Annual Report and Accounts
2009

مؤسسة الخليج للاستثمار
Gulf Investment Corporation

Contents

(US$ million)	2007	2008	2009
For the year			
Gross Operating and Other Income	551	10	**153**
Operating Expenses	52	48	**46**
Net Profit / (Loss)	253	<996>	**91**
At year end			
Total Assets	9,175	7,211	**6,113**
Interest Bearing Securities and Funds	5,187	3,331	**2,604**
Equities and Managed Funds	1,387	1,103	**458**
Projects and Equity Participations	1,060	1,116	**1,428**
Deposits	2,804	2,896	**1,360**
Shareholders' Equity	1,958	662	**1,750**
Selected Ratios (%)			
Profitability			
Return on Paid-up Capital	25.8	-	**5.3**
Return on Adjusted Shareholders' Equity	14.9	-	**6.3**
Capital			
BIS Ratios			
– Total	18.6	8.7	**27.7**
– Tier 1	18.6	8.7	**27.7**
Shareholders' Equity as a % of Total Assets	21.3	9.2	**28.6**
Asset Quality			
Marketable Securites as a % of Total Assets	57.0	48.2	**43.2**
GCC and OECD Country Risk as a % of Total Assets	100.0	100.0	**100.0**
Liquidity			
Liquid Assets Ratio	82.0	79.3	**73.0**
Productivity			
Operating Income as Multiple of Operating Expenses	8.6	-	**3.3**

Financial Highlights

Mission Statement

Gulf Investment Corporation (GIC) is a leading financial institution offering a comprehensive range of financial services to promote private enterprise and support economic growth in the Gulf Cooperation Council (GCC) region.

To become a ‘world-class’ organization, GIC is dedicated to realizing its clients’ objectives, to maximizing shareholder value through earning competitive rates of return, and to the professional development of its people.

Board of Directors

UNITED ARAB EMIRATES

H.E. Mr. Faisal Ali Al-Mansouri * ***
Chairman of the Board
Director of Revenues Department
Ministry of Finance

H.E. Mr. Saeed Rashid Al-Yateem **
Acting Executive Director of Budget & Revenue
Ministry of Finance

STATE OF KUWAIT

H.E. Dr. Yousef Hamad Al-Ebraheem * ***
Chairman of Risk Management Committee
Advisor to H.H. The Emir of the State of Kuwait

H.E. Mr. Saleh Mohammed Al-Yousef **
Chairman & MD
Afkar Holding Co. KU

KINGDOM OF BAHRAIN

H.E. Dr. Zakaria Ahmed Hejres *
Chairman of the Executive Committee
Chief Executive Officer
Al Watan for Publishing & Distribution BSC

H.E. Mr. Khalid A. Al-Bassam ** ***
Chairman
Bahrain Islamic Bank

KINGDOM OF SAUDI ARABIA

H.E. Mr. Mohammed S. Al-Dobaib **
Acting Director General
Saudi Industrial Development Fund

H.E. Mr. Khaled S. Al-Khattaf * ***
Chief Finance Officer
Saudi Stock Exchange (Tadawul)

SULTANATE OF OMAN

H.E. Mr. Darwish bin Ismail bin Ali Al-Bulushi *
Secretary General
Ministry of Finance

H.E. Mr. Abdul Kader Askalan ** ***
Chairman of the Audit Committee
Chief Executive Officer
Oman Arab Bank

STATE OF QATAR

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

H.E. Dr. Hussain Ali Al-Abdulla ** ***
Board Member – Executive
Qatar Investment Authority

SENIOR MANAGEMENT TEAM

Mr. Hisham Abdulrazzaq Al-Razzuqi
Chief Executive Officer & General Manager

Mr. Rashid Bin Rasheed
Deputy General Manager &
Head of Finance & Administration

* Member of the Executive Committee
** Member of the Audit Committee
*** Member of the Risk Management Committee

Chairman's Statement

To the Shareholders of Gulf Investment Corporation:

On behalf of the Board of Directors, I have the privilege to present the Annual Report on the Corporation's activities and its financial results for the year ended 31 December 2009.

I am pleased to report that the Corporation has been successful in facing the challenges, delivering a robust performance during a difficult year. Operating revenues rose sharply to US$ 153 million, resulting in a net profit of US$ 91 million for 2009.

GIC emerged strongly from the financial turmoil of 2008, reaffirming its resilience and ability to rapidly adapt to changing environments. The initiatives to mitigate risks, deleverage the balance sheet, optimize resource allocation and strengthen systems that were implemented have borne fruit. The Corporation is now well positioned to take advantage of the emerging opportunities.

Like most financial institutions active in the global markets, the Corporation's businesses were also adversely impacted by the crisis that hit the regional and international financial markets. However, the inherent strengths developed over the years, combined with proactive and dynamic management enabled GIC to rapidly realign itself with changing environments.

While the balance sheet was aggressively deleveraged and de-risked, the Corporation was also able to execute profitable transactions contributing to the bottom line. The capital base was strengthened as well, by additional contribution from the shareholders, reaffirming their commitment and support to GIC.

During 2009, shareholders' equity increased by over US$ 1 billion or 164% to reach US$ 1.75 billion as of end 2009. Approximately half of this increase, or US$ 538 million, resulted from valuation gains and retained earnings. Leverage levels were scaled down to 3.5 times, from a high of 10.9 times the previous year. With the capital base in excess of 28% of total assets, GIC is one of the most well capitalized financial institutions in the region, and we will strive to deploy this resource in an efficient and disciplined manner to achieve competitive returns. Capital management is fundamental to GIC's risk management philosophy, and takes into account economic and regulatory requirements.

We continued to maintain focus on and contribute towards developing the economic and financial recourses of the shareholding states through the expansion of direct investments in projects, despite the lack of liquidity in credit markets. Investments in the region's capital markets also grew in 2009. The increased regional emphasis resulted in a re-balancing of the asset base, with geographic allocation to the region increasing from 38% to 53% during 2009.

The focus implies not only directing more investment resources to the GCC economies but also entails strengthening GIC's role as a promoter of investment concepts and ideas that enhance and encourage private enterprise in the region.

The Corporation has built a leadership profile in its chosen fields of business, has a solid capital base, a strong organizational infrastructure, and has proved its resilience. I see a bright future for GIC.

As per the rotation of the post of Chairman and Deputy Chairman every two years, Dr. Zakaria Ahmed Hejres, CEO – Al Watan for Publishing & Distribution BSC – Bahrain, will assume the position of Chairman of the Board following the Corporation's General Assembly meeting in March 2010. I welcome him and wish him all the success in his new role. It is also my privilege to welcome three new members to the Board, Mr. Faisal M. H. Boukhadour, Advisor in the Diwan of H.H. the Prime Minister of the State of Kuwait; Mr. Bader Ajeel Al-Ajeel, Executive Director-General Reserve Sector, Kuwait Investment Authority, Kuwait; and Mr. Turki Bin Ibrahim Al-Malik, Chief Operating Officer, Saudi Arabian Investment Co., Saudi Arabia.

I would like to take this opportunity to thank Dr. Yousef Hamad Al-Ebraheem, Advisor to H.H. The Emir of the State of Kuwait; Mr. Saleh Mohammed Al-Yousef, Chairman & MD, Afkar Holding Co., Kuwait; and Mr. Mohammed S. Al-Dobaib, Acting Director General, Saudi Industrial Development Fund, Saudi Arabia, for their valuable contributions as members of GIC's Board of Directors.

On behalf of the Board of Directors, I would like to extend my appreciation to the Royal Highnesses Kings and Emirs, rulers of the GCC countries, for their timely and continuous support.

Finally, I wish to express my appreciation and gratitude to all members of Executive, Audit and Risk Management Committees for their strategic guidance and to the management and staff for their dedication and commitment.

Mr. Faisal Ali Al-Mansouri
Chairman

CEO's Review

Gulf Investment Corporation performed well in 2009, rebounding strongly from the low levels of 2008. GIC recorded a net profit of US$ 91 million during 2009, a commendable achievement given the challenging operating conditions. Moreover, it is gratifying to note that most of our core businesses contributed to this strong performance.

GIC had initiated several focused and well-defined action plans targeted at reducing risk levels, strengthening the capital base, enhancing liquidity and increasing operating efficiency. The rewards to these timely and prudent actions are reflected in the significantly improved key performance indicators.

Operating revenues increased multifold to US$ 153 million, from US$ 9 million in 2008, boosted by earnings from the principal investments portfolio and global markets activities. Shareholders' equity grew to 1,750 million, a year on year increase of 164%, and a result of both, significant valuation gains and capital injection by shareholders. With the scaling down of risk exposures, overall balance sheet size reduced by just over 15% to US$ 6,113 million, at materially lower leverage levels. As of end 2009, the capital adequacy ratio, computed based on Basel II guidelines, rose sharply to 27.7%, considerably higher than the 8.7% in 2008.

During 2009, the corporation adhered to its conservative provisioning policy, taking provisions amounting US$ 16.1 million. Additionally, the planned deleveraging exercise cost the corporation US$ 40.5 million during the same period. Although, both these factors impacted profitability, we are confident that these prudent actions will keep us in good stead going forward. Our balance sheet is now of superior quality, as is reflected in the revaluation gains of US$ 447 million booked during 2009.

Principal Investments, the core business of GIC, was the prime driver of earnings during 2009, contributing 68% of total operating revenues. The corporation was able to make opportunistic exits during the year, realizing profits and boosting profitability. Despite an adverse business environment, the projects team executed several transactions that contributed to the expansion of the principal investments portfolio. These new investments, combined with enhanced valuations of a listed project equity holding, resulted in the portfolio growing by an annual rate of almost 28% to US$ 1.5 billion as of end 2009.

GIC successfully achieved financial close on a landmark power project, Al Dur Power & Water, in the Kingdom of Bahrain, reaffirming its position as a leading regional player in this sector. With this new entrant, total commitments to regional power and utilities projects grew, reflecting our commitment to this strategic sector. Over the past few years the Corporation has focused on certain niche sectors including metals, chemicals, power and utilities, telecommunication and financial services, establishing itself as predominant player and prime mover.

While the Corporation will continue to pursue direct investment opportunities in the region, the rigor and diligence applied during the screening and selection phase will be maintained. Initiatives to strengthen the internal control framework within this activity are also being implemented. Efforts to unlock the intrinsic value in some of the investments are being reviewed as well, with the objective of recycling proceeds into other promising sectors.

The **Global Markets** business is a vital component of GIC's business model, balancing the GCC focused

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exposures and enabling diversification of risks and revenue sources. The Global Markets Group focuses on the Corporation's asset management business, both for proprietary investments and third party client accounts. Investment teams cover a wide range of asset classes, including plain vanilla debt instruments, equity investments, international private equity, alternative hedge fund strategies, structured products and derivatives.

During 2009 the performance of this business group rebounded strongly, with the stabilization of markets and return of asset valuations to realistic levels. Significant revaluation gains were registered within the debt portfolios, a testimony of the high quality of holdings within. The portfolio of hedge funds also performed well, contributing to corporate earnings, albeit at lower levels due to scaled down positions. The GCC equities portfolio once again posted gains in 2009, proving the in-house expertise and deep knowledge of the region's market dynamics.

A rigorous quantitative modeling exercise was conducted for the global markets portfolio, with the objective of optimizing the risk adjusted return profile. Over a strong statistical and econometric modeling base, qualitative expectations and forecasts were overlaid to develop a sound asset allocation process.

During the year, the Corporation took steps to further enhance the overall control framework as well. Maintaining a sound enterprise risk management infrastructure will continue to be a part of GIC's strategic goal. We will continue to enhance our systems and processes, adopting market best practice standards and in line with an evolving and dynamic operating environment.

Liability management is an important aspect of our business strategy and is handled within our Treasury operations. Managing liquidity has been a strong point for GIC, proving over the years our ability to source funds even during highly turbulent and critical phases. As of end 2009, cash and short term money market assets amounted to just over US$ 1 billion, a level that was maintained during end 2008 as well. The corporation has multiple action plans in place to diversify and enhance its funding base at reasonable costs, aligned with the maturity of its medium term financing.

Management of expenses remains a priority within the corporation. The sharp focus and discipline we maintain on the cost structure is a key competitive advantage, bringing in benefits in terms of increased efficiency and improved margins. In 2009 GIC implemented a cost reduction plan, reducing other operating expenses by over 42% year on year. The corporation places significant value on its human resource and it is gratifying to note that the cost reduction was achieved without staff redundancies. On the same note, GIC will continue to play an important role in the development of the region's human resource via structured training programs for young graduates.

Our ownership and standing, strong capital position, efficient and flexible organization structure and clear focus constitute our principal strengths. I am confident that the Corporation is now well positioned and has the wherewithal to leverage these strengths for continued success.

2009 was a successful year for GIC in many aspects. I would like to take this opportunity to thank the shareholders, board of directors, and its sub-committees for their constant support and guidance which facilitated this success. The achievements also represent the dedication and commitment of all staff members. I am privileged to lead such a team and see a bright future for GIC.

Mr. Hisham Abdulrazzaq Al-Razzuqi
CEO and General Manager

Economic Review

The year 2009 had witnessed the worst global recession in decades since the Great Depression. The initial downturn occurred in the overheated US housing market which in turn spread across the world, with the effect escalating following the collapse of Lehman Brothers.

In searching for a remedy ahead of the April 2009 G-20 Summit in London, stark disagreement about policy responses emerged amongst the leading economies. The US, along with the IMF, pushed for significant increases in spending on fiscal stimulus measures, particularly in countries with large current account surpluses like Germany, Japan and China. Germany, France and Russia, however, opposed Washington's efforts, lobbying instead for heightened international regulation. Global expansionary policies, both monetary and fiscal, offset the withdrawal of credit by financial institutions. Furthermore, significant changes were made to the regulatory environment in order to prevent future crisis.

World Economies and Markets

The year ended with Global output likely to have contracted by 0.8%[1] (y/y), with the Advanced Economies faring worse with a GDP contraction of 3.2%[1] in 2009. The US output is expected to have shrunk by 2.5%[1], driven mainly by a decline in consumption. However, the pace of contraction in the US is expected to have been less than that in the Euro Area and Japan, with 3.9%[1] and 5.3%[1] respectively. This could be attributed to the twin drivers of early recovery in consumption patterns and increased Government spending in the US. On the contrary, the trade sector which is the growth engine in both EU and Japan, had not recovered till the end of the year.

However, Emerging markets and developing economies proved to be more resilient, as they sustained positive GDP growth during the financial crisis, and are expected to have grown at 2.1%[2] in 2009. In aggregate, they recovered faster than advanced economies due to large capital spending on infrastructure projects that boosted domestic demand. Developing Asia is estimated to have grown by 6.5%[2] in 2009 driven mainly by China and India, with growth of 8.7%[2] and 5.6%[2] respectively[1]. Growth in the Middle East is estimated at 2.2%[2] for 2009.

Table I: World Major Economic Indicators (Annual % Change)

Country	Real Gross Domestic Product			Inflation			Unemployment*		
	2008	2009**e**	2010**f**	2008	2009**e**	2010**f**	2008	2009**e**	2010**f**
United States	0.4	-2.5	2.9	3.8	-0.3	2.2	5.8	9.3	10.0
Japan	-1.2	-5.4	1.3	1.4	-1.3	-1.0	4.0	5.2	5.4
Germany	1.3	-5.0	1.8	2.6	0.4	1.0	7.8	8.2	9.0
France	0.3	-2.2	1.4	2.8	0.1	1.2	7.4	9.2	10.1
United Kingdom	0.5	-4.7	1.5	3.6	1.2	2.4	2.8	4.8	5.4
Euro Zone	0.5	-3.9	1.3	3.3	0.3	1.2	7.6	9.4	10.4
China	9.0	8.5	9.7	5.9	-0.7	2.8	n.a.	n.a.	n.a.
India	6.7	6.8	7.8	9.0	10.4	7.1	n.a.	n.a.	n.a.

Note: Figures for 2008 are actual; **e**: Estimates; **f**: Forecast; *****: Year Average.
Source: Consensus Economics Inc: Consensus Forecast, January 11, 2010.

By year-end, global equity indices had rebounded, whilst bond markets remained weak. Table II shows the performance of major Global Equity Indices during 2009, which indicates positive returns across the board.

[1] Consensus Economics Inc.: Forecasts, January 2010.
[2] IMF: World Economic Outlook, January 2010.

Table II: Global Equity Indices for 2009 (in local currencies)

Index	31 Dec. 08	31 Dec. 09	% Chg	High 2009	High Date	Low 2009	Low Date
North America							
DJIA	8,776.4	10,428.1	18.8%	10,548.5	30-Dec	6,547.1	9-Mar
S&P 500	903.3	1,115.1	23.5%	1,127.8	28-Dec	676.5	9-Mar
NASDAQ Composite	1,577.0	2,141.1	43.9%	2,291.3	30-Dec	1,268.6	9-Mar
Russell 2000	499.5	625.4	25.2%	634.1	24-Dec	343.3	9-Mar
DJ Wilshire 5000	33.9	43.6	28.5%	44.1	28-Dec	25.6	9-Mar
DJ Wilshire Global Total Market	1,735.6	2,318.1	33.6%	2,331.6	29-Dec	1,321.5	9-Mar
Europe							
FTSE 100	4,434.2	5,412.9	22.1%	5,437.6	29-Dec	3,512.1	3-Mar
Xetra Dax	4,810.2^	5,957.4	23.8%	6,011.5	29-Dec	3,666.4	6-Mar
CAC 40	3,217.9	3,936.3	22.3%	3,959.9	29-Dec	2,519.3	9-Mar
Asia							
Nikkei 225	8,859.6^	10,546.4	19.0%	10,639.7	26-Aug	7,054.9	10-Mar
Hang Seng	14,387.5	21,872.5	52.0%	22,944.0	16-Nov	11,344.6	9-Mar

Note: ^Year-end, as of 30 December 2008.
Sources: Bloomberg and Reuters.

Treasury yields had risen at year-end by a large magnitude. The yield on 10-Year Treasuries was 3.84% compared to 2.22% in 2008 (See Table III on US Treasuries). The rise in yields reflected speculation that the US government will increase borrowing from international investors to finance the $787bn stimulus plan and keep treasury yields and market interest rates down.

Table III: US Treasuries (Yields) (%)

	31 December 2009	31 December 2008	% Chg
3-Months	0.0608	0.1268	-52.1%
5-Year	2.6839	1.5587	72.2%
10-Year	3.8368	2.2205	72.8%
30-Year	4.6351	2.6796	72.9%

Source: Reuters.

Oil Markets

Table IV shows average oil prices for the three main crude oil benchmarks (WTI, Brent and the OPEC basket). They experienced declines of more than 35% in 2009. By year-end, WTI was $61.9 on average, Brent was $61.7 and OPEC basket was at $61.1. However, the consensus forecasts indicate that WTI is unlikely to fall below these levels, assuming Chinese demand is sustained, and non-OPEC supply remains slow. The oil price rebound is projected to help GCC countries sustain a modest rise in their oil export revenues in 2009 albeit at a slower pace than 2008 (See Table VII).

Table IV: Spot Crude Prices, Yearly Average (US$/bl)

	OPEC Basket		Brent		WTI	
	Avg	Y/Y Chg %	Avg	Y/Y Chg %	Avg	Y/Y Chg %
Year 2009	61.06	-35.4%	61.68	-36.7%	61.88	-38.1%
Year 2008	94.45	36.7%	97.37	34.2%	100.00	38.3%
Year 2007	69.10	13.1%	72.55	11.3%	72.29	9.5%
Year 2006	61.08	20.6%	65.16	19.7%	66.04	16.9%
Year 2005	50.64	40.5%	54.44	42.4%	56.51	36.4%

Source: MEES, 25 January 2010 and various issues.

At year-end, the dollar depreciated in value relative to other major currencies (Table V). Two main reasons were cited behind the dollar weakness, which are likely to persist for some time in the future. First, real interest rates continued to be low. The second reason was the renewed cyclical widening of the US current account deficit.

Table V: FX Rates

	2009 Annual Change (against the US$)	31 December 2009	31 December 2008
Euro	2.42%	1.4316	1.3978
Pound	10.45%	1.6154	1.4626
Yen	2.54%	92.9	90.6

Source: Reuters.

GCC ECONOMIES

After growing at a CAGR of 7% between 2003 and 2008, aggregate GDP in the GCC is expected to have contracted during 2009. Real GDP in Kuwait, Saudi Arabia and the UAE is likely to have contracted by 1-2%, primarily due to cuts in Oil production. On the other hand, Oman and Qatar are estimated to have registered positive growth in GDP for 2009, albeit at a slower pace than in 2008, driven by a rise in the hydrocarbon production. As a result, aggregate real GDP of GCC countries is estimated to have contracted by 0.1% in 2009, and is projected to grow at an aggregate of 4.2% in 2010.

In 2009, the non-hydrocarbon sector continued to drive growth, with the sector GDP estimated to have grown at 3.7%. The sector accounts for roughly 60% of the Nominal GDP for the GCC region, estimated at US$ 848bn. Across individual countries, this ranges from 0.5% in the UAE to 5% in Oman.

The combined current account surplus is estimated to have shrunk to $44bn in 2009, from $261bn in 2008, but is likely to widen to $122bn in 2010 driven by higher oil prices. Yet, current account balance is expected to fall from 25% of GDP in 2008 to 6% in 2009. In individual countries, this ranges from a deficit of 8% of GDP in Oman to a large surplus of 27% of GDP in Kuwait.

The combined total foreign assets of GCC governments, state institutions, and banking systems, excluding non-financial corporate sector, have reached $1.5 trillion at the end of 2009. This ranges from $24bn in Oman to $494bn in Saudi Arabia. Official reserves for the GCC are estimated at $533bn in 2009. In individual countries, this ranges from $4bn in Bahrain to $447bn in Saudi Arabia.

As a result, foreign assets of the region's Sovereign Wealth Funds are estimated to have risen by 21% from $634bn in 2008 to 768bn in 2009. This would secure a steady rise in government spending, which in turn should offset, at least partly, the slowdown in private spending as a result of tighter credit conditions.

GCC countries, on aggregate, continued to maintain positive fiscal balance as percentage of GDP though at a lower pace, declining from 23% of GDP in 2008 to 8% in 2009. However, in individual countries, this ranges from a small deficit of 4% of GDP in Bahrain to a large surplus of 22% of GDP in Kuwait.

In 2009, GCC countries are estimated to have realized a sustainable ratio of government debt, represented by total gross debt as percentage of GDP, with most debt accruing on the domestic front, with the exception of Oman and Bahrain. In individual countries, this ranges from 5.1% of GDP in Oman, to 23.3% in Bahrain, while Saudi Arabia and the UAE had gross debt ratios of 14.5% and 16.4% of GDP respectively.

Table VI: GCC Real GDP Growth for 2006 - 2009 (Annual % change)

	Actual			Estimate
	2006	2007	2008	2009
Bahrain	6.5	8.4	6.3	1.9
Kuwait	6.3	4.4	6.0	-1.9
Oman	6.8	7.7	12.3	5.2
Qatar	15.0	13.8	14.3	9.3
Saudi Arabia	3.0	3.3	4.5	-1.0
United Arab Emirates	9.4	6.8	7.0	-1.2

Source: IIF, GCC Report, September 2009.

Table VII: GCC Oil & Gas Export Revenues (US$ billion)

	2005	2006	2007	2008	2009**e**
Bahrain	7.8	9.2	10.8	13.8	8.6
Kuwait	44.1	55.7	59.0	82.6	47.2
Oman	15.7	17.5	18.7	28.7	18.7
Qatar	22.9	31.2	39.9	66.3	42.4
Saudi Arabia	161.8	188.5	205.0	281.0	155.0
United Arab Emirates	55.1	70.1	74.0	102.0	63.0
GCC	307.4	372.2	407.4	574.4	334.9

Note: **e**: IIF Estimates.
Source: The Institute of International Finance Data Base (www.iif.com), September 2009.

Table VIII: Consumer Price Index for GCC Countries (Annual % Change)

	2006	2007	2008	2009**e**
Bahrain	2.0	3.3	3.5	3.0
Kuwait	3.1	5.5	10.5	4.6
Oman	3.4	5.9	12.6	3.3
Qatar	11.8	13.8	15.0	0.0
Saudi Arabia	2.3	4.1	9.9	4.5
United Arab Emirates	9.3	11.1	12.3	2.5

Note: **e**: Estimates.
Source: IMF, World Economic Outlook, October 2009.

Inflation rate, on average, is expected to have fallen from a peak of 10.8% in 2008 to 2.5% in 2009. This ranges from 1.1% in both Qatar and the UAE to around 4.5% in Kuwait and Oman.

Sector development process in GCC countries had slowed throughout the year due to the ongoing financial crisis. However, the oil price boom during 2003-2008 placed the GCC in a relatively strong position to withstand the negative impact of the global financial crisis.

A rapid rise in the financial integration of the GCC countries with the rest of the world has raised the exposure of GCC economies to the global financial crisis, and exacerbated the impact, despite the absence of significant crisis indicators prevalent to the region. The impact was largely felt through a a tightening of external financing conditions, that affected liquidity in the regional Banking system.

But the overall impact has been limited to reducing flows of external funding of private sector projects. Of an estimated $2 trillion of projects, both public and private, around 23% of planned projects have been placed on hold or cancelled. This ranges from around 7 projects in Bahrain and Oman to more than 350 projects in the UAE[3]. A weaker demand for goods and services combined with the credit crunch has also adversely affected corporate sector profitability.

[3] IIF GCC Regional Overview, September 2009.

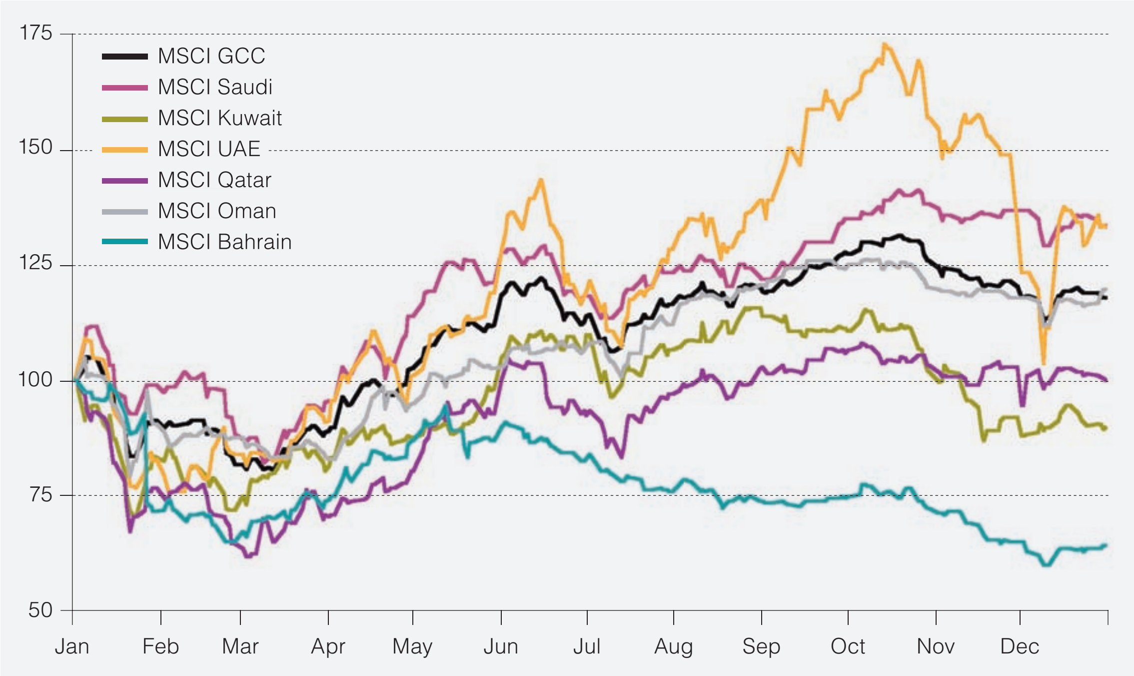
With regards to the performance of GCC stock markets, the recovery in equity markets in the GCC since the beginning of 2009 has been below the performance of other emerging economies. The for the MSCI GCC Index rose by 17.8% in 2009 as compared with a 74.5% increase in MSCI Emerging Markets Index.

As global credit markets tightened, the real estate sector in the GCC has come under intense pressure. Dubai has felt the greatest impact of the financial crisis as it is the most integrated of the GCC into the global economy. By the year-end, Dubai called for a $26bn standstill request on Dubai World's debts, prompting market disorder and a $10bn bailout loan from Abu Dhabi of which $4.1bn was used to pay off an Islamic bond by Nakheel, the group's real-estate arm.

GCC MARKETS REVIEW

Overview

Figure 1: Performance of GCC Indices



Source: GIC Research, Reuters Data.

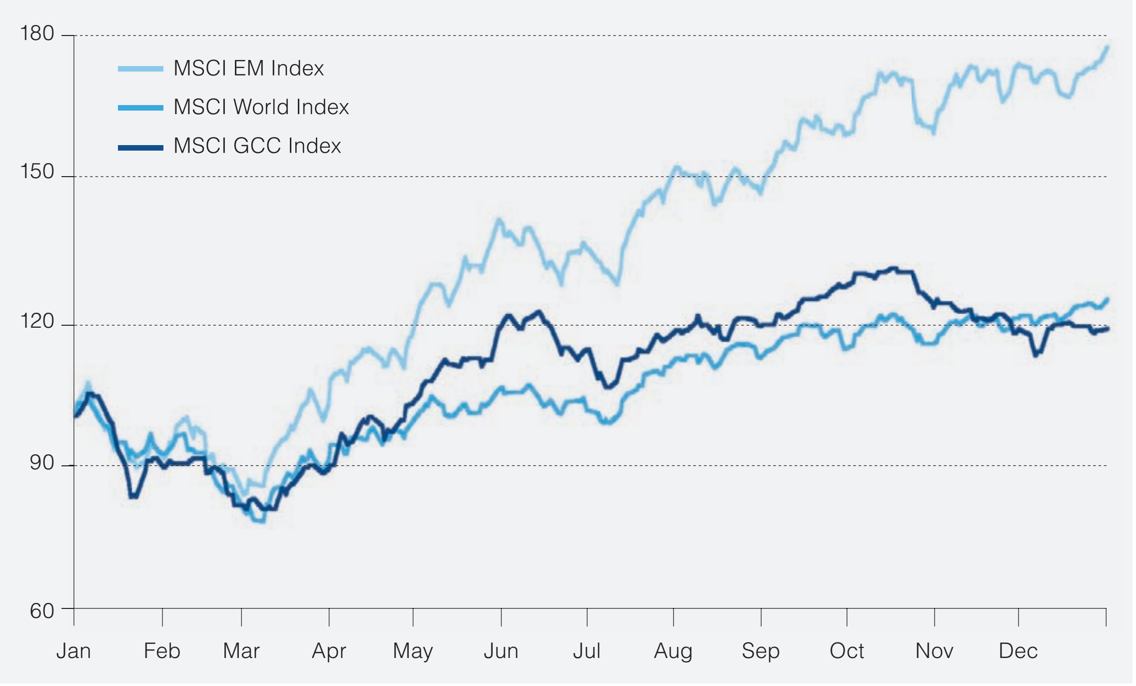
2009 drew to a close, with the overhang of credit issues and their impact on financial institutions looming over markets and investor sentiment.

The year was marked by quick rallies in oil prices that boosted sentiment across GCC equity markets, despite the recurrence of negative earnings re-ratings through the year. Signals during the latter part of the year, indicating that the world economy has pulled out of its worst recession since World War II, helped the regional markets.

Government intervention highlighted by Qatar's largesse towards banks continued through the year, and expansionary budgets aided investment expenditure. However, credit worries reared their head quite often. The Saad/Gosaibi credit issue during the former part of the year, and the Dubai World standstill proposal towards the end, were highlights.

With political stability providing structural strength, and robust outlook for oil prices generating enough thrust to sustain growth momentum, the region could leverage extensively on its robust fiscal surpluses to nurture growth during the medium-term.

Figure 2: Relative Performance of MSCI GCC Index



Source: GIC Research, Reuters Data.

The MSCI GCC Index closed the year at 407.01, having gained 17.8% during the year. However, the MSCI GCC Index lagged the MSCI Emerging Markets (EM) Index by a substantial margin.

Equity Index Returns

Amongst the country indices, Saudi Arabia's Tadawul Index was the best performing, as it racked up gains of 27.5% for the year. Oman's MSM 30 Index was a distant second, as it closed with gains of 17.0% for the year. In the UAE, the ADSM Index outperformed the DFM Index with net returns of 14.8%, against 10.2% for the latter. Kuwait's KWSE Index shed a net of 10.0% for the year, while Bahrain's BSE Index was the worst performing with a net loss of 19.2%.

Table IX

	Dec ‘08	Dec ‘09	% Chg
MSCI GCC Index	345.48	407.01	+17.8%
MSCI EM Index	567.04	989.47	+74.5%
MSCI - World Index	677.81	832.50	+22.8%
Saudi - Tadawul	4,802.99	6,121.76	+27.5%
Oman - MSN Index	5,441.12	6,368.80	+17.0%
UAE - ADSM Index	2,390.01	2,743.61	+14.8%
UAE - DFM Index	1,636.29	1,803.58	+10.2%
Qatar - DSM Index	6,886.12	6,959.17	+1.1%
Kuwait - KSE Index	7,782.60	7,005.30	-10.0%
Bahrain - BSE Index	1,804.07	1,458.24	-19.2%

Source: GIC Research, Reuters Data.

Our Financial Goal:

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

Our Financial Performance Objective:

Continue the trend of profit growth, to consistently achieve target return on equity, through a diversified source of revenues.

Our Financial Condition Objective:

To efficiently manage the various forms of risks associated with our business and maintain strong asset quality, capital base and liquidity, while achieving the set targets.

Financial Review

Net Income Analysis

Gulf Investment Corporation (GIC) posted consolidated operating profit of US$ 107 million for the year 2009. This is before provision for impairment losses of US$ 16 million, most of which related to impairment loss associated with investments in international private equity funds.

GIC's core businesses contributed to this strong recovery, which also reflects the effective and timely implementation of prudent strategic decisions. Analysis of the contributing components confirms the strength of GIC's investment philosophy under challenging situations.

Interest income

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

Gross interest and similar income declined by 66% to US$ 84 million during 2009 attributable to the sharp decline in interest rates globally and due to the partial liquidation of interest bearing assets, within the context of a planned deleveraging scheme.

Net gains/losses from investments

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

GIC recorded a net gain of US$ 108 million during 2009, compared to a net loss of US$ 139 million in the prior year. Well planned exits from some of the equity participations contributed to these earnings. Transactions on the two equity participations, both listed principal investments in the GCC, generated profits totaling US$ 62 million. Another key constituent were the gains pertaining to investments in alternative hedge fund strategies, which also registered a good performance in 2009, on the back of a rebound of the global hedge fund markets. Such gains amounted to US$ 51 million.

Dividend income

Dividend income of US$ 17 million (2008: US$ 23 million) comprised of receipts from private equity funds, equity participations, managed portfolios and funds. Dividend income from the equity portfolio was lower compared to prior year.

Share of results of associates

Share of results from associates accounted during the year amounted to US$ 5 million showing significant decline compared to prior year income of US$ 118 million. This represents GIC's share of profits from associated companies. The decline during 2009 was, to a large extent, impacted by reduced levels of contribution from projects in the steel sector, in line with the cyclicality of this sector. GIC's investment in the steel sector, which was the major contributor to the prior year's profits, was adversely impacted by this downturn. 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 and commissions

Income from Fees and commissions amounting to US$ 22 million for the year, represents a year on year growth of 29% or US$ 5 million, compared to prior year. Fees from the successful development of a major power and utilities project in Bahrain totaled US$ 11 million. Fee income is generated from the fund management activity, financial advisory business and by providing custodial and administrative services to the funds managed by third parties.

Other operating income

Other operating income represents the income from consolidated and other subsidiaries which remained at the same level of 2008.

Interest expense

Interest expense declined 68% compared to prior year, a reflection of the decline in interest rates and the average outstanding interest bearing liabilities. The outstanding balance of deposits as at 31 December 2009 was 1.4 billion as compared to USD 2.9 billion in 2008. Interest costs relating to term finance also declined during the reporting year due to the maturity of a US$ 500 million note and low LIBOR rates.

Operating expenses

Operating expenses declined by just over 4% or US$ 2 million on an annual basis to reach at US$ 46 million as at 31st December 2009. Most of the savings resulted from prudent management of the cost base, reducing the other operating expense category by 42% without impacting business operations.

Provision for impairments/mark-to-market losses

Net charge for the year in impairment/mark-to-market losses totaled US$ 16 million, significantly lower than the US$ 958 million recorded in 2008. Most of the additional provisions during 2009 relate to exposures in international private equity funds. The Corporation was able to write back part of provisions taken in 2008 attributable to debt securities, when valuations reverted to realistic levels. This is a reflection of the sound quality within GIC's portfolio of assets. The Corporation continued to adhere to its conservative provisioning policy, based on mark-to-market valuations where ever possible. A detailed break down is provided in Note 21 of the Consolidated Financial Statements.

Balance Sheet Analysis

The Corporation took prudent steps in early 2009 to restructure and reduce leverage within the balance sheet, with the objective of achieving an asset allocation which enhances the risk adjusted return profile. This was also as a result of, and in step with the changed business environment. Initiatives were implemented both, on the assets and liabilities sides. As a result of this, total assets declined by 15% to reach US$ 6,113 million at the end of year 2009

The Corporation's strategic focus continues to be on the GCC states and their major trading partners in the industrialized world. Note 23.3.1 of the Consolidated Financial Statements sets out the geographic distribution of the Corporation's credit risk exposure.

The following sections provide details on the key asset categories.

Financial assets at fair value through statement of income

This category includes investments in trading equities and funds of US$ 53 million, trading bond and other debt funds of US$ 207 million and alternative equity investments of US$ 341 million. The portfolio has declined 45% relative to the previous year, primarily due to the scaling down of risk exposures.

The major component of the decline pertained to redemptions within the alternative strategies, including market neutral portfolios, hedge strategies within the mortgage backed securities and other related investments.

Loans

In line with the strategic decision to discontinue this line of business, except for loans to entities within GIC's principal investment portfolio, the outstanding balance of loans, as of end 2009 amounted to US$ 85 million. These were loans, advanced at an arms length transaction, and at commercial rates of return, to two project investments in the portfolio.

Total loan loss provisions including loan guarantees amounted to US$ 5 million at 31 December 2009. Counterparty specific provisions amounted to US$ 2 million while general provisions as per Central Bank of Kuwait regulations were US$ 3 million. Note 8 of the Consolidated Financial Statements provide details related to provisions. The specific provisions are made against subordinate loans related to project investments. Specific provisions for loans are made to the full extent of the estimated potential loss while general provisions are maintained to cover possible future losses which as yet have not been specifically identified in line with CBK requirements.

Financial assets available for sale

As at 31 December 2009, financial assets available for sale amounted to US$ 3,127 million, 19% lower than the levels of the previous year. Most of the decline can be attributed to the planned liquidation of debt instruments within the international bond portfolio. The size of the aggregate debt portfolio reduced by 24% year on year, a result of the sales program and natural redemptions. Debt and other interest bearing securities constitute 77% of the available for sale financial asset category.

The debt portfolio is mainly made up of plain floating rates notes or fixed rate securities swapped into floating rate using interest rate swaps and structured notes. This portfolio is monitored against stringent internal guidelines, ensuring a high quality is maintained. More than 85% of the portfolio is comprised of investment grade issuers 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, and other details, including rating profile, are contained in Note 5 of the Consolidated Financial Statements.

Financial assets available for sale also includes investments in equities and managed funds of US$ 64 million, equity participation amounting to US$ 399 million and international private equity fund exposures of US$ 269 million. Equities and managed funds declined 61% from previous year end mainly due to the unwinding of the global equities portfolios. Equity participations grew by 39% during the year, reflecting significantly improved valuations especially within the quoted portion.

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, recapitalization, 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$ 15 million was charged to income for impairment/mark-to-market losses during the year (2008: US$ 49 million).

Details on financial asset available for sale are provided in Note 5 of the Consolidated 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 more than 20% 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, petrochemical, power & utilities, financial services and building materials, where a sustainable competitive advantage has been built.

Investment in associates increased by 25% to US$ 1,009 million primarily due to capital injection in some of the existing projects. The share of reserves of the associates, accounted directly in equity, also increased by US$ 62 million during the year.

Property and other assets

Including property and fixed assets, total other assets amounted to US$ 224 million at 31 December 2009. Of this US$ 38 million related to property and other fixed assets. The remaining US$ 186 million comprised of accrued interest and fees receivable, employees' end of service benefit asset, accounts receivable, prepaid expenses and other miscellaneous assets. Details are set out in Note 9 of the Consolidated Financial Statements.

Liquidity and funding

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

Risk Management

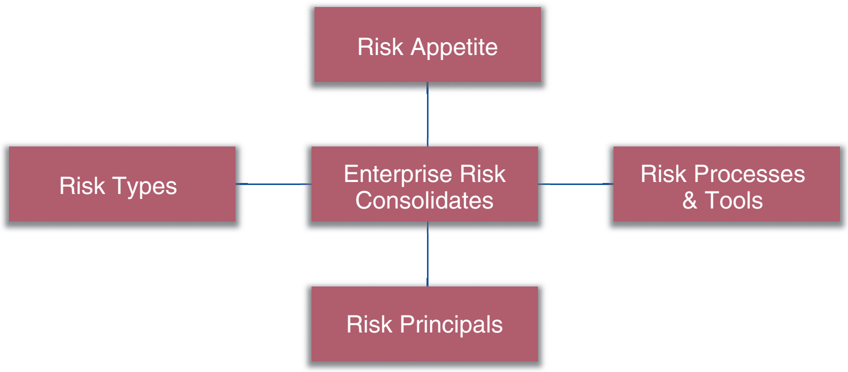
The management of risk is an integral part of the Corporate strategic objective. The Corporation's business activities, in striving to achieve their financial goal of earning consistent competitive returns, entail risks. Recognizing the relationship between returns and risk, the goal of risk management is to understand and manage these risks. In addition to the vital role as business protector, the risk function strives to contribute as a business enabler as well.

During 2009, several initiatives to mitigate risks, including deleverage the balance sheet, optimize resource allocation, strengthen systems were implemented. These initiatives have begun to bear fruit, with significant improvement in capital adequacy, asset quality, leverage, processes and profitability. GIC remains a significant, strong and stable financial institution.

The goal of risk management is not to avoid risks, but to understand 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 formalizes the Enterprise Risk Management Framework. The 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 Enterprise Risk Management framework identifies and defines a broad universe of risk to which GIC's business and operations are 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 combination of competent and experienced staff, quantitative-based analytical tools, and the ongoing investment in technology are the key resources used to manage risks effectively. The qualitative and quantitative techniques utilized to optimize the risk return profile incorporates information from the past, trends in the present business environment and expectations of the future.

Risk management begins with the Risk Management Committee, comprising of members from the Board of Directors and senior management, defining and recommending the Corporation's risk appetite to the Board of Directors'. 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 acts as a critical link between management and the risk taking divisions – assisting management in defining/quantifying its risk appetite and then effectively communicating to the risk takers ensuring that the risk taking activity is within that management's acceptable levels.

Within the Corporation, the responsibility for the management of risks 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 perspective of internal controls, the process of risk management is facilitated through a set of independent functions in addition to the Risk Management Division. These units report directly to senior management, including Financial Control, Internal Audit and Compliance. This multi- faceted approach aids in 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 is the possibility of loss arising from the failure of an obligor to completely fulfill its contractual obligations.

The improvement in credit markets during 2009 had a positive impact on GIC's credit portfolio, especially due to the high quality of assets within. A significant portion of the write-downs recorded in 2008 was recovered during 2009, with valuations returning to realistic levels. The recognition that valuations then were adversely impacted due to market dislocation and not quality deterioration has proved beneficial. Based on the Corporation's prudent and conservative policies, adequate levels of provisions were taken in the previous year, requiring no significant additional write-downs during 2009. GIC's credit portfolios recorded valuations gains of approximately US$ 265 million during the year in review.

Given the high quality and liquidity within the debt portfolio, the Corporation was also able to execute a planned deleveraging of this portfolio, with minimal impact on profitability and earnings. Although, overall credit risk was reduced via the scaling down of debt holdings, the team was also successful in identifying opportunities that arose from market dislocations and pricing anomalies. This was especially so in the regional credit markets where GIC has a better understanding of inherent risks.

The magnitude, numbers and impact of credit events that unfolded during the recent crisis were unprecedented. The severe contagion effect of this crisis changed the way credit risk was to be managed. Although, conventional risk management tools, including mathematical and statistical models, were useful, the need of the day was flexibility - being capable and ready to adapt rapidly to unforeseen events.

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

The credit risk management process utilizes statistical methods as well, to estimate expected and unexpected loss amounts for the various business activities. 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 portfolio, which forms the largest asset class and constitutes approximately 43% of the balance sheet is monitored against a Credit Value at Risk (Credit VaR) limit, approved by the board. The US$ 175 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 Debt Capital Markets Portfolios. The market value of this portfolio at 31st December 2009 was US$ 2,603.7 million and at 1st Jan 2009 was US$ 3,331.5 million. The 24% year on year decrease in average credit VaR resulted primarily as a result of the scaling down of positions within the debt portfolios. The credit VaR as of 31st December 2009 was 17% or US$ 31.9 million lower than that of end 2008.

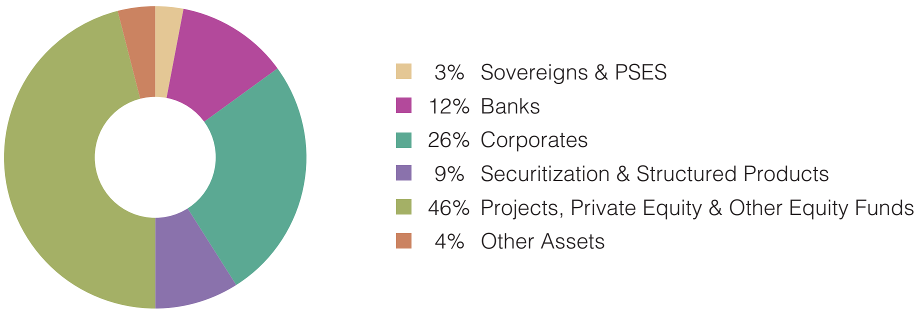
Table 1: 2009 Credit Value at Risk - 99.96% confidence level, 1 year holding period

US$ 000's	Average	Minimum	Maximum	31 Dec 2009
Debt Portfolios	160,785	148,330	223,804	154,726

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

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.

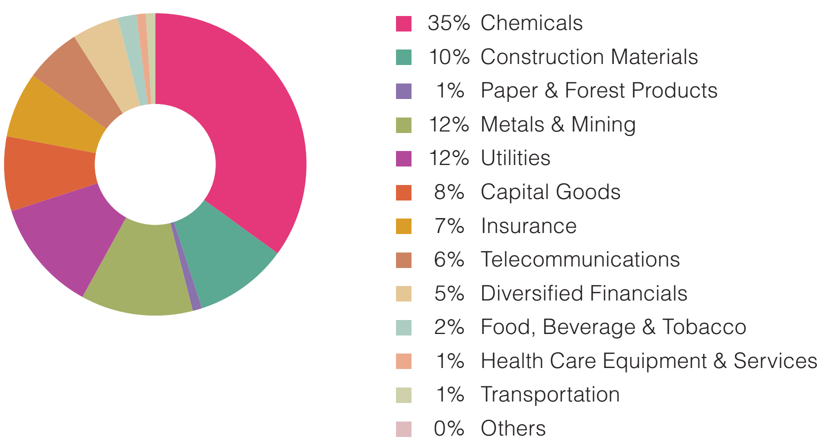
Chart 1: Sources of Credit Risk (Weighted Credit Risk Exposure)



Most of the realignment in the credit risk pie at the end of 2009, compared to the previous year-end, pertained to Corporates and Projects & private equity. Credit risk weighted exposure for Corporates decreased from 32.6% of total in 2008 to just 25.5% at the 2009 year-end and an offsetting increase in the projects and private equity. The two key components of total credit risk exposure were projects & private equity investments, and debt securities of banks & Corporates.

The projects, activity focuses on the GCC countries, a region whose 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 chosen after careful consideration 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.

For derivative and foreign exchange transactions, procedures similar to on balance sheet products are used for measuring and monitoring credit risk. Credit risk weighted exposure to off balance sheet products amounted to about 7.1% of total credit risk weighted exposure. This amount represents the mark-to-market or replacement cost of these transactions. At the year end 2009, all outstanding derivatives held for trading were foreign exchange contracts, 67% 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 24 & 25 of the Consolidated Financial Statements.

The global credit markets continue to be volatile and reflect heightened uncertainty, and the Corporation has taken several proactive steps to mitigate perceived risks.

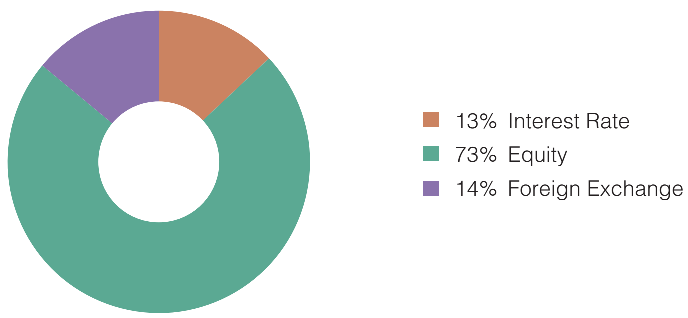
While the mechanism of risk monitoring and control has been further honed, the risk management function is now more engaged with the business units, having been brought forward within the investment process. In addition to incorporating additional credit information, including CDS prices, equity prices 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 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. Quantitative statistical methods combined with judgment and experience 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 exponentially weighted historical market data.

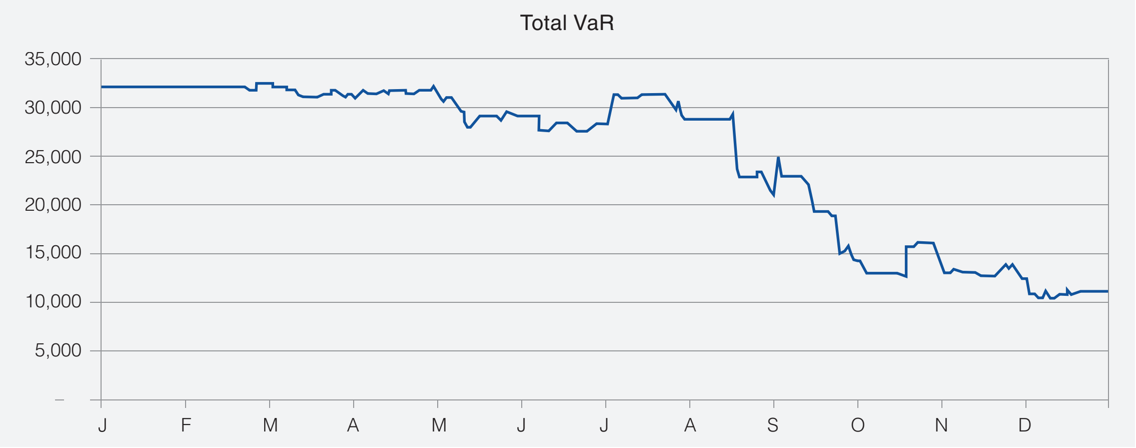
Table 2: Market Value at Risk for Global Markets Group alone - 25 day holding period, 95% confidence level

		2009		
US$ 000's	Average	Minimum	Maximum	31-Dec-09
Interest rate	4,823	1,536	7,975	1,872
Equity	24,968	10,172	32,935	10,981
Foreign Exchange	2,411	1,765	4,406	2,117
Total*	25,203	10,200	33,132	11,086
		2008		
US$ 000's	Average	Minimum	Maximum	31-Dec-08
Interest rate	4,553	2,248	9,411	8,502
Equity	36,174	30,806	46,598	43,687
Foreign Exchange	2,193	1,301	4,014	2,755
Total*	37,008	31,830	47,618	44,808

* Total VaR incorporates benefits of diversification

During 2009, market risk exposures were scaled down or hedged, significantly lowering market risk VaR. The principal reduction was within the hedge fund and alternative assets portfolio, which was the key contributor to market risk. Additionally, investments in the international equity markets were also materially reduced. In fiscal year 2009, the average total Market Risk VaR was approximately 32% lower than the average for the previous year. Total Market Risk VaR remained within limits as approved by the Risk Management Committee and the Board of Directors. Equity VaR continues to be the dominant component of market VaR. Interest rate VaR continues to be moderate, given that interest rate positions are, to a large extent, hedged. The Corporation will closely monitor the operating environment and seek to take on market risk at the opportune time.

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



Certain portfolios and positions are not included in the market VaR, since VaR is not the most appropriate measure of risk for such portfolios. 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 2009 and 2008. 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 2009	31 Dec 2008
Principal Investments	Underlying asset value	147,194	112,325
Private Equity Funds	Underlying asset value	26,946	25,953

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 macroeconomic events of the past, modified with the expectations for the future.

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 being monitored frequently 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 2009 was 162.1%. The following criteria were considered in determining the ratio:

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. The end of December 2009, investments in marketable securities tallied at approximately US$ 2.3 billion, and are primarily made up of investment grade securities.

The quantities of pledged securities are reviewed periodically so as 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. Having said this, 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 to gain a broad access to the investor base. At year-end 2009 the Corporation’s deposit base stood at about US$ 1,360 million, of which approximately 99% are due to GCC deposits. GCC deposits had proven to be a stable source of funds over the years. Additional short term funding is acquired through the use of repurchase agreements secured by a portfolio of high-grade securities. Such form of funding accounted for close to 29.1% of total funding at year-end 2009.

During 2009, the over liquidity condition in the international and regional markets was significantly better than the previous year. However, the corporation has continued to maintain a conservative approach, setting aside above normal levels of cash and other short term liquid assets.

The table below provides the breakdown of the Corporation's funding source for the comparative years 2008 to 2009.

US$ Millions	2009 (US$)	2009 (%)	2008 (US$)	2008 (%)
GCC Deposits	1,349	22%	2,678	37%
International Deposits	11	-	218	3%
Repo Financing	1,211	20%	1,270	18%
Term Financing	1,587	26%	2,071	28%
Shareholder's funds & Others	1,955	32%	974	14%
Total	6,113	100.00%	7,211	100.00%

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. The procedures include:

a) a variety of measures to be undertaken in the absence of liquidity crisis to enhance GIC's available liquidity in the event of a crisis;

b) identify specific triggers that will prompt activation of CFP; and

c) Specific guidelines for the 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 form 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, 2009 is calculated at 1,609 contracts, with an estimated VaR of US$ 0.96 million.

Maturity profile of assets and liabilities

A detailed breakdown of the maturity profile by individual asset and liability category is provided in Note 23 of the Consolidated Financial Statements. At December 31st 2009, roughly 58% 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 41% 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.

CREDIT RATING

As of end 2009, GIC's long term deposits were rated BBB by Fitch, Baa2 by Moody's and BBB- by Standard & Poor's. GIC continues to be rated AAA by Rating Agency Malaysia (RAM), as of 31st December 2009:

	Moody's	S & P	Fitch	RAM
Long-term Deposits	Baa2	BBB-	BBB	AAA
Short-term Deposits	P2	A3	F3	P1
Bank Financial Strength (BFSR)	D-	-		

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 was further strengthened by injection of US$ 1.1 billion of additional equity by the shareholders, reflecting their commitment and support to GIC.

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 finds it 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 2009 was 27.7%. 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 8.65%. The significant enhancement in capital adequacy ratios was driven by the additional shareholders funds, and improved asset valuations. 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 internal processes, people, or systems, external events, and the unexpected significant and unusual one-time events.

This definition includes disaster recovery planning as another element of operational risk management. It is for this reason that the Corporation finds it prudent to include the same consideration – namely, unexpected significant and unusual one-time events, such as disaster events – in its framework for operational risk management. Operational risk is embedded in all our activities, including the practices and controls used to manage other risks.

Our operational risk management framework flows directly from our enterprise risk management framework and sets out the principles and practices that we use to manage operational risk by identifying, measuring, controlling, monitoring and reporting it. Among these controls are:

a) appropriate segregation of duties by adopting the "checker-maker" concept in operating procedures;
b) the scheduled reconciliation processes to identify unusual items;
c) the implementation of system security controls;
d) periodic internal audit due diligence to verify that operating policies and procedures have been implemented effectively;
e) suitable insurance coverage remains valid to mitigate operational losses;
f) the formulation of a comprehensive Disaster Recovery Plan (DRP) and Business Continuity Plans (BCP); and
g) a sound framework for operational risk reporting.

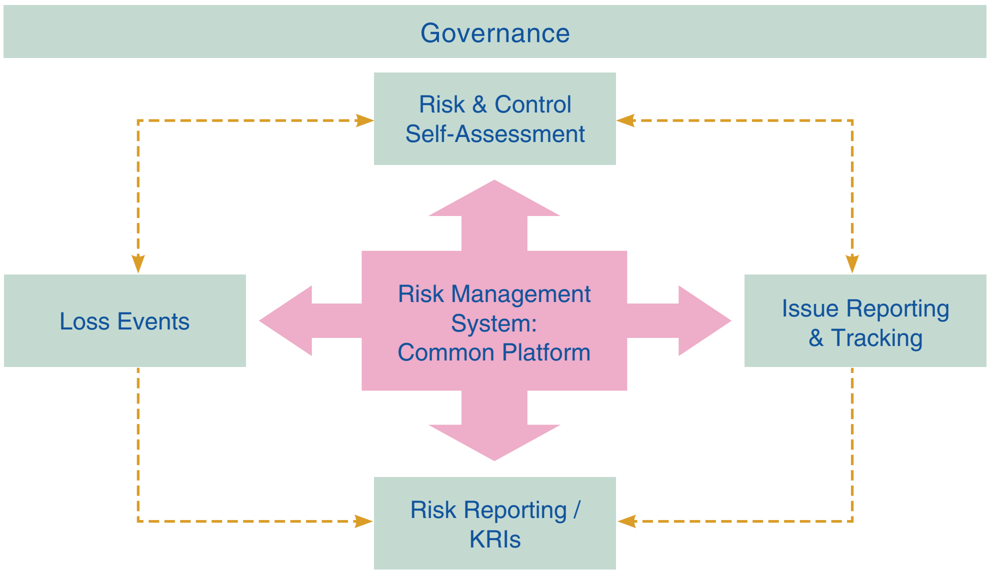
In order to meet the demands and best practices of Basel II - Advance Measurement Approach (AMA) approach, the GIC's operational risk program is composed of four components, for each line of business –

(1) Risk and Control Self-Assessment Framework;

(2) Loss Event Framework;

(3) Corrective Action Plans Framework; and

(4) Operational Risk Reporting Framework.



The information gathered from these pillars, tied together by the classification hierarchy, facilitates management decision-making at both the executive and business line level. By providing a basis for institutional understanding of operational risk, this framework supports a culture in which employees are aware of the risk inherent in daily operations, and are encouraged to proactively identify existing or potential problems.

Risk identification and measurement - Risk and Control Self-Assessment Framework

The Risk and Control Self-Assessment procedures establishes a consistent framework for describing business activities, processes, risks and controls, monitoring and testing those controls, assessing the controls, and reporting results of the monitoring and assessment activities. It is a process through which transparently assess the business's risks and analyze the strength or weakness of controls that are put in place to manage the identified risks.

Any high-risk exposures that we identify are subject to remedial measures, monitoring and control testing. This includes exposures identified through our integrated risk and control assessment and monitoring program, internal audits, compliance reviews, business continuity readiness reviews, or operational risk event reporting.

Risk monitoring/control - Loss Event Framework

Operational loss events are reported in a central database.

Comprehensive information about these events is collected, and includes information regarding amount, occurrence, discovery date, business area and product involved, and detailed root cause analysis.

In keeping with our broad definition of operational risk, during 2009 we began to include data on events with non-monetary impacts and near-miss events in our collection and analysis activities.

The proper measurement of operational risk and the associated regulatory and economic capital relies on accurate and timely loss events data.

Risk monitoring/control - Corrective Action Plans Framework

The Risk Management Committee provides oversight and direction to the Corporation's Operational Risk programs. The Committee is a key management practice to identify, document and resolve control issues identified in our business and to demonstrate to audit (internal & external) and regulators, that management is aware of and is actively addressing such issues as well as monitoring the timely resolution of these issues. The Committee will be kept abreast of material Operational Risk issues that have been identified by the business itself, Compliance, Risk Management or external regulators/auditors and to allow close monitoring as well as providing a central repository for all items to be logged.

Operational Risk Reporting Framework

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

- establish a common language regarding Operational Risk, throughout the organization;
- improve the Corporations' communication channel about its risk management environment;
- facilitate the correlation of similar events and to identify causes (rather than symptoms) of risk within departments, and across the Corporations'; and
- link the various components of operational risk events; and facilitates compliance with regulatory and supervisory requirements.

Basel II Rationale:

Aligning banking risk management with Capital Requirements

As Basel II continues to further evolve, the Basel Committee moves closer to its goal of aligning banking risk and its management with capital requirements. The primary objective of the new accord is to improve safety and soundness in 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.

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.

Basel II Disclosure

The Architecture of Basel II – The Three Pillars

With Basel II, the Basel Committee abandons the '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. In line with its conservative policies, the Corporation has adopted the increased capital requirement for market risk proposed by Basel Committee and due for adoption in 2010.

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 2009 and December 2008. The definition of regulatory capital under the two accords remains unchanged. However, 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 2009, deduction from Tier 2 capital was limited to the quantum of Tier 2 capital, with a proportionately higher deduction being applied to Tier 1. Total eligible regulatory capital was US$ 1,683.6 million by year-end December 2009 compared to US$ 622.4 million recorded in December 2008. The increase in capital was a result of both, significant valuation gains and capital injection by shareholders as a conservative measure, the net fair value reserve, which was negative for the year under review, was fully deducted from eligible capital. The Corporation has adopted a conservative policy for the treatment of such 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 2009	31 December 2008
Paid-up capital	2,100.0	1,550.0
Disclosed reserves	475.0	454.0
Retained earnings	(686.0)	(756.8)
Less: Goodwill	40.6	37.0
Less: Deductions	25.6	3.2
Less: Adjustments for negative Fair Value reserve	139.0	584.6
Total Tier 1 Capital	1,683.6	622.4
Fair value reserve	-	-
General Provision	2.6	3.4
Less: Deductions	2.6	3.4
Total Tier 2 Capital	-	-
Total eligible regulatory capital	1,683.6	622.4

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 all three major international agencies. Details of the Corporation's ratings are provided on page 36 of this annual report.

Table 2: Capital Adequacy Ratios

In US$ millions	Risk-weighted assets	Capital requirement
Credit Risk	3,903.7	312.3
Market Risk	1,721.9	137.8
Operational Risk	443.8	35.5
Total	6,069.4	485.6
Capital Adequacy Ratios		
Total CAR	27.7%	
Tier 1 Ratio	27.7%	

Table 2 and Table 3 detail the risk-weighted assets together with their corresponding regulatory capital requirements as at 31 Dec 2009. Total capital adequacy ratio and Tier 1 capital ratio are like wise 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$ 6,069.4 million, as at end of December 2009, requires regulatory capital of US$ 485.6 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$ 971.1 million. The reported eligible regulatory capital of US$ 1,683.6 million still provides sufficient cushion to support business expansions.

Table 3: Risk Exposure Break-down

In US$ millions	31 December 2009
Credit Risk (RWA)	
Claims on sovereigns	3.0
Claims on Public Sector Entities	122.3
Claims on Banks	459.6
Claims on Corporates	996.6
Securitization and Structured Investment Vehicle	358.5
Venture Capital and Private Equity	269.5
Investments in Commercial Entities	1,479.6
Investments in Other Funds and Quoted Equities	64.8
Other Assets	149.8
Total	3,903.7
Market Risk (VaR)	
Interest rate risk position	9.0
Foreign exchange risk position	2.9
Equity risk position	22.3
(Total VaR + Stress VaR) x 3	102.4
Specific risk position	35.2
Total capital requirement	137.8
Total RWA (capital requirement x 12.5)	1,721.9
Operational Risk (RWA):	35.5
Operational risk capital charge	443.8
Total RWA (capital charge x 12.5)	

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

a) Risk Appetite – Review the proposed risk appetite settings and recommend to the Board for approval;
b) Risk Limits and delegation structure – Review and recommend to the Board the proposed risk limits, in the context of the risk appetite, to control Credit, Market, Liquidity and Operational risks.
c) Policies and Procedures – Review and recommend to the Board key policies and procedures for the effective identification, measurement, monitoring and controlling of Credit, Market, Liquidity and Operational risks.
d) Monitoring – Review the Corporation's risk profile, material risks associated with the businesses and operations, emerging risk issues and trends and compliance with the risk limits and policies and procedures established, in order to ensure overall adherence to the defined risk appetite.
e) Reporting – The Risk Management Committee will report to the Board any material matters as presented by the Risk Management Division.

The Risk Management Committee, senior management, risk officers, and line managers contribute to effective Enterprise-wide Risk Management. The Risk Management Committee 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 Risk Management Division (RMD) structure has a distinct identity and independence from business units. RMD ensures that risk exposures remain within tolerable levels relative to the Corporation's capital and financial position. The division reports directly to the Chief Executive Officer & General Manager, 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:

Chart 1: GIC Risk Management Division Structure

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 Executive Committee.

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) GMG 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) PI 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) GM Business Development Committee identifies product development opportunities, recommends product launches, and monitors performance of same. Product performance and operational issues are resolved in this committee.
e) Systems Steering Committee provides the forum to discuss functions. The committee likewise reviews the IT architecture and its condition to meet current and future business requirements.
f) Audit Committee provides assurance on the adequacy of internal controls and accuracy of reports and reporting.
g) Human Resources Committee, as it relates to risk, covers the staffing levels and succession planning, as well as review of performance and bonus determination.

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.

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 Return on Risk Adjusted Capital (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 interstate 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 Executive Committee. The Risk Management Division quantifies the Corporation's credit risk appetite inline with the overall strategy. The division 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 Group. The system is a quantitative based program where overall portfolio 'Credit Value at Risk' is measured and controlled. This model calculates Credit VaR 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, Risk Management Division 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 December 31, 2009, rated credit exposures accounted for more than 34% 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 57% of total gross credit exposure. Assets that are rated single 'A' or better comprised 58% of rated gross credit exposure.

Table 5: Credit Exposure (post-credit conversion)

In US$ millions	31 Dec 2009		
	Rated	Unrated	Total
Claims on Sovereigns	3.0	-	3.0
Claims on Public Sector Entities	122.3	-	122.3
Claims on Banks	459.6	0.0	459.6
Claims on Corporate	429.9	566.7	996.6
Securitization and SIVs	330.2	28.3	358.5
Venture Capital and Private Equity	-	269.5	269.5
Investments in Commercial Entities	-	1,479.6	1,479.6
Other Funds and Quoted Equities	-	64.8	64.8
Other Assets	-	149.8	149.8
Total	1,345.0	2,558.7	3,903.7
In Percent	34.5%	65.5%	100.0%

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

In US$ millions	31 Dec 2009		
	Rated	Unrated	Total
Claims on Sovereigns	49.7	-	49.7
Claims on Public Sector Entities	304.0	-	304.0
Claims on Banks	1,537.1	0.1	1,537.2
Claims on Corporate	655.8	566.7	1,222.5
Securitization and SIVs	789.9	28.3	818.2
Venture Capital and Private Equity	-	269.5	269.5
Investments in Commercial Entities	-	1,479.6	1,479.6
Other Funds and Quoted Equities	-	64.8	64.8
Other Assets	-	149.8	149.8
Total	3,336.5	2,558.8	5,895.3
In Percent	56.6%	43.4%	100.0%

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

Table 7: Gross Credit Exposure before CRM

In US$ millions	31 Dec 2009		
	Funded	Unfunded	Total
Claims on Sovereigns	49.7	-	49.7
Claims on Public Sector Entities	304.0	-	304.0
Claims on Banks	1,530.5	6.7	1,537.2
Claims on Corporate	801.2	421.3	1,222.5
Securitization and SIVs	818.2	-	818.2
Venture Capital and Private Equity	269.5	-	269.5
Investments in Commercial Entities	1,479.6	-	1,479.6
Other Funds and Quoted Equities	64.8	-	64.8
Other Assets	149.8	-	149.8
Total	5,467.3	428.0	5,895.3
In Percent	92.7%	7.3%	100.0%

In terms of facility type (Table 7), US$ 5,467.3 million or approximately 93% 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 Dec 2009				
	GCC	Europe	North America	Asia	Total
Claims on Sovereigns	49.7	-	-	-	49.7
Claims on Public Sector Entities	304.0	-	-	-	304.0
Claims on Banks	911.4	456.6	129.2	40.0	1,537.2
Claims on Corporate	632.7	236.1	349.1	4.6	1,222.5
Securitization and SIVs	-	324.9	489.6	3.7	818.2
Venture Capital and Private Equity	23.2	68.7	166.6	11.0	269.5
Investments in Commercial Entities	1,356.7	-	122.9	-	1,479.6
Other Funds and Quoted Equities	45.5	-	19.3	-	64.8
Other Assets	70.0	12.7	67.1	-	149.8
Total	3,393.2	1,099.0	1,343.8	59.3	5,895.3
In Percent	57.6%	18.6%	22.8%	1.0%	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$ 3,393.2 million, or 57.6% of the total. Following suit are exposures to North America and Europe, 22.8% and 18.6% 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 Dec 2009					
	Banks & FIs	Trading & Mftg.	Utilities	Govt. Agencies	Other	Total
Claims on Sovereigns	-	-	-	49.7	-	49.7
Claims on Public Sector Entities	-	-	-	304.0	-	304.0
Claims on Banks	1,537.2	-	-	-	-	1,537.2
Claims on Corporate	432.4	69.5	720.6	-	-	1,222.5
Securitization and SIVs	818.2	-	-	-	-	818.2
Venture Capital and Private Equity	269.5	-	-	-	-	269.5
Investments in Commercial Entities	71.4	970.0	257.6	-	180.6	1,479.6
Other Funds and Quoted Equities	64.8	-	-	-	-	64.8
Other Assets	137.4	2.6	2.8	3.7	3.3	149.8
Total	3,330.9	1,042.1	981.0	357.4	183.9	5,895.3
In Percent	56.5%	17.7%	16.6%	6.1%	3.1%	100.0%

The table on industry distribution (Table 9) of the gross credit exposure reveals a concentration on banks and financial institutions, amounting to 56.5% of total exposure. Again, this is traced to the Corporation's debt securities and fund investments as it diversifies its asset from purely equity holdings. Meanwhile, inline with GCC's commitment to support the industrial growth within the GCC region, equity investments in commercial entities are focused in the trading and manufacturing sectors.

Table 10: Credit Exposure by Residual Contractual Maturity

In US$ millions	31 Dec 2009				
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Claims on Sovereigns	-	7.0	42.7	-	49.7
Claims on Public Sector Entities	-	30.0	202.4	71.6	304.0
Claims on Banks	1,029.8	117.2	390.2	-	1,537.2
Claims on Corporate	-	50.7	1,116.3	55.5	1,222.5
Securitization and SIVs	31.6	33.2	532.5	220.9	818.2
Venture Capital and Private Equity	0.1	0.4	33.9	235.1	269.5
Investments in Commercial Entities	-	-	-	1,479.6	1,479.6
Other Funds and Quoted Equities	-	-	-	64.8	64.8
Other Assets	25.0	15.6	58.8	50.4	149.8
Total	1,086.5	254.1	2,376.8	2,177.9	5,895.3
In Percent	18.4%	4.3%	40.3%	37.0%	100.0%

The residual maturity of gross credit exposure broken down by standard credit risk exposure is shown in Table 10. Almost 37% 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 loans provided to two manufacturing companies 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

	31 Dec 2009	
In US$ millions	Gross Exposure	Post-credit Conversion
CQG 1	494.4	98.8
CQG 2	176.5	88.3
CQG 3	98.1	98.1
CQG 4	20.9	73.3
CQG 5	-	-
CQG 6	-	-
Unrated	28.3	(deduction from capital)
Total	818.2	358.5

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 1996 Basel Committee amendment to the Capital Accord. GIC follows the Internal Models Approach (IMA) to quantify the capital charge associated with market risk within the trading portfolio.

The Corporation uses the 'RiskManager' system, developed by Risk Metrics Group, 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. Note 4 of the Consolidated Financial Statements):

(US$ million)	**2009**	2008
Equities and Managed funds	326	476
Alternative equity investments	275	617
	601	1,093

Policies relating to recognition, classification, fair value measurement and gain/loss computation are detailed in Note 2 of the 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 – covariance 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 – covariance 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 2009

In US$ millions	Interest Rate	Equity	FX	Total
Max	2.4	16.2	2.1	20.7
Min	1.1	7.6	1.3	10.0
Average	1.8	9.9	1.6	13.3
31-Dec-09	2.3	8.2	1.5	12.0
Stress VaR	7.1	12.4	1.3	20.8

7. OPERATIONAL RISK

Operational risk is defined by GIC as *"risk of loss resulting from inadequate or failed internal processes, people, or systems, external events, and the unexpected significant and unusual one-time events."*

The Corporation currently adopts the 'Standardized' approach in the estimation of regulatory capital to support potential operational risk exposure. Looking forward to 2010 GIC will be compliant with the Advanced Measurement Approach.

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 on page 56.

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 also on page 56.

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 amore 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.

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
Equity Investments	Portfolio of investments in equity funds and proprietary funds	Gulf Equities, Equity Portfolios
Alternative Investments	Portfolio of investments in an array of different asset classes and managed funds	Hedge Funds, SIVs, Real Estate, Structured Finance, Islamic Funds, Managed Funds, MBSs, Private Equity, Credit Funds
Treasury	Sales	Fixed Income, Equity, Foreign Exchanges, Commodities, Credit, Funding, Own Position Securities, Lending and Repos, Derivatives
	Market Making	
	Proprietary Positions	
Corporate Finance	Merchant Banking	Mergers and Acquisitions, Underwriting, Privatizations, Research, Debt (Government, High Yield), Syndications, IPO, Secondary Private Placements
	Advisory Services	
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 Headquarters 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.

Table 14: Operational Risk Capital Charge

In US$ millions	31 Dec 2009		
	3 yr Average Gross Income	Beta Factor	Capital Charge
Principal Investment	87.6	18%	15.8
Debt Capital Market	7.4	18%	1.3
Equities Investments	18.9	18%	3.4
Alternative Investments	(3.6)	18%	(0.7)
Treasury	6.5	18%	1.2
Asset Management	18.6	12%	2.2
Corporate Finance	60.3	18%	10.9
Headquarters	7.6	18%	1.4
Total	203.4		35.5
Risk-weighted exposure			443.8

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, air value is determined by reference to quoted bid prices. Fair values of unquoted equity investments are determined by reference to the market value of a similar investment, 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' of the Consolidated Financial Statements section.

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 2009 is US$ 733.4 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$ 80.8 million, of which a significant portion is from publicly traded equity holdings. Meanwhile, the total unrealized gain recognized in equity is US$ 65.8 million.

Table 15: Equity Holdings in Banking Book

In US$ millions	31 Dec 2009		
	Publicly Traded	Privately Held	Total
Fair Value of Equity Investments	351.7	381.7	733.4
Realized gains recorded in P/L	76.8	4.0	80.8
Unrealized gains recorded in Equity	47.0	18.8	65.8

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, 2009 is calculated at 1,609 contracts, with an estimated VaR of US$ 0.96 million.

Contents

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GULF INVESTMENT CORPORATION G.S.C.

We have audited the accompanying consolidated financial statements of Gulf Investment Corporation G.S.C. (the "Corporation") and Subsidiaries (collectively "the Group") which comprise the consolidated statement of financial position as at 31 December 2009 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 whether the 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 the auditors' 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, the auditor considers internal control relevant to the Corporation'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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Corporation's 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 of 31 December 2009 and the results of 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.

Report on other legal and regulatory requirements

Furthermore, in our opinion proper books of account have been kept by the Corporation and the consolidated financial statements, together with the contents of the report of the Corporation's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Corporation's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the Corporation's articles of association have occurred during the year ended 31 December 2009 that might have had a material effect on the business of the Group's or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2009.

Waleed A. Al Osaimi
License No. 68 A of Ernst & Young

11 March 2010
Kuwait

Consolidated Statement of Financial Position

as at 31 December 2009

(US$ million)	Notes	2009	2008
Assets			
Cash and cash equivalents		35	34
Placements with banks and other financial institutions	3	1,030	1,030
Financial assets at fair value through statement of income	4	601	1,093
Financial assets available for sale	5	3,127	3,850
Financial assets held to maturity	6	2	39
Investments in associates	7	1,009	808
Loans and advances	8	85	110
Other assets	9	224	247
Total assets		**6,113**	7,211
Liabilities and equity			
Liabilities			
Deposits from banks and other financial institutions	10	1,360	2,896
Securities sold under repurchase agreements	11	1,211	1,270
Term finance	12	1,587	2,071
Other liabilities	13	205	312
Total liabilities		**4,363**	6,549
Equity			
Share capital		2,100	1,550
Reserves		336	(132)
Accumulated losses		(686)	(756)
Total equity	14	**1,750**	662
Total liabilities and equity		**6,113**	7,211

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

Faisal Ali Al-Mansouri
Chairman

Hisham Abdulrazzaq Al-Razzuqi
Chief Executive Officer

Consolidated Statement of Income

for the year ended 31 December 2009

(US$ million)	Notes	2009	2008
Interest income	15	84	249
Net gains / (losses) from investments	16	108	(139)
Dividend income	17	17	23
Share of results of associates	7	5	118
Net fees and commissions	18	22	17
Foreign exchange loss		(3)	(2)
Total Income		**233**	266
Interest expense	19	(85)	(262)
Other operating income	20	5	5
Net operating income		**153**	9
Staff cost		(33)	(27)
Premises cost		(2)	(2)
Other operating expense		(11)	(19)
Operating profit (loss)		**107**	(39)
Income from recovery of debt		-	1
Provision for impairment losses	21	(16)	(958)
Net profit (loss) for the year		**91**	(996)

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

(US$ million)	**2009**	2008
Profits (loss) for the year	91	(996)
Other comprehensive income:		
Financial assets available for sale:		
- Net unrealised gain (loss) arising during the year	404	(1,334)
- Transferred to consolidated statement of income on sale	(34)	(68)
- Transferred to consolidated statement of income on impairment	15	753
Share of other comprehensive income of associates	62	(140)
Other comprehensive income (loss) for the year	447	(789)
Total comprehensive income (loss) for the year	**538**	(1,785)

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

(US$ million)	Share capital	Reserves: Compulsory reserve	Reserves: Voluntary reserve	Reserves: Investment revaluation reserve	Retained earnings (accumulated losses)	Total
Balance as at 1 January 2008	1,000	292	162	203	301	1,958
Net loss for the year	-	-	-	-	(996)	(996)
Other comprehensive income for the year	-	-	-	(789)	-	(789)
Total comprehensive income	-	-	-	(789)	(996)	(1,785)
Receipt of called up capital (Note 14)	550	-	-	-	-	550
Dividend for 2007	-	-	-	-	(61)	(61)
Balance as at 31 December 2008	1,550	292	162	(586)	(756)	662
Balance as at 1 January 2009	1,550	292	162	(586)	(756)	662
Net profit for the year	-	-	-	-	91	91
Other comprehensive income for the year	-	-	-	447	-	447
Total comprehensive income	-	-	-	447	91	538
Transfer to compulsary and voluntary reserves	-	9	9	-	(18)	-
Transfer of CBK general provision (Note 14.3)	-	-	3	-	(3)	-
Receipt of called up capital (Note 14)	550	-	-	-	-	550
Balance as at 31 December 2009	**2,100**	**301**	**174**	**(139)**	**(686)**	**1,750**

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2009

(US$ million)	Notes	2009	2008
Cash flows from operating activities:			
Net profit (loss) for the year		91	(996)
Adjustments for:			
Income from recovery of debt		-	(1)
Provision for impairment losses	21	16	958
Net gains from investments		(35)	(68)
Share of results of associates	7	(5)	(118)
Amortisation of net discount / premium on debt securities		(3)	(3)
Dividend income	17	(17)	(23)
Depreciation		3	4
		50	(247)
Changes in operating assets and liabilities:			
Decrease in financial assets carried at fair value through statement of income		492	196
Increase in placements with banks and other financial institutions		-	(408)
(Decrease) increase in deposits from banks and other financial institutions		(1,536)	91
Increase in loans and advances		(12)	(71)
(Increase) decrease in other assets and other liabilities (net)		(135)	152
Net cash outflows from operating activities		**(1,141)**	(287)
Cash flows from investing activities:			
Decrease in securities purchased under resale agreements		-	186
Proceeds from sale and maturity of financial assets available for sale		1,618	1,265
Purchase of financial assets available for sale		(387)	(423)
Distributions from associates	7	11	12
Proceeds from sale of associates		5	2
Purchase of associates		(113)	(397)
Purchase of property and other fixed assets		(16)	(3)
Dividend income received	17	17	23
Net cash inflows from investing activities		**1,135**	665
Cash flows from financing activities:			
Decrease in securities sold under repurchase agreements		(59)	(1,103)
(Decrease) increase in term finance		(484)	251
Proceeds from increase in share capital	14	550	550
Dividend paid		-	(61)
Net cash inflows (outflows) from financing activities		**7**	(363)
Increase in cash and cash equivalents		1	15
Cash and cash equivalents at beginning of year		34	19
Cash and cash equivalents at end of year		**35**	34

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2009

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, Kuwait.

The consolidated financial statements of the Corporation and its subsidiaries (collectively "the Group") for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 11 March 2010. The Annual General Assembly of Shareholders has the power to amend these consolidated financial statements after issuance.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the regulations of the Government of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. 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 Central Bank of Kuwait's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets. In addition, the consolidated financial statements have been prepared in accordance with the requirements of the Kuwait Commercial Companies Law of 1960, as amended, Ministerial Order No.18 of 1990 and the Corporation's memorandum and articles of association.

2.2 Basis of presentation

The consolidated financial statements are prepared on a historical cost basis as modified for the revaluation at fair value of financial assets at fair value through statement of income, financial assets available for sale, derivative financial instruments and financial assets forming part of effective fair value hedging relationships, except those financial assets for which a reliable measure of fair value is not available.

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

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year except for the new standards adopted. During the year, the Group has adopted the following standards effective for the annual periods beginning on or after 1 January 2009.

IAS 1 'Presentation of Financial Statements' (Revised)

The revised standard requires all non-owner changes in equity (i.e. comprehensive income) to be presented separately in a consolidated statement of comprehensive income. The Group has elected to present the consolidated statement of income and the consolidated statement of comprehensive income separately.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of presentation (continued)

IFRS 8 'Operating segments'

The new standard which replaced IAS 14 'Segment reporting' requires a management approach for segment reporting under which segment information is presented on the same basis as that used for internal reporting purposes. The Group has concluded that the operating segments determined in accordance with IFRS 8 are the same as the reporting segments previously identified under IAS 14. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

IFRS 7 'Financial Instruments: Disclosures'

The amended standard requires additional disclosures about fair value measurement. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The fair value measurement disclosures are presented in Note 27.

Improvement to IFRSs in 2008

In May 2008 the IASB issued a compilation of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The majority of these amendments are effective from 1 January 2009. The adoption of these improvements would result in changes to certain accounting policies, but did not have any impact on the financial position or performance of the Group.

2.3 Applicable IASB Standards and Interpretations issued but not adopted

The following IASB standards and interpretations have been issued but are not yet mandatory, and have not been adopted by the Group:

IFRS 3 – Business Combinations (Revised) (applicable for reporting period beginning on or after 1 July 2009)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after the effective date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period within which an acquisition occurs and future reported results.

IAS 27 – Consolidated and Separate Financial Statements (Amended) (applicable for reporting period beginning on or after 1 July 2009)

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Applicable IASB Standards and Interpretations issued but not adopted (continued)

IFRS 9 'Financial Instruments: Classification and measurement: (applicable for reporting periods beginning on or after 1 January 2013)

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety by the end of 2010, with the replacement standard to be effective for annual periods beginning 1 January 2013. IFRS 9 is the first part of Phase 1 of this project. The main phases are:

- Phase 1: Classification and Measurement
- Phase 2: Impairment methodology
- Phase 3: Hedge accounting

In addition, a separate project is dealing with derecognition.

Management has yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the new standard until all chapters of the IFRS 9 have been published and the impact of all changes can be comprehensively assessed.

IAS 24 Related Party Disclosures (Amended) (applicable for reporting periods beginning on or after 1 January 2011)

In November 2009 the IASB issued an amendment to IAS 24 with an aim to simplify the identification of related party relationships and re-balance the extent of disclosures of transactions between related parties based on the costs to preparers and the benefits to users in having this information available in the financial statements. Furthermore, the amended standard provides for a partial exemption of related party disclosures for transactions between government-related entities as well as with the government itself. For these entities, the general disclosure requirements of IAS 24 would be replaced by a more specific and concise disclosure requirement. The changes by IAS 24 (Amended) would affect the future disclosures of the Group but will not have any impact on the financial position or performance of the Group.

Improvement to IFRSs in 2009

In April 2009 the IASB issued a compilation of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The majority of these amendments are effective from annual periods beginning 1 July 2009 or 1 January 2010. The adoption of these improvements would result in changes to certain accounting polices but will not have any impact on the financial position or performance of the Group.

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared to the Corporation's reporting date, or a date not more than three months from the Corporation's reporting date, using consistent accounting policies. Adjustments are made for non-uniform accounting policies.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Basis of consolidation (continued)

Subsidiaries

Subsidiaries are those enterprises controlled by the Corporation. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Corporation obtained control, and continue to be consolidated until the date that such control ceases.

The financial statements of subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Significant inter-company balances and transactions, including inter-company profits and unrealised profits and losses are eliminated on consolidation.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Corporation. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Corporation's share of the identifiable net assets acquired is recorded as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e a discount on acquisition) is recognised directly in the consolidated statement of income in the year of acquisition.

The principal subsidiaries are listed in Note 31.

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 and other financial institutions

Placements with banks and other financial institutions are stated at amortised cost using 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 investments other than at 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(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 an effective hedging instrument.

The Group designates an investment as carried 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.
- 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.

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 advances are stated at amortised cost using 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 as 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 evaluated 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(ii) Classification and measurement (continued)

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 recognised 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.

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 alowance account.

Financial assets available for sale

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(iii) Impairment (continued)

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 statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are 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 makes 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.

In March 2007, the Central Bank of Kuwait issued a circular amending the basis of making general provisions on facilities changing the minimum rate from 2% to 1% for cash facilities and 1% to 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral. In November 2008 Central Bank of Kuwait instructed all investment companies that the general provision in excess of 1% for cash facilities and 0.5% on non cash facilities should be recognised as income in the consolidated statement of income. Subsequently in May 2009, the Central Bank of Kuwait instructed the Corporation to effect the transfer of the previous reversal in respect of the excess general provision from the retained earnings to the voluntary reserve (see Note 14.3).

(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.
- 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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(iv) Derecognition (continued)

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 and 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.

(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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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 provided in Note 27.

2.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Impairment of non-financial assets (continued)

For assets excluding goodwill, 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.

2.13 Investment in associates

An associate is a company 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 investments in associates are 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 or ownership 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Investment in associates (continued)

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.

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 and other fixed assets

Property and other fixed assets are 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 net selling price and value in use. Depreciation is computed on a straight-line basis over the estimated useful life of each asset category as follows:

Buildings	20 years
Plant and machinery	10 years
Building installations	5 - 10 years
Office and other equipment and computer software	3 - 10 years
Furniture	4 - 6 years
Motor vehicles	3 - 4 years

2.16 Deposits from banks and financial institutions

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

2.17 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 effective interest method.

2.18 Financial guarantees

The Group gives financial guarantees on behalf of its 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Fiduciary activities

Assets managed for third parties or held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position.

2.20 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 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.

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 remeasuring the hedging instrument is recognised immediately in the 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 statement of income. The gains or losses on cash flow hedges recognised initially in equity are transferred to the statement of income in the period in which the hedged transaction impacts the 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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 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 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.

Fee 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.

2.22 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 statement of financial position date, and approximates the present value of the final obligation. The obligations are paid into a plan which is administrated by an independent trustee.

2.23 Foreign currency

The consolidated financial statements are presented in US Dollars which is 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 converted to US Dollars at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Foreign currency (continued)

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 securities available for sale, unless 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 income statement 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 statement 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 deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated statement of income.

2.24 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.

2.25 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, carried 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 has the 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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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Significant accounting judgements and estimates (continued)

Classification of investments as 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 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.

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3 PLACEMENTS WITH BANKS AND FINANCIAL INSTITUTIONS

As at 31 December 2009 the Group has no placements with non-banking financial institutions (2008: US$ 41 million).

4 FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF INCOME

(US$ million)	2009	2008
Held for trading		
Investment in unquoted managed funds	324	474
	324	474
Designated at fair value through statement of income		
Unquoted equity securities	2	2
Investments in alternative equity funds	275	617
	277	619
Total	**601**	1,093

Trading securities comprise investments in funds that actively trade in mortgage backed securities, managed futures and securities issued within the GCC.

Alternative equity funds carried at fair value through income statement comprise investments in hedge funds and other alternative investments.

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5 FINANCIAL ASSETS AVAILABLE FOR SALE

(US$ million)	2009	2008
Debt instruments available for sale		
AAA/Aaa rated debt securities	268	566
GCC Government securities	60	263
Debt securities of other investment grade issuers	1,717	2,071
Structured notes	55	80
Other debt securities	295	156
	2,395	3,136
Equities and managed funds available for sale		
Quoted equity investments	28	68
Unquoted managed fund investments	36	98
	64	166
Equity participations available for sale		
Quoted equity investments	287	153
Unquoted equity investments	112	135
	399	288
Private equity funds available for sale		
Managed funds portfolio	219	203
Real estate funds portfolio	42	47
Diversified funds portfolio	8	10
	269	260
Total	**3,127**	3,850

Investments in debt instruments comprise investment in a portfolio of asset backed securities, structured notes and other corporate and sovereign bond securities. During the year an impairment loss reversal of US$ 6 million (2008: loss of US$ 397 million) has been recognised in the consolidated statement of income on debt instruments available for sale (Note 21).

Investment in equities and managed funds comprise investments in funds that invest in equity securities, real estate securities and subordinated notes. The unquoted fund investments are carried at net asset values provided by the investment managers. During the year an impairment loss amounting to US$ 4 million (2008: US$ 157 million) has been recognised in the consolidated statement of income on the investment in equities and managed funds, (Note 21).

Investment in equity participations consist of strategic equity investments within the GCC region over which the Corporation does not command control or significant influence. During the year an impairment loss amounting to US$ Nil (2008: US$ 150 million) has been recognised in the consolidated statement of income on quoted available for sale investments due to significant decline in market value. Unquoted investments are carried at cost less impairment losses amounting to US$ 2 million (2008: US$ Nil), since the fair value of these investments cannot be measured reliably (Note 21). In respect of these investments management has performed an assessment of the underlying investments and have concluded that the impairment losses recognised are adequate. The Corporation's strategy is to hold these securities for the foreseeable future.

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5 FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

Investment in private equity funds comprises equity investments of a structured finance nature with a wide range of externally managed private equity funds. These investments are carried at net asset values provided 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. As at the reporting date certain private equity funds amounting to US$ 247 million were being carried at fair values as at 30 September 2009, adjusted for cash movements upto the financial position date. During the year an impairment loss amounting to US$ 15 million (2008: US$ 49 million) has been recognised in the consolidated statement of income on the investment in private equity funds (Note 21).

6 FINANCIAL ASSETS HELD TO MATURITY

(US$ million)	**2009**	2008
Debt instruments held to maturity		
AAA/Aaa rated debt securities	-	3
Debt securities of other investment grade issuers	2	36
	2	39

Investments in debt instruments comprise investment in a portfolio of asset backed securities and credit funds. During the year an impairment loss of US$ 1 million (2008: US$ 209 million) has been recognised in the consolidated statement of income on financial assets held to maturity.

7 INVESTMENT IN ASSOCIATES

Movement in the carrying amount of investment in associates is as follows:

(US$ million)	**2009**	2008
Balance at beginning of the year	808	443
Additional investment made during the year	150	397
Change in associates' equity	60	(138)
Disposals during the year	(3)	(2)
Share of results	5	118
Dividend received	(11)	(12)
Impairment reversal during the year	-	2
Balance at end of the year	**1,009**	808

The carrying amount of investment in associates includes goodwill amounting to US$ 41 million (2008: US$ 37 million).

The fair value of the Group's investment in associates that are listed on a stock exchange have a carrying value of US$ 7 million and a market value of US$ 9 million (2008: US$ 9 million).

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7 INVESTMENT IN ASSOCIATES (continued)

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

(US$ million)	2009	2008
Share of assets	2,887	3,269
Share of liabilities	(1,917)	(2,496)
Share of net assets	970	773
Goodwill	41	37
Provision for impairment losses	(2)	(2)
Carrying amount of investment	**1,009**	808
Share of results for the year	**5**	118

List of associated companies are disclosed in Note 31.

8 LOANS AND ADVANCES

(US$ million)	2009	2008
Loans to associate entities	88	112
Provision for loan losses	(3)	(2)
	85	110

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

a) Provision for loan losses

(US$ million)	2009	2008
Balance at beginning of the year	2	1
Net charge for the year	1	1
Balance at end of the year	**3**	2

b) Provision for loan guarantees

(US$ million)	2009	2008
Balance at beginning of the year	2	4
Amounts utilised	-	(1)
Net write back for the year	-	(1)
Balance at end of the year	**2**	2

The policy of the Group for calculation of the impairment provision for loans complies with the specific provision requirements of the Central Bank of Kuwait.

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9 OTHER ASSETS

(US$ million)	2009	2008
Accrued interest, fees and commissions	33	73
Employees' end of service benefit asset	54	49
Prepayments	1	1
Property, plant and equipment	38	26
Receivables from associates	24	24
Other, including accounts receivable	74	74
	224	247

10 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

(US$ million)	2009	2008
Deposits from Central Banks	105	473
Deposits from other banks	123	396
Deposits from Islamic institutions	-	18
Other deposits	1,132	2,009
	1,360	2,896

At 31 December 2009 deposits from GCC Country Governments, Central Banks and other institutions headquartered in the GCC States amounted to US$ 1,349 million (2008: US$ 2,678 million).

11 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

As at 31 December 2009 the Group has entered into repurchase agreements with third-party international investment banks against certain debt instruments available for sale (Note 5). Repurchase agreements amounting to US$ 856 million (2008: US$ 1,270 million) are due within one year of the reporting date.

Notes to the Consolidated Financial Statements

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12 TERM FINANCE

(US$ million)	Effective interest rate % 2009	2009	2008
US Dollar floating rate term loan due in 2010	6 months $ LIBOR + 35 bps	200	200
Saudi Riyal floating rate term loan	SIBOR + 150 bps	-	4
Medium Term Note Issues (EMTN) :			
GIC US Dollar floating rate note due in 2009	3 months $ LIBOR + 55 bps	-	500
GIC US Dollar floating rate note due in 2010	3 months $ LIBOR + 45 bps	500	500
GIC Euro floating rate note due in 2011	3 months € LIBOR + 30 bps	576	559
GIC HK Dollar floating rate note due in 2011	3 months HIBOR + 35 bps	19	19
GIC MYR medium term fixed rate note due in 2013	3.98 % per annum (semi annual)	175	173
GIC MYR medium term fixed rate note due in 2023	4.52 % per annum (semi annual)	117	116
		1,587	2,071

13 OTHER LIABILITIES

(US$ million)	2009	2008
Accrued interest	45	79
Derivative instruments	65	141
Employees' end of service benefits	58	53
Other provisions	2	2
Other, including accounts payable and accrued expenses	35	37
	205	312

14 EQUITY

14.1 The authorised and issued capital comprises of 2.1 million shares of US$ 1,000 each (2008: 2.1 million shares of US$ 1,000 each). On 23 October 2008 the board of directors approved to call the unpaid portion of the authorised and issued capital of US$ 1,100 million. As at 31 December 2009 all capital amounts due had been received.

(US$ million)	2009	2008
Authorised and issued share capital	**2,100**	2,100
Fully paid up	2,100	1,050
Partly paid up	-	500
	2,100	1,550

Notes to the Consolidated Financial Statements

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14 EQUITY (continued)

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

14.3 In accordance with the Corporation's Articles of Association, 10 percent of the net profit for the year is required to be transferred to the voluntary reserve. The transfer to this reserve can be discontinued by a resolution adopted in the general assembly meeting of the shareholders.

As per the instruction of Central Bank of Kuwait dated 19 May 2009 the minimum general provision in excess of 1% on cash facilities and 0.5% on non cash facilities amounting to US$ 3 million that had been recognised in the previous year in the consolidated statement of income has now been transferred from retained earnings to the voluntary reserve.

14.4 Investment revaluation reserve comprises the cumulative net change in the fair value of investments available for sale held by the Corporation and the Group's share of movements in the investment revaluation reserve of associates.

15 INTEREST INCOME

(US$ million)	2009	2008
Placements with banks and other financial institutions	7	33
Financial assets available for sale	72	202
Financial assets held to maturity	1	8
Loans and advances	4	3
Others	-	3
	84	249

16 NET GAINS (LOSSES) FROM INVESTMENTS

(US$ million)	2009	2008
Realised gain on financial assets available for sale	34	68
Realised loss on financial assets held to maturity	(1)	-
Net gain (loss) from financial assets at fair value through statement of income	73	(207)
Realised gain on sale of associates	2	-
	108	(139)

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17 DIVIDEND INCOME

(US$ million)	2009	2008
Private equity funds available for sale	1	-
Equities and managed funds available for sale	4	11
Equity participations available for sale	12	12
	17	23

18 NET FEES AND COMMISSIONS

(US$ million)	2009	2008
Management fees	7	15
Custody and administration fees	1	1
Advisory fees	3	1
Project development fees	11	-
	22	17

19 INTEREST EXPENSE

(US$ million)	2009	2008
Deposits from banks and other financial institutions	33	102
Securities sold under repurchase agreements	19	74
Term finance	33	86
	85	262

Included in interest expense is US$ 50 million (2008: US$ 124 million) relating to interest incurred on liabilities to fund non interest bearing assets.

20 OTHER OPERATING INCOME

Other operating income represents the net income from manufacturing and the other operating income / expense of non-core businesses

(US$ million)	2009	2008
Sales	51	67
Cost of sales	(36)	(48)
Gross profit	15	19
Selling and distribution expenses	(2)	(3)
Administrative expenses	(3)	(1)
	10	15
Other operating income / expense of non-core business	(5)	(10)
	5	5

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21 PROVISION FOR IMPAIRMENT LOSSES

(US$ million)	2009	2008
Placements with non-bank financial institutions (Note 3)	1	(1)
Loans and advances / guarantees (Note 8)	(1)	-
Financial assets held to maturity (Note 6)	(1)	(209)
Financial assets available for sale – Debt securities (Note 5)	6	(397)
Financial assets available for sale – Equities and managed funds (Note 5)	(4)	(157)
Financial assets available for sale – Equity participations (Note 5)	(2)	(150)
Financial assets available for sale – Private equity funds (Note 5)	(15)	(49)
Investment in associates (Note 7)	-	2
Release of CBK general provision	-	3
	(16)	(958)

22 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 as 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 2009 amounted to US$ 6.5 million (2008: US$ 6.8 million).

23 RISK MANAGEMENT

This note presents information on the Group's exposure to risks arising from the use of financial instruments. The Group's objectives, policies and processes for measuring and managing risks are detailed in the Risk Management section of the annual report.

23.1 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.

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23 RISK MANAGEMENT (continued)

23.1 Liquidity risk (continued)

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 financial liabilities at 31 December was as follows:

31 December 2009 (US$ million)	**Within 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Deposits from banks and other financial institutions	1,160	202	-	-	1,362
Securities sold under repurchase agreements	560	301	370	-	1,231
Term finance	6	714	809	160	1,689
Gross settled derivative instruments					
- Contractual amount payable	494	214	238	123	1,069
- Contractual amount receivable	(494)	(214)	(229)	(117)	(1,054)
Other liabilities	41	33	53	78	205
Total undiscounted financial liabilities	**1,767**	**1,250**	**1,241**	**244**	**4,502**
Commitments	-	166	-	-	166
Contingent liabilities	-	341	-	-	341

31 December 2008 (US$ million)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Deposits from banks and other financial institutions	2,594	311	-	-	2,905
Securities sold under repurchase agreements	1,262	14	-	-	1,276
Term finance	16	558	1,522	156	2,252
Gross settled derivative instruments					
- Contractual amount payable	984	148	238	123	1,493
- Contractual amount receivable	(958)	(151)	(227)	(116)	(1,452)
Other liabilities	103	43	72	94	312
Total undiscounted financial liabilities	4,001	923	1,605	257	6,786
Commitments	-	179	-	-	179
Contingent liabilities	-	366	-	-	366

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23 RISK MANAGEMENT (continued)

23.1 Liquidity risk (continued)

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.

(US$ million)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
At 31 December 2009					
Assets					
Cash and cash equivalents	35	-	-	-	35
Placements with banks and other financial institutions	1,030	-	-	-	1,030
Financial assets at fair value through statement of income	598	3	-	-	601
Loans and advances	-	-	85	-	85
Financial assets available for sale	1,837	910	34	346	3,127
Financial assets held to maturity	2	-	-	-	2
Investment in associates	-	-	-	1,009	1,009
Other assets	29	40	34	121	224
Total assets	**3,531**	**953**	**153**	**1,476**	**6,113**
Liabilities					
Deposits from banks and other financial institutions	1,158	202	-	-	1,360
Securities sold under repurchase agreements	560	296	355	-	1,211
Term finance	-	700	771	116	1,587
Other liabilities	65	87	14	39	205
Total liabilities	**1,783**	**1,285**	**1,140**	**155**	**4,363**
Net gap	**1,748**	**(332)**	**(987)**	**1,321**	

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23 RISK MANAGEMENT (continued)

23.1 Liquidity risk (continued)

(US$ million)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
At 31 December 2008					
Assets					
Cash and cash equivalents	27	7	-	-	34
Placements with banks and other financial institutions	1,030	-	-	-	1,030
Financial assets at fair value through statement of income	1,071	22	-	-	1,093
Loans and advances	110	-	-	-	110
Financial assets available for sale	2,481	977	34	358	3,850
Financial assets held to maturity	39	-	-	-	39
Investment in associates	-	-	-	808	808
Other assets	83	51	1	112	247
Total assets	4,841	1,057	35	1,278	7,211
Liabilities					
Deposits	2,589	307	-	-	2,896
Securities sold under repurchase agreements	1,256	14	-	-	1,270
Term finance	-	500	1,455	116	2,071
Other liabilities	105	70	70	67	312
Total liabilities	3,950	891	1,525	183	6,549
Net gap	891	166	(1,490)	1,095	

23.2 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.

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23 RISK MANAGEMENT (continued)

23.2 Market risk (continued)

The Group measures, monitors and manages market risk both on a notional basis, and using a Market Value at Risk (Market VaR) concept. For disclosures relating to market risk refer to the VaR table and sensitivity analysis included in the market risk analysis of the Risk Management section of the annual report, which are an integral part of the consolidated financial statements.

23.3 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 Board 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 2009, the Group has not obtained any collateral on any of the financial assets.

23.3.1 Maximum exposure to credit risk

The maximum credit exposure of the Group is as follows:

(US$ million)	**Maximum exposure**	
	2009	2008
Cash and cash equivalents	35	34
Placements with banks and other financial institutions	1,030	1,030
Debt Securities available for sale	2,395	3,136
Debt Securities held to maturity	2	39
Loans and advances	85	110
Other assets	186	230
Credit exposure on assets	**3,733**	4,579
Credit commitments	341	369
Total credit exposure	**4,074**	4,948

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$ 81 million (2008: US$ 108 million).

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23 RISK MANAGEMENT (continued)

23.3.1 Maximum exposure to credit risk (continued)

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

(US$ million)	GCC	Europe	North America	Asia	Total
At 31 December 2009					
Cash and cash equivalents	14	12	8	1	35
Placements with banks and other financial institutions	599	391	-	40	1,030
Debt Securities available for sale	728	724	918	25	2,395
Debt Securities held to maturity	-	-	2	-	2
Loans and advances	85	-	-	-	85
Other assets	105	13	67	1	186
Credit exposure on assets	**1,531**	**1,140**	**995**	**67**	**3,733**
Credit commitments	341	-	-	-	341
Total credit exposure	**1,872**	**1,140**	**995**	**67**	**4,074**

(US$ million)	GCC	Europe	North America	Asia	Total
At 31 December 2008					
Cash and cash equivalents	10	22	2	-	34
Placements with banks and other financial institutions	429	418	183	-	1,030
Debt Securities available for sale	733	1,116	1,250	37	3,136
Debt Securities held to maturity	-	20	19	-	39
Loans and advances	110	-	-	-	110
Other assets	117	35	77	1	230
Credit exposure on assets	1,399	1,611	1,531	38	4,579
Credit commitments	369	-	-	-	369
Total credit exposure	1,768	1,611	1,531	38	4,948

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23 RISK MANAGEMENT (continued)

23.3.1 Maximum exposure to credit risk (continued)

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

(US$ million)	Bank & FIs.	Trading & Mftg.	Utilities	Govt. & agencies	Other	Total
At 31 December 2009						
Cash and cash equivalents	28	7	-	-	-	35
Placements with banks and other financial institutions	1,030	-	-	-	-	1,030
Debt Securities available for sale	1,685	172	180	294	64	2,395
Debt Securities held to maturity	2	-	-	-	-	2
Loans and advances	-	11	74	-	-	85
Other assets	145	31	3	4	3	186
Credit exposure on assets	**2,890**	**221**	**257**	**298**	**67**	**3,733**
Credit commitments	-	117	224	-	-	341
Total credit exposure	**2,890**	**338**	**481**	**298**	**67**	**4,074**

(US$ million)	Bank & FIs.	Trading & Mftg.	Utilities	Govt. & agencies	Other	Total
At 31 December 2008						
Cash and cash equivalents	34	-	-	-	-	34
Placements with banks and other financial institutions	1,030	-	-	-	-	1,030
Debt Securities available for sale	2,445	172	210	293	16	3,136
Debt Securities held to maturity	39	-	-	-	-	39
Loans and advances	-	36	74	-	-	110
Other assets	154	62	4	4	6	230
Credit exposure on assets	3,702	270	288	297	22	4,579
Credit commitments	-	126	243	-	-	369
Total credit exposure	3,702	396	531	297	22	4,948

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23 RISK MANAGEMENT (continued)

23.3.2 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 facilities 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 facilities 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 asset for consolidated statement of financial position lines.

(US$ million)	**Neither past due nor impaired**		**Total**
	Investment grade	**Unrated**	
At 31 December 2009			
Cash and cash equivalents	35	-	35
Placements with banks and other financial institutions	1,030	-	1,030
Debt Securities available for sale	2,101	294	2,395
Debt Securities held to maturity	2	-	2
Loans and advances	85	-	85
Other assets	113	73	186
Credit exposure on assets	**3,366**	**367**	**3,733**
Credit commitments	341	-	341
Total credit exposure	**3,707**	**367**	**4,074**

(US$ million)	Neither past due nor impaired		Total
	Investment grade	Unrated	
At 31 December 2008			
Cash and cash equivalents	34	-	34
Placements with banks and other financial institutions	1,030	-	1,030
Debt Securities available for sale	2,980	156	3,136
Debt Securities held to maturity	39	-	39
Loans and advances	110	-	110
Other assets	164	66	230
Credit exposure on assets	4,357	222	4,579
Credit commitments	369	-	369
Total credit exposure	4,726	222	4,948

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24 COMMITMENTS AND CONTINGENT LIABILITIES

In the usual course of meeting the requirements of customers, the Group has commitments to extend credit and provide financial guarantees and letters of credit to guarantee the performance of customers to third parties. The credit risk on these transactions is generally less than the contractual amount. The table below sets out the notional principal amounts of outstanding commitments.

	Notional principal amount	
	2009	2008
Credit Risk Amounts (US$ million)		
Transaction-related contingent items:		
- Letter of guarantees	339	366
Undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	2	3
	341	369

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 statement of financial position 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 transaction related contingent liabilities are net of provision of US$ 2 million (2008: US$ 2 million).

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

(US$ million)	**2009**	2008
Undrawn commitments for investments in private equity funds	116	124
Undrawn commitments for investments in associates and other equity participations	50	51
	166	175

25 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 agreements in place.

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25 DERIVATIVES (continued)

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 interest securities available for sale.

As at the reporting date the notional amount of interest rate swaps used to hedge interest rate risk amounted to US$ 919 million (2008: US$ 1,592 million) and its net fair value was a swap loss of US$ 50 million (2008: US$ 96 million).

For the year ended 31 December 2009 the Group recognised a gain of US$ 29 million (2008: net loss of US$ 91 million) representing the realised and unrealised gain on hedging instruments. The corresponding realised and unrealised loss on the hedged fixed income securities amounted to US$ 30 million (2008: gain of US$ 90 million).

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

(US$ million)		**2009**			2008	
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Derivatives held for hedging						
- Interest rate swaps	-	(50)	919	-	(96)	1,592
- Cross currency swaps	-	(14)	366	-	(18)	343
- Index linked swap	-	(1)	42	-	-	200
Derivatives held for trading						
- Forward foreign exchange contracts	1	(1)	1,054	18	(45)	1,452
	1	**(66)**	**2,381**	18	(159)	3,587

Maturity analysis

(US$ million)	**Year 1**	**Year 1 to 5**	**Above 5 years**	**Total**
At 31 December 2009				
Notional amounts				
Interest rate swaps	39	683	197	919
Cross currency swaps	-	249	117	366
Index linked swap	42	-	-	42
Forward foreign exchange contracts	708	229	117	1,054
	789	**1,161**	**431**	**2,381**

(US$ million)	Year 1	Year 1 to 5	Above 5 years	Total
At 31 December 2008				
Notional amounts				
Interest rate swaps	279	920	393	1,592
Cross currency swaps	-	227	116	343
Index linked swap	-	200	-	200
Forward foreign exchange contracts	1,110	227	115	1,452
	1,389	1,574	624	3,587

Notes to the Consolidated Financial Statements

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26 SEGMENTAL INFORMATION

The group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. Under IFRS 8, reported segment profits are based on internal management reporting information that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance, and is reconciled to group profit or loss. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical). Following the adoption of IFRS 8, the identification of the group's reportable segments has not changed. The measurement policies the group uses for segment reporting under IFRS 8 are the same as those used in its financial statements.

Business segment

For management purposes the Group is divided into five main business divisions:

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" segment comprises items which are not directly attributable to specific business divisions, including investments of a strategic nature, and income arising on the recharge of the Group's net free capital to business units. Other operations of the Group include 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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26 SEGMENTAL INFORMATION (continued)

31 December 2009 (US$ million)	**Principal investments (PI)**	**Debt capital markets**	**Equity and alternative investments**	**Treasury**	**Corporate and other**	**Eliminations**	**Total**
Interest income	4	78	-	31	2	(31)	84
Investment, fee and other operating income	96	(10)	64	(2)	1	-	149
Share of results of associates	5	-	-	-	-	-	5
Interest expense	(26)	(66)	(14)	(10)	-	31	(85)
Net operating income	79	2	50	19	3	-	153
Other operating expenses	(10)	(6)	(2)	(3)	(25)	-	(46)
Impairment losses	(3)	5	(19)	1	-	-	(16)
Segment results	66	1	29	17	(22)	-	91
Net profit for the year							**91**
OTHER INFORMATION							
Segment assets	1,624	2,644	715	1,058	72	-	**6,113**
Segment liabilities	1,504	2,155	664	40	-	-	4,363
Equity							1,750
Total liabilities and equity							**6,113**

31 December 2008 (US$ million)	Principal investments (PI)	Debt capital markets	Equity and alternative investments	Treasury	Corporate and other	Eliminations	Total
Interest income	6	207	1	38	54	(57)	249
Investment, fee and other operating income	41	3	(140)	(2)	2	-	(96)
Share of results of associates	118	-	-	-	-	-	118
Interest expense	(58)	(168)	(66)	(27)	-	57	(262)
Gross operating income	107	42	(205)	9	56	-	9
Other operating expenses	(14)	(6)	(3)	(3)	(22)	-	(48)
Impairment losses	(148)	(655)	(157)	(1)	3	-	(958)
Segment results	(55)	(619)	(365)	5	37	-	(997)
Income from recovery of debt							1
Net loss for the year							(996)
OTHER INFORMATION							
Segment assets	1,406	3,425	1,280	1,047	53	-	7,211
Segment liabilities	1,516	3,307	1,637	89	-	-	6,549
Equity							662
Total liabilities and equity							7,211

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26 SEGMENTAL INFORMATION (continued)

Geographical segment

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

31 December 2009

	GCC Region		International		Total	
(US$ million)	**PI**	**Others**	**PI**	**Others**	**PI**	**Others**
Net operating income	**104**	**13**	**-**	**36**	**104**	**49**
Total assets	**1,604**	**1,607**	**20**	**2,882**	**1,624**	**4,489**

31 December 2008

	GCC Region		International		Total	
(US$ million)	PI	Others	PI	Others	PI	Others
Net operating income	164	16	-	(171)	164	(155)
Total assets	1,386	1,360	20	4,445	1,406	5,805

27 FAIR VALUE INFORMATION

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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 as explained in Note 5. For other financial asset and liabilities carried at 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 repriced 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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27 FAIR VALUE INFORMATION (continued)

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

(US$ million)

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets held for trading				
Investment in unquoted managed funds	49	275	-	324
Financial assets designated at fair value through statement of income				
Investment in alternative equity funds	-	275	-	275
Derivative financial instruments				
Forward foreign exchange contracts	-	-	1	1
Financial assets available for sale				
Debt Instruments	1,102	-	1,255	2,357
Equities and managed funds	28	36	-	64
Equity participations	287	-	-	287
Private equity funds	-	28	219	247
	1,466	**614**	**1,475**	**3,555**
Liabilities measured at fair value				
Derivative financial instruments				
Interest rate swaps	-	50	-	50
Forward foreign exchange contracts	-	-	1	1
Cross currency swaps	-	-	14	14
Total return swap	-	-	1	1
	-	**50**	**16**	**66**

28 RELATED PARTY TRANSACTIONS

Related parties represent subsidiaries and associates, directors and key management personnel of the Group, and companies which they control or over which they exert significant influence. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with associates during the year are as follows:

(US$ million)	**2009**	2008
Net fees and commissions	15	10
Loans and advances	85	110
Guarantees and commitments	330	358
Receivables from associates	24	24

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28 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

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

(US$ million)	2009	2008
Salaries and short-term employee benefits	6	6
Post employment and termination benefits	2	2
Total compensation paid to key management personnel	8	8

Included in other assets are loans to key management personnel amounting to US$ 1 million (2008: US$ 1 million).

29 FIDUCIARY ACTIVITIES

At 31 December 2009 third party assets under management amounted to US$ 224 million (2008: US$ 457 million). These assets are managed in a fiduciary capacity and are therefore excluded from the consolidated statement of financial position. The related income from fiduciary activities amounted to US$ 8 million (2008: US$ 16 million).

30 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 disciplined 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:

(US$ million)	2009	2008
Interest bearing Deposits, term finance and other borrowings	4,158	6,237
Other liabilities	205	312
Less: Cash and cash equivalents and placements with banks and financial institutions	(1,065)	(1,064)
Net debt	3,298	5,485
Equity	1,750	662
Gearing ratio (Net debt /equity)	1.9	8.3

Notes to the Consolidated Financial Statements

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30 CAPITAL MANAGEMENT (continued)

Economic capital

The Corporation defines economic capital as the amount of capital required to cover unexpected losses arising from doing business. The Corporation determines economic capital sufficiency based on internal models.

31 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

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

(US$ million)	Country of incorporation	Effective equity interest as at		Principal business activity
		2009	2008	
Subsidiaries				
Bituminous Products Company Limited (Bitumat)	Saudi Arabia	100.0	100.0	Building material manufacturing
G.I.C General Trading and Contracting Company W.L.L.	Kuwait	100.0	100.0	Holding company
Gulf Denim Limited	UAE	100.0	100.0	Textile manufacturing
Investel Holdings W.L.L.	Bahrain	100.0	100.0	Holding company
GIC Financial Services Ltd	Cayman Islands	100.0	100.0	Holding company
GIC Investment Holding Ltd	Cayman Islands	100.0	100.0	Holding company
Associates				
Gulf Re Holdings Ltd.	UAE	50.0	50.0	Re-insurance
Al Dur Power & Water Co.	Bahrain	25.0	50.0	Power & Water Utility project
United Stainless Steel Company B.S.C. (Closed)	Bahrain	50.0	50.0	Steel Manufacturing
Oman Investment Co.	Oman	50.0	50.0	Investing activities
Gulf Industrial Investment Co. (E.C.)	Bahrain	50.0	50.0	Steel Pelletizing
Gulf Electronic Tawasul Company KSCC	Kuwait	47.5	47.5	Information Technology
Al Ezzel Power Company B.S.C.	Bahrain	45.0	45.0	Power & Water Utility project
Bahrain Industrial Pharmaceutical Co.	Bahrain	40.0	40.0	Pharmaceuticals
Orimix Concrete Products L.L.C.	UAE	40.0	40.0	Building Materials
A'Saffa Poultry Farms Co. SAOG	Oman	33.3	33.3	Poultry & Dairy Products
The National Titanium Dioxide Co., Ltd. (CRISTAL)	Saudi Arabia	33.0	33.0	Production of Titanium Dioxide
SGA Marafiq Holdings	Saudi Arabia	33.3	33.3	Power & Water Utility project
Oman Fiber Optic Co. SAOG	Oman	25.0	25.0	Manufacturing Cables
Technical Supplies & Services Co. Ltd.	UAE	30.7	25.0	Refrigeration & Cooling Services
Kuwait Int'l Advanced Industries Company K.S.C.	Kuwait	-	25.0	Industrial Construction

Notes to the Consolidated Financial Statements

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31 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (continued)

(US$ million)	Country of incorporation	Effective equity interest as at 2009	2008	Principal business activity
Associates (continued)				
Jeddah Cable Company	Saudi Arabia	25.0	25.0	Manufacturing Cables
ALUMCO L.L.C	UAE	24.5	24.5	Building Materials
Interplast Company Limited L.L.C.	UAE	23.5	23.5	Plastic
Celtex Weaving Mills Co. Ltd.	Bahrain	23.0	23.0	Textiles
Rawabi Emirates (PJSC)	UAE	22.5	22.5	Dairy Products
Oman Polypropylene L.L.C.	Oman	20.0	20.0	Manufacturing Petrochemical Products
Shuqaiq Water & Electricity Co.	Saudi Arabia	20.0	20.0	Power & Water Utility project
Gulf International Pipe Industry Co.	Oman	20.0	20.0	Building Materials
Gulf Stone Company SAOG	Oman	20.0	20.0	Building Materials

32 RECLASSIFICATION OF COMPARATIVE INFORMATION

The group has reclassified certain comparative information to conform to the changes in the financial statements presentation that was adopted in the current year.

As at the reporting date, the reclassifications in the consolidated statement of financial position resulted in changes to the previously reported carrying value of assets as follows:

(US$ million)	Previously reported	Reclassification	Current presentation
At 31 December 2008			
Projects and equity participations	1,091	(1,091)	-
Investment in associates (Note 7)	-	808	808
Equity participations available for sale (Note 5)	-	288	288
Other receivables (Note 9)	-	(5)	(5)
Interest bearing securities and funds	3,331	(3,331)	-
Equities and managed funds	1,103	(1,103)	-
Financial assets at fair value through statement of income (Note 4)	-	1,093	1,093
Debt securities available for sale (Note 5)	-	3,136	3,136
Equities and managed funds available for sale (Note 5)	-	166	166
Debt securities held to maturity (Note 6)	-	39	39
	5,550	-	5,550

Direct Investments

Name of the Project	Location	(US$ million) Total Shareholders' Equity	GIC share of capital %
Subsidiaries and Associated Companies			
Bituminous Products Company Limited (Bitumat)	Saudi Arabia	105.89	100.0
Investel Holdings W.L.L.	Bahrain	59.93	100.0
G.I. Corporation General Trading & Contracting Co.	Kuwait	0.87	100.0
Gulf Denim Limited	UAE	1.71	100.0
Gulf Paramount for Elelctrical Services Company W.L.L.	Kuwait	4.56	92.8
GIC Technology Partnership Co.	Kuwait	0.81	80.0
Gulf Jyoti International	UAE	1.63	70.0
Crown Paper Mills Ltd. FZC	UAE	23.81	55.9
Gulf Re Holdings Ltd.	UAE	205.89	50.0
United Stainless Steel Company B.S.C. (Closed)	Bahrain	101.09	50.0
Oman Investment Corporation	Oman	62.24	50.0
Gulf Industrial Investment Co. (E.C.)	Bahrain	237.03	50.0
Gulf Electronic Tawasul Company K.S.C. (Closed)	Kuwait	5.10	47.5
Al Ezzel Power Company B.S.C.	Bahrain	22.30	45.0
Bahrain Industrial Pharmaceutical Co.	Bahrain	1.80	40.0
Orimix Concrete Products L.L.C.	UAE	34.85	40.0
SGA Marafiq Holdings W.L.L.	Bahrain	-	33.3
A'Saffa Poultry Farms Co. SAOG	Oman	29.55	33.2
The National Titanium Dioxide Co. Ltd. (CRISTAL)	Saudi Arabia	703.74	33.0
Technical Supplies & Services Co. Ltd.	UAE	63.64	30.7
Oman Fiber Optic Co. SAOG	Oman	20.39	25.0
Al Dur Power & Water Co.	Bahrain	528.10	25.0
Jeddah Cable Company	Saudi Arabia	206.60	25.0
ALUMCO L.L.C.	UAE	50.28	24.5
Interplast Company Limited (L.L.C.)	UAE	214.85	23.5
Celtex Weaving Mills Co. Ltd.	Bahrain	5.49	23.0
Rawabi Emirates (PJSC)	UAE	100.59	22.5
Oman Polypropylene L.L.C.	Oman	26.39	20.0
Shuqaiq Water & Electricity Co.	Saudi Arabia	-	20.0
Gulf International Pipe Industry Co.	Oman	28.07	35.0
Gulf Stone Company SAOG	Oman	8.47	20.0
Equity Participations - GIC ownership less than 20 percent			
Tatweer Infrastructure Company (Q.S.C.C.)	Qatar	209.73	13.0
Perella Weinberg Partners	USA	149.82	8.0
Rasameel Structured Finance Co. K.S.C.	Kuwait	91.09	10.0
Ras Laffan Power Company Limited (Q.S.C.)	Qatar	233.74	10.0
The Dubai Wellness Centre Limited	UAE	61.09	10.0
KGL Logistics Company K.S.C. (Closed)	Kuwait	124.86	9.0
Securities and Investment Company B.S.C.	Bahrain	142.78	8.0
National Industrialization Co. (NIC)	Saudi Arabia	3,055.90	7.9
Gulf Aluminium Rolling Mill Co. B.S.C.	Bahrain	193.00	5.9
United Power Company SAOG	Oman	84.61	2.3
Al - Razzi Holding Company K.S.C.	Kuwait	150.67	2.0
Arabian Industrial Fibers Company (IBN RUSHD)	Saudi Arabia	978.00	2.0
Thuraya Satellite Telecommunications Company PJSC	UAE	641.87	1.7
Zamil Industrial Investment Co.	Saudi Arabia	319.93	0.3

Investment Products

The Fund	Currency	Inception Date	Investment Objectives
GCC Funds			
Equity			
1 Gulf Premier Fund	US$	April 2003	• Attain capital appreciation through investments in GCC equity markets. • Achieve competitive returns against a GCC equities index.
2 Protected Gulf Premier Notes	US$	December 2005	• Provide safe access vehicle to the growing GCC equity through a capital guaranteed notes on Gulf Premier Fund.
3 Gulf Islamic Fund	US$	January 2008	• Absolute return product with capital appreciation investment in GCC Equity markets through a diversified portfolio within Sharia'a provisions.
Bonds			
1 GIC KD Bond Fund	KD	May 2003	• Maximize current income and price appreciation consistent with preservation of capital and lower volatility through investment in debt issues in GCC & Kuwaiti markets.
2 Gulf Bond Fund	US$	March 2005	• Maximize income returns through investments in debt issues of GCC entities. • Preservation of capital and lower volatility of total returns.
Global Funds			
1 Alternative Strategies Fund	US$	August 1999	• The fund is a portfolio of hedge funds that is diversified across a broad mix of styles and strategies that seek to generate long term capital appreciation while maintaining a low correlation with traditional global financial markets. • Risk Objective: Less volatile than traditional equity investments, emphasizing preservation of capital in down markets. • Achieve annual total returns in the range of LIBOR plus 3% to 5%. • Provide returns with low volatility 2% - 4%.
2 GIC Event-Driven Fund	US$	July 2002	• A fund of hedge funds focused on event- driven hedge fund strategies. • Absolute annual returns in the range of LIBOR plus 4% to 8%. • Achieve those returns within volatility of 3% to 5%. • Provide returns with low correlation to the general direction of the traditional equity, fixed income and credit markets.
3 GIC Global REITS Fund	US$	December 2005	• Deliver capital appreciation through investments in global Real Estate securities listed in US, Europe and Asian equity markets. • Achieve competitive and stable returns.

Corporate Directory

Senior Management

Hisham Abdulrazzaq Al-Razzuqi
Chief Executive Officer & General Manager

Rashid Bin Rasheed
Deputy General Manager &
Head of Finance & Administration

Arun Ratra
Head of Global Markets Group

Global Markets

Malek Al-Ajeel
Head of Business Development

Talal Al-Tawari
Head of GCC Equities

Fahmi Al-Ali
Managed Funds

Tarek El Rohayem
Head of GCC Research Division

Waleed Al-Braikan
GCC Fund Management

Martin Joy
Head of Treasury Division
Acting Head of Debt Capital Markets Division

Mathew Abraham
Money Markets

Principal Investing

Shafic Ali
Head of Utilities and Financial Services

Khaled Al-Qadeeri
Head of Manufacturing Projects

Mohammad Al-Melhem
Head of GCC Diversified Projects

Finance & Administration

Hani Al-Shakhs
Head of Information Technology

Hazem El-Rafie
Head of Financial Control

Shawki Khalaf
Head of Operations

Hamed Hamed
Human Resources & Administration

Qais Al-Shatti
Head, Communication & Public Relations

Corporate Office

Dr. Magdy Ali
Economics

Sebastian Vadakumcherry
Risk Management

Mahesh Nair
Internal Audit

Fahad Alabdulkader
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