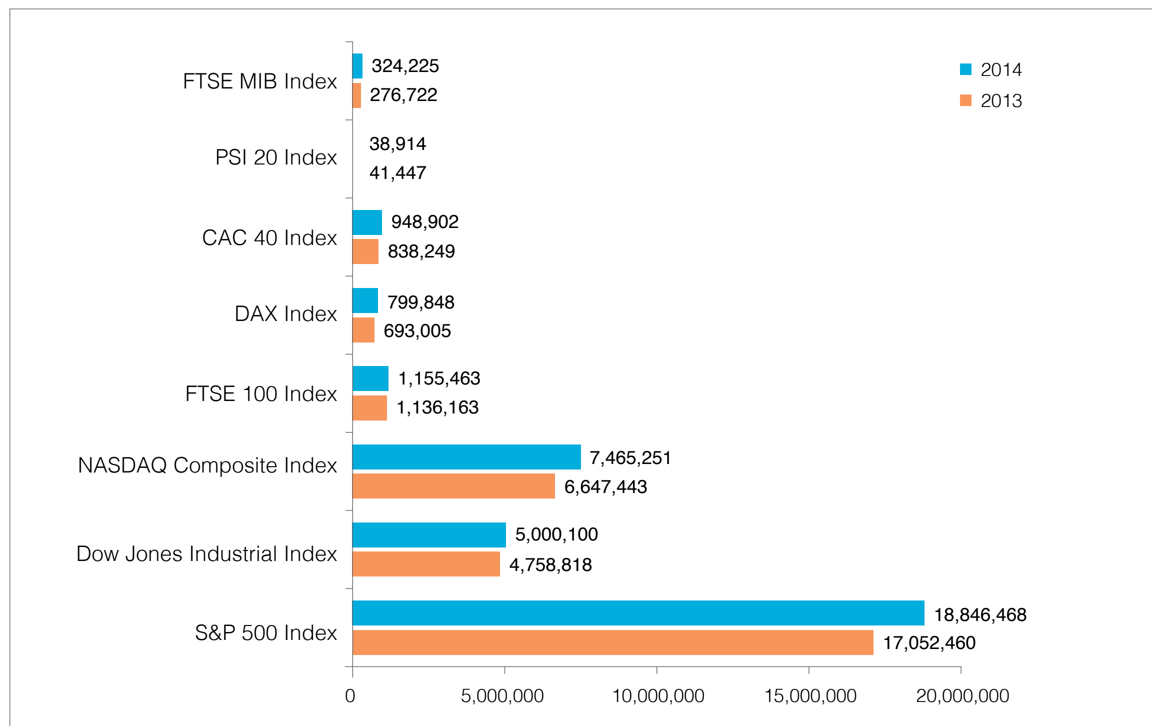
In Abu Dhabi, the ADSM index retained +5.56% in gains at the end of the year, despite a sharp loss in the energy sector, and more modest losses in the real estate and telecom sectors. The financial services sector was the best-performing while the banking sector added the least amount of gains.

Meanwhile, in Saudi Arabia, the largest market in the GCC in terms of market capitalization, the Tadawul index slipped by -2.37% for the year. Though the mid-cap retail and real estate sectors registered strong gains, alongside more modest gains in the banking sector, the benchmark was dragged down by substantial losses in the petrochemicals and telecom sectors.

Oman's MSM 30 ended the year with a net loss of -7.19%, with all sector indices recording net losses for the year, led by the industrials sector, while the banking and services sectors fared better.

In Kuwait, the KWSE price index recorded a loss of -13.43%, while losses on the KWSE weighted index were restricted to -3.09% and those on the KSX-15 index to -0.79%. Consumer goods and banking sectors were the only gainers, while the telecom sector was the worst-performing, alongside the oil and gas and real estate sectors.

Figure 12: International Market Capitalization for 2013 and 2014 (US$ million)



Source: Bloomberg.

4.5 US Equity Markets Overview

During 2014, the US stock market continued to build on the robust gains recorded for 2013, as it stretched its bull-run to six straight years, before closing marginally lower than an all-time high level.

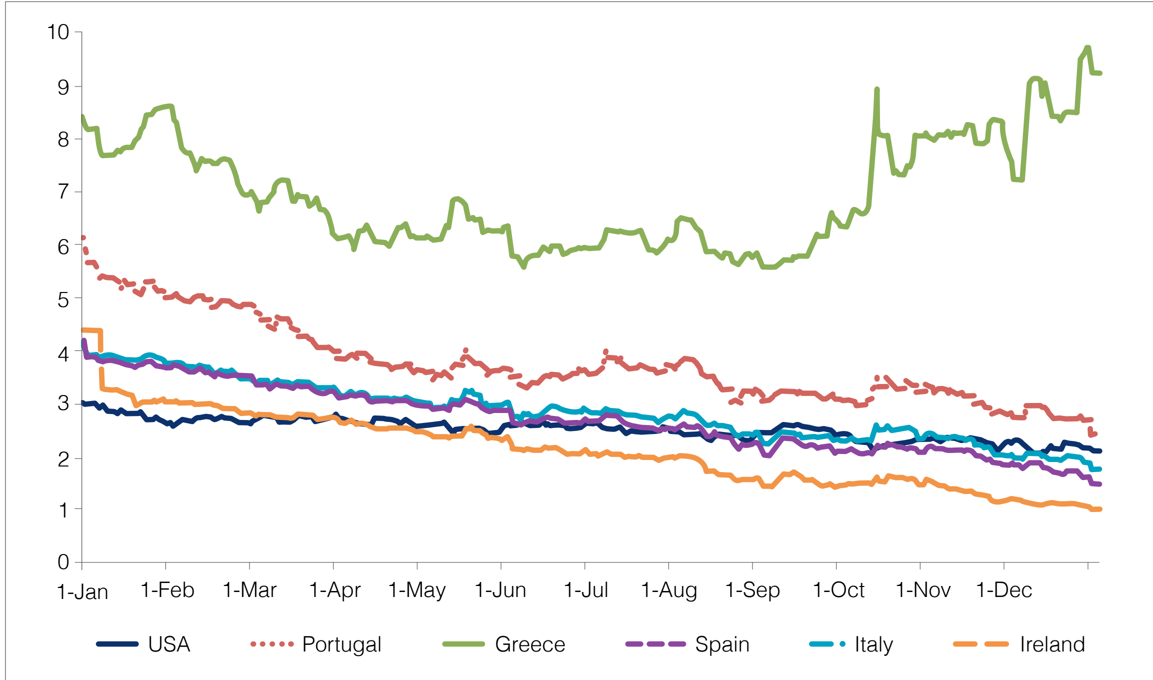
As well, during a year when the US Fed finally brought its prolonged quantitative easing program (QE-2) to an end, investors were driven by the continued strength of the US economy, and rising corporate earnings. A sustained drop in oil prices and the rapid strengthening of the dollar against most major currencies during the second-half of the year also helped to shore-up investor sentiment.

The Standard & Poor's 500 (S&P 500) index added net gain of +11.39% for the year, as it closed at 2058.9, marginally lower than the all-time high closing of 2093.55. Meanwhile the Dow Jones Industrial Average (DJIA) added +7.52% for the year, while the Nasdaq composite added a more robust +13.40%.

4.6 Treasuries

During 2014, most of the European economies witnessed a downfall in their 10 year government bond yields. Greece remains to be the country with the highest yields in the euro zone, with levels as high as 9.745%. While its lowest value, 5.565%, even beats the highest level of yields in its peer countries, with the exception of Portugal at a high of 6.13%. US yields are relatively much lower, starting the year at 3.028%, higher than how they started 2013 at 1.7%; while closing 2014 at 2.171%.

Figure 13: Euro Area and US 10-year Government Bond Yields



Source: Bloomberg.

Tables 17 and 18 summarize volatility and spreads between opening and closing levels together with average yields. From a sovereign point of view, Euro yields fared better in 2014 than those during 2013. For example, during 2013 Greece yields went as high as 34.9%; however during 2014 yields were at a maximum level of only 9.745%. This pattern is mirrored also across most Euro economies. US yields, however, displayed the opposite, where the average yield across 2013 was at 2.3%, while 2014's average was at 2.5%.

Table 17: Volatility of Spreads, 2014

	US	Portugal	Greece	Spain	Italy	Ireland
Opening Value (Jan. 1, 2014)	3.028	6.130	8.419	4.151	4.125	4.401
Closing Value (Dec. 31, 2014)	2.171	2.687	9.745	1.611	1.890	1.079
Average	2.523	3.740	6.936	2.713	2.859	2.137
Standard Deviation	0.203	0.760	1.022	0.629	0.567	0.705
Minimum Value	2.059	2.418	5.565	1.497	1.742	1.009
Maximum Value	3.028	6.130	9.745	4.151	4.125	4.401

Source: Bloomberg.

Table 18: Government Bond Yields (%) during 2014

	US	Portugal	Greece	Spain	Italy	Ireland
Q1	2.718	4.073	6.571	3.230	3.292	2.746
Q2	2.530	3.647	5.957	2.661	2.846	2.079
Q3	2.489	3.164	6.633	2.140	2.333	1.465
Q4	2.171	2.687	9.745	1.611	1.890	1.079
Y-O-Y % change	-17.88	-46.28	13.17	-55.97	-49.84	-64.63

Source: Bloomberg.

4.7 Credit Default Swaps (CDS)

With improvement in the economic environment, CDS displayed realizable drops during the year in the Euro Area, but displayed mild rises throughout the GCC region. Ireland, for example witnessed a 82% drop from the beginning of the year till the end, while Portugal realized a 42% fall. Regionally, Qatar took the lead in the GCC, with a rise y-o-y of 46.81% in CDS. Saudi Arabia and Abu Dhabi followed with a rise of 21% and 15% respectively.

Volatility across all credit swaps was high; however, some countries experienced substantially higher volatility than others. For example, Greece displayed a standard deviation of 211.30 for 2014; while Portugal was next to follow at a standard deviation of 41.53. The GCC region and the US had comparable levels of volatility although the US beat the Middle Eastern countries with a volatility of only 4.29 during 2014.

Table 19: CDS during 2014

	Portugal	Ireland	Greece	Spain	Italy	US	Bahrain	Abu Dhabi	Dubai	KSA	Qatar
Opening	351.68	119.41	N/A	157.48	168.45	29.00	239.97	54.95	214.83	55.03	55.97
Closing	202.27	21.81	1272.40	95.61	136.09	16.30	241.74	63.54	226.62	66.71	82.18
Average	207.93	66.78	593.12	93.73	123.32	19.59	184.95	54.16	177.50	56.00	60.75
Standard Deviation	41.53	19.55	211.30	23.66	24.24	4.29	25.52	7.60	25.35	8.36	10.46
Minimum	138.11	20.13	391.64	53.50	81.50	15.59	145.08	40.50	135.01	39.86	44.50
Maximum	351.68	119.41	1304.00	157.48	173.67	30.15	285.03	82.64	272.40	85.01	95.00

Source: Bloomberg.

Financial Review

Net Income Analysis

Gulf Investment Corporation (GIC) posted consolidated net profit of US$ 203 million for the year 2014 compared to US$ 165 million in 2013. This is after impairment provisions of US$ 66 million (2013: US$ 71 million) which mainly relates to investments in projects and some holdings in international private equity funds. Net unrealized gains/losses and share in other comprehensive income/loss of associates totaled to loss of -US$ 31 (2013: gain of US$ 110 million) million taking the consolidated total comprehensive income to US$ 172 million (2013: US$ 275 million).

Excellent performance recorded by GIC for the year with 23% growth in net profit was mainly contributed by Debt Capital Market and Principal Investments while alternative assets and private equity investments maintained the prior year performance. Improved profitability and efficiency was achieved without any increase in operating expenses. Growth of 14% in net profit before provisions posted by principal investments reflect a balanced and well diversified portfolio resilient to periodical cyclicality of any specific industry. GIC's core business of project investments was well supported by outstanding performance of debt and equity portfolios as well as alternative investments. Analysis of the contributing components to the net profit confirms good asset quality and the strength of GIC's investment philosophy.

Interest Income

Interest income is generated from the portfolio of debt securities, structured products and the money market book.

Gross interest income for the year US$ 38 million is same as of previous year. 98% of the interest income is contributed by securities, investment in which is maintained at the same level compared to previous year. The gross interest income from securities increased due to better rate of return compared to last year which was offsetted by the decline in placement during the current year. Redeployment of debt portfolio by sales and redemptions proceeds in an ideal mix of GCC bonds, emerging market bonds, high yield bonds and international corporate bonds contributed to enhance the spread in a continued low interest rate scenario.

Net Gains from Investments

Net gains from investments represent the realized gain on sale of financial assets, and mark-to-market gain on financial assets at fair value through statement of income.

GIC recorded a net gain of US$ 226 million during 2014 compared to US$ 132 million in the prior year, an increase of over 71%. Net gains for the year comprise of realized gains US$ 110 million on partial sale of two associate companies, US$ 96 million on financial assets and unrealized gain of US$ 20 million from financial assets at fair value through statement of income.

Dividend Income

Dividend income of US$ 28 million (2013: US$ 42 million) comprises of receipts from equity participations, private equity funds, equities and managed funds. Dividends from equity participations amounted to US$ 24 million whereas the balance contribution is shared by private equity funds portfolio and equities & managed funds.

Share of Results of Associates

Share of results from associates accounted during the year amounted to US$ 74 million showing a decline of 34% compared to prior year income of US$ 112 million. Majority of the associates posted improved performance year-on-year basis, but decline in the results of two major projects in chemicals and telecom sectors resulted in the decline in overall portfolio results. Investments in power and water projects recorded above 63% growth in income in the current year. Investment is Steel manufacturing project obtained exceptional results for the year.

It must be noted that the portfolio also includes new ventures, contributions from which are currently moderate, though expected to enhance significantly in the coming years, as they progress. Further, GIC's investments in mega projects within the power, utilities, re-insurance and other sectors are expected to provide the direction for future growth.

Net Fees, Commission and Other Income

Income for the year amounted to US$ 13 million (2013: US$ 35 million) which mainly generated from project development/consultancy, fund management activity, financial advisory business and by providing custodial and administrative services to the funds managed by third parties. Last year income includes US$ 13 million representing the receipt of fully written off investment in a structured note.

Other Operating Income

Other operating income represents the operating income of consolidated and other subsidiaries which at US$ 15 million increased by appox. 25% compared to prior year.

Interest Expense

Interest expense decreased by 16% compared to prior year to reach US$58 million for the year, which can be mainly attributed to maturity of three issues of term finance during 2013 and one in 2014. Average funding cost on deposits and term finance was also comparatively lower than prior year.

Operating Expenses

Efficiency in operations, higher productivity and profitability was achieved with strict control over operating expenses capping them at prior year level of US$ 67 million.

Provision for Impairments/Mark-to-Market Losses

Net charge for the year in impairment/mark-to-market losses totaled US$ 66 million, compared to US$ 71 million recorded in 2013. Provisions during 2014 relate mainly to exposures in few projects and private equity funds. The Corporation continues to adhere to its conservative provisioning policy, based on mark-to-market/fair valuations where-ever possible. A detailed break down is provided in Note 19 to the Financial Statements.

Balance Sheet Analysis

Emphasis during the year has been to maintain an ideal mix of assets and liabilities with the ultimate objective of achieving sustainable and enhanced risk adjusted return profile. Initiatives were implemented both, on the assets and liabilities sides. To achieve the desired results, overall balance sheet was downsized by -9% to US$ 5,186 million. Equity at US$ 2,750 million increased by US$ 172 million or by 7% due to net profit US$ 203 million offsetted by other comprehensive loss of -US$ 31 million.

The Corporation's strategic focus continues to be on the GCC states and their major trading partners in the industrialized world. Note 21 to the Financial Statements sets out the geographic distribution of the Corporation's credit risk exposure. The following sections provide details on the key components of the balance sheet:

Financial Assets at Fair Value through Statement of Income

This category includes investments in Debt instruments of US$ 23 million, Managed funds US$ 123 million and Alternative equity investments of US$ 303 million. The portfolio decreased by US$ 257 million or 36% compared to the previous year primarily due to liquidation of an alternative equity fund and two managed funds.

Financial Assets Available for Sale

As at 31 December 2014, financial assets available for sale amounted to US$ 2,391 million, a decline of -4% from the prior year level. Debt and other interest bearing securities, constituting 70% of the financial assets available for sale increased by US$ 124 million or 8% during the year. Investment in GCC and Emerging market bonds have increased during the year whereas exposure to International bonds and Structured debt instruments were reduced. The change in geographic mix is in line with the strategy for achieving sustainable and enhanced risk adjusted return profile.

The debt portfolio is mainly made up of fixed rate bonds, plain floating rate notes and fixed rate securities swapped into floating rate using interest rate swaps. This portfolio is monitored against stringent internal guidelines, ensuring that high quality is maintained. Major portion of the portfolio is comprised of investment grade securities and high quality GCC sovereign credits. A credit risk analysis of the investment securities portfolio is provided in the risk management section of this report.

Equity at US$ 2,750 million increased by US$ 172 million or by 7%

Financial assets available for sale also include investments in Equities and managed funds of US$ 61 million, Equity participation amounting to US$ 460 million and International & GCC private equity fund exposures of US$ 206 million. Investment in Equities and managed funds decreased by US$ 103 million mainly due to the liquidation of quoted GCC investments in favourable market conditions. Decrease in Equity participations is comprised of decrease in the market value of quoted equity investments and impairment provision against unquoted investments in the portfolio.

The private equity funds are 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 un-leveraged acquisitions, privatizations, recapitalizations, rapidly growing companies, expansion financings, turnaround situations, and other special equity situations.

Investments in private equity funds are carried at fair value. An amount of -US$ 9 million was charged to income statement for mark-to-market losses during the year.

Details on financial assets available for sale are provided in Note 5 to the financial statements.

Investment in Associates

An associate is a company over which the Group exerts significant influence, usually evidenced by a holding/voting power of 20% or more of the investee company. The Corporation's investments in associates are accounted for using the equity method of accounting. Under the equity method, investment in associate is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Corporation's share of net assets of the investee company.

Principal investments in viable business ventures in the GCC region is a core activity of GIC. Over the years, the Corporation has become a predominant player and prime mover of such projects in the private sector. The focus has been on niche sectors like metal, chemical, power & utilities, financial services and building materials, where a sustainable competitive advantage has been built.

Investment in associates at US$ 1,396 million decreased by US$ 307 million or 18%, which is mainly due to the partial sale of an associate as described in Note 7 of the financial statements, repayment of a subordinated loan given to an associate and dividends received which was offsetted by equity accounted income and share in the revaluation reserve.

Investment in associate held for sale

Investment in associate held for sale represents the carrying value of investment which the Corporation is committed to sell during first quarter of 2015.

Other Assets

Consolidated total other assets amounted to US$ 473 million at 31 December 2014. Of this US$ 116 million related to property, plant and equipment and 85 million relating to amount receivable on partial sale of an associate. The remaining US$ 272 million comprised of accrued income receivable, trade & accounts receivables of subsidiary companies, positive fair value of derivative instruments, prepaid expenses and other miscellaneous assets. Details are set out in Note 8 to the Financial Statements.

Liquidity and Funding

Total borrowings at US$ 2,195 million declined by –US$ 558 million from 2013 year-end level. This is primarily due to the decline in deposits from banks and other financial institutions by US$ 337 million to reach US$ 772 million, repayment of one tranche of matured term finance amounting to -US$ 100 million and decline in repo funding by -US$ 55 million.

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 of the report.

Other Liabilities

At US$ 241 million other liabilities comprise of trade payables of subsidiaries, accrued interest, accrued expenses, margin money for derivative products and negative fair value of derivative instruments. Decline in other liabilities is mainly due to the payment of an equity bridge loan liability to one of the associate company during the year of US$ 94 million.

Equity

Consolidated total equity increased by US$ 172 million to reach US$ 2,750 million showing a growth of 7%. Increase in the equity is comprised of net profit for the year US$ 203 million, net unrealized loss on available for sale investments -US$ 94 million and share in other comprehensive income of associates amounting to US$ 63 million.

Risk Management

Unequivocally, GIC remains a significantly resilient, measurably strong and stable financial institution. Risk management will continue to be an important aspect of corporate strategy and every effort will be made to ensure it is adaptive, effective and value adding.

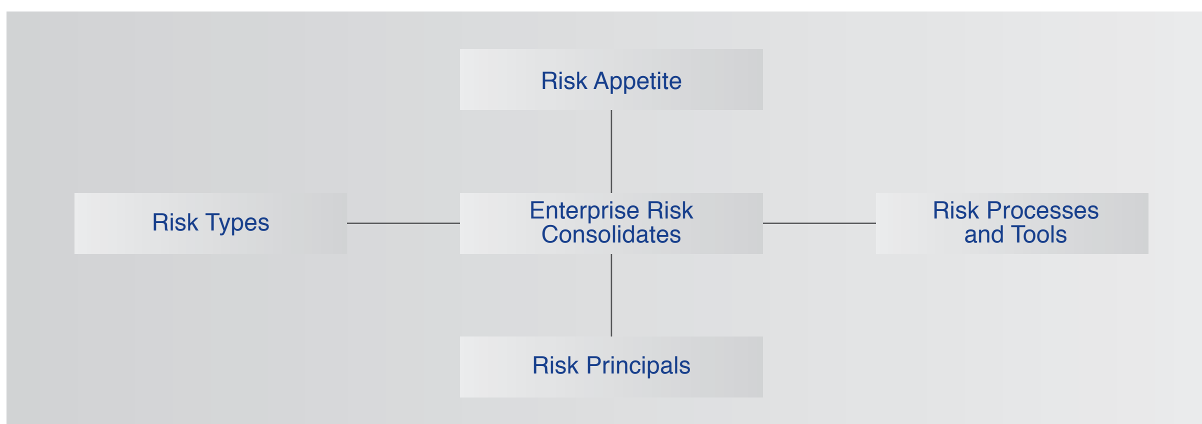
The financial goal of the Corporation is to consistently earn competitive returns while maintaining risks within acceptable levels - defined risk appetite. Recognizing the relationship between risk and return, the management of risk forms an integral part of the corporate strategic objective. The continuous and rapidly changing business environment has increased the complexity and diversity of risks. The goal of risk management is to understand, analyze and manage these risks. Besides its vital role as the business protector, the risk function of the Corporation strives to contribute as a business enabler as well.

GIC's success during 2014, a challenging year in many respects, is testimony to strong business capabilities and a robust enterprise risk framework. In addition to registering significant profit growth, the Corporation enhanced almost all financial strength parameters during 2014. The multiple initiatives implemented have borne fruit, with significant improvements in capital adequacy, asset quality, leverage and internal processes, along with steady earnings growth. Unequivocally, GIC remains a significantly resilient, measurably strong and stable financial institution. Risk management will continue to be an important aspect of corporate strategy and every effort will be made to ensure it is adaptive, effective and value adding.

The goal of risk management is not to avoid risks, but to comprehend and manage them.

The various business activities of the Corporation expose GIC to a wide spectrum of risks. The primary goal of the risk management is to ensure that an appropriate balance is maintained between risk taking activities, the expected return and GIC's risk appetite.

An independent Risk Management Division (RMD) formalizes the Enterprise Risk Management (ERM) Framework. The ERM framework encompasses all facets of prudent risk management via strong enterprise-wide policies, procedures and limits. With these tools Risk Management is able to identify strategic opportunities and reduce uncertainty from both operational and strategic perspectives. It also enhances GIC's ability to manage risks, evaluate performance and allocate capital.



The ERM Framework identifies and defines a broad spectrum of risks to which GIC's business and operations may be exposed. These risks are: Credit, Market, Funding and Liquidity, and Operational risks.

Management of these risks through investment in knowledge and systems has been a priority at GIC. A successful blend of talent, experienced staff working with quantitative-based analytical tools, and utilizing continuously-upgraded technological infrastructure that keeps up with technological innovations are critical resources that GIC applies in order to manage risks effectively. The qualitative and quantitative techniques utilized to optimize the risk return profile incorporate information from the past with emerging trends in the current business environment along with futuristic scenarios and expectations.

Structurally, risk management begins with the Risk Management Committee (RMC) which is composed of members from the GIC Board of Directors and senior management which defines and recommends the Corporation's risk appetite to the Board of Directors'. Sequentially, this is followed by a three step process:

a) Identifying and measuring the various risks generated,
b) Monitoring, reporting and controlling them, and finally,
c) Optimizing in relation to the return.

The Risk Management team of GIC acts as the critical link between management and the risk taking divisions by firstly assisting management to define / quantify its risk appetite. The team then effectively communicates these risk appetite parameters to concerned risk takers in the Corporation in order to ensure that the risk taking activity is within the management's acceptable levels.

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

From the "Internal Control" perspective, the process of risk management is facilitated by a set of independent functions in addition to the RMD. These units reporting directly to senior management, include Financial Control, Internal Audit, Legal and Compliance. This multi-faceted approach upholds the effective management of risks by identifying and monitoring them from a variety of perspectives.

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

CREDIT RISK

Credit risk refers to the risk of an economic loss that might arise from the failure of counterparty to fulfill its contractual obligations.

The world credit markets for 2014 remained stable with economic growth retuning to US and Eurozone continuing to experience weakened economic prospects. As we move into 2015, the impact from fall in global commodity prices and increasing geopolitical risks linger on at varying levels of intensity. GIC with its active portfolio management registered an impressive performance on the credit portfolios. GIC remained totally unscathed during the year, registering nil credit losses, thanks to prudent proactive measures, stringent control frameworks and continuous monitoring. While the Corporation's credit portfolio, mainly made up of debt securities, constitutes a material portion of the overall asset base, strong internal risk guidelines and proactive portfolio management ensure that high quality is maintained at all times. Notwithstanding the Corporation's rigorous and prudent policies for provisioning, no material write-downs were required during 2014. This is a reflection of the good quality of the portfolio. Gains of approximately US$ 17.1 million were realised during the year in review within GIC's credit portfolios.

GIC continued to focus on regional credit markets where the team has a better understanding of inherent risks. This has resulted in an enhanced risk return profile.

The size of the high quality asset backed securities portfolio continued to contract, a result of accelerated prepayments and maturities, with minimal impact on profitability and earnings, while contributing to the overall reduction of credit risk. The Corporation continued to be flexible and ready to adapt rapidly to unforeseen events along with the efficient utilization of conventional risk management tools, including mathematical and statistical models.

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 country, product, industry and obligor limits, these policies also 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. 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 applies pertinent statistical methods as well, to estimate expected and unexpected loss amounts for the various business activities. The system, based on the Creditmetrics methodology, enables accurate credit risk measurement on an individual exposure as well as a portfolio basis. Expected and Unexpected loss estimates are computed based on Probabilities of Default (PD) and Loss Given Default (LGD) data published by leading rating agencies.

The Debt Capital Markets (DCM) portfolio which forms the largest asset class and constitutes approximately 33% of the balance sheet is monitored against a Credit Value at Risk (Credit VaR) limit, approved by the board. The US$ 178 million VaR limit (99.96% confidence, 1 year), which supplements the existing notional limits for this portfolio, is based on the Creditmetrics methodology and is measured using Monte Carlo simulation techniques.

The table below provides the Credit VaR figures for the DCM Portfolios. On 31st December 2014 the market value of this portfolio was US$ 1,689.9 million. As of 1st Jan 2014, it was US$ 1,750.3 million. The average and year end Credit VaR was down as compared to previous year end. The decrease in Credit VaR was in line with the reduction in overall exposure under DCM Portfolios.

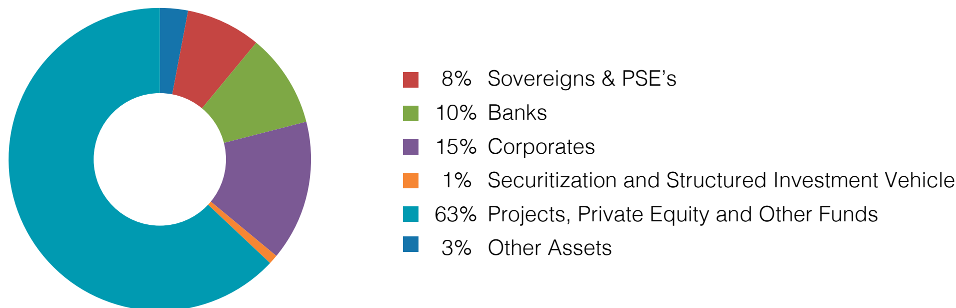
Table 1: 2014 Credit Value at Risk - 99.96% confidence level, 1 year holding period

US$ 000's	Average	Minimum	Maximum	**31 Dec 2014**
Debt Portfolios	99,705	149,426	127,795	116,016

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. To illustrate, cutting edge systems that are capable of approaching "real time" monitoring and control of risk taking activities, are effectively utilized.

An activity-wise break down of the principal sources of credit risk is illustrated in the pie chart below. The proportions reflect Credit Risk Weighted Exposure, computed based on BIS capital Adequacy Guidelines. Additional details, including credit exposures by rating, sector, geography and maturity are provided in the comprehensive Basel II Disclosure section.

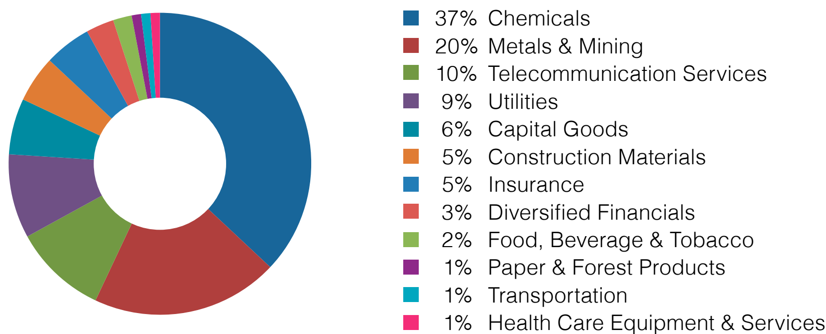
Chart 1: Sources of Credit Risk (Weighted Credit Risk Exposure)



Noteworthy, most of the realignment in the credit risk pie at the end of 2014, compared to the previous year-end, pertained to Banks, Corporates and Projects & Private Equity and other funds. Credit risk weighted exposure for Projects & Private Equity and other funds increased from 52% of total in 2013 to 63% at the 2014 year-end and for Corporates increased from 9% of total in 2013 to 15% at the 2014 year-end and for Banks decreased from 23% of total in 2013 to 10% at the 2014 year-end . The two key components of total credit risk exposure were Projects, Private Equity and other funds, and debt securities of banks, sovereign & PSE and Corporates.

The projects activity mainly focuses on the GCC countries, a region whose thriving dynamics we comprehend well and where we have a better understanding of the inherent risks. Investments are made after rigorous qualitative and quantitative analysis, and where the desired risk-return objectives are met. As highlighted in the graph below, a healthy diversification across industry sectors is maintained within this portfolio. Private Equity and other Equity Funds represent investments made with third party fund managers typically in the United States and Europe who are selected after careful assessment of their records and extensive due diligence.

Chart 2: Principal Investing (Projects) by Industry



Off-balance Sheet Financial Instruments

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

In the case of derivatives 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 nearly 1.8% of total credit risk weighted exposure. This figure represents the mark-to-market or replacement cost of these transactions. At the year-end 2014, outstanding derivatives held for trading were foreign exchange contracts and put options, 49 % of which were short term with a maturity of less than 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 22 & 23 to the Consolidated Financial Statements.

In an uncertain and volatile global credit market, the Corporation will continue to adhere to strong internal risk controls.

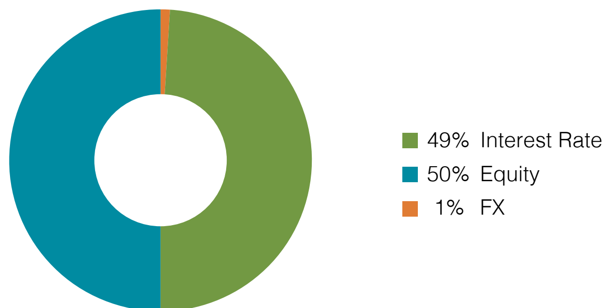
While the mechanism of risk monitoring and control has been fostered further, the risk management function is now more engaged with the business units, having been brought forward within the investment process. In addition to incorporating additional credit information, including Credit Default Swap (CDS) prices, equity prices and market implied ratings within the credit analyses framework, the monitoring and reporting frequency has also been increased.

MARKET RISK

Market risk is the possibility of loss from changes 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 below for the combined mark-to-market and investment activities, within the Global Markets Group alone (strategic equity positions within the Principal Investment business are not included). The percentages shown on the pie chart reflect average VaR amounts, considered independently, and ignore the effects of diversification across risk classes.

Chart 3: Market Risk Constituents – Overall



Market risk is measured, monitored and managed, both on a notional basis, and using a Market Value-at-Risk (Market VaR) concept. A blend of quantitative statistical methods combined with expert judgments and experienced talent is 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. It ensures 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.

Market VaR is calculated and reported to senior management on a daily basis at various levels of consolidation including portfolio, business unit and Corporation.

The following table shows our Total Value-at-Risk for Global Markets Group statistics by risk factor (please note: Total Global Markets Group VaR excludes Strategic Equity investments within Principal Investing). These VaR measures are based on a 95% confidence level, 25 day holding period and use historical data sets.

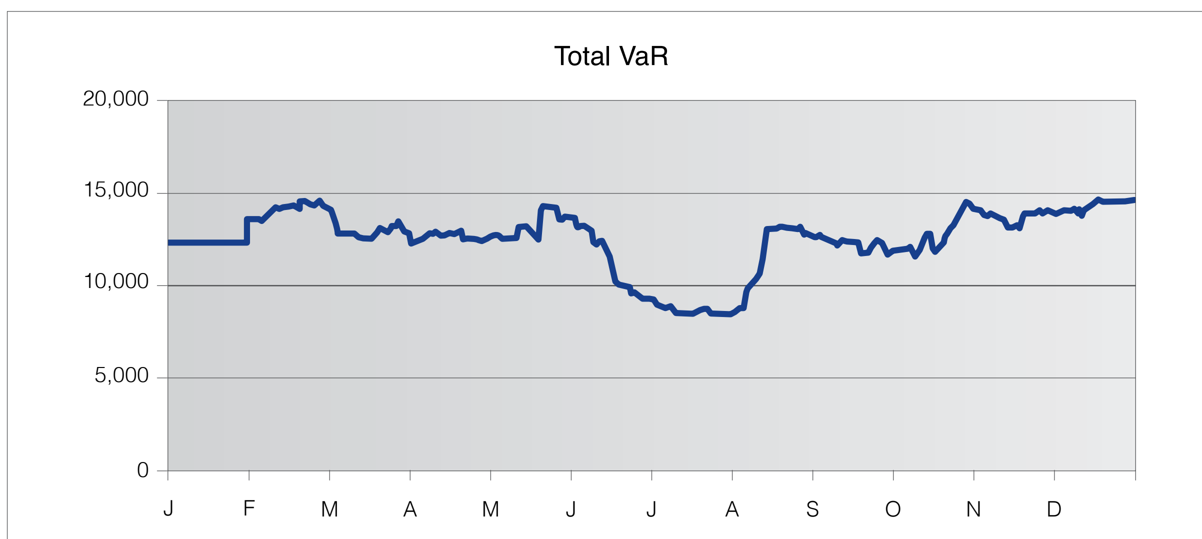
Table 2: Market Value at Risk for Global Markets Group alone - 25 day holding period, 95% confidence level

2014				
US$ 000's	**Average**	**Minimum**	**Maximum**	**31-Dec-14**
Interest rate	8,591	3,960	13,905	13,835
Equity	8,800	5,558	12,772	5,974
Foreign Exchange	267	113	741	248
Total*	12,397	8,414	14,627	14,612
2013				
US$ 000's	Average	Minimum	Maximum	31-Dec-13
Interest rate	3,853	1,942	6,102	3,960
Equity	10,646	9,521	11,900	11,346
Foreign Exchange	342	99	1,277	122
Total*	11,024	9,948	13,266	12,222

* Total VaR incorporates benefits of diversification

On an average basis, VaR pertaining to market risk was higher in 2014 compared to the prior year by approximately 12%, mostly attributable to higher average levels of interest rate VaR component. The key factor that contributed to this increase, on an average basis, was the increased exposure under the bond portfolio. The 5 year fixed rate liability issued in 2012 continues to act as a hedge, offsetting some of the interest rate risk at the corporate level. However, as at 31st December 2014, total market risk VaR reached US$14.6 million, almost 20% higher than the prior year end.Total market risk VaR remained within limits as approved by the Risk Management Committee and the Board of Directors. The Corporation will closely monitor the operating environment and seek to take on appropriate market risk at opportune times.

Chart 4: Profile of daily VaR – 25 day holding period, 95% confidence level, VaR (US$ 000's):



We should note that certain portfolios and positions are not included in the Market VaR analysis, where VaR is not the most suitable measure of risk. These include the principal project investments in the GCC and the portfolio of international private equity funds. The market risk relating to these investments are measured in terms of a 10% sensitivity measure – an estimated decline in asset values. The fair values of the underlying positions may be sensitive to changes in a number of factors, including but not limited to: the financial performance of the companies, projected timing and amount of future cash flows, discount rates, trends within sectors and underlying business models. The table below provides the sensitivity measure for 2014 and 2013. The principal investment and private equity portfolios are both categorized as available-for-sale; hence, the 10% sensitivity measure provided in the table below reflects the impact on shareholders equity and not on profits.

Table 3: Sensitivity Measure: for assets not included in market VaR (US$ 000s)

Asset Categories	10% sensitivity measure	10% sensitivity measure (impact on shareholders' equity)	
		31-Dec-14	31-Dec-13
Principal Investments	Underlying asset value	214,495	239,249
Private Equity Funds	Underlying asset value	20,686	22,113

Likewise, 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 that 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 historical macroeconomic trends adjusted for fermenting and unfolding developments and expectations about futuristic events.

Liquidity Risk Management

Liquidity risk is the failure to meet all present and future financial obligations in a timely manner and without undue effort, whether it is a decrease in liabilities or increase in assets. This risk may be further compounded by the inability of the Corporation to raise funds at an acceptable cost to meet its obligations in due time.

There are two sources of liquidity risk that GIC takes into account, which are:

a) *Cash flow illiquidity*, arising from the inability to honor financial commitments or to procure funds at reasonable rates and required maturities; and
b) *Asset illiquidity*, relating to the lack of market depth during times when assets are to be liquidated on a forced basis.

The Corporation believes that capital plays a special role in liquidity planning inasmuch as liquidity problems could arise in the short run if the market believes that capital has been so impaired that in the long run the Corporation may not be able to pay-off its liabilities.

GIC's management of liquidity considers an overall balance sheet approach that brings together all sources and uses of liquidity. More specifically, liquidity requirements cover various needs that are addressed by the Corporation's senior management. Among these needs are:

a) Meeting day-to-day cash outflows;
b) Providing for seasonal fluctuation of sources of funds;
c) Providing for cyclical fluctuations in economic conditions that may impact availability of funds;
d) Minimizing the adverse impact of potential future changes in market conditions affecting GIC's ability to fund itself; and
e) Surviving the consequences of loss of confidence that might induce fund providers to withdraw funding to GIC.

Liquidity Limits

As part of the funding and liquidity plan, liquidity limits, liquidity ratios, market triggers, and assumptions for periodic stress tests are established and approved. The size of the limit depends on the size of the balance sheet, depth of the market, the stability of the liabilities, and liquidity of the assets. Generally, limits are established such that in stressed scenarios, GIC could be self-funded.

The liquidity limits that are regularly monitored include the following:

a) Maximum daily cash outflow limit for major currencies;
b) Maximum cumulative cash outflow which should include likely outflows as a result of draw-down of commitments, etc; and
c) Net liquid asset ratio – this ratio is calculated by taking a conservative view of marketability of liquid assets, with a discount to cover price volatility and any drop in price in the event of a forced sale. The ratio is the proportion of such liquid assets to volatile liabilities.

The net liquid asset ratio as of 31st December 2014 was 305%. This figure was determined taking into account the following basic criteria:

a) A 3-month remaining maturity is used to establish the time threshold by which balance sheet items are determined to be liquid or illiquid, stable or volatile;
b) Appropriate "haircuts" are applied on liquid assets to reflect potential market discounts; and
c) A "business as usual" posture is maintained in ascertaining the level of assets to be liquidated or pledged to avoid sending a wrong signal to the market.

The Corporation's investment portfolio is managed so that holdings of un-pledged, marketable securities that comprised the strategic reserve are equivalent to approximately 50% of the projected maximum 30 day cumulative cash outflow. By the end of December 2014, investments in marketable securities tallied at approximately US$ 2.5 billion, and are primarily made up of investment grade securities.

The quantities of pledged securities are reviewed periodically in order to ensure that the quantity of pledged securities does not exceed the amounts actually required to secure funding or for other purposes. Additionally, to the greatest extent possible, the selection of securities to be pledged is made in a manner whereby the longest term and/or least marketable securities are utilized.

Market Access for Liquidity

Effective liquidity management includes assessing market access and determining various funding options. That said, GIC deems it critical to maintain market confidence to attain the flexibility necessary to capitalize on opportunities for business expansion, and to protect the Corporation's capital base.

Proactive and prudent liquidity management requires a stable and diversified funding structure. To this end, GIC always maintains a well-balanced portfolio of liabilities in order to generate a stable flow of financing and to provide protection against sudden market disruptions. To the extent practical and consistent with other GIC objectives, the Corporation emphasizes both minimal reliance on short-term borrowed funds as well as the use of intermediate and long-term borrowings in place of short-term funding.

A diversity of funding sources, currencies, and maturities are used in order to gain a broad access to the investor base. The proactive steps GIC undertook during the previous years, particularly in terms of raising medium term financing, enabled the corporation to secure a sound asset-liability maturity profile. As of 31 December 2014, the Corporation's term financing stood at US$1,397 million.

Further, the Corporation was successful in enhancing the diversity of its depositor base, a reflection of increased market confidence. At year-end 2014 the Corporation's deposit base stood at about US$ 772 million, more than 97% of which is due to GCC depositors. GCC deposits had proven to be a stable source of funds over the years.

The table below provides the breakdown of the Corporation's funding source for the comparative years 2013 to 2014.

US$ Millions	**2014 (US$)**	**2014 (%)**	2013 (US$)	2013 (%)
GCC Deposits	754	15%	1,109	20%
International Deposits	18	1%	-	
Repo Financing	-	-	55.14	1%
Term Financing	1,397	28%	1,570	28%
Shareholder's funds & Others	2,728	56%	2,840	51%
Total	4,897	100%	5,574	100%

Contingency Funding Plan

Within GIC, liquidity is managed through a well-defined process to ensure that all funding requirements are met properly. This process includes establishment of an appropriate contingency funding plan (CFP).

GIC's CFP prepares the Corporation for the unlikely event of a liquidity crisis caused by material changes in the financial market conditions, including credit rating downgrades. CFP procedures are articulated clearly in the Corporation's Liquidity Policy Document.

These procedures include:

a) A suite of measures to be undertaken in the absence of liquidity crisis to enhance GIC's available liquidity in the event of a crisis;
b) Careful identification of specific triggers that would prompt activation of CFP; and;
c) Specification of exact guidelines for adequate management of liquidity crisis.

Throughout the challenging year, our liquidity position remained adequate to carry on with our strategy.

Interest Rate Gapping Risk

GIC actively manages its interest rate exposure to enhance net interest income and limit potential losses arising from the mismatches between placements, investments and borrowings. It is one of the primary responsibilities of the Treasury management group. The Interest Rate Gap is measured in Eurodollar futures contract equivalents. It is widely accepted that the rate calculated from short-dated (up to two years) Eurodollar futures contract is effectively the forward interest rate of the underlying. Any funding, placements or borrowing that has a maturity or re-pricing of over two (2) years are either matched or hedged.

Since GIC also runs gapping positions in other major currencies apart from the USD, the gaps on these currency positions are translated to USD equivalents in order to estimate the equivalent number of Eurodollar futures contract.

The Eurodollar futures contract, given its liquidity, is a reasonable proxy to gauge interest rate risk on the short-term funding gap. The rationale behind this type of measurement is, if necessary, positive (negative) gaps within a given time bucket could be covered by selling (buying) Eurodollar futures contracts equivalent to the notional amount of the gaps. Potential contracts from individual time buckets are accumulated for each currency and then subsequently aggregated for all major currencies. The maximum number of notional contract is currently set at 3,500.

Treasury is responsible for monitoring and ensuring that potential short-term interest rate risk exposure remains within the authorized limits. However, proper escalation procedures are in place to address temporary and permanent excesses.

The Eurodollar futures contract position value as at December 31, 2014 was 5,833 contracts, with an estimated VaR of US$ 0.193 million. This is lower than the levels of the previous year (31st December 2013: 8,670 contracts). Excluding the impact of this EMTN issuance, the number of contracts, at 31st December 2014, would be approximately 1,104 contracts.

Maturity profile of assets and liabilities

A detailed breakdown of the maturity profile by individual asset and liability category is provided in Note 21.1 to financial statements. At December 31st 2014, roughly 51% of total assets were due to mature within 3 months, based on internal assessment of the Corporation's right and ability to liquidate these instruments. Comparatively, on the same basis, approximately 18% of total liabilities were in the same time bucket. The sizable portfolio of high quality marketable securities contributed to the relatively high ratio of liquid assets. 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. With the success achieved in raising medium term finance, the Corporation was able to optimize the asset liability maturity gap, especially within the medium and long term buckets.

CREDIT RATING

In 2014, both rating agencies (Moody's & Fitch) upgraded GIC's credit ratings. GIC's strong financial indicators were acknowledged in the rating reports . As of end 2014, GIC's long term deposits were rated A2 by Moody's and A- by Fitch. All ratings carry a stable outlook. GIC continues to be rated AAA by Rating Agency Malaysia (RAM).

	Moody's	Fitch	RAM
Long-term Deposits	A2	A-	AAA
Short-term Deposits	P1	F1	P1

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.

The Corporation's capital base stood at USD 2.7 billion at 2014 year end. GIC continues to be one of the best capitalized financial institutions in the region.

Regulatory Capital

The Basel Committee on Banking Supervision has introduced a revised capital adequacy framework that promotes the adoption of stronger risk management practices, and more risk-sensitive capital requirements that are conceptually sound and at the same time pay due regard to particular features of the present supervisory and accounting systems in individual member countries.

The Central Bank of Kuwait (CBK) had issued a directive for banks in Kuwait to implement the revised accord beginning December 2005. While GIC does not fall under the purview of the CBK, the Corporation's view is that it is prudent to implement the recommendations set forth under the revised accord with the following primary objectives:

a) The Corporation has been subjecting itself to the standards of Basel 1 (1988) and the amendments introduced in 1998 (market risk). As a natural progression, adoption of the modified standards as outlined in the revised capital accord underscores the Corporation's commitment to be in line with international standards;
b) GIC acknowledges the importance of the qualitative and quantitative approaches set out in Basel II that impose rigor and discipline with respect to capital adequacy assessment; and
c) Adopting the Basel II capital accord is viewed to enhance risk culture within the organization and further strengthen GIC's market image, thus, resulting to improvements in external credit ratings assigned by international rating agencies, thereby ensuring continued access to capital markets.

Under the new accord, the Corporation's Total capital ratio at the end of December 2014 was 42.6%. The Tier 1 ratio was the same, since the existing small quantum of Tier 2 capital was reduced to nil after deductions. Comparatively, the Total and Tier 1 capital ratios the previous year was 36.0%. The continued enhancement in capital adequacy ratios was driven by the strengthening of the core capital base. Moreover, the scaling down of risk exposures also had a positive impact on capital ratios. The standardized approach was used to calculate the capital requirement to cover credit and operational risks. Market risk capital cover calculation, on the other hand, employed the VaR-based approach. Going forward, GIC aims to achieve convergence of regulatory capital with economic capital as it adopts more advanced measurements for capital adequacy. Details of the regulatory capital ratio computations are provided in the Basel II disclosure section of this annual report.

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 is a measure of risk and can be defined as the amount of capital required to cover unexpected losses, arising from doing business. It is the amount of capital that is required to achieve equilibrium between expected return and risk of bankruptcy. The need for economic capital arises due to the uncertainty of positive returns and or future cash flows. For each asset / exposure, portfolio, business unit, group and entity, economic capital reflects the quantification of the unexpected loss amounts arising from the four principal risk forms: Credit risk, Market risk, Liquidity risk and Operational risk.

Asset allocation targets, particularly within the global markets investments, are derived based on rigorous optimization techniques utilizing quantitative and qualitative inputs. Portfolios are constructed to maximize the efficiency of capital utilization, while ensuring risks are within acceptable levels.

OPERATIONAL RISK

Operational Risk is the risk of loss resulting from inadequate or failed processes, people, or systems, either internally or externally, and unexpected significant and unusual one time events.

Other risks to which GIC is exposed to include Regulatory, Strategic, and Reputational:

- Regulatory risk is controlled through a framework of Compliance policies and procedures;
- Strategic risk is managed through the close monitoring of reviews, targets and goals, by senior management; and
- Reputational risk is controlled through clear and transparent guidelines and the GIC Code of Conduct.

KEY AIMS:

The management of Operational Risk has the following key objectives:

- to identify, assess, control and mitigate operational risk and the effective reporting of risk and emerging risk issues; and
- to embed operational risk awareness in all our activities, including the practices and controls used to manage other types of risks.

OVERVIEW:

GIC's Operational Risk Framework is composed of four key components:–

a) Risk and Control Self-Assessment framework;
b) Loss Event framework;
c) Corrective Action Plans framework; and
d) Operational Risk Reporting framework.

By providing a basis for the institutional understanding of Operational Risk, the framework supports a culture in which employees are aware of the risk inherent in the daily operations, and are encouraged to proactively identify existing, emerging and/or other potential problems.

a. Risk and Control Self- Assessment (RCSA) Framework

The RCSA procedures establishes a consistent framework for describing the key business activities, risks and controls. The controls are then assessed on a regular frequency. It is a process which transparently assesses the business's risks and analyzes the strength or weakness of controls that are put in place to in order to manage the identified risks.

The assessment of fraud detection controls have also been integrated within the RCSA process.

b. Loss Event Framework

Operational loss events are reported in a central database. Comprehensive information about these events is collected, and includes information regarding the amount, occurrence, discovery date, business area and product involved, and detailed root cause analysis.

In keeping with our broad definition of Operational Risk, we began to include data on events with non-monetary impacts and near-miss events in our collection and analysis activities.

c. Corrective Action Plans (CAPs) Framework

The CAPs framework is a key component of management practice to identify, document and resolve control issues or any high risk exposures. This includes issues identified through our integrated RCSA and monitoring program, internal audits, Compliance reviews, or Operational Risk loss event reporting.

It will enable management to demonstrate to audit (internal and external) and regulators, that management is aware and is actively addressing issues as well as monitoring the timely resolution of these issues.

The Risk Management Committee will be kept abreast of all material Operational Risk issues that have been identified.

d. Operational Risk Reporting Framework

The Reporting framework is used to ensure that all Operational Risk types and events are categorized and reported consistently following the Basel II ratings methodology. This will help to:

- establish a common language regarding Operational Risk, throughout the Corporation; and
- facilitate the correlation of similar events and to identify causes (rather than symptoms) of risk within departments.

OPERATION RISK WEIGHTED EXPOSURE:

The Operational Risk Weighted Exposure sets out the risk measurement framework, i.e. the quantitative criteria for calculating the capital charge for operational risk that follows the Standardized Approach developed by the Basel Committee on Banking Supervision.

The Corporation's business activities are categorized within the identified business lines to be used i.e Principal Investment, Debt Capital Market, Equities Investments, Alternative Investments, Treasury, and Head Quarters.

INSURANCE:

As part of the Enterprise Risk Management solution, the Corporation uses a comprehensive suite of insurance policies to mitigate the impact of operational risks and to ensure adequate coverage. These policies are closely aligned to the operational risk profile and are cost beneficial to GIC.

BUSINESS CONTINUITY AND DISASTER RECOVERY PLANNING:

The Business Continuity Plan Team, led by Operational Risk and Information Technology, are responsible for creating, managing and continuously improving GIC's disaster recovery planning. Currently there are three active and fully tested disaster recovery sites:-

- Kuwait (Local)
- Bahrain (Regional)
- Luxembourg (Outer-Regional)

LEGAL RISK MANAGEMENT:

GIC has a dedicated General Counsel, for the effective management of legal risks by the provision of legal advice and litigation management.

INFORMATION SECURITY FRAMEWORK:

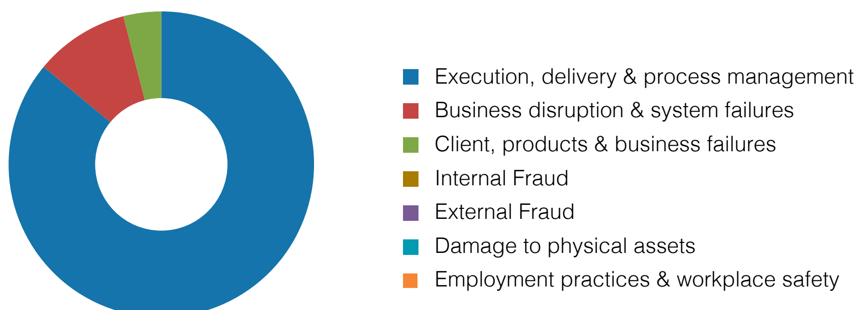
A secure information security framework is in place to identify the responsibilities at every level of information handling, i.e. from data ownership (encoding) to data access. Periodic audits are conducted to ensure compliance with the policies and standards set, by Internal Audit, Information Security Risk Officer and the Risk and Control Self-Assessment review.

OPERATIONAL LOSS EVENT PROFILE FOR 2014:

The Corporation monitors the loss events by the Basel II loss event categories.

There are no threshold limits – all events whether a loss or gain are captured, including near misses.

During 2014, the highest frequency of events occurred under the following categories:



Basel II Disclosure

Basel II Rationale:

Aligning banking risk management with Capital Requirements

As Basel guidelines continue to evolve, the Basel Committee moves closer to its goal of aligning banking risk and its management with capital requirements. The primary objective of these guidelines is to improve safety and soundness within the financial system by placing increased emphasis on bank's internal controls and risk management processes and models, the supervisory review process, and market discipline.

GIC is among a select few financial institutions in the region to maintain **high ratings** by both major international agencies (Moody's & Fitch).

Basel II encourages the ongoing improvements in risk assessments and mitigation. Thus, over time, it presents banks with the opportunity to gain competitive advantage by allocating capital to business activities that demonstrate a strong risk-return ratio. Developing a better understanding of the risk/reward trade-off for capital supporting specific business or products is one of the most important business benefits banks may derive from compliance to the new accord.

The Architecture of Basel II –The Three Pillars

With Basel II, the Basel Committee abandons Basel II's 'one-size-fits all' method of calculating minimum regulatory capital requirements and introduced a three-pillar concept that seeks to align regulatory requirements with economic principles of risk management. At the same time, by putting operational risk management on every bank's agenda, Basel II encourages a new focus on its management and sound and comprehensive corporate governance practices.

The Three Pillars Defined

Pillar 1 – Minimum Capital Requirements

Pillar 1 sets out minimum regulatory capital requirements – meaning the amount of capital banks must hold against risks. The new framework provides a continuum of approaches from basic to advanced methodologies for the measurement of both credit and operational risks. It provides a flexible structure in which banks, subject to supervisory review, will adopt approaches that best fit their level of sophistication and their risk profile. The framework also deliberately builds in rewards for stronger and more accurate risk measurement.

Pillar 2 – Supervisory Review

Pillar 2 defines the process for supervisory review of a bank's risk management framework and ultimately, its capital adequacy. It sets out specific oversight responsibilities for the board and senior management, thus reinforcing principles of internal controls and corporate governance practices. Financial supervisors would be responsible for evaluating how well banks are assessing their capital adequacy needs relative to their risks. Intervention would be exercised, where appropriate.

Pillar 3 – Market Discipline

Pillar 3 aims to bolster market discipline through enhanced disclosure by banks. It sets out disclosure requirements and recommendations in several areas, including the way a bank calculates its capital adequacy and its risks assessment methods. The intended result is enhanced transparency and comparability with other banks.

Gulf Investment Corporation G.S.C. (GIC or the Corporation) – Market Disclosure

The following sections set out the Corporation's disclosure details prepared in line with the new accord's requirements via its publication dated June 2006– A Revised Framework for International Convergence of Capital Measurement and Capital Standard, and increased capital requirement for market risk as proposed in Basel Committee's document 'Revision to the Basel II market risk framework' dated July 2009.

1. Capital Structure

GIC is an investment company incorporated in the State of Kuwait on November 15, 1983 as a Gulf Shareholding Company. It is equally owned by the governments of the six member states of the Gulf Cooperation Council (GCC), i.e., Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. The Corporation has no subsidiaries or significant investments in banking, insurance, securities, and other financial entities.

Table 1 presents the Corporation's regulatory capital resources for the years ending December 2014 and December 2013. Basel II permits recognition of general provision (albeit subject to a maximum of 1.25% of credit risk weighted assets) as part of Tier 2 capital. Meanwhile, the portion of significant investments in financial and commercial entities that exceed a certain materiality threshold; and exposures to 'securitization' that fall below a cut-off risk grade are deducted 50% from Tier 1 and 50% from Tier 2 capital, respectively. For 2014, full deduction is made from Tier 1 capital due to negative fair value adjustment. Total eligible regulatory capital was US$ 2,313.5 million by year-end December 2014 compared to US$ 2,174.3 million recorded in December 2013. The Corporation has adopted a conservative policy for the treatment of net fair value reserve, wherein, if negative - the total amount is deducted from eligible capital, and if positive - only 45% of fair value reserve is included within eligible capital.

Table 1: Eligible Regulatory Capital

In US$ millions	**31 December 2014**	31 December 2013
Paid-up capital	2,100.0	2,100.0
Disclosed reserves	600.0	567.5
Retained earnings	14.6	(153.6)
Less: Goodwill	60.0	39.6
Less: Deductions	311.4	296.0
Less: Adjustment for Fair value reserve	29.7	4.0
Total Tier 1 Capital	2,313.5	2,174.3
Fair value reserve (55% discount)	-	-
General Provision	0.8	0.4
Less: Deductions	0.8	0.4
Total Tier 2 Capital	-	-
Total eligible regulatory capital	2,313.5	2,174.3

2. Capital Adequacy Management

The Corporation's primary guiding principle to its capital adequacy management is to maintain a strong capital base that could support current as well as future growth in business activities, and at the same time, with the objective of maintaining satisfactory capital ratios and high credit ratings.

GIC's process of assessing the capital requirements commences with the compilation of the annual business plan by individual business units which are then consolidated into the annual budget plan of the Corporation. The annual budget plan provides the estimated overall growth in assets, its impact on capital and targeted profitability for the forthcoming fiscal year. Utilizing the financial projections generated from the budget plan, capital is allocated to the various business units in such a way that the allocations remain consistent with the risk profile of the business activity. These capital allocations as well as corresponding Return On Risk-Adjusted Capital (RORAC) are reviewed on an ongoing basis during the budget year in order to optimally deploy capital to achieve targeted returns. Whilst the Corporation acknowledges the benefits of higher leverage to Return on Equity (ROE), it also believes in the advantage and benefit of keeping a strong capital position. As such, GIC maintains a prudent balance among the major components of its capital. Current internal policy aims to maintain a floor of 16% total capital adequacy ratio.

The annual dividend payout, meanwhile, is prudently determined and proposed by the Board of Directors, endeavoring to meet shareholder expectations while ensuring adequate retention of capital to support organic growth.
Finally, the Corporation targets a credit risk rating of single 'A' or better. This would allow easy access to capital from the market at competitive pricing in the event additional funding needs to be appropriated. GIC is among a select few financial institutions in the region to maintain high ratings by both major international agencies (Moody's & Fitch). Details of the Corporation's ratings are provided on page 53 of this annual report.

Table 2: Capital Adequacy Ratios

In US$ millions	Risk-weighted assets	Capital requirement
Credit Risk	3,420.3	273.6
Market Risk	1,408.1	112.7
Operational Risk	605.6	48.4
Total	5,434.0	434.7
Capital Adequacy Ratios		
Total CAR	42.6%	
Tier 1 Ratio	42.6%	

Table 2 details the risk-weighted assets together with their corresponding regulatory capital requirements as at 31 December 2014. Total capital adequacy ratio and Tier 1 capital ratio are likewise calculated. The numbers were generated by applying the 'Standardized' approach for credit and operational risks, while the 'Internal Model' approach was utilized to yield market risk positions. Total risk-weighted exposures of US$ 5,434.0 million, as at 31 December 2014, requires regulatory capital of US$ 434.7 million to meet the minimum Basel II CAR of 8%. Should the minimum CAR threshold be raised to GIC's internal target of 16%, the required regulatory capital increases to about US$ 869.4 million. The reported eligible regulatory capital of US$ 2,313.5 million still provides sufficient cushion to support business expansions.

Table 3: Risk Exposure Break-down

In US$ millions	31 December 2014
Credit Risk (RWA)	
Claims on sovereigns	59.8
Claims on Public Sector Entities	210.0
Claims on Banks	325.3
Claims on Corporates	521.0
Securitization and Structured Investment Vehicle	46.9
Venture Capital and Private Equity	167.0
Investments in Commercial Entities	1,939.0
Investments in Other Funds and Quoted Equities	60.4
Other Assets	90.9
Total	3,420.3
Market Risk (VaR)	
Interest rate risk position	3.6
Foreign exchange risk position	2.4
Equity risk position	19.7
(Total VaR + Stress VaR) x 3	77.1
Specific risk position	35.6
Total capital requirement	112.7
Total RWA (capital requirement x 12.5)	1,408.1
Operational Risk (RWA):	
Operational risk capital charge	48.4
Total RWA (capital charge x 12.5)	605.6

3. Risk Management Structure

To address the continuously changing and complex business environment, the Corporation adapts an agile and effective risk management process. Management realizes that not all risks needs to be eliminated; however, they need to be systematically identified and measured in order to be properly managed. To this end, the Corporation established an effective Enterprise Risk Management framework to enable a process of achieving an appropriate balance between risk and reward, by optimizing profits and ensuring that GIC is protected from unwarranted exposures that are likely to threaten the viability of the Corporation.

The Corporation's risk management process is an integral part of the organization's culture, and is embedded into the organization's practices as well as in all those involved in the risk management process.

The Risk Management Committee (RMC) is established by the Board of Directors. The RMC focuses on the effectiveness and appropriateness of the internal risk management strategy, risk management framework and risk controls (collectively the Enterprise Risk Management).

The RMC comprises members of the Board of Directors and senior management. Its key aims, with the Risk Management Division (RMD), are to:

a) Review and assess the Enterprise Risk Management governance structure;
b) Review the Risk Management framework (encompassing risk assessment guidelines and policies regarding Credit, Market, Liquidity, Interest Rate, and Operational risk management);
c) Oversee policies and guidelines for determining the macro Enterprise Risk Limit levels, and review the utilization of these limits;
d) Review the adequacy of GICs' capital allocations including economic and regulatory, incorporating the risk adjusted return on capital;
e) Review and assess the integrity and adequacy of the Risk Management Division of the Corporation; and
f) Receive and review reports on selected risk topics as management deems appropriate from time to time.

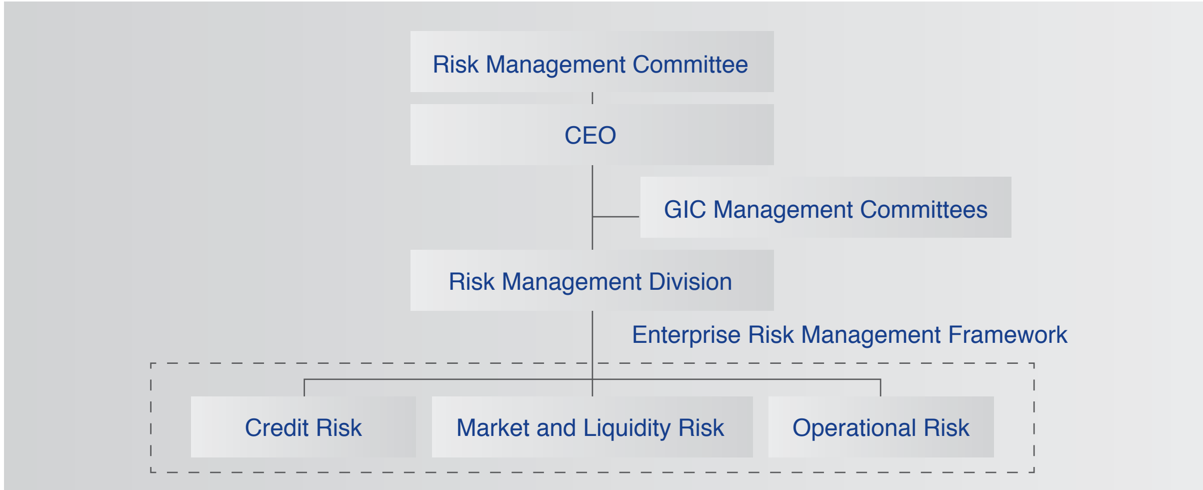
The RMC, senior management, risk officers, and line managers contribute to effective Enterprise-wide Risk Management. The RMC defines its expectations, and through its oversight determines its accomplishment. The Board of Directors has ultimate responsibility for risk management as they set the tone and other components of an enterprise risk management.

Risk officers have the responsibility for monitoring progress and for assisting line managers in reporting relevant risk information and the line managers are directly responsible for all business risk generated in their respective domains. The effective relationship between these parties significantly contributes to the improvement in the Corporation's overall risk management practices as this leads to the timely identification of risk and facilitation of appropriate response.

The RMD structure has a distinct identity and independence from business units. The RMD ensures that risk exposures remain within tolerable levels relative to the Corporation's capital and financial position. The RMD reports directly to the Chief Executive Officer, and is manned by dedicated risk specialists in all disciplines to address the pertinent business risks exposure of the Corporation. Its main responsibilities are to:

a) Evaluate and analyze the enterprise wide risk profile by developing risk monitoring techniques;
b) Set up and develop criteria for defining the Corporation's risk threshold in terms of various risks;
c) Develop and establish tools for the measurement of the Corporation's various risk types; and
d) Recommend appropriate strategies/actions for mitigating risk and ensuring a sound risk asset structure for the Corporation.

The abridged organizational structure of GIC's risk management structure is shown below:



The following management committees have the responsibility and authority for the day-to-day risk management activities of the Corporation, and where by such authorities are being exercised within the objectives and policies approved by the RMC:

a) Management Committee covers mainly general management issues including performance review vis-à-vis budget, and assessment of status quo against strategic business plan;
b) Global Markets Group Investment Committee translates investment strategy directions into asset allocation guidelines, recommends investment proposals, and reviews investment portfolios. The committee also functions as a surrogate Asset-Liability Committee;
c) Principle Investing Investment Committee evaluates proposals for investments and divestiture of assets and ensures compliance to investment criteria as well as investment procedures at each phase of the investment process;
d) Human Resource Committee which reviews strategic HR issues;
e) Systems Steering Committee provides the forum to review the IT architecture and its condition to meet current and future business requirements; and
f) Provisioning Committee ensures that all provisioning activity (making or writing back provisions), covering all of GIC's on and off balance sheet items.

The objectives and policies for measurement and reporting of the major risk areas, i.e., Credit, Market, Liquidity and Operational, are detailed in the Risk Management section. The same section includes the approach adopted by the Corporation towards management and mitigation of these risks.

4. Credit Risk Exposure

The Corporation follows both qualitative and quantitative approaches to credit risk management. These approaches are clearly articulated in the Corporation's Credit Policy document which aims to promote a strong credit risk management architecture that includes credit procedures and processes. The policy defines the areas and scope of investment activities undertaken by the Corporation and its main goal is not simply to avoid losses, but to ensure achievement of targeted financial results with a high degree of reliability. The Corporation's credit risk management focuses on the dynamic and interactive relationship between three credit process phases: portfolio strategy and planning, investment origination and maintenance, and performance assessment and reporting. Each of these phases is discussed briefly below.

Portfolio Strategy and Planning

The overall desired financial results, the portfolio strategy of each business unit, and the credit standards required to achieve the targets are defined during the planning phase. The business strategies are developed in such a way that they integrate risk and that they meet the defined hurdles in terms of RORAC. Portfolio management establishes composition targets, monitors the results of these diverse business strategies on a continual basis, and allows the Corporation to manage concentrations that can result from seemingly unrelated activities. Specifically, portfolio management involves setting concentration limits by standard dimensions so that no one category of assets or dimension of risk can materially harm the overall performance of the Corporation. The Board has set specific limits for individual borrowers and groups of borrowers and for geographical and industry segments. These limits consider the individual credit of the various counterparties as well as the overall portfolio risk.

The Investment Committees

The Committees monitor and approve investment proposals and review portfolio concentrations in terms of economic sectors and asset class. These limits are reviewed annually to ensure that there are no undue concentrations in one sector or asset class, and that the limits are within those set out by the Corporation. For counter-party limits, such as limits for banks and financial institutions, credit line approval follows a strict process of credit review, with proper authority levels delegated to senior credit officers. Foreign exchange trading and interest rate gap limits, together with ancillary limits (e.g., daylight, overnight, stop loss, etc.) are recommended by Treasury for the review of risk management, and eventual approval by the RMC. The RMD quantifies the Corporation's credit risk appetite in line with the overall strategy. The RMD employs a process of allocating capital on a portfolio level for the total credit exposure assumed by each business unit. The business units' actual capital consumption is assessed against the budget, and variances are appropriately reported to senior management.

Investment Origination and Maintenance

The business units solicit, evaluate, and manage credit exposure according to the strategies and portfolio parameters established during the portfolio strategy and planning phase. Investments are generated within well-defined criteria, product structure, and are approved on the basis of risk and return assessment. The processes involved under credit maintenance include documentation review and disbursement, and review of the status of exposures. Within this phase, origination and underwriting for distribution to investors takes place. The business units remain the sponsor and main risk managers of their proposals. While the risk management team independently reviews investment/product proposals prior to granting approvals to ensure that the proposals are within the tolerable risk appetite of the Corporation and are consistent with its policy, prior to disbursement of funds.

Performance Assessment and Reporting

The performance assessment and reporting phase allow both the senior management and business units to monitor results and improve performance continually. Both portfolio and process trends are monitored in order to make appropriate and timely adjustments to business strategies, portfolio parameters, credit policies and investment origination and maintenance practices. This phase of the credit process draws on information within the Corporation and external benchmarks to help evaluate performance. The goal of performance assessment is to achieve a balanced portfolio of assets, well diversified, and generating returns consistent with targets. Credit performance is assessed through analysis of:

a) Portfolio concentrations by obligor, industry, risk rating, maturity, asset class, as well as other dimensions;
b) Generated Return On Capital Employed (ROCE);
c) Additional economic value created by individual projects;
d) Exceptions to risk acceptance criteria; and
e) Other policy exceptions.

Inherent in the Corporation's business activity is the presence of 'portfolio risk', which arises whenever there is high positive correlation between individual credit portfolios. To address this particular risk, the Corporation employs the 'Credit Manager' system promoted by the Risk Metrics Inc. (part of MSCI) . The system is a quantitative based program where overall portfolio 'Credit Value at Risk' (CreditVaR) is measured and controlled. This model calculates CreditVaR based on credit ratings of the names, default probabilities, loss given default, current market prices of the credits, while considering the impact of correlation of the various credits in the portfolio. In order to institute a common language for understanding and dimensioning credit risk across GIC's range of investments in projects, RMD is in the process of developing an Internal Credit Risk Rating (ICRR) model that would assist management in determining level of capital allocation and other strategic schemes applicable to the investment credit rating. Naturally, the model will also be used to benchmark the required return given a particular level of risk. Additionally, the rating results will subsequently be used as valuable inputs into the 'Credit Manager' system mentioned above.

Credit Risk as per Basel II Standardized Approach

Under the credit risk 'Standardized' approach, credit exposures are categorized to standard portfolios that are subject to a distinctive risk-weighting scale based on standard characteristics of the nature of borrower as well as the external credit assessments of international rating agencies where available. GIC uses the credit ratings assigned by Moody's, S&P and Fitch for this purpose. When more than one counter-party rating is available, Basel II's multiple assessment guidelines are invoked. In order to provide a common platform into which different notations used by the aforementioned rating agencies can be mapped, a scale of uniform Credit Quality Grades (CQG) represented by the numerals 1 to 5 or 6 are used to represent the relevant risk weights of each standard portfolio. Separate scales are prepared for risk-weighting both long- and short-term issues.

Table 4: CQG Mapping

Corporates Credit Quality Grades	S&P	Moody's	Fitch
1	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
2	A+	A1	A+
	A	A2	A
	A-	A3	A-
3	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
4	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-
5	B+	B1	B+
	B	B2	B
	B-	B3	B-
6	CCC+	Caa1	CCC+
	CCC	Caa2	CCC
	CCC-	Caa3	CCC-
	CC	Ca	CC
	C	C	C
	D		D

Table 4 serves as a sample of mapping notations of rating agencies into CQGs for claims on Corporates. At 31 December 2014 , rated credit exposures accounted for more than 26% of total credit exposures. Note that the numbers are after applying the equivalent risk-weights (credit conversion) as provided under the Basel II accord. Meanwhile, gross credit exposure to rated assets was recorded at approximately 44% of total gross credit exposure. Assets that are rated single 'A' or better comprised 68% of rated gross credit exposure.

Table 5: Credit Exposure (post-credit conversion)

In US$ millions	31 December 2014		
	Rated	Unrated	Total
Claims on Sovereigns	49.4	10.4	59.8
Claims on Public Sector Entities	187.9	22.1	210.0
Claims on Banks	325.3	-	325.3
Claims on Corporate	307.0	214.0	521.0
Securitization and SIVs	46.9	-	46.9
Venture Capital and Private Equity	-	167.0	167.0
Investments in Commercial Entities	-	1,939.0	1,939.0
Other Funds and Quoted Equities	-	60.4	60.4
Other Assets	-	90.9	90.9
Total	916.5	2,503.8	3,420.3
In Percent	26.8%	73.2%	100.0%

Table 6: Gross Credit Exposure (pre-credit conversion)

In US$ millions	31 December 2014		
	Rated	Unrated	Total
Claims on Sovereigns	199.9	10.4	210.3
Claims on Public Sector Entities	379.3	22.1	401.4
Claims on Banks	912.4	-	912.4
Claims on Corporate	407.2	214.0	621.2
Securitization and SIVs	83.2	-	83.2
Venture Capital and Private Equity	-	167.0	167.0
Investments in Commercial Entities	-	1,939.0	1,939.0
Other Funds and Quoted Equities	-	60.4	60.4
Other Assets	-	90.9	90.9
Total	1,982.0	2,503.8	4,485.8
In Percent	44.2%	55.8%	100.0%

Tables 5 and 6 present the breakdown of credit exposures pre and post-credit conversion.

Table 7: Gross Credit Exposure before Credit Risk Mitigation (CRM)

In US$ millions	31 December 2014		
	Funded	Unfunded	Total
Claims on Sovereigns	210.3	-	210.3
Claims on Public Sector Entities	401.4	-	401.4
Claims on Banks	832.8	79.6	912.4
Claims on Corporate	407.2	214.0	621.2
Securitization and SIVs	83.2	-	83.2
Venture Capital and Private Equity	167.0	-	167.0
Investments in Commercial Entities	1,939.0	-	1,939.0
Other Funds and Quoted Equities	60.4	-	60.4
Other Assets	90.9	-	90.9
Total	4,192.2	293.6	4,485.8
In Percent	93.5%	6.5%	100.0%

In terms of facility type (Table 7), US$ 4,192.2 million or approximately 94% is funded. The balance is ascribed to guarantees issued and commitments made by the Corporation, as well as credit exposures on outstanding forward and swap transactions with banks.

Table 8: Gross Credit Exposure by Geographic Distribution

In US$ millions	31 December 2014				
	GCC	Europe	Americas	Others	Total
Claims on Sovereigns	170.5	24.8	15.0	-	210.3
Claims on Public Sector Entities	339.0	10.9	-	51.5	401.4
Claims on Banks	650.1	122.5	48.5	91.3	912.4
Claims on Corporate	276.0	173.6	87.9	83.7	621.2
Securitization and SIVs	-	43.9	39.3	-	83.2
Venture Capital and Private Equity	14.7	22.7	114.1	15.5	167.0
Investments in Commercial Entities	1,919.0	-	20.0	-	1,939.0
Other Funds and Quoted Equities	21.7	-	38.7	-	60.4
Other Assets	56.7	14.6	3.7	15.9	90.9
Total	3,447.7	413.0	367.2	257.9	4,485.8
In Percent	76.9%	9.2%	8.2%	5.7%	100.0%

The geographical distribution (Table 8) is based on either the primary purpose of the exposure or the place of incorporation of the debt security issuer, or incorporation of the fund manager. A sizable portion of credit exposure is in the GCC region tallying at US$ 3,447.7 million or 76.9% of the total. Following suit are exposures to Europe and Americas, 9.2% and 8.2% respectively. These exposures are due in great part to investments in global securities and funds with varying investment themes.

Table 9: Gross Credit Exposure by Industry Sector

In US$ millions	31 December 2014					
	Banks & Financial Institutions	Trading & Manufacturing	Utilities	Government Agencies	Others	Total
Claims on Sovereigns	-	-	-	210.3	-	210.3
Claims on Public Sector Entities	35.5	-	201.7	-	164.2	401.4
Claims on Banks	912.4	-	-	-	-	912.4
Claims on Corporate	-	276.7	72.6	-	271.9	621.2
Securitization and SIVs	83.2	-	-	-	-	83.2
Venture Capital and Private Equity	167.0	-	-	-	-	167.0
Investments in Commercial Entities	153.0	1,329.9	402.5	-	53.6	1,939.0
Other Funds and Quoted Equities	60.4	-	-	-	-	60.4
Other Assets	34.2	33.3	8.5	11.0	3.9	90.9
Total	1,445.7	1,639.9	685.3	221.3	493.6	4,485.8
In Percent	32.2%	36.6%	15.3%	4.9%	11.0%	100.0%

The table on industry distribution (Table 9) of the gross credit exposure reveals a concentration on Trading & Manufacturing sector, amounting to 36.6% of total exposure which, is in line with GIC's commitment to support the industrial growth within the GCC region.

Table 10: Credit Exposure by Residual Contractual Maturity

In US$ millions	31 December 2014				
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Claims on Sovereigns	19.0	10.4	60.7	120.2	210.3
Claims on Public Sector Entities	-	15.3	177.4	208.7	401.4
Claims on Banks	274.5	52.6	495.0	90.3	912.4
Claims on Corporate	12.2	92.9	372.7	143.4	621.2
Securitization and SIVs	0.1	27.9	2.9	52.3	83.2
Venture Capital and Private Equity	-	-	-	167.0	167.0
Investments in Commercial Entities	-	-	-	1,939.0	1,939.0
Other Funds and Quoted Equities	-	-	-	60.4	60.4
Other Assets	41.6	13.8	24.6	10.9	90.9
Total	347.4	212.9	1,133.3	2,792.2	4,485.8
In Percent	7.7%	4.8%	25.3%	62.2%	100.0%

The residual maturity of gross credit exposure broken down by standard credit risk exposure is shown in Table 10. Approximately 62% of gross credit exposure falls within the longest time bucket of over five years.

Recognition of Impairment of Assets

The Corporation assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. Investments are treated as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires considerable judgment. In addition, the Corporation evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for projects and unquoted equities. The Corporation reviews its problem loans and advances, and investment in debt instruments at each reporting date to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. Noteworthy, the Corporation has taken a strategic decision to wind down its lending activities. An insignificant amount of impaired assets stemming from project loan provided to a manufacturing company based in the GCC has been fully provided for.

5. Securitization Activities

The Corporation's securitization exposure comes by way of its investments in structured products, which can be generally classified under synthetic securitization. Capital cover treatment of securitization exposures follows the 'Ratings Based' approach as recommended in the Basel II capital adequacy guidelines. As such, the external credit assessments provided by either Moody's or S&P are considered when determining credit risk weights for securitization exposures.

Table 11: Credit Exposure on Securitization and SIVs

In US$ millions	31 December 2014	
	Gross Exposure	Post-credit Conversion
CQG 1	27.8	5.6
CQG 2	33.8	16.9
CQG 3	17.2	17.2
CQG 4	2.1	7.2
CQG 5	2.3	
CQG 6	-	(deduction from capital)
Unrated	-	
Total	83.2	46.9

Table 11 provides the credit rating breakdown of the Corporation's investment in securitization and structured investment vehicles (SIVs): Exposures that are rated CQG 5 and lower are deducted directly from regulatory capital.

6. Market Risk

This section focuses regulatory capital adequacy computations based on the VaR measurement for the 'Trading' book. More details on VaR and Market Risk monitoring are provided in the Risk Management section of the annual report. The regulatory capital adequacy ratios are computed incorporating capital charges for market risk, as per the June 2006 – A Revised Framework for International Convergence of Capital Measurement and Capital Standard, and increased capital requirement for market risk as proposed in Basel Committee's document 'Revision to the Basel II market risk framework' dated July 2009. GIC follows the Internal Models Approach (IMA) to quantify the capital charge associated with market risk within the trading portfolio.

The Corporation uses the 'Risk Manager' system, developed by Risk Metrics Inc. (part of MSCI), and utilizes a parametric computational method based on the variance – covariance concept. In line with the capital accord, the parameters used in determining the VaR are a 10 day holding period and 99% confidence level. The computation utilizes an equally weighted historical data set going back one year. The computation ignores the correlation benefit amongst the three risk types (interest rate, equity and foreign exchange), with Total Market Risk VaR being equal to the arithmetic sum of the three components. The capital charge relating to market risk is determined for all portfolios categorized as trading (the trading book), which includes the following (Ref Notes 4 of 2014 consolidated financial statements):

(US$ million)	**2014**	2013
Quoted debt instruments	23	53
Equities and Managed funds	123	313
Alternative equity investments	303	340
	449	706

Policies relating to recognition, classification, fair value measurement and gain/loss computation are detailed in Note 2 of consolidated financial statements. GIC believes that it is prudent to provide an explicit capital cushion for price risks to which it is exposed. Such risk of loss arising from the adverse changes in market variables is predominantly within the trading book. Within the Corporation, capital charge for market risk comprises three main categories: interest rate risk and equity risk (within the trading book) and foreign exchange risk for the entire Corporation.

The Value-at-Risk concept is a sound basis for the quantification of market risk, and the variance – co-variance methodology adequately suits the Corporation's asset types. Most of the exposures within the trading book entail very little optionality and are mostly linear in nature. The VaR based system provides a dynamic measure of market risk capturing, in a timely manner, the impact of changes in environment on the value of the portfolio of financial instruments. The VaR model is a statistical tool, based on simplifying assumptions, and as such has certain limitations (examples: occurrence of 'fat tails', non-normal distributions and event risks; the past not being a good approximation of future, etc). To a large extent, these limitations are addressed by the back-testing exercise and related multiplication factor used. For all the portfolios within the trading book, the same variance – co-variance methodology is used to compute VaR, which is computed on a daily basis as per the parameters described above.

Scenario analysis and stress testing 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.

Back-testing

The objective of 'Back-testing' is to measure/validate the accuracy of the internal VaR model. Back-testing essentially deals with the process of comparing actual trading results with the model generated risk measures (estimates). Back-testing is conducted in line with the 'Supervisory Framework Document' issued by the Basel Committee. The parameters for back-testing are a one-day holding period and 99% confidence level. To the extent that the back-testing program is viewed purely as a statistical test of the integrity of the calculation of Value-at Risk (VaR) measure, the Corporation felt it appropriate to utilize the 'hypothetical portfolio' approach. In this approach, a static hypothetical model portfolio, with similar characteristics of the actual portfolio, is created and daily change in market value is computed based on actual price observations. VaR is also computed for this static portfolio using the model and comparisons are made between actual results and model estimates. The advantage of this method is that the value change outcomes are not 'contaminated' by changes in the portfolio (which could happen if the actual portfolio were used).

The multiplication factor of 3 is used for capital calculation, in line with the Basel guidelines.

Capital charge for market risk is determined based on the following formula:

Capital Charge (market risk) = (Max {Vavg,Vend} + Max {SVavg,SVend})X Mf
Where, Vavg equals: Average Total VaR for the trading book over the previous 60 business days
Vend equals: End of period Total VaR for the trading book
SVavg equals: Average Stressed VaR for the trading book over the previous 60 business days
SVend equals: End of period Stressed VaR for the trading book
Mf equals: Multiplication factor (a factor of three issued based on the results of back-testing)

Table 12: Trading Book VaR (US$ 000's) – 10 day holding period, 99% confidence level. For the last 60 business days in 2014

In US$ millions	Interest Rate	Equity	FX	Total
Max	0.7	5.3	0.6	6.6
Min	0.3	4.1	0.2	4.6
Average	0.4	4.7	0.3	5.4
31-Dec-14	0.7	4.7	0.5	5.8
Stress VaR	2.9	15.0	1.9	19.8

7. Operational Risk

The Corporation currently adopts the' Standardized' approach in the estimation of regulatory capital to support potential operational risk exposure.

In keeping with the Accord's guidelines, gross income for each business line is determined using the transfer pricing methodology being employed by the Corporation. The identified business lines as well as its major business segments are presented in Table 13.

Table 13: Business Lines for Operational Risk

Business lines	Major business segments	Activity Groups
Principal Investments	Investment and Equity Participation	Venture Capital, Greenfield Investments, Mergers and acquisitions, Privatizations, Equity Participation, IPOs, Secondary Private Placements
Debt Capital Markets	Investments of debt securities	International Corporate Securities, Sovereign Debts,GCC Issues/Bonds, Convertible Bonds, Islamic Bonds, ABSs,FRNs, SIVs, Structured Finance, Credit Funds, Emerging Market debts, High Yield Debt, Trading Bonds & Derivatives
Equity Investments	Portfolio of investments in equity funds and proprietary funds	Gulf Equities, Equity Portfolios, Islamic Funds
Alternative Investments	Portfolio of investments in an array of different asset classes and managed funds	Hedge Funds, Real Estate, Managed Funds, MBSs, Private Equity, Global Equity
Treasury	Sales	Fixed Income, Equity, Foreign Exchanges, Commodities, Credit, Funding, Own Position Securities, Lending and Repos, Derivatives
	Market Making	
	Proprietary Positions	
Asset Management	Discretionary Fund Management	Pooled, Segregated, Retail, Institutional, Closed, Open
	Non-Discretionary Fund Management	Pooled, Segregated, Retail, Institution, Closed, Open
Headquarters	Income classified for Head-quarters as per internal FTP (Fund Transfer Pricing) method, and other income that cannot be classified in any other business line	Income from Free Capital, Rental Income, Other Income, etc

Capital risk charge for each business line is computed and reported on a quarterly basis. The capital requirement for each business line and the corresponding capital charge are in Table 14, page 73.

Table 14: Operational Risk Capital Charge

In US$ millions	31 December 2014		
	3 yr Average Gross Income	Beta Factor	Capital Charge
Principal Investment	137.6	18%	24.7
Debt Capital Market	48.6	18%	8.7
Equities Investments	19.3	18%	3.5
Alternative Investments	63.2	18%	11.4
Treasury	3.7	18%	0.7
Asset management	6.0	12%	0.7
Headquarters	(7.3)	18%	(1.3)
Total	271.1		48.4
Risk-weighted exposure			605.6

The highest beta factor of 18% is applied on all business lines save for the 'Asset Management' business line, where a beta factor of 12% is used as suggested in the capital accord.

The Corporation realizes that the accord offers a continuum of approaches from the simplest basic indicator approach to the more advanced measurement approaches. In its endeavor to adopt a more risk-sensitive approach to operational risk capital management, the Corporation plans to implement a more disciplined 'bottom-up' method whereby the approach is anchored on objective loss data. To implement such an approach, a four-stage progression will be followed:

(1) Risk and Control Self-Assessment Framework;
(2) Loss Event Framework;
(3) Corrective Action Plans Framework; and
(4) Operational Risk Reporting Framework.

8 Equity Risk in the Banking Book

Equity investments in the banking book are classified at the time of acquisition into those acquired for realizing capital gains and to those purchased for strategic investments. The decision where to classify investments is arrived at after considering significant factors that include business and strategic advantages to the Corporation, and the amount of planned investments. All investment decisions require the approval of the Investment Committees, or the Executive Committee, depending on the amount of exposure. Investments acquired with a view to generating income and profits from capital appreciation are reviewed periodically and disposed off at opportune instances. Meanwhile, the strategic investment portfolios are reviewed based on the industry, market and economic developments, and the Corporation decides whether to liquidate or further consolidate its holdings in these investments. In accordance with International Financial Reporting Standards, equity positions in the banking book are classified as available for sale securities. These investments are fair valued periodically and revaluation gains/losses are accounted as cumulative changes in fair value in equity. For equity investments quoted in organized financial markets, fair value is determined by reference to quoted bid prices. Fair values of unquoted equity investments are determined by using valuation techniques such as recent arm's length transactions, reference to the market value of a similar investment, an earnings multiple or the expected discounted cash flows, or other appropriate valuation models. Equity investments whose fair value cannot be estimated accurately are carried at cost less impairment, if any. More details on the accounting treatment of equity investments can be found under' Significant Accounting Policies' in the notes to the Consolidated Financial Statements.

Publicly traded investments represent quoted equities traded in the local and international stock exchanges. Privately held investments represent investments in unquoted entities and projects. The total value of equity investments in the banking book at the end of December 2014 is US$ 860.8 million, net of provision (refer to Table 15 below). Cumulative realized gain from sale or exchange of available for sale securities and projects is approximately US$ 70.7 million, of which a significant portion is from publically held equity holdings. Meanwhile, the total un-realized loss recorded in equity is US$ 103.7 million.

Table 15: Equity Holdings in Banking Book

In US$ millions	31 December 2014		
	Publicly Traded	Privately Held	Total
Fair Value of Equity Investments	391.6	469.2	860.8
Realized gains recorded in P/L	37.1	33.6	70.7
Unrealized loss recorded in equity	(110.9)	7.2	(103.7)
Unrealised loss in Tier 2 Capital	(110.9)	3.2	(107.7)

9. Interest Rate Risk in the Banking Book

Treasury manages short term interest rate gapping by means of monitoring overall interest rate exposure in the next 24 months as measured in Eurodollar futures contract equivalents. Treasury is not allowed to mismatch positions over two years unless appropriate management approval has been obtained. Any funding, placements or borrowing that has a maturity or re-pricing profile of more than two years are either matched or hedged. The rate calculated from short-dated (up to two years) Eurodollar futures contract is effectively the forward interest rate of the underlying, i.e. Eurodollar deposits. Total USD placements and borrowings transacted by Treasury are profiled in time buckets from one week and then monthly thereafter until 24 months. The same procedure is applied to other currencies, the gaps on these currency positions are translated to USD equivalents in order to ascertain the equivalent number of Eurodollar futures contracts for the individual major currencies

A maximum limit of 3,500 Eurodollar contracts is currently set, with the maximum VaR at US$ 3.08 million. The calculation of VaR equivalent is derived from the 30 day average price volatility of 3 month Eurodollar futures. The current yield is adjusted by the average volatility before it is applied on the position value. The resulting number is then scaled up to a 95% level of confidence.

The Eurodollar futures contract position value as at December 31, 2014 was 5,833 contracts, with an estimated VaR of US$ 0.193 million. This is lower than the levels of the previous year (31st December 2013: 8,670 contracts). Excluding the impact of this EMTN issuance, the number of contracts, at 31st December 2014, would be approximately 1,104 contracts.

Consolidated Financial Statements

31 December 2014

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KPMG Safi Al-Mutawa & Partners
Al Hamra Tower, 25th Floor
Abdulaziz Al Saqr Street,
P.O. Box 24, Safat 13001, Kuwait

Tel : + 965 2228 7000
Fax : + 965 2228 7444

Independent Auditor's Report on Consolidated Financial Statements

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

We have audited the accompanying consolidated financial statements of Gulf Investment Corporation G.S.C. ("the Corporation") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, consolidated statements of income, other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
The Corporation's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted for use by the State of Kuwait.

Other Matter
The consolidated financial statements of the Group as at and for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 6 March 2014.

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the financial statements include the information required by the Corporation's Agreement of Incorporation and Articles 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 information given in the Board of Directors' report agrees with the Corporation's books of account. We have not become aware of any contravention, during the year ended 31 December 2014, of law or the Corporation's Agreement of Incorporation and Articles of Association occurred during the financial year that might have had material effect on the Company's activities or on its financial position.

Safi Al-Mutawa
License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International
Kuwait: 5 March 2015

Consolidated Statement of Financial Position

as at 31 December 2014

(All Amounts in US$ millions)

	Note	**2014**	2013
Assets			
Cash and cash equivalents		63	63
Placements with banks	3	250	345
Financial assets at fair value through statement of income	4	449	706
Financial assets available for sale	5	2,391	2,500
Investments in associates	6	1,396	1,703
Investment in associate held for sale	7	164	-
Other assets	8	473	387
Total assets		**5,186**	5,704
Liabilities and equity			
Liabilities			
Deposits from banks and other financial institutions	9	772	1,109
Securities sold under repurchase agreements		-	55
Term finance	10	1,423	1,589
Other liabilities	11	241	373
Total liabilities		**2,436**	3,126
Equity			
Share capital	12	2,100	2,100
Reserves	12	652	643
Accumulated losses		(23)	(184)
Equity attributable to equity holders of the Corporation		2,729	2,559
Non-controlling interests		21	19
Total equity		**2,750**	2,578
Total liabilities and equity		**5,186**	5,704

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Abdul Kader Ahmed Askalan
Chairman

Ibrahim Ali AlQadhi
Chief Executive Officer

Consolidated Statement of Income

for the year ended 31 December 2014

(All Amounts in US$ millions)

	Note	**2014**	2013
Interest income	13	38	38
Net gains from investments	14	226	132
Dividend income	15	28	42
Share of results from associates	6	74	112
Net fees, commission and other income	16	13	35
Total income		**379**	359
Interest expense	17	(58)	(69)
Other operating income	18	15	12
Net operating income		**336**	302
Staff costs		(50)	(50)
Premises costs		(3)	(2)
Other operating expense		(14)	(14)
Impairment losses	19	(66)	(71)
Profit for the year		**203**	165
Attributable to:			
Equity holders of the Corporation		201	163
Non-controlling interests		2	2
		203	165

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2014
(All Amounts in US$ millions)

	Note	**2014**	2013
Profit for the year		203	165
Other comprehensive income (loss) that may be re-classified to consolidated statement of income in subsequent periods:			
Financial assets available for sale:			
- Net unrealised (losses) / gains arising during the year		(18)	136
- Transferred to consolidated statement of income on sale	14	(85)	(79)
- Transferred to consolidated statement of income on impairment	19	9	11
Share of other comprehensive income of associates		63	42
Other comprehensive income (loss) / income for the year		(31)	110
Total comprehensive income for the year		**172**	275
Attributable to:			
Equity holders of the Corporation		**170**	273
Non-controlling interests		**2**	2
		172	275

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014
(All Amounts in US$ millions)

		Reserves								
	Share Capital	Com-pulsory reserve	Voluntary reserve	Investment revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Accumulated Losses	Total	Non-controlling interests	Total equity
Balance as at 1 January 2013	2,100	347	220	281	(325)	(21)	(316)	2,286	17	2,303
Profit for the year	-	-	-	-	-	-	163	163	2	165
Other comprehensive income / (loss) for the year	-	-	-	76	65	(31)	-	110	-	110
Total comprehensive income / (loss) for the year	-	-	-	76	65	(31)	163	273	2	275
Transfer	-	-	-	(1)	-	-	1	-	-	-
Transfer to compulsory and voluntary reserves (note 12)	-	16	16	-	-	-	(32)	-	-	-
Balance as at 31 December 2013	2,100	363	236	356	(260)	(52)	(184)	2,559	19	2,578
Balance as at 1 January 2014	2,100	363	236	356	(260)	(52)	(184)	2,559	19	2,578
Profit for the year	-	-	-	-	-	-	201	201	2	203
Other comprehensive income / (loss) for the year	-	-	-	(98)	92	(25)	-	(31)	-	(31)
Total comprehensive income / (loss) for the year	-	-	-	(98)	92	(25)	201	170	2	172
Transfer to compulsory and voluntary reserves (note 12)	-	20	20	-	-	-	(40)	-	-	-
Balance as at 31 December 2014	2,100	383	256	258	(168)	(77)	(23)	2,729	21	2,750

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2014

(All Amounts in US$ millions)

	Note	**2014**	2013
Cash flows from operating activities:			
Profit for the year		203	165
Non-cash and other adjustments to reconcile profit for the year to net cash flows:			
Impairment losses	19	66	71
Realised gain on financial assets available for sale	14	(85)	(79)
Realised gain on sale of associates	14	(110)	-
Share of results of associates	6	(74)	(112)
Amortisation of net discount / premium on debt securities		5	6
		5	33
Changes in operating assets and liabilities:			
Placements with banks		95	539
Financial assets at fair value through statement of income		257	(85)
Financial assets available for sale		64	410
Deposits from banks and other financial institutions		(337)	17
Movement in other assets and other liabilities		(81)	(49)
Net cash flows from operating activities		**3**	883
Cash flows from investing activities:			
Dividends from associates		29	8
Proceeds from sale of investment in associates		137	-
Repayment of advances to associate		136	-
Additional contribution to associates		(157)	(1)
Net cash flows from investing activities		**145**	7
Cash flows from financing activities:			
Decrease in securities sold under repurchase agreements		(55)	(370)
Term finance repaid		(93)	(529)
Net cash flows used in financing activities		**(148)**	(899)
Net change in cash and cash equivalents		-	(9)
Cash and cash equivalents at 1 January		63	72
Cash and cash equivalents at 31 December		**63**	63

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014
(All Amounts in US$ millions)

1 Incorporation and Activity

Gulf Investment Corporation G.S.C. ("the Corporation") is an investment company incorporated in the State of Kuwait on 15 November 1983 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 various investing and financing activities including investment advisory and asset management services.

The Corporation is domiciled in Kuwait and its registered office is at Jaber Al Mubarak Street, Al Sharq, State of Kuwait.

The consolidated financial statements of the Corporation and its subsidiaries (collectively "the Group") for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Directors on 5 March 2015. The Annual General Assembly of shareholders has the power to amend these consolidated financial statements after issuance. Subsequent to approval of the consolidated financial statements by the Board of Directors, the Annual General Assembly of shareholders held on 5 April 2015 approved cash dividend for the year ended 31 December 2014 (note 12).

The Corporation's Agreement of Incorporation and Articles of Association gives it a special, supranational status. In particular, Article 8 of GIC's Agreement of Incorporation provides that local laws in each GCC state complement the provisions of GIC's Agreement of Incorporation and Articles of Association provided that such laws do not conflict with GIC's Agreement of Incorporation or Articles of Association. To the extent there is such a conflict, GIC's Agreement of Incorporation and Articles of Association prevail over local laws, including the Kuwait Companies Law.

2 Significant Accounting Policies

2.1 Statement of compliances

The consolidated financial statements of the Group have been prepared in accordance with with International Financial Reporting Standards ("IFRS"), as adopted for use by the State of Kuwait for financial services institutions regulated by the by the Central Bank of Kuwait ('CBK'). These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective provision, which has been replaced by the CBK's requirement for a minimum general provision as described below.

In accordance with the CBK instructions dated 12 March 2007, a minimum general provision of 1% for all cash facilities and 0.5% for non – cash facilities is made on all loans and advances (net of certain restricted categories of collateral) that are not provided for specifically.

In addition, the consolidated financial statements have been prepared in accordance with the Ministerial Order No.18 of 1990 and the Corporation's Agreement of Incorporation and Articles of Association.

2.2 Basis of preparation

The consolidated financial statements are prepared on a historical cost basis as modified for the revaluation of the fair value of financial assets at fair value through statement of income, financial assets available for sale, derivative financial instruments and financial assets / liabilities carried at amortised cost which are part of effective fair value hedging relationships to the extent of risk being hedged.

The consolidated financial statements are presented in United States Dollars, rounded to the nearest million.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014
(All Amounts in US$ millions)

2 Significant Accounting Policies (continued)

2.2 Basis of preparation (continued)

Changes in accounting policy and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the following new and amended IFRS effective as of 1 January 2014.

IAS 32 Offsetting Financial Assets and Financial Liabilities
This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms.

IAS 36 Impairment of Assets
This amendment removes the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, this amendment requires disclosures of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. This amendment is effective retrospectively and accordingly is considered while making disclosures for impairment of non-financial assets in the consolidated financial statements for the year ended 31 December 2014 and would continue to be considered for future disclosures.

IFRIC 21 Levies
IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy, and when should a liability be recognised.

The implementation of new and amended IFRS did not have a significant impact on the Group's consolidated financial statements.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries including special purpose entities. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and;
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014
(All Amounts in US$ millions)

2 Significant Accounting Policies (continued)

2.3 Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Corporation and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in consolidated statement of income
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

2.4 Business combination and goodwill

Business combinations are accounted for using the acquisition accounting method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

(All Amounts in US$ millions)

2 Significant Accounting Policies (continued)

2.4 Business combination and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operations within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generation unit retained.

2.5 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with banks and financial institutions, balances with Central Banks and placements with banks and other financial institutions maturing within seven days.

2.6 Placements with banks

Placements with banks are stated at amortised cost using the effective interest method less any amounts written off and provision for impairment.

2.7 Financial assets

i. Recognition

Regular-way purchases and sales of financial assets are recognised on trade date, the date on which the Group commits to purchase and sell the assets. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets are recognised initially at fair value plus, in the case of financial assets other than fair value through statement of income, directly attributable transaction costs.

The Group's financial assets include quoted and unquoted financial instruments, other assets and derivative financial instruments.

ii. Classification and measurement

The classification of financial assets is determined by the Group at initial recognition depending upon the purpose for which the financial assets were acquired and their characteristics.

Financial assets at fair value through statement of income includes financial assets held for trading and financial assets designated upon initial recognition at fair value through statement of income.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term or principally held for the purpose of short-term profit taking. Derivatives are classified as held for trading unless they are designated as effective hedging instruments.

The Group designates an investment as at fair value through statement of income in the following cases:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- When the assets and liabilities are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014
(All Amounts in US$ millions)

2 Significant Accounting Policies (continued)

2.7 Financial assets (continued)

ii. Classification and measurement (continued)

After initial recognition financial assets at fair value through statement of income are remeasured at fair value with all changes in fair value recognised in the consolidated statement of income.

Financial assets held to maturity are financial assets with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold to maturity. Held to maturity investments are measured at amortised cost, less provision for impairment in value, if any. The losses arising from impairment of such investments are recognised in the consolidated statement of income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments other than those financial assets acquired with the intention of short-term profit taking or financial assets quoted in an active market. Loans and receivables are stated at amortised cost using the effective interest method less any amounts written off and provision for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Financial assets available for sale are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories.

After initial measurement, financial assets available for sale are subsequently measured at fair value with gains or losses being recognised in other comprehensive income in the investment revaluation reserve until the investment is derecognised or the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

The Group evaluates whether its ability and intention to sell its financial assets available for sale in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and/or the management's intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances.

Derivatives include interest rate swaps, futures, cross currency swaps, forward exchange contracts and options on interest rates and foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liability when their fair value is negative. Changes in fair value of derivatives held for trading are recognized in the consolidated statement of income.

iii. Impairment

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments; the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

(All Amounts in US$ millions)

2 Significant Accounting Policies (continued)

2.7 Financial assets (continued)

iii. Impairment (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

Financial assets available for sale

For financial assets available for sale, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income) is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Any increase in fair value after impairment is recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Subsequent increase in fair value of a debt instrument which is objectively related to an event occurring after the impairment loss was recognised, is credited to the consolidated statement of income.

In addition, in accordance with Central Bank of Kuwait instructions, the Group recognises a minimum general provision on all applicable credit facilities (net of certain categories of collateral) that are not subject to specific provision. No other general provisions are made.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014
(All Amounts in US$ millions)

2 Significant Accounting Policies (continued)

2.7 Financial assets (continued)

iv. Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.8 Financial liabilities

i. Recognition

Financial liabilities are classified as financial liabilities at fair value through statement of income or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and, in the case of term finance, including directly attributable transaction costs.

The Group's financial liabilities include short and long term borrowings and accounts payable and accruals.

ii. Classification and measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial measurement, all non-trading financial liabilities, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Deposits from banks and financial institutions

Deposits from banks and financial institutions are stated at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

(All Amounts in US$ millions)

2 Significant Accounting Policies (continued)

2.8 Financial liabilities (continued)

ii. Classification and measurement (continued)

Term finance

Term finance is initially recognised at fair value of consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Financial guarantees

The Group gives financial guarantees on behalf of its subsidiaries and associates. These guarantees are initially recognised in the consolidated financial statements at fair value on the date the guarantee is given, being the premium received. Subsequently, the Group recognises its liability under each guarantee at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability is recognised in the consolidated statement of income. The Group recognises the premium received in the consolidated statement of income on a straight line basis over the life of the guarantee.

iii. Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

2.9 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.10 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

For investments and derivatives traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the reporting date. The fair value of mutual fund investments, unit trusts, or similar investment vehicles is based on the last reported net asset values from the fund managers.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by using valuation techniques such as recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, an earnings multiple, or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014
(All Amounts in US$ millions)

2 Significant Accounting Policies (continued)

2.10 Fair value of financial instruments (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Investments with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value.

The fair value of interest bearing financial instruments is estimated based on discounted cash flows using interest rates for items with similar terms and risks characteristics.

An analysis of fair value of financial instruments and further details as to how they are measured are set out in note 25.

2.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

Impairment losses of continuing operations are recognised in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the assets or CGUs recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the assets does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

2.12 Repurchase and resale arrangements

The Group enters into purchases / sales of securities under agreements to resell / repurchase substantially identical securities at a specified date in the future at a fixed price.

Investments sold under repurchase agreements continue to be recognised in the consolidated statement of financial position and are measured in accordance with the relevant accounting policy for that investment. The proceeds from the sale of the investments are reported as part of liabilities as securities sold under repurchase agreements. The difference between the sales price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest method.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

(All Amounts in US$ millions)

2 Significant Accounting Policies (continued)

2.13 Investment in associates

An associate is an entity over which the Group exerts significant influence, usually evidenced by a holding of 20% to 50% of the voting power of the investee company. The Group's investment in associates is accounted for using the equity method of accounting. Where an associate is acquired and held exclusively for resale, it is accounted for as a non-current asset held for sale under IFRS 5.

Under the equity method, investment in associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The Group recognises in the consolidated statement of income its share of the results of the associate from the date that influence effectively commenced until the date that it effectively ceases. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of comprehensive income.

Distributions received from an associate reduce the carrying amount of the investment.

Unrealised gains on transactions with an associate are eliminated to the extent of the Group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The reporting dates of the associates and the Group are identical and in case of different reporting date of an associate, which are not more than three months, from that of the Group, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

Associates of the Group are listed in note 28.

2.14 Other provisions

Other provisions are recognised in the consolidated statement of financial position when the Group has a present obligation (legal or constructive) as a result of a past event, from which it is both probable and measurable that an outflow of economic benefits will be required to settle the obligation.

2.15 Property, plant and equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation and impairment losses. An impairment loss is recognised in the consolidated statement of income whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of assets is the greater of their fair value less estimated cost to sell and value in use. Depreciation is computed on a straight-line basis over the estimated useful life of each asset category.

2.16 Hedge accounting

The Group enters into derivative instrument transactions to manage exposure to interest rate and foreign currency. All derivative financial instruments of the Group are recorded in the consolidated statement of financial position at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014
(All Amounts in US$ millions)

2 Significant Accounting Policies (continued)

2.16 Hedge accounting (continued)

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

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.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument is recognised immediately in the consolidated statement of income. The hedged items are also adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the consolidated statement of income.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and any ineffective portion is recognised in the consolidated statement of income. The gains or losses on cash flow hedges recognised initially in equity are transferred to the consolidated statement of income in the period in which the hedged transaction impacts the consolidated statement of income. Where the hedged transaction results in the recognition of an asset or liability, the associated gains or losses that had initially been recognised in equity are included in the initial measurement of the cost of the related asset or liability.

For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of the hedging instrument are taken directly to the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or is revoked by the Group. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs. In the case of fair value hedges of interest bearing financial instruments, any adjustment relating to the hedge is amortised over the remaining term to maturity. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

2.17 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and expense

Interest income and expense are recognised in the consolidated statement of income for all interest bearing financial assets and liabilities using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability or a shorter period, where appropriate to the net carrying amount of the financial asset or liability.

Fees which are considered an integral part of the effective yield of a financial asset are recognised using the effective yield method.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014
(All Amounts in US$ millions)

2 Significant Accounting Policies (continued)

2.17 Recognition of income and expenses (continued)

Fees and commission income
Fees earned for providing of services over a period of time are accrued over that period. Fee income for providing transaction services are recognised on completion of the underlying transaction. Performance fees are recognised when earned, being the time the risk of realisation of such fees no longer exists.

Investment income
Investment income represents results arising from investment trading activities, including all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading.

Dividend income
Dividend income is recognised when the right to receive payment is established.

Sale of goods
Revenue from sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the customer.

2.18 End of service benefits

Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. This liability, represents the amount payable to each employee as a result of involuntary termination on the reporting date. The obligations are paid into a plan which is administrated by an independent trustee.

2.19 Foreign currency

The consolidated financial statements are presented in US Dollars which is also the Corporation's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated to US Dollars at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at market rates of exchange prevailing on the reporting date. Realised and unrealised foreign exchange gains and losses are included in the consolidated statement of income.

Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Translation gains or losses on non monetary items are included in equity as part of the fair value adjustment on financial assets available for sale, unless they form part of an effective hedging strategy.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items at fair value through statement of income are recognised in the consolidated statement of income within the fair value net gain or loss. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate of exchange at the reporting date.

As at the reporting date, the assets and liabilities of foreign subsidiaries, and the carrying amount of foreign associates, are translated into the Corporation's presentation currency at the rate of exchange ruling at the reporting date, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to foreign exchange translation adjustments within equity. On disposal of a foreign entity, the cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated statement of income.

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2 Significant Accounting Policies (continued)

2.20 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

2.21 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Corporation's financial statements are listed below. The Corporation intends to adopt those standards when they become effective.

IFRS 9: Financial Instruments

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Corporation's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Corporation is in the process of quantifying the impact of this standard on the Corporation's financial statements, when adopted.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 was issued by IASB on 28 May 2014 is effective for periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Corporation is in the process of evaluating the effect of IFRS 15 on the Corporation and don not expect any significant impact on adoption of this standard.

2.22 Significant accounting judgements and estimates

The preparation of the Group's consolidated financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the amount of the asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Classification of investments

Management decides on acquisition of a security whether it should be classified as held to maturity, held for trading, designated at fair value through statement of income, or available for sale.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and in particular, the Group's intention and ability to hold these to maturity.

The Group classifies securities as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

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for the year ended 31 December 2014

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2 Significant Accounting Policies (continued)

2.22 Significant accounting judgements and estimates (continued)

Classification of investments (contuned)

Classification of investments designated at fair value through statement of income depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through statement of income.

All other investments are classified as available for sale.

Impairment of equity investments

The Group treats investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for projects and unquoted equities.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on investment in debt instruments

The Group reviews its investment in debt instruments at each reporting date to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of securities where this estimation cannot be reliably determined and these are carried at cost as disclosed in note 5. The Group updates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

Notes to the Consolidated Financial Statements

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(All Amounts in US$ millions)

3 Placements with banks

	2014	**2013**
Local banks	4	71
Overseas banks	246	274
	250	**345**

Placements with banks carry an effective interest rate of 0.193% per annum (2013: 0.485% per annum).

4 Financial assets at fair value through statement of income

	2014	2013
Quoted debt instruments	23	53
Unquoted managed funds	121	311
Unquoted equity funds	2	2
Alternative equity funds	303	340
	449	706

Notes to the Consolidated Financial Statements

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5 Financial assets available for sale

	2014	2013
Debt instruments		
International bonds	517	569
GCC and Islamic bonds	998	857
Emerging market bonds	66	-
Structured debt instruments	83	114
	1,664	1,540
Equities and managed funds		
Quoted equity investments and funds	61	138
Unquoted managed fund investments	-	26
	61	164
Equity participations		
Quoted equity investments	331	418
Unquoted equity investments	129	157
	460	575
Private equity funds		
Managed funds portfolio	188	191
Real estate funds portfolio	13	25
GCC diversified funds portfolio	5	5
	206	221
Total	**2,391**	2,500

Unquoted equity investments are carried at cost due to the unpredictable nature of future cash flows and the unavailability of financial information to arrive at a reliable measure of fair value.

Investments in private equity funds are carried at net asset values as reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

Management has performed an analysis of financial assets available for sale and have concluded that the impairment losses of US$ 31 million (2013: US$ 31 million) recognized in the consolidated statement of income are adequate (note 19).

Notes to the Consolidated Financial Statements

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6 Investments in associates

The carrying amount of investments in associates includes goodwill before provisions for impairment amounting to US$ 92 million (2013: US$ 93 million).

The Group's investments in associates that are listed on a stock exchange have a carrying value of US$ 20 million (2013: US$ 25 million) and a market value of US$ 50 million (2013: US$ 105 million).

The following table illustrates the summarised financial information of the Group's investments in associates:

	2014	2013
Share of assets	4,548	5,520
Share of liabilities	(3,160)	(3,880)
Share of net assets	1,388	1,640
Goodwill	92	93
Impairment losses	(84)	(30)
Carrying amount of investment	**1,396**	1,703
Share of revenue	1,822	1,938
Share of results for the year	74	112

List of associates is disclosed in note 28.

Summarised financial information of material associates of the Group is as follows:

2014	Foulath Holding B.S.C (C)	The National Titanium Dioxide Co., Ltd. (Cristal)	Jeddah Cable Company Ltd. and Energya Group	Wataniya Telecom Algerie S.P.A.	Gulf Re Holdings Limited
Assets	2,318	4,620	544	1,932	396
Liabilities	(1,109)	(2,625)	(346)	(1,305)	(216)
Non-controlling interests	(369)	(250)	-	-	-
Net assets	840	1,745	198	627	180
Revenue	1,122	2,059	525	1,270	41
Results for the year	46	27	(2)	62	(28)
Other comprehensive income for the year	6	(98)	-	(81)	1

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

(All Amounts in US$ millions)

6 Investments in associates (continued)

2013	Foulath Holding B.S.C (C)	The National Titanium Dioxide Co., Ltd. (Cristal)	Jeddah Cable Company Ltd. And Energya Group	Wataniya Telecom Algerie S.P.A.	Gulf Re Holdings Limited
Assets	2,526	4,371	605	1,920	312
Liabilities	(1,375)	(2,524)	(405)	(1,274)	(105)
Non-controlling interests	(363)	(31)	-	-	-
Net assets	788	1,816	200	646	207
Revenue	772	2,142	661	1,067	45
Results for the year	8	77	(1)	201	(6)
Other comprehensive income for the year	13	(90)	-	9	(3)

The movement during the year is as follows:

2014	**Foulath Holding B.S.C (C)**	**The National Titanium Dioxide Co., Ltd. (Cristal)**	**Jeddah Cable Company Ltd. and Energya Group**	**Wataniya Telecom Algerie S.P.A.**	**Gulf Re Holdings Limited**
Opening balance	788	1,816	200	646	207
Results	46	27	(2)	62	(28)
Other comprehensive income	6	(98)	-	(81)	1
Closing balance	840	1,745	198	627	180

2013	Foulath Holding B.S.C (C)	The National Titanium Dioxide Co., Ltd. (Cristal)	Jeddah Cable Company Ltd. and Energya Group	Wataniya Telecom Algerie S.P.A.	Gulf Re Holdings Limited
Opening balance	767	1,829	201	436	216
Results	8	77	(1)	201	(6)
Other comprehensive income	13	(90)	-	9	(3)
Closing balance	788	1,816	200	646	207

Notes to the Consolidated Financial Statements

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6 Investments in associates (continued)

Summarised financial information of individually immaterial associates of the Group before any eliminations is as follows:

	2014	2013
Assets	7,249	8,924
Liabilities	(5,872)	(7,557)
Net assets	**1,377**	1,367
Revenue	1,774	1,764
Results for the year	174	169
Other comprehensive income for the year	343	309

7 Investment in associate held for sale

On 4 December 2014, the Corporation entered into a sale purchase agreement with National Industrialization Company (TASNEE) for sale of a 13% holding in National Titanium Dioxide Co. Ltd (Cristal). Pursuant to the agreement, the sale is effected in steps, i.e; 5% disposed off on 4 December 2014 and the remaining 8% to be disposed off in the first quarter of 2015.

Gain amounting to US$ 81 million is recognized on the 5% sale in the consolidated statement of income for the year ended 31 December 2014. The carrying value of the remaining 8% amounting to US$ 164 million is classified as 'investment in associate held for sale'.

Subsequent to the reporting date, the Corporation received the proceeds in full relating to the 5% sale and US$ 96.4 million towards the first instalment of the sale of the 8%.

8 Other assets

	2014	2013
Accrued interest, fees, commissions and dividends	43	42
Positive fair value of derivative instruments	3	1
Prepayments	14	4
Property, plant and equipment	116	112
Receivable on partial sale of an associate (note 7)	85	-
Others, including trade receivable of subsidiaries	212	228
	473	387

Notes to the Consolidated Financial Statements

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9 Deposits from banks and other financial institutions

	2014	2013
Deposits from Central Banks	110	80
Deposits from commercial banks	58	30
Deposits from other financial institutions	493	671
Other deposits	111	328
	772	1,109

At 31 December 2014, deposits from governments of GCC states, Central Banks and other institutions headquartered in the GCC states amounted to US$ 754 million (2013: US$ 1,109 million).

Deposits from banks and other financial institutions carry an effective interest rate of 0.53% per annum (2013: 0.58% per annum).

10 Term finance

	Interest rate %	**2014**	2013
US Dollar Floating Rate Bonds due in 2014	6 months $ LIBOR + 250 bps	-	100
AED Bank Loans (Subsidiary loans)	Floating rate ranging from 3% to 7%	26	19
Medium Term Note Issues (EMTN) :			
CHF medium term fixed rate note due in 2015	2.75 % per annum (annual)	303	337
MYR medium term fixed rate note due in 2016	5.25 % per annum (semi annual)	171	183
MYR medium term fixed rate note due in 2016	4.90 % per annum (semi annual)	215	229
USD medium term fixed rate note due in 2017	3.25 % per annum (semi annual)	500	500
MYR medium term fixed rate note due in 2022	5.10 % per annum (semi annual)	49	52
MYR medium term fixed rate note due in 2023	4.52 % per annum (semi annual)	115	122
MYR medium term fixed rate note due in 2027	5.30 % per annum (semi annual)	44	47
		1,423	1,589

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11 Other liabilities

	2014	2013
Accrued interest	21	27
Negative fair value of derivative instruments	93	64
Margin money for derivative products	1	12
Others, including trade payable of subsidiaries and accrued expenses	126	270
	241	373

12 Equity

12.1 The authorised, issued and fully paid capital comprises of 2.1 million shares of US$ 1,000 each (2013: 2.1 million shares of US$ 1,000 each).

12.2 In accordance with the Corporation's Articles of Association, 10% of the profit for the year attributable to the equity holders of the Corporation is required to be transferred to a non-distributable compulsory reserve until the reserve reaches a minimum of 50% of share capital.

12.3 In accordance with the Corporation's Articles of Association, 10% of the profit attributable to the equity holders of the Corporation for the year is required to be transferred to the voluntary reserve. The transfer to this reserve may be discontinued by a resolution adopted in the general assembly meeting of the shareholders. This reserve is available for distribution to shareholders.

12.4 The Annual General Assembly of shareholders held on 5 April 2015 approved cash dividend of US$ 50 per share, amounting to US$ 105 million for the year ended 31 December 2014 (2013: US$ nil).

13 Interest income

	2014	2013
Placements with banks	1	3
Financial assets available for sale	36	34
Financial assets at fair value through statement of income	1	1
	38	38

Notes to the Consolidated Financial Statements

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14 Net gains from investments

	2014	2013
Realised gain on financial assets available for sale	85	79
Realized gain from financial assets at fair value through statement of income	11	3
Unrealized gain from financial assets at fair value through statement of income	20	50
Realised gain on sale of associates (note 7)	110	-
	226	132

15 Dividend income

	2014	2013
Managed funds portfolio	1	5
Quoted equity investments and funds	3	4
Equities and managed funds at fair value through statement of income	-	1
Equity participations available for sale	24	32
	28	42

16 Net fee, commission and other income

	2014	2013
Management, advisory and development fees	12	13
Other income	1	22
	13	35

17 Interest expense

	2014	2013
Deposits from banks and other financial institutions	(5)	(5)
Securities sold under repurchase agreements	-	(1)
Term finance	(53)	(63)
	(58)	(69)

Notes to the Consolidated Financial Statements

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18 Other operating income

Other operating income represents net income from subsidiaries engaged in manufacturing and service activities.

	2014	**2013**
Sales	171	193
Cost of sales	(126)	(155)
Gross profit	45	38
Other income of subsidiaries	1	1
Selling and distribution expenses	(6)	(3)
Administrative expenses	(25)	(24)
	15	12

19 Impairment losses

	2014	2013
Financial assets available for sale:		
Equity participations	(22)	(20)
Private equity funds	(9)	(11)
Investment in associates	(61)	(16)
Other assets	26	(24)
	(66)	(71)

Associates
Impairment loss is booked due to adverse operational factors having affecting the associate. The management computed the net recoverable amount of the associate based on appropriate assumptions and cash flow projections.

During the year, management determined that there is objective evidence of impairment in the carrying value of certain associates. Management computed the recoverable amount of these investments and determined that it is lower than their carrying value by US$ 61 million which has been recognized as impairment losses in the consolidated statement of income.

In determining the recoverable amounts, management has used the industry specific valuation metrics and methods, including discounted cash flow, having considered the risk factors, market conditions and prospects.

Other assets

During the year, the Group has reversed an amount of USD 25 million relating to a provision taken in the previous year.

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20 Retirement and other terminal benefits

The Group 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 Group. 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 at the end of service benefits are determined by reference to the amounts of the contributions and investment earnings thereon. The Group also pays contributions to Government defined contribution pension plan for certain employees in accordance with the legal requirements in Kuwait as well as contribution in line with the labour law in the countries where its subsidiaries operate.

The total cost of retirement and other end of service benefits included in staff expenses for the year ended 31 December 2014 amounted to US$ 8 million (2013: US$ 8 million).

21 Risk management

This note represents information on the Group's exposure to risks arising from the use of financial instruments. Risk is an inherent part of the Group's business activities. It is managed through a process of ongoing identification, assessment, measurement and monitoring of the business activities, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group is exposed to liquidity risk, market risk and credit risk. Market risk is subdivided into interest rate risk, foreign currency risk and equity price risk.

Risk management begins with the Risk Management Committee which is composed of members from the Corporation's Board of Directors and senior management, which defines and recommends the Group's risk appetite to the Board of Directors.

The Board of Directors is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

21.1 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The liquidity profile of financial liabilities reflects the projected cash flows, based on contractual repayment obligations which include future interest payments over the life of these financial liabilities. The liquidity profile of undiscounted financial liabilities at 31 December was as follows:

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21 Risk management (continued)

21.1 Liquidity risk (continued)

31 December 2014	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Deposits from banks and other financial institutions	548	225	-	-	773
Term finance	17	356	976	247	1,596
Gross settled derivative instruments:					
- Contractual amount payable	713	302	448	226	1,689
- Contractual amount receivable	(711)	(303)	(386)	(208)	(1,608)
Other liabilities	52	53	100	36	241
Total undiscounted financial liabilities	**619**	**633**	**1,138**	**301**	**2,691**
Commitments	-	23	85	-	108
Contingent liabilities	-	37	73	128	238

31 December 2013	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Deposits from banks and other financial institutions	915	196	-	-	1,111
Securities sold under repurchase agreements	55	-	-	-	55
Term finance	124	46	1,384	274	1,828
Gross settled derivative instruments:					
- Contractual amount payable	407	-	749	221	1,377
- Contractual amount receivable	(408)	-	(790)	(226)	(1,424)
Other liabilities	75	110	176	12	373
Total undiscounted financial liabilities	1,168	352	1,519	281	3,320
Commitments	111	4	-	-	115
Contingent liabilities	-	74	48	-	122

The asset and liability maturity profile shown in the table below is based on management's assessment of the Group's right and ability (and not necessarily the intent) to liquidate these instruments based on their underlying liquidity characteristics.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

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21 Risk management (continued)

21.1 Liquidity risk (continued)

	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
At 31 December 2014					
Assets					
Cash and cash equivalents	63	-	-	-	63
Placements with banks	250	-	-	-	250
Financial assets at fair value through statement of income	52	397	-	-	449
Financial assets available for sale	1,972	86	32	301	2,391
Investment in associates	-	-	279	1,117	1,396
Investment in associates held for sale	164	-	-	-	164
Other assets	159	70	161	83	473
Total assets	**2,660**	**553**	**472**	**1,501**	**5,186**
Deposits from banks and other financial institutions	548	224	-	-	772
Term finance	11	308	897	207	1,423
Other liabilities	52	53	100	36	241
Total liabilities	**611**	**585**	**997**	**243**	**2,436**
Net gap	**2,049**	**(32)**	**(525)**	**1,258**	

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014
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21 Risk management (continued)

21.1 Liquidity risk (continued)

	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
At 31 December 2013					
Assets					
Cash and cash equivalents	63	-	-	-	63
Placements with banks	345	-	-	-	345
Financial assets at fair value through statement of income	276	430	-	-	706
Financial asset available for sale	1,983	145	45	327	2,500
Investment in associates	-	-	-	1,703	1,703
Other assets	65	37	85	200	387
Total assets	2,732	612	130	2,230	5,704
Liabilities					
Deposits from banks and other financial institutions	914	195	-	-	1,109
Securities sold under repurchase agreements	55	-	-	-	55
Term finance	109	3	1,256	221	1,589
Other liabilities	75	110	176	12	373
Total liabilities	1,153	308	1,432	233	3,126
Net gap	1,579	304	(1,302)	1,997	

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21 Risk management (continued)

21.2 Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The nature of these risks is as follows:

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities.

Foreign exchange risk
Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Equity price risk
Equity price risk arises from the change in fair values of equity investments.

Market risk pertaining to investments in Debt Capital Market, Equity and Alternative Investments, and the Treasury divisions are measured, monitored and managed both on a notional basis, and using a Market Value at Risk (Market VaR) concept. The table below shows Total Value at Risk (Total VaR) by risk factor. These VaR measures are based on a 95% confidence level, 25 day holding period and use historical market data.

2014	***Average***	***Minimum***	***Maximum***	***31 December 2014***
Interest rate	9	4	14	14
Equity price	9	6	13	6
Foreign exchange	-	-	1	-
Total*	**12**	**8**	**15**	**15**

2013	*Average*	*Minimum*	*Maximum*	*31 December 2013*
Interest rate	4	2	6	4
Equity price	11	10	12	11
Foreign exchange	-	-	1	-
Total*	11	10	13	12

* Total VaR incorporates benefits of diversification.

The Principal Investment division monitors its quoted equity participation investments using a sensitivity analysis as indicated below. The effect on equity as a result of a change in the fair value of the quoted equity participation investments due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

Market indices	*Change in equity price*	***Effect on equity***	
		2014	2013
Saudi Stock Exchange	+/-10	**38**	46
Other GCC indices	+/-10	**2**	2

Sensitivity of equity price movement will be on a symmetric basis, as financial instruments giving rise to non-symmetric movement are not significant.

Please refer note 24 for distribution of assets and liabilities between the divisions.

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21 Risk management (continued)

21.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Corporation's Board of Directors has set limits for individual borrowers, and groups of borrowers and for geographical and industry segments. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Group obtains security where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

As at 31 December 2014 (2013: nil), the Group has not obtained any collateral on any of the financial assets.

21.3.1 Maximum exposure to credit risk

The maximum credit exposure of the Group is as follows:

	Maximum exposure	
	2014	2013
Cash and cash equivalents	63	63
Placements with banks	250	345
Debt securities at fair value through statement of income	23	210
Debt securities available for sale	1,664	1,540
Other assets	298	200
Credit exposure on assets	**2,298**	2,358
Credit commitments	238	122
Total credit exposure	**2,536**	2,480

Credit risk in respect of derivative financial instruments is limited to those with positive fair values, which are included under other assets.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The maximum credit exposure to a single counterparty (rated as investment grade) is US$ 65 million (2013: US$ 81 million).

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21 Risk management (continued)

21.3.1 Maximum exposure to credit risk (continued)

The Group's concentration of credit risk exposure by geographic region is as follows:

At 31 December 2014	GCC	Europe	America	Asia/ Africa	Total
Cash and cash equivalents	60	1	2	-	63
Placements with banks	220	30	-	-	250
Debt securities at fair value through statement of income	-	5	9	9	23
Debt securities available for sale	999	311	159	195	1,664
Other assets	186	48	12	52	298
Credit exposure on assets	**1,465**	**395**	**182**	**256**	**2,298**
Credit commitments	227	-	-	11	238
Total credit exposure	**1,692**	**395**	**182**	**267**	**2,536**

At 31 December 2013	GCC	Europe	America	Asia/ Africa	Total
Cash and cash equivalents	59	3	1	-	63
Placements with banks	310	20	-	15	345
Debt securities at fair value through statement of income	164	29	11	6	210
Debt securities available for sale	857	268	278	137	1,540
Other assets	93	54	3	50	200
Credit exposure on assets	1,483	374	293	208	2,358
Credit commitments	115	-	-	7	122
Total credit exposure	1,598	374	293	215	2,480

Notes to the Consolidated Financial Statements

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21 Risk management (continued)

21.3.1 Maximum exposure to credit risk (continued)

The Group's concentration of credit risk exposure by industry sector is as follows:

At 31 December 2014	Banks & FIs.	Trading & Mftg.	Utilities	Govt. agencies	Other	Total
Cash and cash equivalents	63		-	-	-	63
Placements with banks	250		-	-	-	250
Debt securities at fair value through statement of income	2	-	3	13	5	23
Debt securities available for sale	834	53	494	204	79	1,664
Other assets	112	109	28	36	13	298
Credit exposure on assets	**1,261**	**162**	**525**	**253**	**97**	**2,298**
Credit commitments	-	59	106	73	-	238
Total credit exposure	**1,261**	**221**	**631**	**326**	**97**	**2,536**

At 31 December 2013	Banks & FIs.	Trading & Mftg.	Utilities	Govt. agencies	Other	Total
Cash and cash equivalents	63	-	-	-	-	63
Placements with banks	345	-	-	-	-	345
Debt securities at fair value through statement of income	123	6	36	37	8	210
Debt securities available for sale	921	67	415	133	4	1,540
Other assets	109	40	13	37	1	200
Credit exposure on assets	1,561	113	464	207	13	2,358
Credit commitments	-	1	74	47	-	122
Total credit exposure	1,561	114	538	254	13	2,480

Notes to the Consolidated Financial Statements

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21 Risk management (continued)

21.3.2 Credit quality of financial assets

In managing its portfolio, the Group utilises external ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as 'Investment grade' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include exposure to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. All investment grade securities are rated by well-known rating agencies. Credit exposures classified as 'Unrated' quality comprise all other exposures whose payment performance is fully compliant with contractual conditions and which are not 'impaired', but are not assigned any published ratings. The 'Unrated' quality includes investment in high quality GCC debt securities and unrated debt funds where the underlying is mostly investment grade.

The table below shows the credit quality by class of assets:

	Neither past due nor impaired		Total
At 31 December 2014	Investment grade	Unrated	
Cash and cash equivalents	63	-	63
Placements with banks	250	-	250
Debt securities at fair value through statement of income	23	-	23
Debt securities available for sale	1,664	-	1,664
Other assets	123	175	298
Credit exposure on assets	**2,123**	**175**	**2,298**
Credit commitments	238	-	238
Total credit exposure	**2,361**	**175**	**2,536**

	Neither past due nor impaired		Total
At 31 December 2013	Investment grade	Unrated	
Cash and cash equivalents	63	-	63
Placements with banks	345	-	345
Debt securities at fair value through statement of income	205	5	210
Debt securities available for sale	1,494	46	1,540
Other assets	145	55	200
Credit exposure on assets	2,252	106	2,358
Credit commitments	122	-	122
Total credit exposure	2,374	106	2,480

Notes to the Consolidated Financial Statements

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22 Commitments and contingent liabilities

In the usual course of meeting the requirements of the operations of Group companies, the Group has commitments to extend credit and provide financial guarantees and letters of credit to guarantee the performance of Group companies 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.

	Notional principal amount	
	2014	**2013**
Credit Risk Amounts		
Transaction-related contingent items:		
- Letter of guarantees	**238**	122

The above commitments and contingent liabilities have off balance-sheet credit risk because only origination fees and accruals for probable losses are recognised in the consolidated financial statements 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.

The Group had the following non-credit commitments as at the reporting date:

	2014	2013
Undrawn commitments for investments in private equity funds	101	109
Other commitments	7	6
	108	115

23 Derivatives

Derivatives instruments are utilised by the Group as part of its asset and liability management 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 Group's measure of credit exposure is the cost of replacing contracts at current market rates should the counterparty default prior to the settlement date. Credit risk amounts represent the gross unrealised gains on transactions before taking account of any collateral held or any master netting agreement in place.

Hedge accounting

Interest rate swaps under which the Group pays a fixed rate and receives a floating rate are used in fair value hedges of fixed income financial assets available for sale. The Group also uses interest rate futures to hedge the fair value interest rate risk.

As at the reporting date, the notional amount of interest rate swaps and interest rate futures used to hedge interest rate risk amounted to US$ 166 million (2013: US$ 413 million) and its net fair value was a swap loss of US$ 9 million (2013: US$ 17 million).

For the year ended 31 December 2014, the Group recognised unrealised gain of US$ 7 million (2013: US$ 18 million) and realised loss of US$ 6 million (2013: nil) on hedging instruments. The corresponding unrealised loss and realised gain on the hedged fixed income securities amounted to US$ 2 million (2013: US$ 18 million) and US$ 1 million (2013: nil) respectively.

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23 Derivatives (continued)

The table below summarises the aggregate notional amounts and net fair value of derivative financial instruments.

	2014			2013		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount
Derivatives held for hedging						
- Interest rate swaps	-	(9)	156	-	(17)	377
- Interest rate futures	-	-	10	1	-	36
- Cross currency swaps	2	(80)	975	-	(46)	1,015
Derivatives held for trading						
- Put options	-	-	2	-	-	-
- Forward foreign exchange contracts	1	(4)	1,689	-	(1)	1,424
	3	**(93)**	**2,832**	1	(64)	2,852

Maturity analysis

	Within 1 year	Year 1 to 5	Above 5 years	Total
At 31 December 2014				
Notional amounts				
Interest rate swaps	51	79	26	156
Interest rate futures	10	-	-	10
Cross currency swaps	302	447	226	975
Credit default swaps	2	-	-	2
Forward foreign exchange contracts	1,016	447	226	1,689
	1,381	**973**	**478**	**2,832**

	Within 1 year	Year 1 to 5	Above 5 years	Total
At 31 December 2013				
Notional amounts				
Interest rate swaps	210	128	39	377
Interest rate futures	36	-	-	36
Cross currency swaps	-	789	226	1,015
Forward foreign exchange contracts	409	789	226	1,424
	655	1,706	491	2,852

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24 Segmental information

The Group organises and manages its operations by business divisions, primarily divided into Principal Investments, Debt Capital Markets, Equity and Alternative Investments, Treasury, and Corporate and other. Management treats the operations of these business divisions separately for the purposes of decision making, resource allocation and performance assessment. Business division performance is evaluated based on segmental return on investments.

The Principal Investment division is responsible for actively investing in projects and equity participations.

Debt Capital Market division provides a stable coupon/spread income and a reserve of additional liquidity. The investments consist of high quality marketable debt securities diversified across a wide range of geographic and industry sectors.

Equities and Alternative Investments division manages a diversified set of portfolios in an array of different asset classes and investment themes that comprise investments ranging from equities to structured finance, private equity, market neutral funds, hedge funds and other alternative assets.

The Treasury division manages the Group's liquidity, short-term interest rate and foreign exchange activities using a variety of on and off-balance sheet treasury applications. The division trades on its own account and for clients in spot and forward foreign exchange and options, cash money markets, floating rate notes, interest rate swaps and other derivatives.

The 'corporate and other' division comprises items which are not directly attributable to specific business divisions and income arising on the recharge of the Group's net free capital to business units. Other operations of the Group includes asset management, operations, risk management and financial control. Transactions between business segments are conducted at estimated market rates on an arm's length basis. Interest is charged/ credited to business segments based on rates which approximate the marginal cost of funds.

Notes to the Consolidated Financial Statements

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24 Segmental information (continued)

31 December 2014	*Principal Investments*	*Debt Capital Markets*	*Equity and Alternative Investments*	*Treasury*	*Corporate and Other*	*Eliminations*	*Total*
Interest income	2	38	1	24	2	(29)	38
Interest expense	(51)	(6)	(12)	(18)	-	29	(58)
Share of results from associates	74	-	-	-	-	-	74
Other operating income	159	22	101	-	-	-	282
Net operating income	184	54	90	6	2	-	336
Other operating expenses	(13)	(4)	(2)	(4)	(44)	-	(67)
Impairment losses	(57)	-	(9)	-	-	-	(66)
Profit for the year	114	50	79	2	(42)	-	203
Segment assets	2,393	1,714	701	360	2,524	(2,506)	5,186
Segment liabilities	2,312	1,671	551	357	51	(2,506)	2,436
Equity	-	-	-	-	-	-	2,750
Total liabilities and equity							5,186
Other information							
Investment in associates	1,396	-	-	-	-	-	1,396

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24 Segmental information (continued)

31 December 2013	*Principal Investments*	*Debt Capital Markets*	*Equity and Alternative Investments*	*Treasury*	*Corporate and Other*	*Eliminations*	*Total*
Interest income	2	35	-	28	3	(30)	38
Interest expense	(54)	(10)	(14)	(21)	-	30	(69)
Share of results from associates	112	-	-	-	-	-	112
Other operating income	77	31	107	(1)	7	-	221
Net operating income	137	56	93	6	10	-	302
Other operating expenses	(14)	(5)	(2)	(4)	(41)	-	(66)
Impairment losses	(60)	-	(11)	-	-	-	(71)
Profit for the year	63	51	80	2	(31)	-	165
Segment assets	2,571	1,786	884	447	2,349	(2,333)	5,704
Segment liabilities	2,514	1,753	710	453	29	(2,333)	3,126
Equity							2,578
Total liabilities and equity							5,704
Other information							
Investment in associates	1,703	-	-	-	-	-	1,703

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24 Segmental information (continued)

Geographical segment

The following table shows the distribution of the Group's net operating income and total assets by geographical segment:

	GCC Region		International		Total	
31 December 2014	***PI***	***Others***	***PI***	***Others***	***PI***	***Others***
Net operating income	**183**	**-**	**1**	**152**	**184**	**152**
Total assets	**2,373**	**1,314**	**20**	**1,479**	**2,393**	**2,793**

	GCC Region		International		Total	
31 December 2013	*PI*	*Others*	*PI*	*Others*	*PI*	*Others*
Net operating income	137	81	-	84	137	165
Total assets	2,551	1,508	20	1,625	2,571	3,133

25 Fair value information

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Investment securities classified as 'Available for sale' and 'Fair value through statement of income' are stated at fair values except for certain investments carried at cost. For other financial asset and liabilities carried at cost less impairment or amortized cost, the carrying value is not significantly different from their fair values as most of these assets and liabilities are of short term maturity or re-priced immediately based on market movement in interest rates.

Determination of fair value and fair value hierarchy:

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: quoted prices in active market for the same instrument.
Level 2: quoted prices in active market for similar instruments or other valuation techniques for which all significant inputs are based on observable market data ; and
Level 3: valuation techniques for which any significant input is not based on observable market data

Notes to the Consolidated Financial Statements

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25 Fair value information (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

2014	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through statement of income				
Investment in quoted debt instruments	23	-	-	23
Investment in unquoted managed Funds	-	121	-	121
Unquoted equity fund	-	2	-	2
Investment in alternative equity Funds	-	303	-	303
Financial assets available for Sale				
Debt instruments	1,581	-	83	1,664
Equities and managed funds	61	-	-	61
Equity participations	331	-	-	331
Private equity funds	-	-	206	206
Other assets-derivative financial instruments				
Forward foreign exchange contracts	-	-	1	1
Cross currency swaps	-	-	2	2
	1,996	**426**	**292**	**2,714**
Other liabilities-derivative financial instruments				
Interest rate swaps	-	9	-	9
Cross currency swaps	-	-	80	80
Forward foreign exchange contracts	-	-	4	4
	-	**9**	**84**	**93**

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25 Fair value information (continued)

2013	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through statement of income				
Investment in quoted debt instruments	53	-	-	53
Investment in unquoted managed funds	-	311	-	311
Unquoted equity fund	-	2	-	2
Investment in alternative equity funds	-	340	-	340
Financial assets available for sale				
Debt instruments	1,426	-	114	1,540
Equities and managed funds	138	26	-	164
Equity participations	418	-	-	418
Private equity funds	-	-	220	220
Other assets-derivative financial instruments				
Interest rate futures	-	1	-	1
	2,035	680	334	3,049
Liabilities measured at fair value				
Other liabilities-derivative financial instruments				
Interest rate swaps	-	17	-	17
Cross currency swaps	-	-	46	46
Forward foreign exchange contracts	-	-	1	1
	-	17	47	64

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25 Fair value information (continued)

The following table shows a reconciliation of the beginning and closing balances of the financial instruments classified in Level 3 of the fair value hierarchy:

31 December 2014	At 1 January 2014	Gain recorded in the consolidated statement of income	Gain recorded in equity	Net purchases, sales, transfers and settlements	At 31 December 2014
Assets measured at fair value					
Financial assets available for sale					
Debt instruments	114	-	6	(37)	83
Private equity funds	220	35	7	(56)	206
Other assets - derivative financial instruments					
Forward foreign exchange contracts	-	1	-	-	1
Cross currency swaps	-	2	-	-	2
Other liabilities - derivative financial instruments					
Cross currency swaps	46	34	-	-	80
Forward foreign exchange contracts	1	3	-	-	4

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25 Fair value information (continued)

31 December 2013	At 1 January 2013	Gain recorded in the consolidated statement of income	Gain recorded in equity	Net purchases, sales, transfers and settlements	At 31 December 2013
Assets measured at fair value					
Financial assets available for sale					
Debt instruments	238	-	15	(139)	114
Private equity funds	237	29	5	(51)	220
Other assets - derivative financial instruments					
Forward foreign exchange contracts	1	(1)	-	-	-
Cross currency swaps	24	(24)	-	-	-
Other liabilities – derivative financial instruments					
Cross currency swaps	6	40	-	-	46
Forward foreign exchange contracts	4	(3)	-	-	1

Measurement of Level 3 fair values

i. Debt Instruments: The fair values are based on broker quotes, prices quoted on Bloomberg and Reuters and independent valuation.
ii. Private equity funds: The fair values are based on fund statements sent by the funds.
iii. Cross currency swaps and forward foreign exchange contracts: The fair values are calculated using foreign exchange rates available in the market.

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26 Related party transactions

Related parties represent major shareholders, Directors and key management personnel of the Corporation, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Corporation's management.

Significant transactions with associates during the year are as follows:

	2014	2013
Net fee, commission and other income	9	7
Guarantees and commitments	164	74
Receivables from associates	20	12

Compensation of key management personnel

The remuneration of key management personnel during the year is as follows:

	2014	2013
Salaries and short-term employee benefits	12	12
Post-employment and termination benefits	3	2
	15	14

27 Capital management

The Corporation's capital represents shareholders' investment and is a key strategic resource which supports the Corporation's risk taking business activities.

The objective of the Group is to deploy this resource in an efficient and profitable manner to earn competitive returns.

The Corporation manages its capital taking into account both regulatory and economic requirements.

No changes were made in the objectives, policies or processes from the previous year. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity as follows:

	2014	2013
Interest-bearing deposits, term finance and other borrowings	2,195	2,753
Other liabilities	241	373
Less: Cash and cash equivalents and placements with banks	(313)	(408)
Net debt	**2,123**	2,718
Equity attributable to equity holders of the Corporation	**2,729**	2,559
Gearing ratio (net debt /equity)	**0.8**	1.1

Notes to the Consolidated Financial Statements

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28 Principal Subsidiaries and Associates

The principal subsidiaries and associates of the Corporation are set out below:

Subsidiaries	Country of incorporation	% of shareholding		Financial statements reporting date	Principal business activity
		2014	2013		
Bituminous Products Company Limited (Bitumat)	Saudi Arabia	100	100	31 December 2014	Building material manufacturing
Gulf Paramount for Electrical Services Company WLL	Kuwait	100	92.8	31 December 2014	Electrical Services
Gulf Electronic Tawasul Company KSCC	Kuwait	86.5	86.5	31 December 2014	Information Technology
GIC Technologies Company W.L.L	Kuwait	80	80	31 December 2014	Technical advisory
Gulf Jyoti International L.L.C	UAE	70	70	31 December 2014	Construction & Engineering
Crown Paper Mill Ltd. FZC	UAE	58.7	58.7	31 December 2014	Paper Manufacturing

Associates	Country of incorporation	% of shareholding		Financial statements reporting date	Principal business activity
		2014	2013		
Gulf Re Holdings Limited	Channel Islands	50.0	50.0	31 December 2014	Re-insurance
Foulath Holding B.S.C (c)	Bahrain	50.0	50.0	31 December 2014	Holding company
Oman Investment Corporation SAOC	Oman	50.0	50.0	30 September 2014	Investing activities
Al Ezzel Power Company B.S.C. (c)	Bahrain	45.0	45.0	31 December 2014	Power & Water Utility project
Bahrain Industrial Pharmaceutical Co. W.L.L	Bahrain	40.0	40.0	31 December 2014	Pharmaceuticals
Orimix Concrete Products L.L.C	UAE	40.0	40.0	30 September 2014	Building Materials
Shuqaiq International Power and Water Company Limited	Saudi Arabia	33.3	33.3	31 October 2014	Power & Water Utility project
SGA Marafiq Holdings	Saudi Arabia	33.3	33.3	31 December 2014	Power & Water Utility project
Technical Supplies & Services Co. Ltd.	UAE	30.7	30.7	30 September 2014	Refrigeration & Cooling Services

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28 Principal Subsidiaries and Associates (continued)

Associates	Country of incorporation	% of shareholding		Financial statements reporting date	Principal business activity
		2014	2013		
Dubai Wellness Centre	UAE	26.8	26.8	31 October 2014	Medical services
Al Dur Holding Company Limited	UAE	25.0	25.0	31 December 2014	Power & Water Utility project
Jeddah Cable Company Ltd. and Energy Group	Saudi Arabia	25.0	25.0	30 November 2014	Manufacturing Cables
Al Shafar Industries LLC (ALUMCO)	UAE	24.5	24.5	30 September 2014	Building Materials
Interplast Company Limited (L.L.C.)	UAE	23.5	23.5	30 September 2014	Plastic
Celtex Weaving Mills Co. Ltd.	Bahrain	23.0	23.0	31 December 2014	Textiles
Rawabi Emirates (PJSC)	UAE	22.5	22.5	31 October 2014	Dairy Products
Wataniya Telecom Algerie S.P.A.	Algeria	20.0	20.0	31 December 2014	Telecom service provider
Gulf Stone Company SAOG	Oman	20.0	20.0	30 September 2014	Building Materials
Saudi Mechanical Industries Company Limited	Saudi Arabia	20.0	20.0	31 December 2014	Manufacturing of Engineering Products
A'Saffa Foods SAOG	Oman	20.0	33.3	30 September 2014	Poultry & Dairy Products
The National Titanium Dioxide Co., Ltd. (Cristal)	Saudi Arabia	20.0	33	31 December 2014	Production of Titanium Dioxide

Gulf Investment Corporation G.S.C.

Stand-alone Statement of Financial Position

as at 31 December 2014

The following appendix represents the statement of financial position of Gulf Investment Corporation excluding the aasets and liabilties of its subsidiaries do not form part of the consolidated financial statements of the Corporation.

(US$ million)	**2014**	2013
Assets		
Cash and cash equivalents	26	44
Placements with banks	245	331
Financial assets at fair value through statement of Income	449	706
Financial assets available for sale	2,391	2,500
Investment in associates	1,388	1,658
Investment in associate held for sale	164	-
Investment in subsidiaries	133	163
Other assets	254	172
Total assets	**5,050**	5,574
Liabilities and equity		
Liabilities		
Deposits from banks and other financial institutions	772	1,109
Securities sold under repurchase agreements	-	55
Term finance	1,397	1,570
Other liabilities	152	281
Total liabilities	**2,321**	3,015
Equity		
Share capital	2,100	2,100
Reserves	652	643
Accumulated losses	(23)	(184)
Total Equity	**2,729**	2,559
Total liabilities and equity	**5,050**	5,574

Principal Investing

Projects and Equity Participation

As of 31 December 2014

	Name of the Project	Location	Paid-up Share Capital - USD Million	GIC Effective holding %
	Subsidiaries and Associates of GIC			
1	G.I.Corporation for General Trading & Contracting Co. W.L.L	Kuwait	0.85	100.00%
2	Bituminous Products Company Limited (Bitumat)	Saudi Arabia	15.99	100.00%
3	InvesTel Holdings W.L.L.	Bahrain	102.56	100.00%
4	Power & Water Investments Limited	Channel Islands	0.05	100.00%
5	GIC Financial Services Limited	Cayman Islands	0.05	100.00%
6	Kuwait Bituminous Products for Building Material and Equipment Trading Co. *	Kuwait	0.51	100.00%
7	Gulf Paramount for Electrical Services Company W.L.L	Kuwait	4.20	100.00%
8	Gulf Electronic Tawasul Company KSCC	Kuwait	18.28	86.83%
9	GIC Technologies Co. (W.L.L)	Kuwait	5.12	80.00%
10	Gulf Jyoti International L.L.C	UAE	11.73	70.00%
11	Crown Paper Mill Ltd. FZC	UAE	35.12	58.71%
12	Oman Investment Corporation SAOC	Oman	51.95	50.00%
13	Foulath Holding B.S.C (c)	Bahrain	566.36	50.00%
14	Gulf Re Holdings Limited	Channel Islands	200.00	50.00%
15	Gulf Reinsurance Ltd.	UAE	200.00	50.00%
16	Al Ezzel Power Company B.S.C. (c)	Bahrain	55.99	45.00%
17	Orimix Concrete Products L.L.C. *	UAE	8.17	40.00%
18	Bahrain Industrial Pharmaceutical Co. W.L.L.	Bahrain	2.77	40.00%
19	SGA Marafic Holdings W.L.L.	Bahrain	0.89	33.33%
20	Shuqaiq International Water & Electricity Company Limited	Saudi Arabia	0.80	33.33%
21	A'Saffa Foods Co. SAOG	Oman	31.17	20.01%
22	The National Titanium Dioxide Co., Ltd. (CRISTAL)	Saudi Arabia	629.57	20.00%
23	Technical Supplies & Services Co. Ltd.	UAE	27.23	30.67%
24	The Dubai Wellness Center Limited (L.L.C)	UAE	68.79	26.77%
25	Jeddah Cable Company Ltd & Energya Group	Saudi Arabia	131.91	25.00%
26	Al- Dur Holding Company Limited	UAE	0.00	25.00%
27	Al Dur Power & Water Co. B.S.C. (c)	Bahrain	66.31	25.00%
28	Al Shafar Industries L.L.C (ALUMCO) *	UAE	0.48	24.46%
29	Interplast Company Limited - (L.L.C.)	UAE	27.23	23.50%

Principal Investing

Projects and Equity Participation

As of 31 December 2014

	Name of the Project	Location	Paid-up Share Capital - USD Million	GIC Effective holding %
	Subsidiaries and Associates of GIC			
30	Celtex Weaving Mills Co. Ltd.	Bahrain	8.00	23.00%
31	Rawabi Emirates (PJSC)	UAE	59.17	22.54%
32	Gulf Stone Company SAOG *	Oman	9.43	20.00%
33	Wataniya Telecom Algerie S.P.A.	Algeria	613.38	20.00%
34	Jubail Water & Power Co.	Saudi Arabia	1.33	20.00%
35	Saudi Mechanical Industries Company	Saudi Arabia	39.97	20.00%
36	Shuqaiq Water & Electricity Co.	Saudi Arabia	298.67	20.00%
	Equity Participations - GIC ownership less than 20 percent			
1	Moobility Telecom International Holding Ltd.	British Virgin Islands	2.74	17.47%
2	TMK Gulf International Pipe Industry L.L.C	Oman	68.16	14.20%
3	Tatweer Infrastructure Company (Q.P.S.C.)	Qatar	168.62	11.64%
4	Gulf Bridge International Inc.	Virgin Island	345.50	10.00%
5	Ras Laffan Power Company Limited (Q.S.C.)	Qatar	136.25	10.00%
6	Rasameel Structured Finance Co. KSC	Kuwait	102.46	10.00%
7	KGL Logistics Company K.S.C. (Closed)	Kuwait	207.01	9.00%
8	Securities and Investment Company B.S.C.	Bahrain	113.65	7.70%
9	National Industrialization Co. (TASNEE) (Saudi Joint Stock Co.)	Saudi Arabia	5,971.57	6.52%
10	Gulf Aluminium Rolling Mill Co. B.S.C.	Bahrain	102.61	5.90%
11	United Power Company SAOG	Oman	18.11	2.27%
12	Arabian Industrial Fibers Company (IBN RUSHD) (Closed Joint Stock Company)	Saudi Arabia	2,267.79	1.95%
13	Thuraya Satellite Telecommunications Company PJSC	UAE	653.84	1.65%

* The shares in these associates are owned by GIC's subsidiary Bitumat

Corporate Directory 2014

Senior Management Team

Mr. Ibrahim Ali AlQadhi
Chief Executive Officer

Mr. Shafic Ali
Group Head of Principal Investment

Mr. Hani Al-Shakhs
Group Head of Support

Mr. Talal Al-Tawari
Acting Group Head of Global Markets

Global Markets Group

Mr. Talal Al-Tawari
Head of GCC Equities Div.

Mr. Martin Joy
Head of Treasury Div.

Mr. Raffaele Bertoni
Head of Debt Capital Markets Div.

Ms. Dalia Al-Mufarrej
Acting Head of Managed Funds Div.

Principal Investing

Mr. Fadi Twainy
Head of Light Industry Projects Div.

Mr. Meshary M. Al-Judaimi
Head of Financial Services & Utilities Div.

Mr. Saad Al-Bader
Head of Diversified Projects Div.

Mr. Faisal Al-Roomi
Head of Manufacturing Projects Div.

Mr. Mohammad Al-Fares
Acting Head of Principal Investment Analytics Div.

Mr. Muthuswamy Chandrasekaran
Advisor to Group Head of Principal Investments

Support Group

Mr. Hani Al-Shakhs
Acting Head of Human Resources Div.

Mr. Anwar Bader Al-Ghaith
Head of Operations Div.

Mr. Amer Al-Dakhail
Acting Head of Information Technology Div.

Mr. Qais Al-Shatti
Head of Public Relations & Communication Dept.

Corporate Office

Mr. Fahad Al-Abdulkader
Head of BOD Secretariat Div.

Mr. Malek Al-Ajeel
Advisor to CEO

Mr. Sebastian Vadakumcherry
Head of Risk Management Div.

Mr. Hazem El-Rafie
Head of Finance Div.

Dr. Khaled Bukhamseen
Head of Internal Audit Div.

Dr. Mohamed Elliwa
Head of Legal & Compliance Div.

Dr. Mohammad Al-Omar
Head of Research Div.

Contact Details

Mailing Address

P.O. Box 3402, Safat 13035, Kuwait

Courier Address

Sharq, Jaber Al-Mubarak Street, Kuwait

Website

www.gic.com.kw

Email

gic@gic.com.kw

S.W.I.F.T.

GCOR KWKW

Telephone

(+965) 2222 5000

Fascimile

(+965) 2222 5010