ANNUAL REPORT AND ACCOUNTS 2022

مؤسسة الخليج للاستثمار
Gulf Investment Corporation

CONTENTS

Mission Statement	2
Financial Highlights	3
Board Of Directors	5
Chairman's Statement	7
Chief Executive Officer's Statement	9
Economic Review	11
Financial Review	37
Risk Management	41
Basel III Disclosure	53
Consolidated Financial Statements	69
Stand-alone Statement of Financial Position	113
Principal Investing	114
Corporate Directory	115
Contact Details	116

MISSION STATEMENT

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

FINANCIAL HIGHLIGHTS

(US$ million) **For the year**	2020	2021	2022
Gross Operating and Other Income	96	183	169
Operating Expenses	46	47	47
Net Profit / (Loss)	(35)	130	131
At year end			
Total Assets	3,285	3,189	3,331
Interest Bearing Securities and Funds	794	539	355
Equities and Managed Funds	414	437	608
Projects and Equity Participations	1,573	1,711	1,926
Deposits	418	314	431
Shareholders' Equity	2,367	2,608	2,688
Selected Ratios (%)			
Profitability			
Return on Paid-up Capital	-	6.2	6.2
Return on Adjusted Shareholders' Equity	-	4.8	4.6
Capital			
BIS Ratios			
- Total	37.5	41.3	30.7
- Tier 1	37.5	41.3	30.7
Shareholders' Equity as a % of Total Assets	72.1	81.8	80.7
Asset Quality			
Marketable Securities as a % of Total Assets	28.8	22.8	19.6
GCC Country Risk as a % of Total Assets	78.2	77.9	71.5
Liquidity			
Liquid Assets Ratio	48.5	42.6	39.6
Productivity			
Operating Income as Multiple of Operating Expenses	2.1	3.9	3.6

BOARD OF DIRECTORS

Kingdom of Bahrain

H.E. Mr. Mazen Ibrahim Abdulkarim * ****

Chairman of the Board

Businessman

H.E. Mr. Hesham Abdulghaffar Khonji ** ***

Senior Director - Global Asset Management

Mumtalakat Holding Co. B.S.C

Kingdom of Saudi Arabia

H.E. Mr. Waleed Hamad AlRashed AlHumaid ** ***

Chief Executive Officer - Al Rajhi Capital

H.E. Mr. Turki Ibrahim Almalik * ****

Deputy Chairman of the Board

Chairman of the Executive Committee

Deputy CEO - Sanabil Investments

Sultanate of Oman

H.E. Mr. Abdulsalam Mohammed Al Murshidi * ***

President - Oman Investment Authority

H.E. Mrs. Thuriya Ahmed AlBalushi ** ****

Chairwoman of the Audit Committee

Manager - Economic Diversification Investments

Oman Investment Authority

State of Qatar

H.E. Shaikh Fahad Faisal Al-Thani * ****

Minister of State

H.E. Dr. Hussain Ali Al-Abdullah ** ***

Chairman of the Risk Management Committee

Minister of State

State of Kuwait

H.E. Mr. Waleed Abdullah Al Roudan * **** ***

Chairman of the Remuneration and Human Resources Committee

Businessman

United Arab Emirates

H.E. Mr. Saeed Rashid Al-Yateem * ***

Assistant Undersecretary of Budget and Revenue

Ministry of Finance

H.E. Mr. Majed Ali Al Shamsi ** ****

Businessman

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

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it is my privilege to present the Annual Report of the Corporation's activities and its financial results for the year ended 31 December, 2022.

In a challenging business environment and tight monetary policies, GIC had another successful year, with net profits increasing to $131 million, compared to $130 million last year. The Corporation's strong performance reflects our adherence to capital adequacy, good asset quality standards, investment diversification, operating within an acceptable risk parameters, and high levels of liquidity aiming to enhance profitability.

In the spirit of its key mandate, GIC has been successful in promoting economic development in the GCC. The Corporation's balance sheet grew by $142 million, to almost $3.3 billion at the end of 2022. As a result of this marked achievement, shareholders' equity grew by $80 million to reach circa $2.7 billion at the end of 2022. The change in shareholders' equity includes the annual profits of $131 million recorded for the fiscal year, along with a $54 million increase in the revaluation reserves, less a cash dividend payment of $105 million paid to shareholders.

GIC solidified its well-established pioneering position in the region and its resilience to economic adversities were achieved, thanks to the Corporation's strong financial position and the excellence of its human capital. In the meantime, the Corporation continues to improve operational efficiency and aims to increase the value addition to its shareholders.

To achieve the Corporation's goal of becoming a leading institution, and to diversify risks and sources of income, the Corporation has continued to focus on Principal Investment Group activities being a core business in achieving its objectives. The Corporation actively participated in several joint ventures in vital sectors spread across the GCC region and managed to exit from other investments. By the same token, the Global Markets Group managed to outperform its respective benchmark indicators.

During the year, and to confirm the extent of confidence in the Corporation's performance and the solidity of its financial position, the credit rating agency Moody's affirmed its long-term ratings for Gulf Investment Corporation at the A2 level, and its short-term rating at the P1 level, with a stable outlook. Likewise, the credit rating agency Fitch Ratings affirmed its long-term rating at BBB+ with a short-term rating of F1 and a stable outlook. Similarly, the Malaysian credit rating agency RAM Holdings Berhad reaffirmed the Corporation's credit rating at AAA with a stable outlook.

Finally, on behalf of the Board of Directors, I wish to take this opportunity to express my appreciation to the Royal Highnesses, Kings and Amirs and Rulers of the GCC countries for their continuous support. Special thanks goes to the State of Kuwait for hosting GIC's headquarters and for providing all the necessary forms of support. I would also like to extend my appreciation to the Ministers of Finance of the Gulf Cooperation Council for their persistent support.

I would also like to express my gratitude and appreciation to the Board of Directors and the Executive Management, as well as all staff for their commitments and efforts during the year in achieving the Corporation's goals.

Mazen Ibrahim Abdulkarim

Chairman of the Board of Directors

CEO'S STATEMENT

With the end of another year, many economic challenges remained, the most prominent of which were geopolitical tensions and high inflation rates, which forced central banks to tighten monetary policies, thereby intensifying expectations of slower global economic growth.

Despite all of this, Gulf Investment Corporation was able to overcome these challenges as the net profits reached $131 million, compared to $130 million in the previous year, thanks to the prudent investment policy followed by the Corporation, the quality of the investment portfolios owned, and the efficiency of its management.

With a total assets of $3.3 billion at the end of 2022, a net of $142 million has increased from last year. The balance of shareholders' equity increased from $2,608 million at the end of 2021 to $2,688 million at the end of 2022, with a net increase of $80 million. The change in shareholders' equity includes the profits for the year amounting to $131 million, and $54 million increase in the revaluation reserve, less cash dividends paid to shareholders of $105 million.

While the Global Markets portfolio recorded a loss of $93 million due to unrealized losses resulting from the decline of the global equity and bond markets, the Principal Investment portfolio achieved total revenues of $266 million, compared to $108 million in the previous year.

The strong economic growth across the GCC has contributed to the improvement of the operational performance of many of the Principal Investment portfolio companies. The most notable is Foulath Company, where the successful attainment of maximum production capacity, as well as newly opened sales channels and a stable supply of raw materials, paved the way for the company to achieve record profits. Furthermore, the infrastructure projects contributed to achieving stable profits, due to the nature of the operations and the agreements signed between the Corporation and government entities.

The Principal Investment Group continues to focus on the GCC infrastructure sector, which is characterized by high added value, where the Corporation has an extensive experience. The fifth phase of Dubai Electricity and Water Authority's solar energy project is still being implemented, while the second phase of the project, equivalent to 600 megawatts out of a total of 900 megawatts, has been operational. This is in addition to the Jubail 3A desalination project in Saudi Arabia, which started operating at the end of February 2023, and has a production capacity of 600,000 cubic meters per day of desalinated water. Meanwhile, the Corporation's consortium concluded contractual agreements for the Al-Wakra and Al-Wukair water desalination project in Qatar, in addition, the Corporation's alliances are ready to submit bids for water storage and pipeline projects in Saudi Arabia.

Based on the Corporation's keenness to invest in emerging sectors, the Principal Investment Group has invested in AlTibbi Company and Justclean Company during the year 2022, in addition to searching for other investment opportunities in promising sectors.

On the other hand, the performance of the financial portfolios recorded a negative performance, as the value of the portfolio assets declined by 9.14% at the end of 2022. Despite this decline, the performance of these portfolios outperformed the targeted benchmark index, which recorded a decrease of 12.96%. The bonds portfolio declined by 12.96% compared to the benchmark index, which decreased by 12.05%. Meanwhile, hedge funds achieved a positive performance of 2.57% compared to the benchmark index, which declined by 3.05%.

The Corporation continued its efforts to rationalize general expenses, which amounted to $47 million, thus maintaining same level of the previous year. The Corporation was able to achieve targeted cash flow rates, maintained the strength of the capital base, and enhanced liquidity levels. As a result, international credit rating agencies confirmed their long-term ratings for the Corporation, as this reflects the rating agencies' confidence in the financial strength of Gulf Investment Corporation.

In conclusion, I would like to extend my sincere gratitude and thanks to GIC's shareholders and its Board of Directors as well as its sub-committees, for their continued support and valuable guidance.

The Corporation's performance and success during the year amid the economic challenges it faced, increases our determination towards achieving better results in the near future and actively contributing to supporting the development of the GCC economies and achieving added value for our shareholders.

Ibrahim Ali AlQadhi

Chief Executive Officer

ECONOMIC REVIEW

INTRODUCTION

The global fight against inflation, Ukraine crisis, and a reappearance of COVID-19 in China weighed down on global economic activity in 2022. Global GDP stagnated at the beginning of the year, with a contraction in both China and the US. Despite these headwinds, real GDP surprisingly gained momentum later in the year in several economies, including the US, the euro area, and major emerging market and developing economies (EMDEs). Sources of growth uptick included strong private consumption and investment amid tight labor markets and greater than expected fiscal support. In addition, easing supply bottlenecks and declining transportation costs reduced pressures on input prices while energy markets adjusted to the shock from the Ukraine crisis.

Persistent high inflation triggered unexpectedly rapid monetary policy tightening around the world. While the consequent rate hikes was necessary for price stability, it contributed to a significant worsening of global financial conditions, which was exerting a substantial drag on investment growth and economic activity in the US, the euro area and China. Many of the EMDEs impacted by the adverse spillovers were struggling with weakening domestic conditions through currency depreciation against the US dollar, capital outflows and squeezing corporate profits[1].

1. Global Review

1.1. Economic Growth

In 2022, global growth lost momentum, growing at 3.4%, around half the 6.2% pace seen in 2021 during the rebound from the pandemic. The global growth slowdown was largely due to the war in Ukraine and tighter financing conditions in an environment characterized by continued geopolitical uncertainty. Global inflation remained high and well above central bank targets in almost all inflation targeting economies. In response, monetary policy tightening in advanced economies, a strong US dollar, geopolitical tensions, and high inflation have reduced risk appetite and led to widespread capital outflows and slowing bond issuance across EMDEs. Financial conditions have particularly worsened for less creditworthy EMDEs, especially energy importers. In the meantime, fiscal space has narrowed considerably, and concerns over debt sustainability in many countries have risen as global financial conditions have made it more difficult to service debt loads that have accumulated rapidly in recent years, particularly during the pandemic. Nonetheless, many governments have announced new support measures to protect households and firms from the effects of sharply rising prices, slowing the pace of fiscal consolidation as pandemic-related stimulus is withdrawn[2].

Table 1: Real GDP and Trade Growth (%)

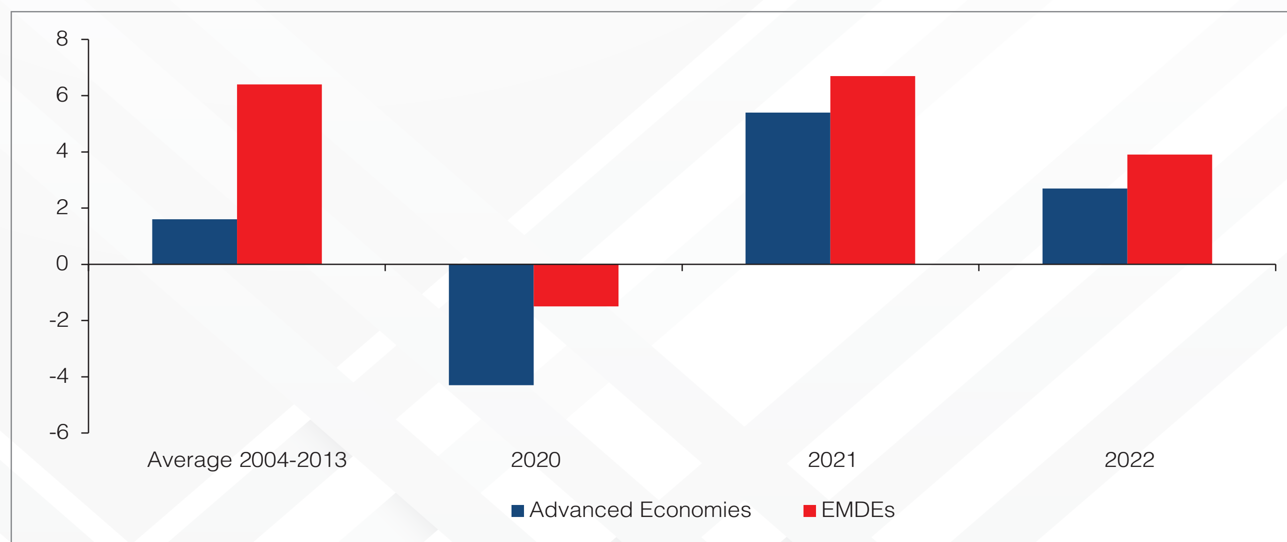
Real GDP growth	Average 2013-2019	2020	2021	2022
World	**3.4**	**-3.4**	**5.9**	**3.1**
OECD	2.2	-4.7	5.6	2.8
United States	2.4	-3.4	5.9	1.8
Euro area	1.9	-6.5	5.3	3.3
Japan	0.8	-4.6	1.6	1.6
Non-OECD	4.4	-2.2	6.2	3.4
China	6.8	2.3	8.1	3.3
India	6.8	-7.3	8.7	6.6
Brazil	-0.4	-4.4	4.9	2.8
World Real Trade Growth	**3.4**	**-8.4**	**10.0**	**5.4**

Source: GIC Research based on OECD Economic Outlook, Volume 2022, Issue 2.

Conditions in advanced economies have deteriorated sharply since mid-2022 amid high inflation, rapid monetary tightening, reduced fiscal support, and major energy disruptions in Europe. Advanced economy growth slowed to 2.7% in 2022 from 5.4% in 2021, the fourth fastest deceleration in the past five decades. Economic conditions deteriorated substantially in the second half of 2022 as high inflation eroded household purchasing power and reduced confidence, while rapid monetary policy tightening weighed on demand. Housing prices and property-related activity have cooled. Gas supply to the euro area was disrupted by the war in Ukraine, pushing up energy prices and inflation, depressing industrial production, and fueling uncertainty[3].

1. World Bank. "Global Economic Prospects". January 2023.
2. OECD Economic Outlook, Volume 2022, Issue 2.
3. World Bank. "Global Economic Prospects", and IMF, "Word Economic Outlook Update". January 2023.

Figure 1: GDP Growth in Advanced Economies and EMDEs (%)



Source: GIC Research based on IMF.

In the US, rising food and energy prices, together with a tight labor market, pushed inflation to multi-decade highs in 2022, before price pressures began easing toward the end of the year. This has prompted the most rapid monetary policy tightening in more than 40 years. Activity contracted in the first half of 2022, and domestic demand remained weak in the second half, with particular softness in residential investment. In all, growth for 2022 fell to 2% from 5.9% in 2021 as substantial fiscal consolidation, worth about 5% of GDP, added to monetary policy headwinds[4].

European economic growth in 2022 was more resilient than expected in the face of the large negative terms-of-trade shock from the Ukraine crisis. This resilience partly reflected government support of about 1.2% of EU's GDP to households and firms hit by the energy crisis, as well as strength from economies reopening. Economic activity in the first half of 2022 exceeded expectations, resulting in annual growth being revised up to 3.5% yet lower than its 5.3% pace in 2021. In the second half of the year, however, activity weakened substantially as a result of soaring energy prices and supply uncertainty, compounded by rising borrowing costs by the ECB and the Bank of England. Inflation rose to record highs of 10% as the war in Ukraine led to natural gas supply cuts and surging energy prices[5].

In the UK, GDP growth eased to 4.1% in 2022 following a 7.6% expansion in 2021. Tighter monetary policy and reduced purchasing power took a toll on consumer spending while rising long-term interest rates led to a slowdown in the housing market and high-energy retail prices continued to weigh on household budgets. Business investment remained subdued due to a higher cost of capital and persistent uncertainty[6].

In Japan, growth slowed in 2022 to 1.4% from 2.1% in 2021, despite the accommodative financial conditions and the government's support measures, as high commodity prices and the slowdowns in overseas economies together with supply-side constraints eroded household purchasing power and reduced consumption. Deteriorating terms of trade and weakening global demand added to these headwinds[7].

Growth in EMDEs nearly halved to an estimated 3.9% in 2022 from 6.7% in 2021, the sharpest deceleration in EMDEs growth outside of the 2009 and 2020 global recessions. Global financial conditions tightened, high inflation weighed on consumer spending, weakness in the world's largest economies reduced external demand, and spillovers from the war in Ukraine persisted. A steep fall in activity in the second half of the year contributed to downgrades in growth estimates for 2022 in many EMDEs[8].

Economic activity in China slowed in the fourth quarter of 2022 amid new waves of coronavirus and renewed lockdowns until the relaxation of related restrictions in November and December. Real estate investment continued to contract amid the persistent property market crisis. These together with unprecedented droughts restrained consumption, production, and residential investment while consumer and business sentiment remained subdued in late 2022. The authorities responded with additional monetary easing through policy rate and reserve requirement ratio cuts alongside infrastructure-focused fiscal support and regulatory easing measures, including cash subsidies and lower down payment requirements. In all, growth is estimated to have slowed to 3% in 2022 from 8.4% in 2021, the first time in more than 40 years with China's growth below the global average[9].

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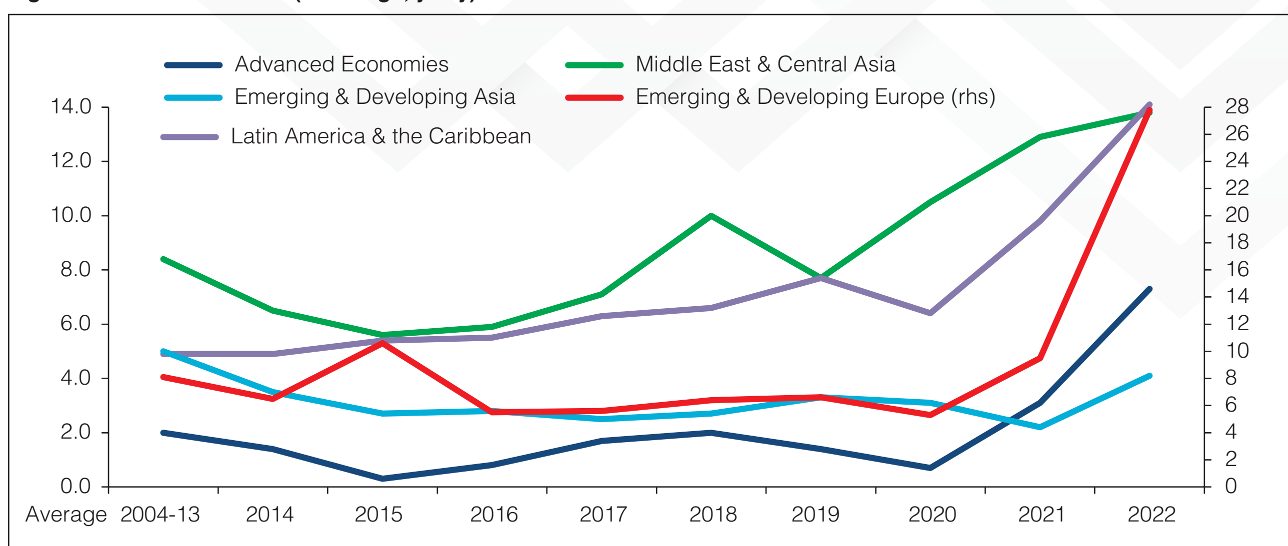
4. World Bank. "Global Economic Prospects", and IMF, "Word Economic Outlook Update". January 2023.
5. IMF. "World Economic Outlook Update". January 2023.
6. Bank of England. "Monetary Policy Report". November 2022.
7. Bank of Japan. "Outlook for Economic Activity and Prices". January 2023.
8. World Bank. "Global Economic Prospects". January 2023.
9. IMF. "World Economic Outlook Update". January 2023.

1.2. Inflation

Global headline inflation appeared to have peaked in the third quarter of 2022 to reflect a combination of demand and supply factors but underlying core inflation has not yet peaked in most economies and remained well above pre-pandemic levels. It has persisted amid earlier cost shocks and tight labor markets with robust wage growth as consumer demand remained resilient. In the US, supply and demand factors have pushed up inflation by roughly the same amount. Both factors explained the overwhelming part of inflation while monetary policy shocks played only a minor role. In the euro area, supply driven inflation accounted for about two-thirds of the gap between the headline inflation and its historical average as the war in Ukraine contributed substantially to higher energy and food prices. Demand-driven inflation accounted for about one-third. Inflationary pressures started to subside toward the end of 2022, reflecting weakening demand especially from China and declining prices of fuel and nonfuel commodities[10].

Inflation rose throughout 2022 in almost all economies with median global headline inflation exceeded 9% in the second half of the year, its highest level since 1995. Annual average Inflation reached almost 10% in EMDEs, its highest level since 2008, and in advanced economies just over 7%, the highest since 1982. Inflation was above target in virtually all countries that have adopted inflation targeting. The rise in inflation was broad based, with yearly growth of consumer price inflation ranged between 8.4% in euro area, 8% in the US, and 2.0% in China. Regionally, it ranged from 27.8% in emerging and developing Europe in 2022, 14.1% in Latin America and the Caribbean, 13.8% in the Middle East and Central Asia, to 4.1% in emerging and developing Asia[11].

Figure 2: Consumer Prices (% change, y-o-y)



Source: GIC Research based on IMF data.

1.3. Financial and Monetary Developments

Global financial conditions have tightened sharply, with risk appetite diminished by slowing global growth, persistently elevated inflation, and faster-than-expected monetary tightening. Long-term government bond yields in the US and Germany increased at their fastest pace in nearly three decades in 2022, reaching their highest levels since 2007, in October. In the UK, a sharp deterioration in liquidity prompted central bank intervention in bond markets for financial stability purposes. The US dollar also appreciated markedly in 2022, by about 14% on a GDP-weighted basis by October, before moderating later in the year. Most EMDE currencies depreciated against the dollar, but economies with fiscal deficits greater than 3% of GDP saw eight times more depreciation, on average, than other EMDEs. Dollar strength has squeezed a wide range of borrowers with net dollar exposures and has contributed to inflation in countries with depreciating currencies. To prevent more acute capital outflows and currency depreciation pressures, many EMDE monetary authorities extended domestic tightening cycles or used foreign exchange reserves to lean against currency pressures. This led EMDE bond issuance in 2022 to fall to its lowest level in 10 years[12].

Peaking inflation have caused central banks to raise rates faster than expected in 2022, especially in the US, the euro area, and the UK. In the US, the Federal Reserve began its tightening cycle in March with 425bps rise in its policy rates during the year to bring the rate from near-zero to a range of 4.25% to 4.5% in December. Likewise, the ECB began its tightening cycle in July 2022 with four rate hikes in an attempt to control high inflation across the euro zone. It hiked by 250bps, bringing rates out of negative territory for the first time since 2014 to 2.5% in December. The Bank of England hiked interest rates for the ninth time in a year, to the highest level in 14 years by 275bps to 3.5% in December[13].

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10. World Bank. "Global Economic Prospects". January 2023.
11. IMF. "World Economic Outlook Update". January 2023 & October 2022.
12. World Bank. "Global Economic Prospects". January 2023.
13. Reuters. January 2023.

Table 2: Short-Term Policy Rates (%)

	US	Canada	Euro Area	UK	Japan	China	India
Q1 2017	1.00	0.50	0.00	0.25	0.10	2.45	5.75
Q2 2017	1.25	0.50	0.00	0.25	0.10	2.45	6.00
Q3 2017	1.25	1.00	0.00	0.25	0.10	2.45	5.75
Q4 2017	1.50	1.00	0.00	0.50	0.10	2.50	5.75
Q1 2018	1.75	1.25	0.00	0.50	0.10	2.55	5.75
Q2 2018	2.00	1.25	0.00	0.50	0.10	2.55	6.00
Q3 2018	2.25	1.50	0.00	0.75	0.10	2.55	6.25
Q4 2018	2.50	1.75	0.00	0.75	0.10	2.55	6.25
Q1 2019	2.50	1.75	0.00	0.75	0.10	2.55	6.00
Q2 2019	2.50	1.75	0.00	0.75	0.10	2.55	5.50
Q3 2019	2.00	1.75	0.00	0.75	0.10	2.55	5.15
Q4 2019	1.75	1.75	0.00	0.75	0.10	2.50	4.90
Q1 2020	0.25	0.25	0.00	0.10	0.10	2.20	4.00
Q2 2020	0.25	0.25	0.00	0.10	0.10	2.20	3.35
Q3 2020	0.25	0.25	0.00	0.10	0.10	2.20	3.35
Q4 2020	0.25	0.25	0.00	0.10	0.10	2.20	3.35
Q1 2021	0.25	0.25	0.00	0.10	0.10	2.20	3.35
Q2 2021	0.25	0.25	0.00	0.10	0.10	2.20	3.35
Q3 2021	0.25	0.25	0.00	0.10	0.10	2.20	3.35
Q4 2021	0.25	0.25	0.00	0.25	0.10	2.20	3.35
Q1 2022	0.50	0.50	0.00	0.75	0.10	2.10	3.35
Q2 2022	1.75	1.50	0.00	1.25	0.10	2.10	3.35
Q3 2022	3.25	3.25	1.25	2.25	0.10	2.00	3.35
Q4 2022	4.50	4.25	2.50	3.50	0.10	2.00	3.35

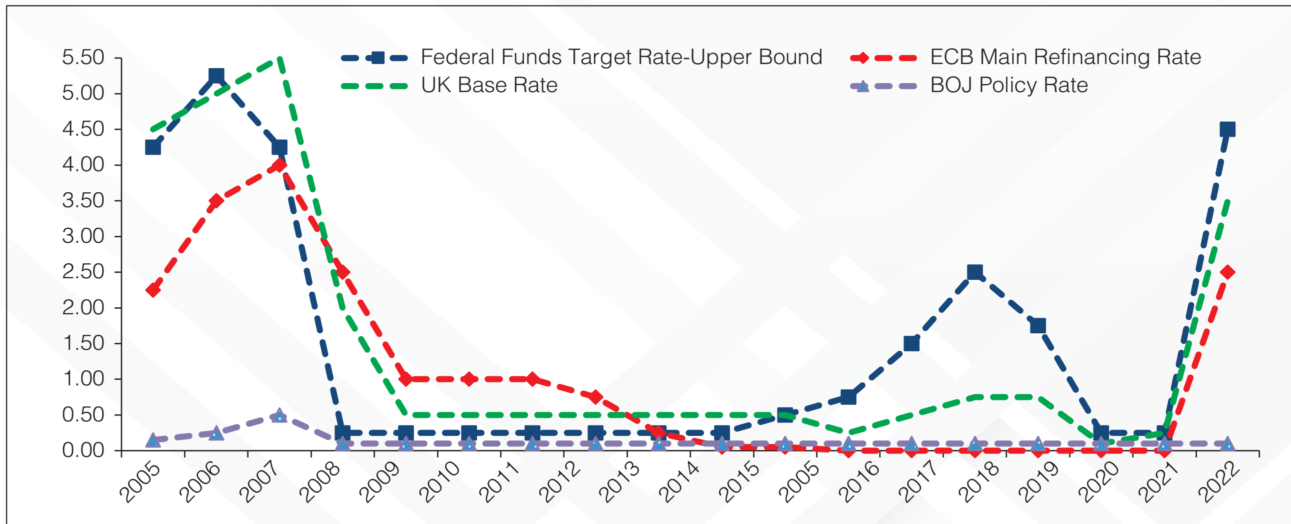
Note: Bank of China's 7-day Reverse Repurchase rate & Reserve Bank of India Reverse Repo Rate.

Source: GIC Research based on Bloomberg.

Total assets of major central banks declined by 9.2% y-o-y, to reach $28.1 trillion by December 2022, down from $31 trillion by December 2021. The Fed's total assets decreased by 3.5% to reach $8.4 trillion, while the ECB's total assets decreased by 12.4% to reach $8.5 trillion. Meanwhile, the total assets of Bank of Japan decreased by 18.8% to reach $5.2 trillion while the total assets of People's Bank of China decreased by 3.2% to reach $6 trillion. By the fourth quarter of 2022, the Fed's total assets as a percent of local currency nominal GDP fell to 32.9% while the People's Bank of China's total assets accounted for 33.1% of China's nominal GDP. By the third quarter of 2022, the ECB's total assets were equivalent to 65.5% of the euro area's nominal GDP while the Bank of Japan's total assets were equivalent to about 127.6% of the country's GDP[14].

14. Yardeni Research. "Central Banks: Monthly Balance Sheets". February 1, 2023.

Figure 3: Major Central Banks Benchmark Rates (%)



Source: GIC Research based on Bloomberg.

1.4. Exchange Rates and Capital Flows

1.4.1. Exchange Rates

The Dollar strengthened against nearly every other major currency to levels not seen in decades, as the Federal Reserve aggressively hiked interest rates in a bid to fight inflation. Overall, the nominal broad dollar index appreciated over 12% in 2022. At its September peak, the dollar stood at its highest level in nearly two decades after rising some 20% against a basket of currencies. With the peak in US headline inflation and an acceleration in rate hikes by several other central banks, the dollar has weakened since September but remained significantly stronger than a year ago. The dollar's historic rise and the ongoing Russia-Ukraine conflict in 2022 caused the euro to weaken as much as 17% versus the dollar, plunging below parity for the first time in two decades in July. Similar to other major currencies against the dollar, the sterling fell to record lows in September 2022 after the government announced a series of tax cuts. Likewise, the dollar/yen pair breached 150 in October 2022, marking a 32-year low largely due to Japan's wide trade deficit and the Bank of Japan's dovish stance. The Japanese yen closed out 2022 almost 18% down versus the dollar. The Indian rupee concluded 2022 as one of the worst-performing Asian currencies with a fall of 10.1%, its biggest annual decline since 2013, as the dollar rocketed on the US Federal Reserve's aggressive monetary policy stance to tame inflation[15].

1.4.2. Total Portfolio Flows to Emerging Markets

Tighter monetary policy in advanced economies weighed on EMDEs capital flows, with China experiencing sizable debt market outflows in 2022, worth $58.1 billion. Emerging market securities attracted total portfolio flows of $58 billion for 2022 as a whole, of which $49.5 billion debt flows and $8.5 billion equity flows. After a year marked by rising interest rates worldwide and a strong dollar in 2022, annual inflows suffered more than 85% fall compared to the $396.3 billion emerging markets attracted in 2021. Regionally, equity and debt inflows across Latin America came at $60.1 billion followed by EM Asia at $16.7 billion, then EM Europe with $0.44 billion whereas Africa-Middle East saw portfolio outflows worth $19.3 billion. For December, higher US interest rates have reduced dollar debt returns and thus EM ex-China debt flows showed $7.7 billion in outflows whereas China debt flows showed $5.1 billion inflows. Likewise, EM ex-China showed $2 billion of equity outflows, whereas China equity flows showed $6.3 billion inflows[16].

15. JPMorgan Research. December 23, 2022.
16. IIF. "Capital Flows Tracker". January 2023.

Table 3: Net Non-Resident Portfolio Flows to Emerging Markets ($bn)

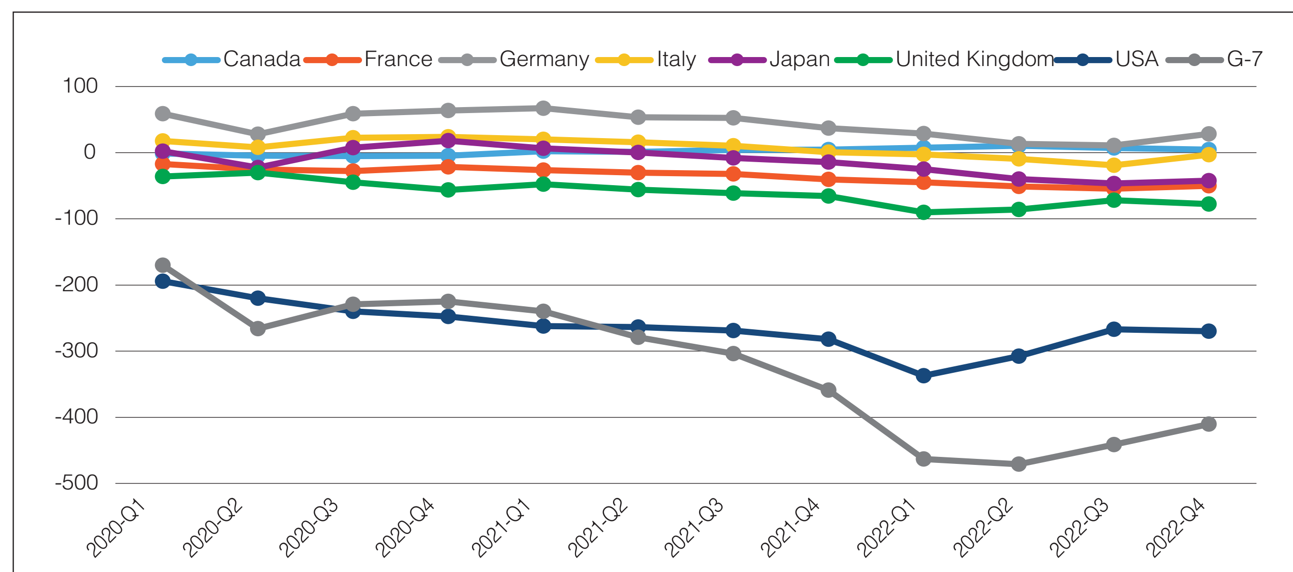
Year / Total	Emerging Asia	Latin America	Emerging Europe	ME & Africa	Total
Portfolio Debt Flows					
2019	154.99	72.76	38.93	34.85	301.54
2020	134.76	78.09	52.13	98.62	363.61
2021	160.16	73.81	38.80	66.28	339.05
2022	24.66	32.94	6.70	-14.80	49.50
Total	**474.57**	**257.61**	**136.56**	**184.95**	**1053.70**
Portfolio Equity Flows					
2019	65.74	1.75	1.25	-8.47	60.26
2020	-55.50	10.99	40.55	23.14	19.19
2021	-57.37	27.71	58.60	28.32	57.27
2022	-7.93	27.15	-6.26	-4.47	8.49
Total	**-55.06**	**67.60**	**94.15**	**38.53**	**145.21**
Total Portfolio Flows (Equity and Debt)					
2019	220.73	74.51	40.17	26.38	361.80
2020	79.26	89.08	92.68	121.77	382.80
2021	102.79	101.52	97.41	94.60	396.33
2022	16.73	60.09	0.44	-19.27	58.00
Total	**419.52**	**325.21**	**230.71**	**223.48**	**1198.92**

Source: GIC Research based on IIF.

1.5. Global Trade

Global trade growth decelerated in the second half of 2022, in tandem with deteriorating activity in major economies. Weakening trade reflected the slowdown in global industrial production, as demand shifted toward its pre-pandemic composition and away from goods. Despite this moderation, goods trade surpassed pre-pandemic levels in 2022; meanwhile, services trade continued to recover, supported by the gradual shift in demand toward services. Tourism flows rebounded as many countries eased travel restrictions but remained well below pre-pandemic levels and uneven across regions. Although global supply chain pressures are still above pre-pandemic levels, they have eased since mid-2022, as reflected in lower transportation costs and normalization of inventories[17].

Figure 4: Net Trade in Goods ($bn), Q1:2020 - Q4:2022



Source: GIC Research based on OECD, Economic Outlook, February 2023.

17. *IMF. "World Economic Outlook" Update". February 2023.*

Overall, the volume of world trade grew at 5.4% on average in 2022, lower than its 10.4% pace in 2021. In advanced economies and EMDEs, the volume of trade expanded 6.6% and 3.4% respectively in 2022 following a 9.4% and 12.1% growth rate in 2021. Volume of exports in advanced economies expanded 4.2% in 2022, after 8.7% expansion in 2021, and above its long-term average of 2.5%. Likewise, the volume of exports in EMDEs expanded 3.3% in 2022, following an 11.8% expansion in 2021. In addition, the volume of imports grew by 6% in advanced economies, following a 9.5% expansion in 2021 and it grew by 2.4% in EMDEs, following 11.8% expansion in 2021[18].

Table 4: World Volume of Trade (goods and services)

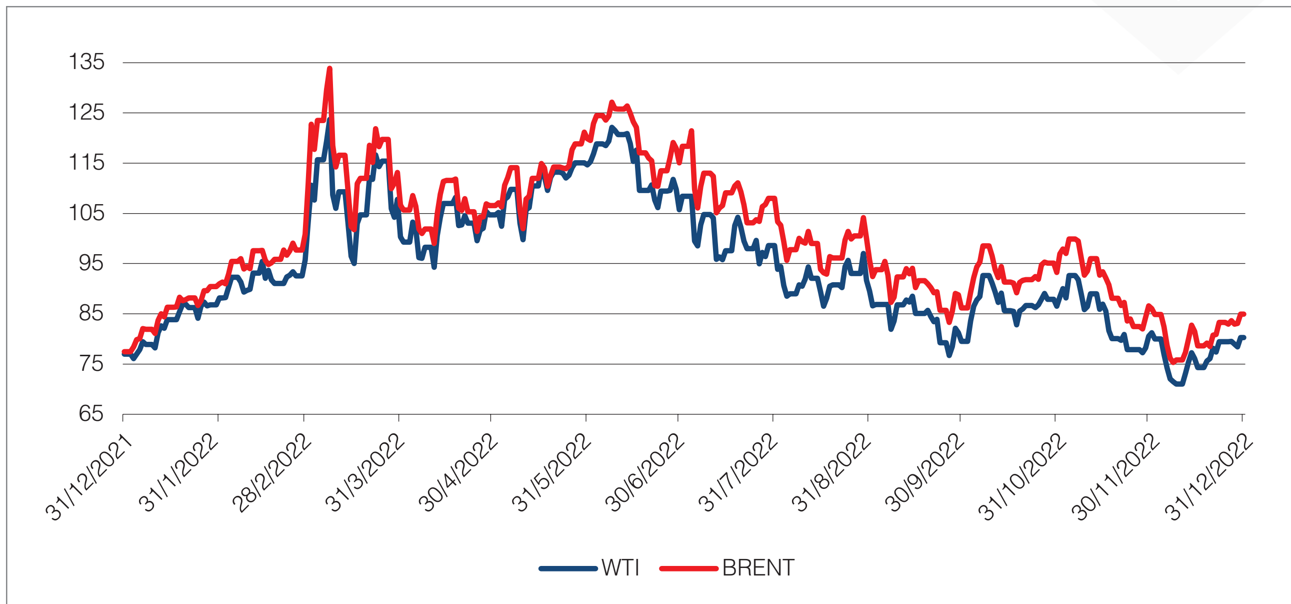
Annual % change	Average 2014-23		2021		2022	
	EXP	IMP	EXP	IMP	EXP	IMP
Advanced Economies	2.5	3.0	8.7	9.5	4.2	6.0
EM & Developing Economies	3.2	2.5	11.8	11.8	3.3	2.4
World Trade Volume	**2**		**10.4**		**5.4**	

Source: GIC Research based on IMF.

2. OIL DYNAMICS

Crude oil has made a robust start to the year on the back of eased concerns over weak demand diminished, continued economic recovery in major economies, tighter supplies, and geopolitical tensions.

Figure 5: WTI and BRENT Daily Prices in 2022 ($/b)

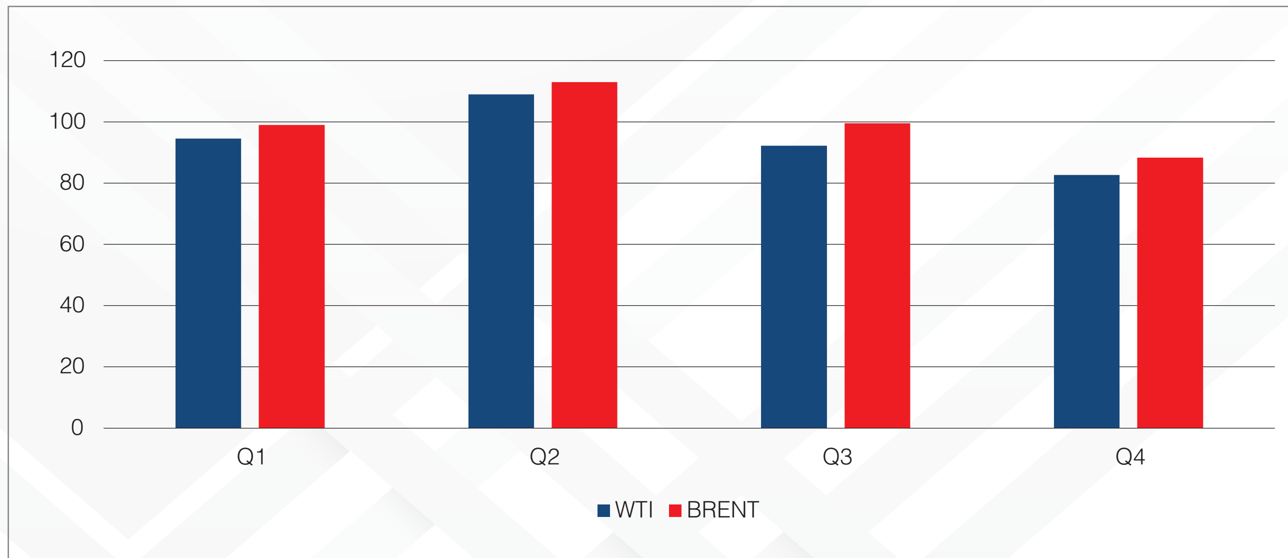


Source: Bloomberg, GIC Research.

Brent crude oil started the year at $77.45/b and by March 8, reached its year high of $133.89/b and ended the year at $84.97/b. Meanwhile, WTI went from $76.99/b at the beginning of 2022 and stretched to $123.7/b on March 8 as well, the highest for the year, then eased to conclude the year at $80.26/b.

18. IMF. "World Economic Outlook" Update. January 2023 and IMF October 2022 Issue.

Figure 6: WTI and BRENT Average Quarterly Prices in 2022 ($/b)



Source: Bloomberg, GIC Research.

During the first quarter, oil prices continued to increase, powered by a stronger-than- expected global demand, supply interruptions, and intensified geopolitical tensions. By the end of the first quarter, oil prices averaged $99.04/b for BRENT compared with $60.66/b for in the first quarter of 2021 while WTI averaged $94.58/b versus $57.86/b for the same period in 2021. In addition, the Russia-Ukraine war resulted in higher oil prices that led to fears of inflationary shocks.

Oil prices remained solid in the second quarter despite the announcement that the US is on track to release oil from strategic reserves after the increase in prices that emerged from the Russian-Ukraine crisis. By middle of May, oil prices rose by almost 50% for the year, driven by higher global demand and intensified geopolitical turmoil in Europe. Nonetheless, the potential lockdown in China, the expectations of further monetary tightening by major central banks, and concerns of weaker global economic growth capped oil prices at the end of the second quarter. During the quarter, BRENT averaged $112.94/b while WTI averaged $108.94/b; this is in comparison with Q2:2021 average price of $66.45/b and $63.49/b for BRENT and WTI respectively.

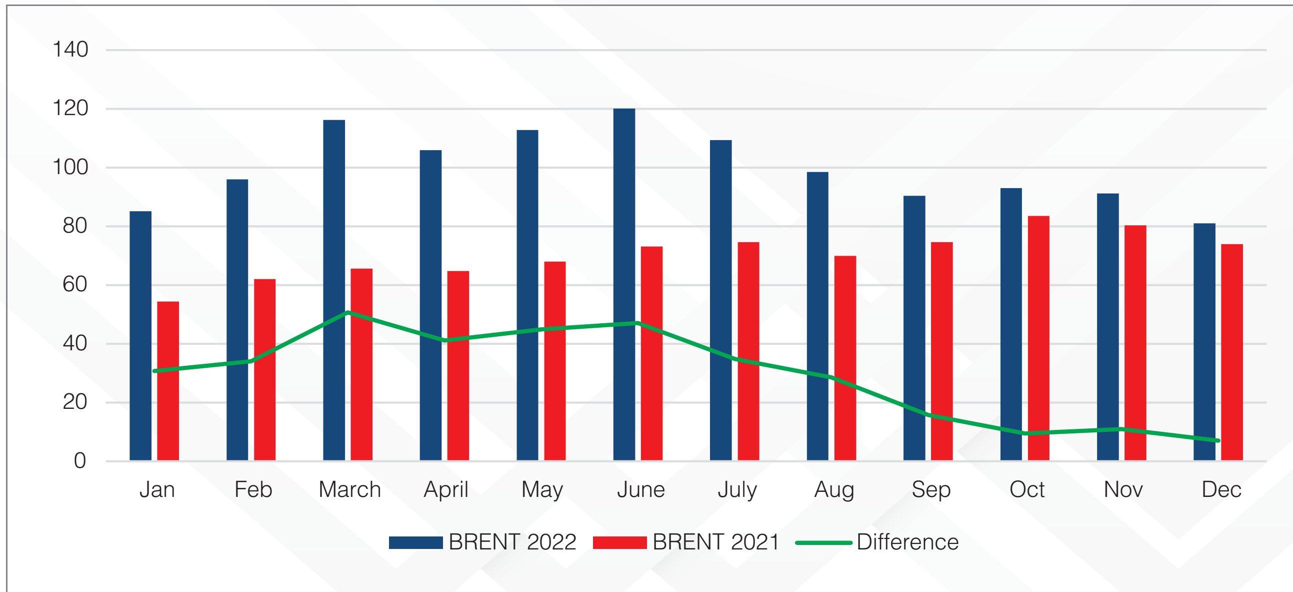
With the start of the third quarter, oil prices rose by more than 50% for the year. However, fears of recessions across major economies and aggressive rate hikes by the Federal Reserve placed a downward pressure on crude prices and by the end of June, WTI was up by only 28% while BRENT rose 40% for the year. Yet, around the end of August, oil prices have lost all gains since the start of the war. BRENT average price in this quarter reached $99.52/b, up from $72.54/b in Q3:2021 while WTI rose to $92.18/b from $70.67/b in Q3:2021.

Several factors affected oil prices in the last three months of the year, mainly speculations of global economic performance, fears of intense Covid-19 related restrictions in China, tighter monetary policy, and stronger dollar. However, with Coronavirus measures eased in China and as OPEC+ kept production steady, oil prices remained solid. BRENT crude averaged $88.35/b versus $78.13/b in Q4:2021 while WTI averaged $82.65/b relative to $75.91/b for the same period in previous year.

In addition, BRENT averaged $99.99/b for the year versus $85.7/b in 2021. It averaged $106.14/b in the first half of 2022 and $93.98/b in the second half, compared to $64.62/b in the first half of 2021 and $76.12/b in the second half of 2021.

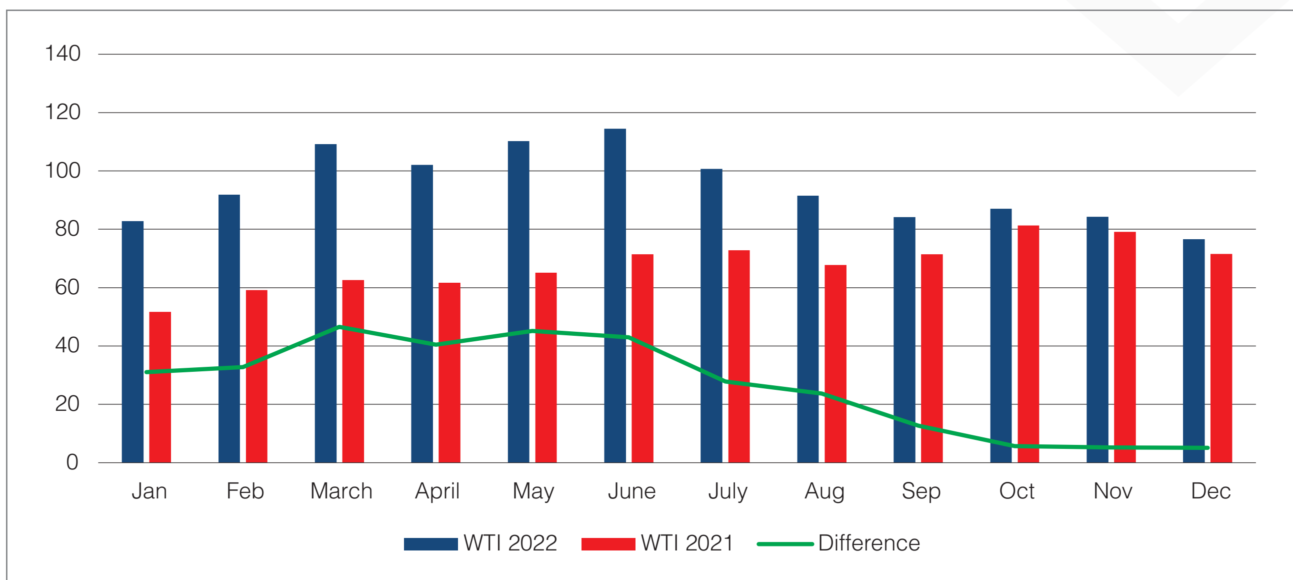
This came slightly higher than WTI, which averaged $123.7/b in 2022 versus $84.65/b in 2021. WTI averaged $101.89/b in the first half of 2021 and $87.45/b in the second half, compared to $61.95/b in the first half of 2021 and $73.97/b in the second half of 2021.

Figure 7: BRENT Average Monthly Prices in 2021 and 2022 ($/b)



Source: Bloomberg, GIC Research.

Figure 8: WTI Average Monthly Prices in 2021 and 2022 ($/b)



Source: Bloomberg, GIC Research.

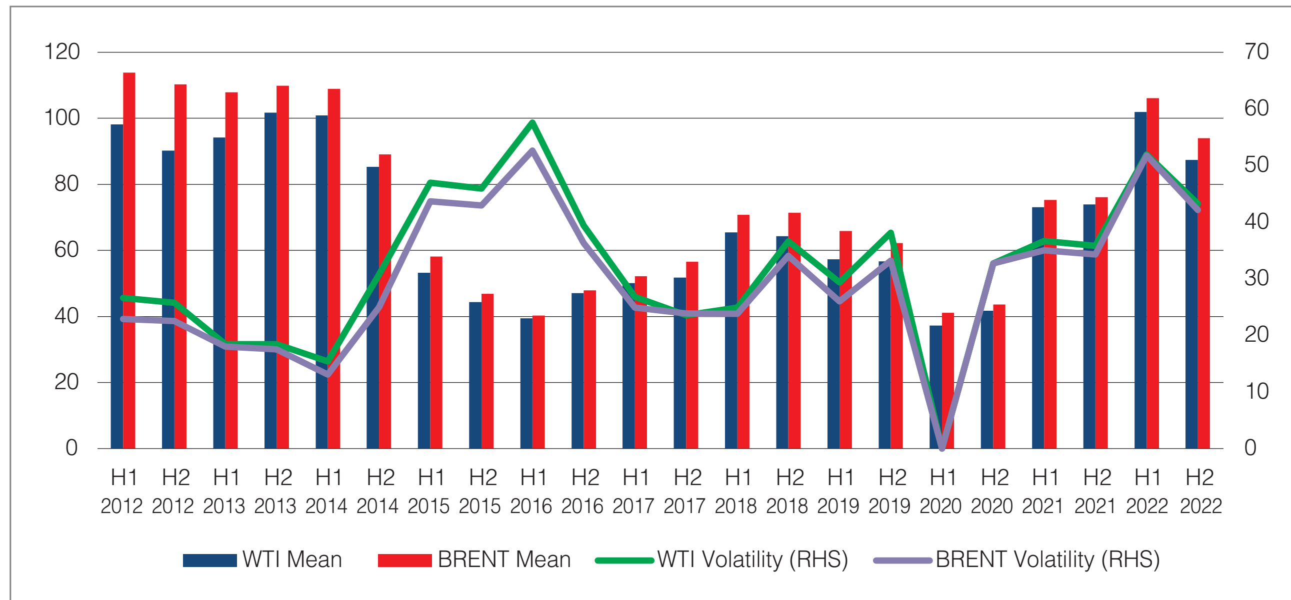
When compared to the first half of the year, BRENT price lost 14.1% in the second half of 2022 while WTI lost around 11.4%. Meanwhile, the average volatility coefficients for BRENT ticked higher from 33.76% in 2021 to 47.23% in 2022 while it rose from 34.31% in 2021 to 47.78% in 2022.

Table 5: WTI and Brent Mean and Volatility ($/b)

	WTI		BRENT	
	Mean	**Volatility (%)**	**Mean**	**Volatility (%)**
H1 2012	98.14	26.60	113.80	22.88
H2 2012	90.19	25.75	110.26	22.50
H1 2013	94.23	18.41	107.84	17.99
H2 2013	101.73	18.44	109.82	17.51
H1 2014	100.91	15.40	108.90	13.09
H2 2014	85.36	30.75	89.08	24.93
H1 2015	53.23	46.93	58.11	43.67
H2 2015	44.34	45.90	46.82	42.93
H1 2016	39.48	57.58	40.23	52.64
H2 2016	47.02	39.39	47.92	36.30
H1 2017	50.06	26.81	52.20	24.92
H2 2017	51.77	23.55	56.60	23.84
H1 2018	65.44	24.91	70.79	23.77
H2 2018	64.28	36.59	71.46	34.05
H1 2019	57.36	29.35	65.88	25.97
H2 2019	56.66	38.11	62.27	33.21
H1 2020	37.28	486.84	41.15	103.59
H2 2020	41.74	32.68	43.57	32.68
H1 2021	73.11	36.66	75.28	35.02
H2 2021	73.97	35.8	76.12	34.26
H1 2022	101.90	51.94	106.15	51.78
H2 2022	87.41	43.27	93.93	42.15

Source: Bloomberg, GIC Research.

Figure 9: WTI and BRENT Mean and Volatility ($/b, %)



Source: Bloomberg, GIC Research.

2.1. Oil Fundamentals and Prices

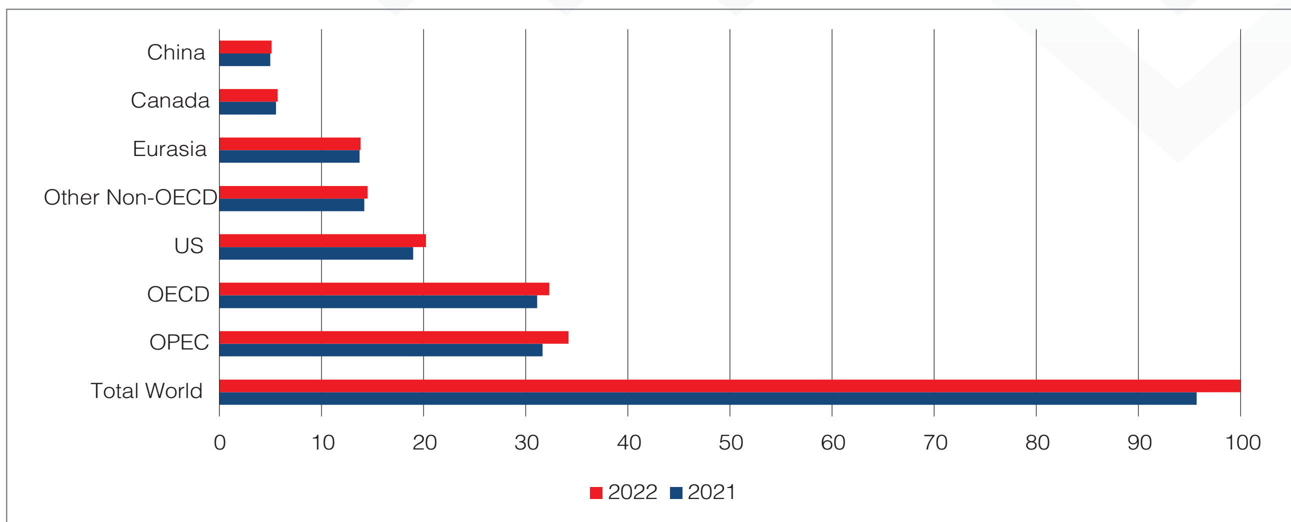
The overall global crude oil production increased by 4.5% to 99.98 mb/d, up from 95.7 mb/d in 2021. OPEC's crude oil production averaged 34.18 mb/d during the year, up by 8% from production level in 2021. In addition, the US crude oil production rose by 6.6%, from 18.98 mb/d in 2021 to 20.24 mb/d in 2022[19].

Table 6: International Petroleum Production (mb/d, 2022)

	Q1	Q2	Q3	Q4	2022
OECD	31.62	31.87	32.54	33.23	**32.32**
US	19.44	20.12	20.59	20.77	**20.24**
Canada	5.66	5.51	5.72	5.94	**5.71**
OPEC	33.75	33.76	34.71	34.48	**34.18**
Eurasia	14.39	13.39	13.58	13.94	**13.82**
China	5.18	5.18	5.05	5.12	**5.13**
Other Non-OECD	13.9	14.54	14.96	14.68	**14.52**
Total World	98.83	98.75	100.85	101.45	**99.98**

Source: EIA. "Short-Term Energy Outlook". January 2023.

Figure 10: International Petroleum Production: 2022 vs. 2021 (mb/d)



Source: EIA. "Short-Term Energy Outlook". January 2023, GIC Research.

EIA estimate that global inventories increased by an average of 2.25 mb/d compared with inventory loss of 1.4 mb/d in 2021. Meanwhile, global consumption averaged 99.43 mb/d in 2022, up from 97.18 mb/d in 2021.

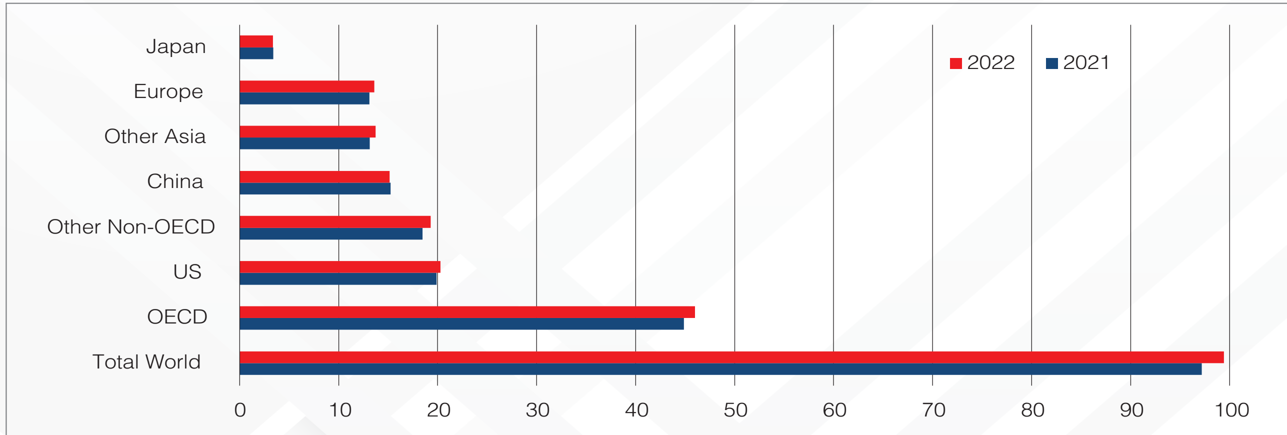
Table 7: International Petroleum Consumption (mb/d, 2022)

	Q1	Q2	Q3	Q4	2022
OECD	45.84	45.45	46.47	46.23	**46**
US	20.22	20.27	20.47	20.14	**20.27**
Europe	13.15	13.43	13.93	13.85	**13.59**
Japan	3.7	3.03	3.19	3.51	**3.36**
China	15.13	15.11	15.1	15.29	**15.16**
Other Asia	13.75	13.76	13.47	13.9	**13.72**
Other Non-OECD	18.91	19.34	19.79	19.21	**19.31**
Total World	98.8	98.71	100.23	99.97	**99.43**

Source: EIA. "Short-Term Energy Outlook". January 2023.

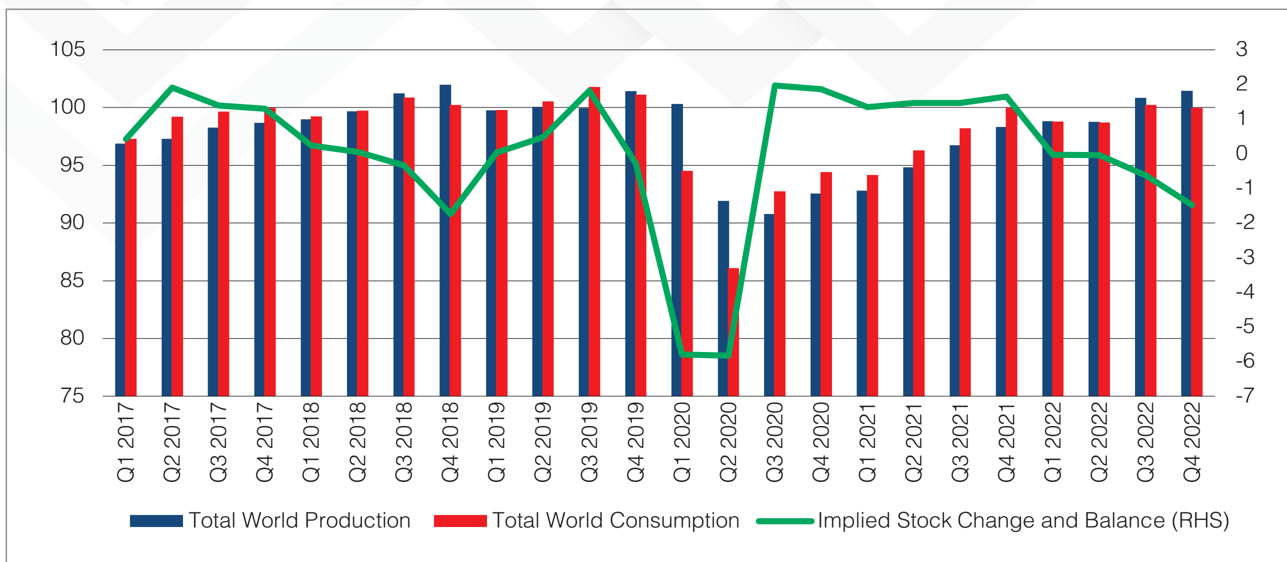
19. *EIA. "Short-Term Energy Outlook". January 2023.*

Figure 11: International Petroleum Consumption: 2022 vs. 2021 (mb/d)



Source: EIA. "Short-Term Energy Outlook". January 2023, GIC Research.

Figure 12: World Liquid Fuels Production and Consumption Balance (mb/d)

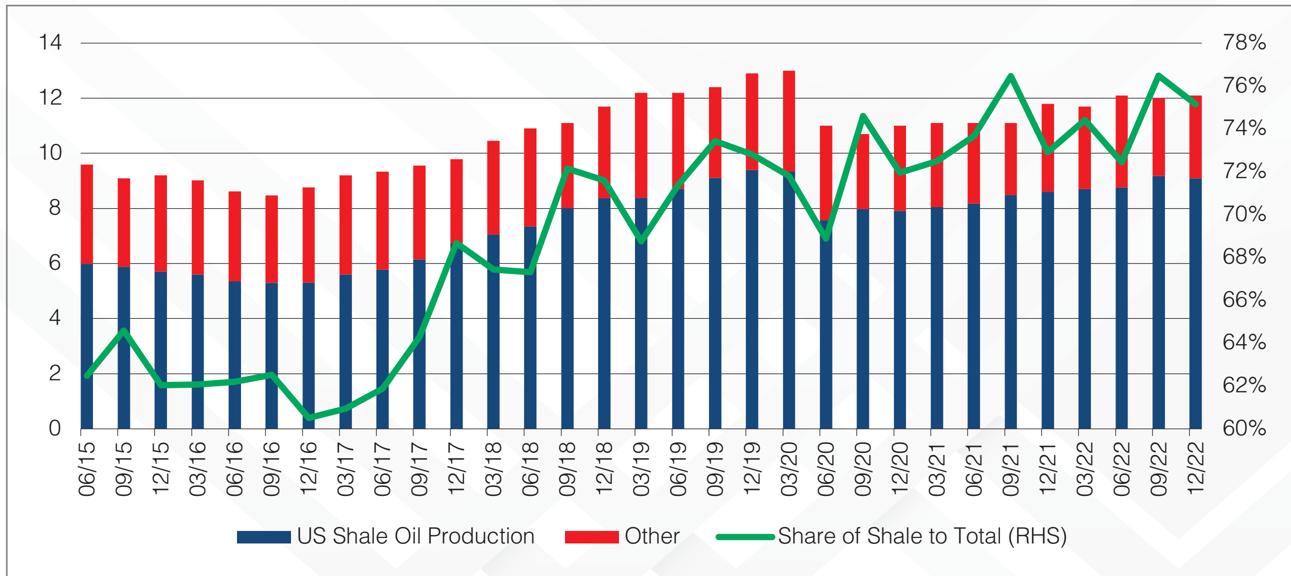


Source: EIA. "Short Term Energy Outlook". January 2023, and GIC Research.

2.2. US Crude Oil Production

US crude oil production averaged 11.97 mb/d in 2022, slightly up from 11.25 mb/d in 2021. Shale production ticked higher on average from 8.32 mb/d in 2021 to 8.93 mb/d in 2022 while the production from other oil sources rose on average from 2.94 mb/d in 2021 to 3.03 mb/d in 2022. On annual basis, US shale oil production rose from 8.6 mb/d in December 2021 to 9.09 mb/d in December 2022.

Figure 13: US Crude Oil Production: Share of Shale Oil to Total Oil Production (mb/d,%)



Source: EIA, Bloomberg, and GIC Research.

3. GCC Economies Review

GCC's economies have rebounded strongly in 2022 with an average real GDP growth of 5.4%. Bahrain recorded the lowest growth at 2.2% while Saudi Arabia continues to be in the lead in terms of real GDP growth logging 7.3% jump, followed by Kuwait and the UAE with 6.6% and 6.3%, respectively. Oman's economic performance also accelerated strongly by 5.8% while Qatar followed behind with 4.1%. These figures emphasize that the economic growth of the region has outpaced the world's average, which is estimated below 4%.

Table 8: Real GDP Growth (% change)

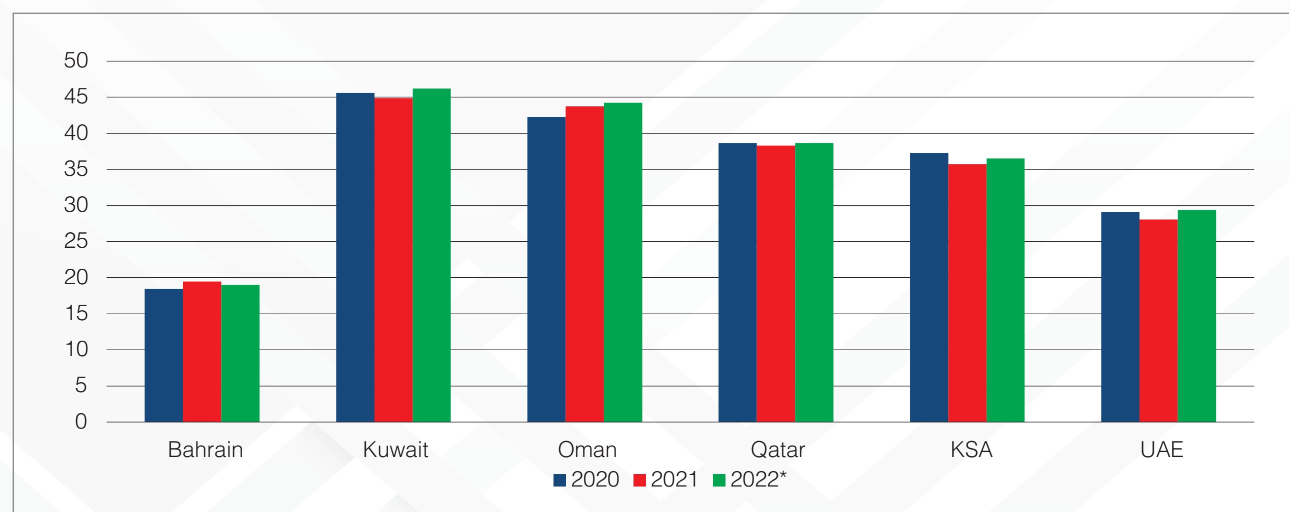
	2019	2020	2021	2022*
Bahrain	2.1	2.2	-4.9	2.2
Kuwait	-0.3	-8.8	2.1	6.6
Oman	-0.8	-2.8	2.4	5.8
Qatar	0.8	-3.6	1.8	4.1
Saudi Arabia	0.3	-4.1	3.3	7.3
UAE	3.4	-6.1	2.4	6.3

** IIF Forecast.*

Source: IIF. Respective Country's Database.

On the same track, the contribution of hydrocarbons to real GDP has slightly inched compared to its levels in the past couple of years in all member countries except for Bahrain. Bahrain's dependence on hydrocarbon production has slightly diminished in 2022 but remained higher than 2020's level. Moreover, Kuwait remains the most dependent member on hydrocarbons, as it accounts for approximately 46.2% of its real GDP. Moreover, Kuwait has also recorded the highest increase y-o-y in the share of hydrocarbon contribution to real GDP, which rose from 44.9% to 46.2%, followed by the UAE with an increase from 28.1% to 29.4%.

Figure 14: Hydrocarbon's Contribution to Real GDP in GCC (%)



Source: IIF. Respective Country's Database, GIC Research.

Non-hydrocarbon real GDP also improved during the year achieving an average growth of 4.1% with all six economies logging positive y-o-y changes. Saudi Arabia has outperformed the region from this angle with a jump of 5.68%, followed by Oman, which has achieved the second largest increase in the region for 2022 accounting for 4.88%. Bahrain has also managed to secure a 2.79% growth after recording a 6% contraction in 2021.

Table 9: Non-Hydrocarbon Real GDP Growth (%)

	2019	2020	2021	2022*
Bahrain	2.87	2.17	-5.97	2.79
Kuwait	-0.56	-7.79	3.70	3.58
Oman	-1.55	-4.59	1.25	4.88
Qatar	2.45	-4.73	2.50	3.40
Saudi Arabia	2.99	-1.96	5.52	5.68
UAE	3.76	-6.17	3.88	4.26

** IIF Forecast.*

Source: IIF. Respective Country's Database.

Moreover, all countries have recorded positive fiscal balance, except for Bahrain. The average size of fiscal deficit as a share of GDP for the region is about 7.55%. Kuwait and Qatar outperformed their peers with positive fiscal balances accounting for 19.89% and 11.94% of GDP respectively. Bahrain has managed to shrink its deficit from 12.79% of GDP in 2021 to only 4.63% of GDP in 2022.

Table 10: GCC Overall Fiscal Balance (% GDP)

	2019	2020	2021	2022*
Bahrain	-6.30	-4.70	-12.79	-4.63
Kuwait	1.99	-16.75	3.79	19.89
Oman	-2.62	-4.42	-1.28	3.07
Qatar	0.99	-2.14	6.05	11.94
Saudi Arabia	-4.40	-11.14	-2.98	6.71
UAE	0.59	-5.64	-0.54	8.31

** IIF Forecast.*

Source: IIF. Respective Country's Database.

From another angle, Bahrain's breakeven price remained the highest in the area at $127.6/b, although it is lower than the previous year, it is still higher than other GCC members. Qatar managed to hold its breakeven price lower than its peers at $48.11/b, for a second year in a row. Kuwait has also lowered its breakeven price to its level before the pandemic.

Table 11: GCC Fiscal Breakeven Prices ($/b)

	2019	2020	2021	2022*
Bahrain	98.90	120.70	131.90	127.60
Kuwait	57.60	80.10	67.70	56.70
Oman	64.70	86.40	76.70	70.90
Qatar	50.50	50.50	49.00	48.10
Saudi Arabia	81.80	76.30	84.60	73.30
UAE	62.50	61.40	61.30	63.90

** IMF Forecast.*

Source: IMF. "Regional Economic Outlook for the Middle East and Central Asia" October 2022.

3.1. Inflation

Inflation rates in the GCC region were mostly positive except Bahrain. Kuwait has witnessed the largest increase in consumer prices during the year 2022 accounting for 4.1%, followed by Oman with 3.94%. In addition, the increase in prices in Qatar and Saudi Arabia accounted for 2.8% and 2.7% respectively. The consumer prices in the UAE were little change and fell in Bahrain by 0.61%.

Table 12: Average Consumer Prices (annual %)

	2019	2020	2021	2022*
Bahrain	2.09	1.01	-2.32	-0.61
Kuwait	1.09	2.10	3.42	4.10
Oman	0.13	-0.90	1.55	3.94
Qatar	-0.89	-2.58	2.30	2.80
Saudi Arabia	-2.09	3.45	3.06	2.70
UAE	3.07	-1.93	-2.08	0.18

** IIF Forecast.*

Source: IIF. Respective Country's Database.

3.2. GCC Trade

GCC's hydrocarbon exports increased significantly amid growing oil prices and following pandemic-related restrictions. The increase in every single country exceeded 50%, and the average increase for the region reached 61%.

Saudi Arabia, Qatar, and the UAE recorded hydrocarbon exports of more than $100 billion, with Saudi Arabia having the highest amount of $317 billion. The amount of hydrocarbons exported from Bahrain bounced back to its previous level of $10 billion. Kuwait and Qatar have also recorded the highest amounts of hydrocarbon exports in the past four years.

Similarly, but to a less extent, non-hydrocarbon exports of the region have increased by 25%. In fact, both Bahrain and the UAE have managed to export more non-hydrocarbons than hydrocarbons. Bahrain has also recorded the highest growth rate among the other members in terms of non-hydrocarbon exports accounting for 53%, while Kuwait recorded the lowest increase at 7%.

In addition, GCC's imports grew remarkably. Bahrain logged the highest increase in imports year-on-year, followed by Oman and Qatar. Noteworthy, the amount of imports of the UAE exceeded the overall imports of all other members combined.

Table 13: GCC's Trade ($ bn)

	2019	2020	2021	2022*
Hydrocarbon Exports				
Bahrain	11	10	6	10
Kuwait	59	36	58	92
Oman	26	18	26	42
Qatar	65	45	75	114
KSA	201	120	193	317
UAE	65	42	63	105
Non-Hydrocarbon Exports				
Bahrain	7	8	8	12
Kuwait	6	4	6	6
Oman	12	12	14	20
Qatar	8	7	12	12
KSA	60	54	87	111
UAE	249	231	278	306
Total Imports				
Bahrain	19	17	14	17
Kuwait	29	29	25	31
Oman	20	20	19	24
Qatar	31	31	24	27
KSA	140	140	126	142
UAE	233	233	211	256

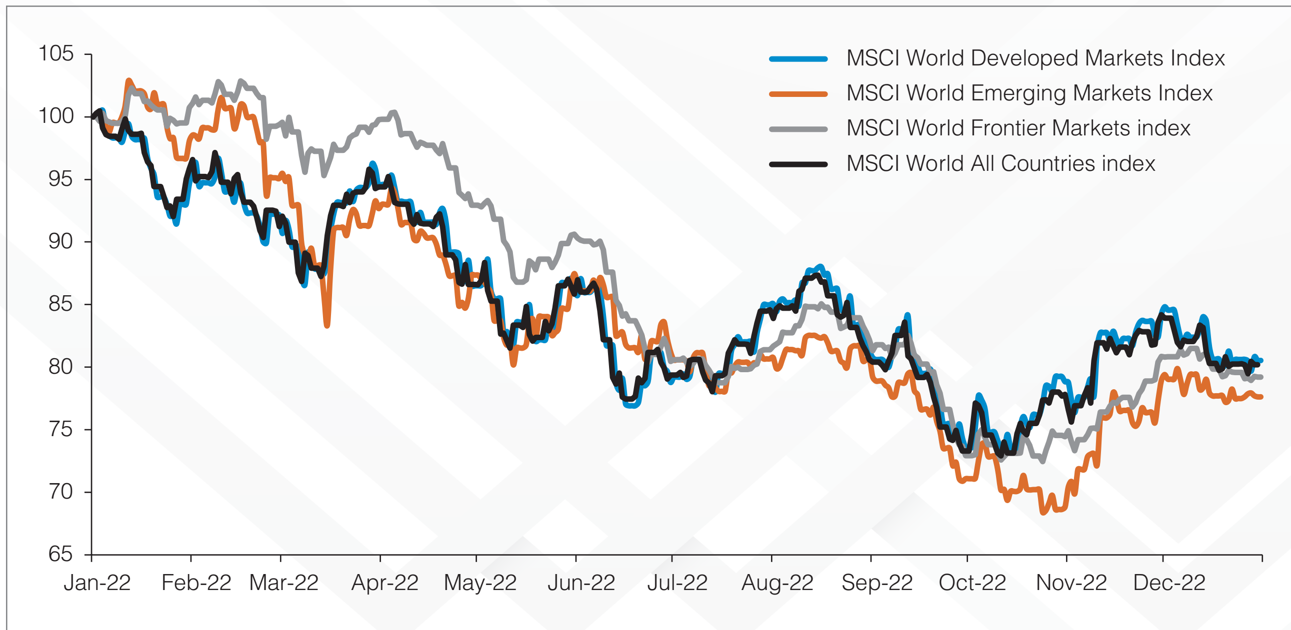
** IIF Forecast.*
Source: IIF. Respective Country's Database.

4. Equity Markets Review

4.1. Global Equity Markets Overview

The year started with moderately bullish market expectations for financial markets across the globe, but rising inflation, interest rate hikes and recessionary fears took over soon and extracted a heavy toll on markets, making it a year to forget for most asset classes. However, the year ended on a positive note, as global equity markets rounded off the tumultuous year with gains during the fourth quarter, boosted by China's relaxation of its zero-COVID policy and easing of inflationary pressure in major economies.

Figure 15: Rebased Performance of Global Equity Benchmarks, 2022



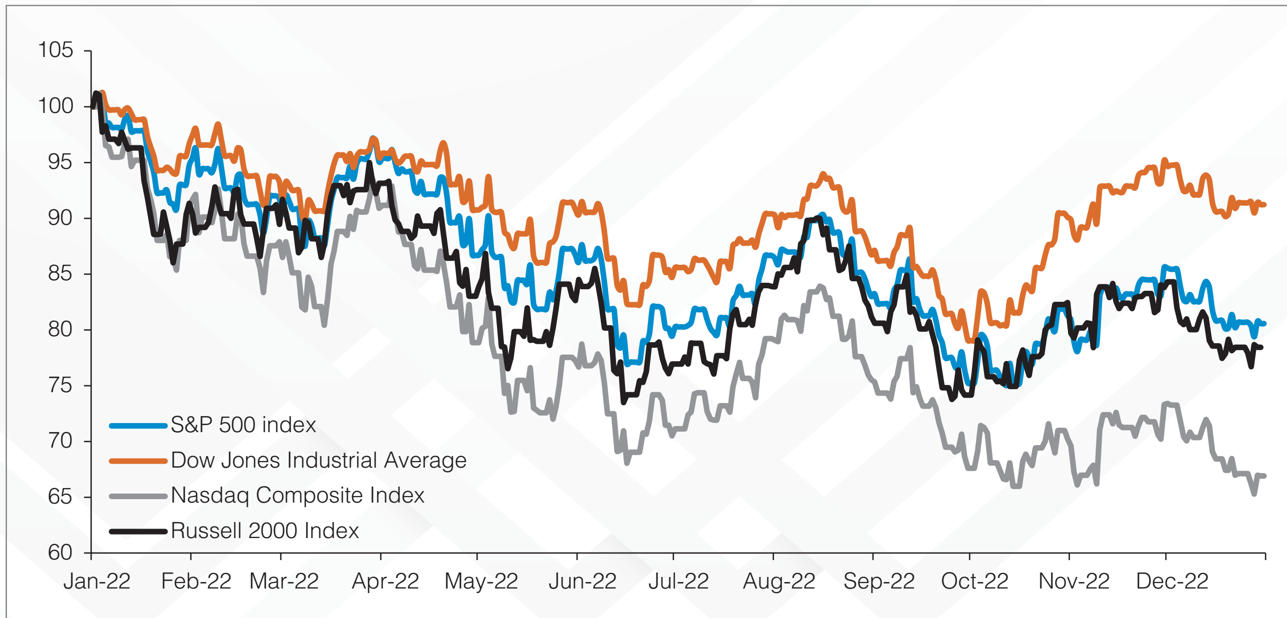
Source: Bloomberg, GIC Research.

Investor sentiment and market activity was positive at the beginning of the year, continuing with the momentum that had been built up toward the end of 2021, before being rattled by Russia's invasion of Ukraine in late February. Though there had been underlying signs of stress in the markets following a hawkish Fed stance and renewed lockdowns in China, the global shock that followed Russia's aggression fed through into markets, with equities declining, bond yields rising and commodity prices surging. The stature of Russia and Ukraine as key producers of several important commodities including oil, gas, and wheat, contributed to a surge in inflation as well as supply chain disruption.

Though corporate profit estimates at the beginning of the year remained positive for the US and other key markets, the unmistakable signs of rising interest rates, put pressure on valuations, especially for the most optimistically priced companies. Consumer sentiment also deteriorated in reaction to higher inflation, even though the US labor market remained robust, with the February jobs report ahead of expectations, and the March report just marginally below estimates.

Markets remained under pressure during most of the second quarter as investors moved to price in further interest rate rises and an increased risk of recession, with inflation continuing to edge higher in many major economies. The equities asset class faced pressure across the globe during the quarter, as investor focus was trained on inflation and policy response from the US Federal Reserve for much of the period. Among equities, the value segment outperformed its growth counterpart but both segments saw sharp declines during the quarter. The Fed raised interest rates by 25 basis points (bps) in March followed by 50 bps in May, and signaled that there would be more to come, despite admitting that the task of bringing inflation down without triggering a recession would be challenging.

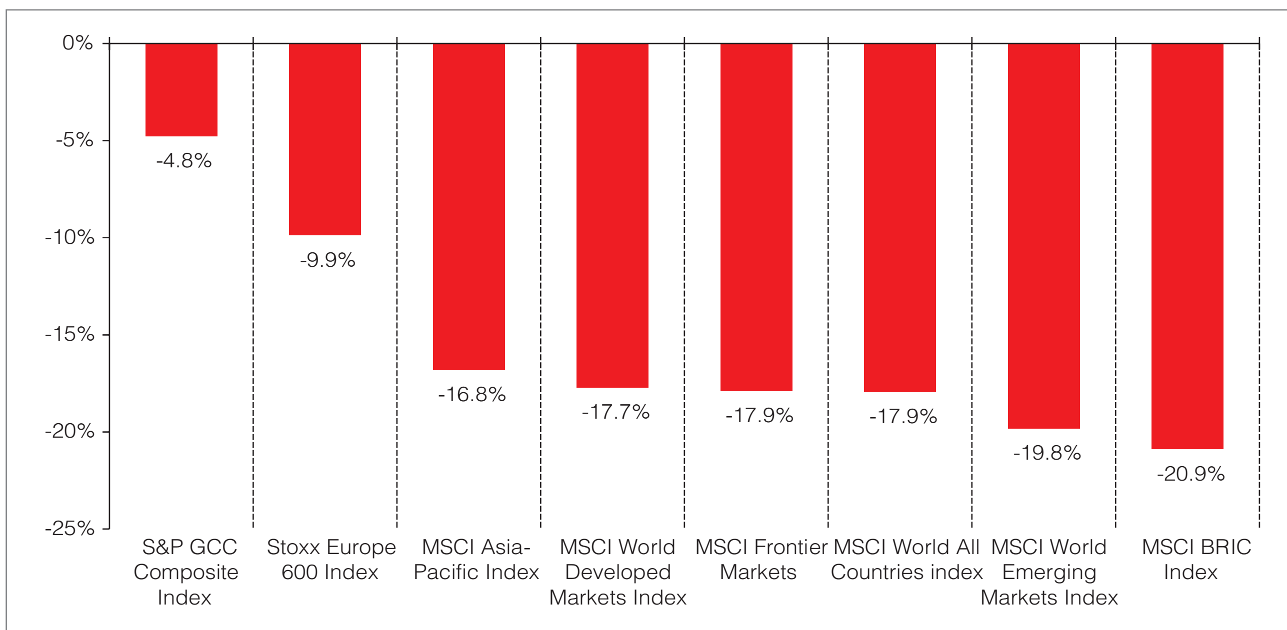
Figure 16: Rebased Performance of US Indices, 2022



Source: Bloomberg, GIC Research.

After a rally in July, global equity markets turned lower and registered negative returns for the third quarter as well. Any hopes of a pivot in the Fed stance involving a slowdown in the pace of rate hikes or indications of interest rate cuts in the medium-term were dashed as central banks reaffirmed their commitment to fighting inflation at whatever cost it may involve. The US Fed, the European Central Bank and Bank of England all raised interest rates during the quarter, causing investor sentiment to recede, though developed market equities outperformed their emerging market counterparts, while commodities generally declined during the period.

Figure 17: Performance of Major global Equity Benchmarks, 2022



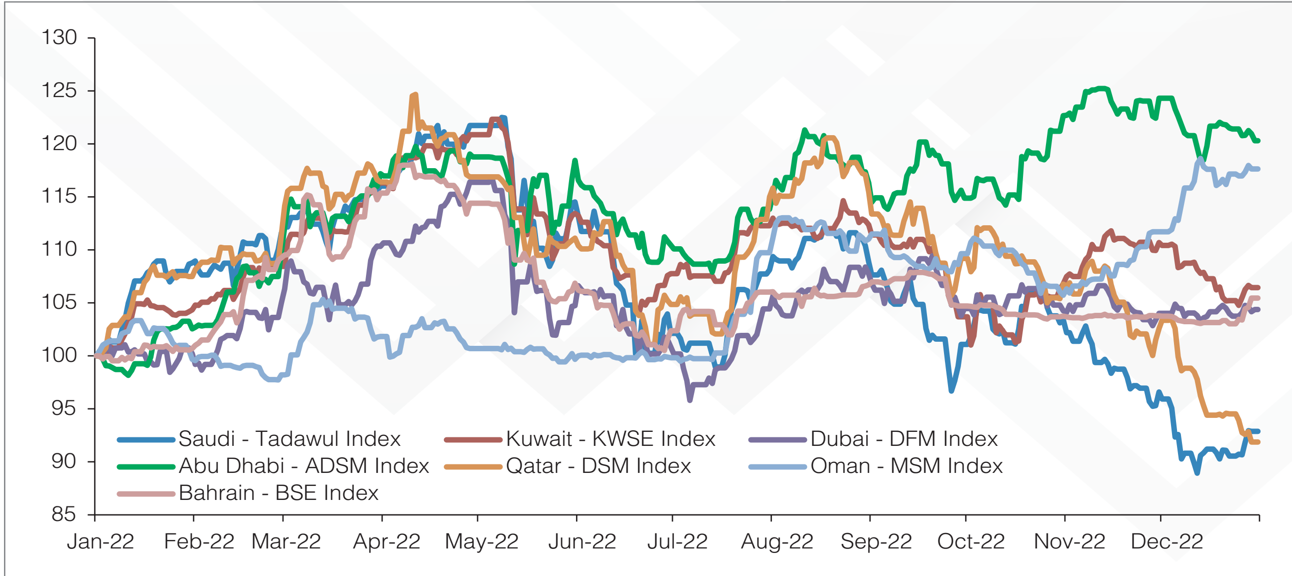
Source: Bloomberg, GIC Research.

Global equities made a comeback and generated robust gains during the fourth quarter, with much of the progress made in November, as investors balanced the persistent tone of caution from the Fed against indications that the pace of policy tightening would slow amid signs that elevated inflation could be cooling. Strong corporate earnings in certain sectors and expectations for stable growth in others helped to sustain investor sentiment. The last US CPI data during the quarter showed a slowdown in the pace of inflation for November relative to October, and caused the Fed to pare back its pace of rate hikes to 50 bps after four consecutive hikes of 75 bps previously.

4.2. GCC Equity Markets Overview

Despite the net negative returns, GCC equity markets ended the year 2022 as one of the best-performing regional groupings in relative terms, as the S&P GCC composite index registered a net decline of 4.8% for the year. This follows a six-year string of positive annual returns on the index and comes after the strong gains registered during 2021, when the GCC benchmark also outperformed most of its peers to emerge as the best-performing regional benchmark for the year. The year came to a close after bouts of elevated levels of volatility for the regional markets, as GCC markets followed cues from global equity indices as well as movements in oil prices.

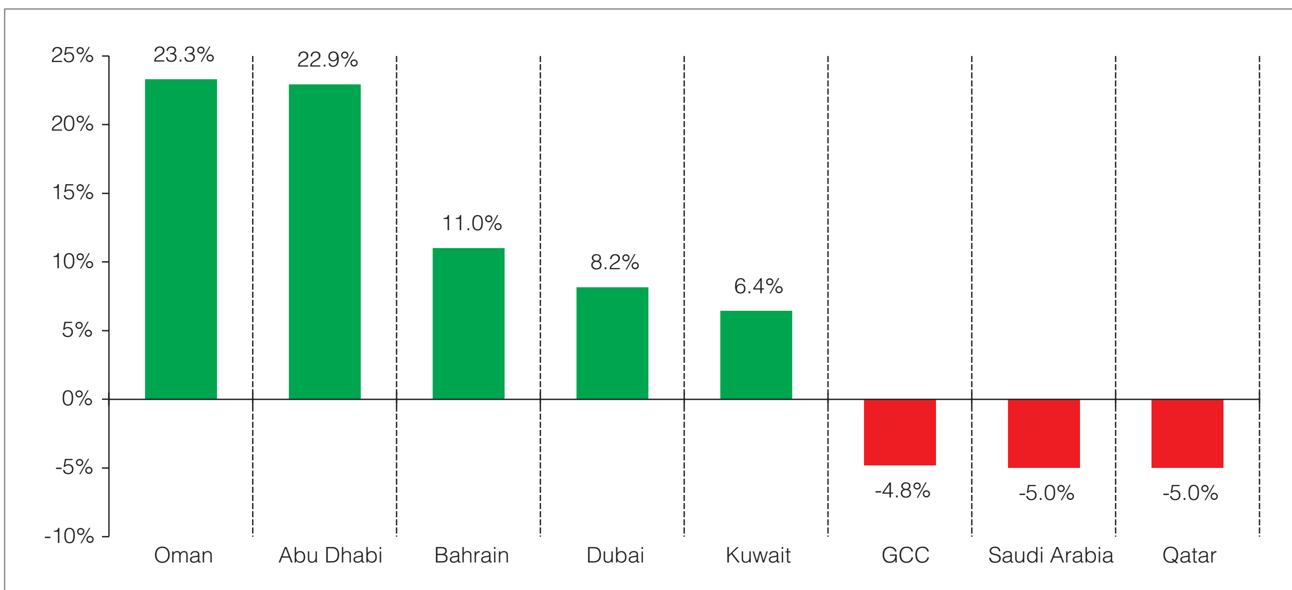
Figure 18: Rebased Performance of GCC Market Indices, 2022



Source: Bloomberg, GIC Research.

Though the year got off to a good start, continuing the trend seen at the end of the previous year as well as mirroring the strength in oil prices, the markets changed course towards the middle of the year as the direction in global financial markets shifted and expectations of weakness in global economic growth caused oil prices to wane and then correct sharply. Through most of the first part of the year, the Russia-Ukraine crisis was the key catalyst for both oil prices and GCC markets, as they priced in the disruption to global oil supplies. However, the switch in direction in the latter part of the year was influenced by the impact caused to global economic growth by the disruption in global supply chains, the continued Covid-related lockdowns in China, rising inflationary pressures and a persistent hawkish stance from global central banks.

Figure 19: Performance of Major GCC Equity Benchmarks, 2022



Source: Bloomberg, GIC Research.

Oman closed the year as the best-performing market within the GCC region, with the MSM 30 index adding a net 23.3% for the year, followed closely by the ADSM index in Abu Dhabi which added a net 22.9%. Two of the three main sectors in Oman registered net gains for the year, led by the financial sector and followed by the industrial sector. In Abu Dhabi, it was the utilities sector that emerged at the forefront, followed by the financials sector, while the healthcare sector was the least-performing sector.

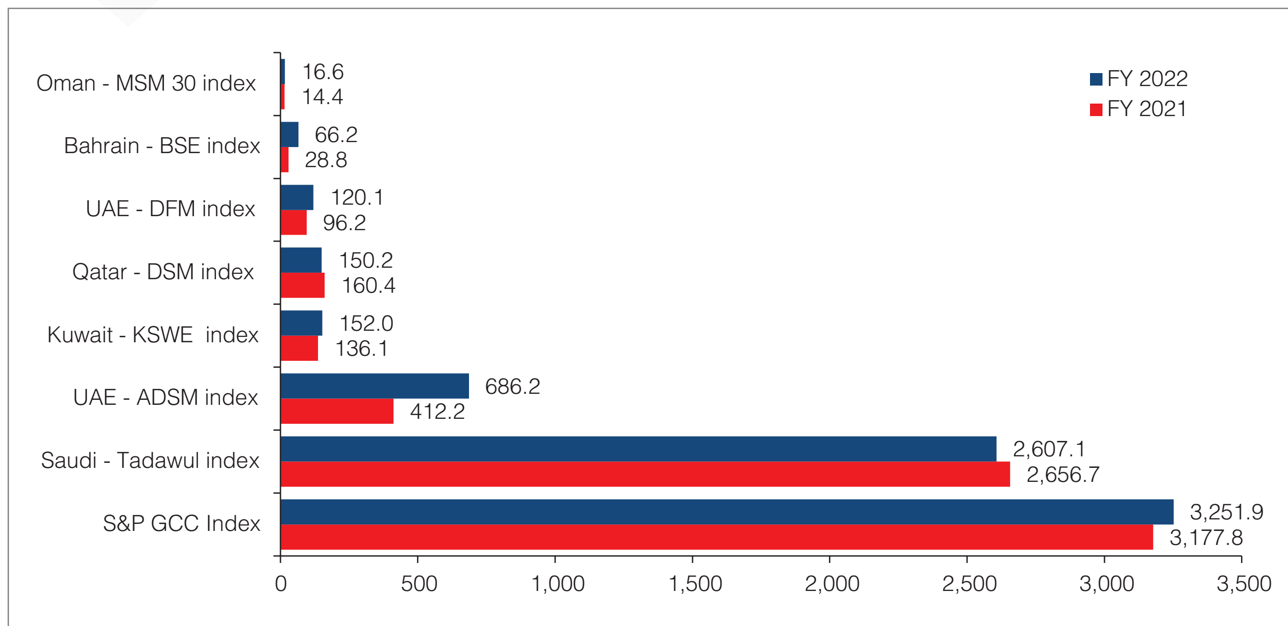
Bahrain marked its second consecutive year of gains, as the BHSE index added 11.0% for 2022, with three out of the seven sectors registering gains, led by the minerals sector. Dubai's DFM index closed the year with a net gain of 8.2%, as the consumer staples, materials and real estate sectors registered robust gains, while the utilities sector was the least performing. Kuwait's KWSE index managed to add 6.4% amid mixed sectoral returns, as the consumer discretionary sector, banks and telecom sectors posted gains, while the healthcare and oil & gas sectors led the laggards.

Qatar emerged as the least-performing among its peers and the DSM index edged down by 5.0%. The insurance and the banks and financial services sectors registered sizeable declines for the year, which could not be offset by gains in the telecom and transportations sectors. Meanwhile, Saudi Arabian bourse registered its first yearly loss after six continuous years of gains, as the Tadawul index ceded 5.0% with only three out of twenty one sectors in the bourse ending in positive territory. The small-cap pharma and biotech sectors and the large-cap materials and banks sectors featured prominently among the laggards in the market.

Primary market activity in the GCC rose sharply during the year, with 48 new IPOs helping to raise a cumulative $23.3bn during the year, 3 times higher than the total of $7.5bn from 20 offerings in the previous year. Saudi Arabia remained at the forefront of primary market issuances, accounting for 34 out of the 48 IPOs that debuted in the GCC. However, in value terms, it was the UAE that dominated the market, gathering almost 60% of the issuance proceeds totaling to $13.9bn from its 11 issuances in 2022. Most of the issuances were part of the UAE government strategy to dilute state-ownership in public sector enterprises and increase diversity of the country's twin bourses.

4.3. GCC Market Capitalization and Trading Activity

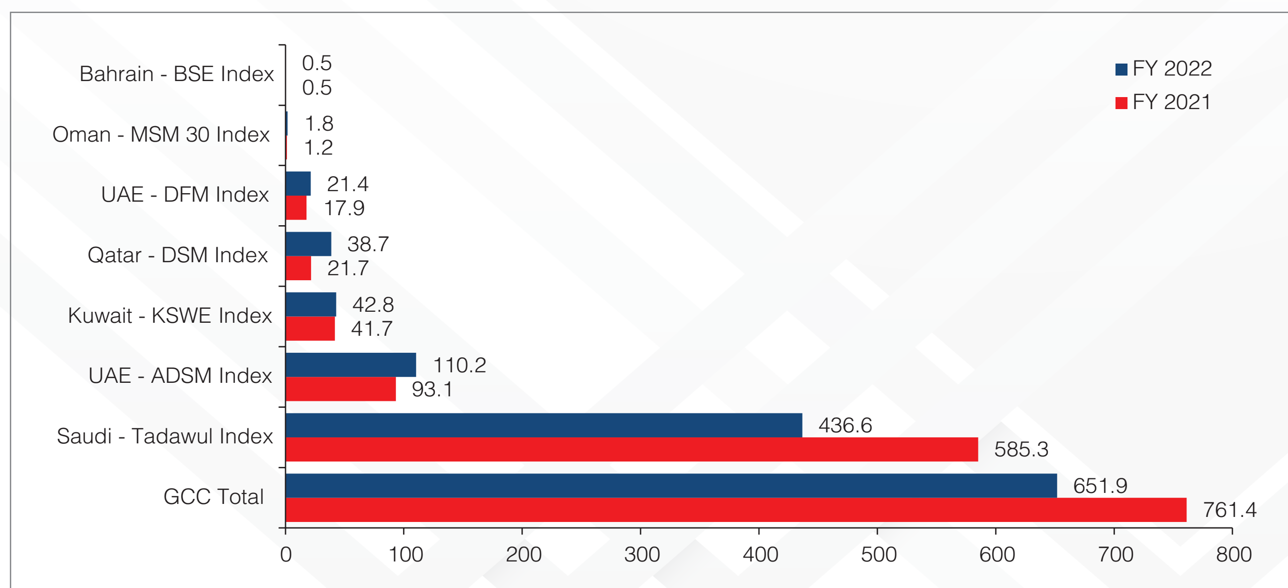
Figure 20: Market Capitalization for individual GCC Markets in 2021 and 2022 ($ billion)



Source: Bloomberg, GIC Research.

The total market capitalization of the S&P GCC composite index rose by a modest 2.3% during FY 2022, rising from $3.17trn at the end of 2021 to close this year at $3.25trn. The Saudi index witnessed a year-on-year compression of 1.9% to $2.61trn, which was compensated by robust increase in market value from some of the other bourses. The Bahrain bourse registered the biggest increase, as the market value of the BHSE index more than doubled to register an annual rise of 129.4% to $66.15bn, driven by strong share price growth in some large-cap stocks. Both bourses in the UAE also registered a strong growth in market value for their respective indices, with the market capitalization of Abu Dhabi's ADSM index registering a growth of 66.5% while that for the DFM index in Dubai rising by 24.9% for the year, helped both by new issuances and increase in market prices. The DSM index in Qatar registered the biggest drop in value in percentage terms, as it shrunk 6.4% for the year to $150.16bn.

Figure 21: Trading Activity on Individual GCC Indices for 2021 and 2022 ($ billion)



Source: Bloomberg, GIC Research.

The GCC region registered a sharp drop in trading activity for the year, with total value traded dropping from $761.4bn in 2021 to $651.9bn in 2022, largely due to a sharp decline in Saudi Arabia, which along with Bahrain were the only two markets that registered a drop in trading activity for the year. Trading on the Saudi bourse remained subdued during the year, largely due to lackluster investor sentiment and poor foreign flows, causing value traded to decline 25% to $436.6bn. The biggest gain was recorded in Qatar where traded value climbed 78% for the year to $38.7bn, benefitting from large-ticket trades on banks and other financial institutions. Oman registered the next biggest growth in activity, as volumes were boosted by activity on large-cap stocks including banks, causing trading activity for the year to rise 54% to $1.8bn.

4.4. GCC Markets Volatility

The GCC market indices witnessed lower level of volatility during 2021 relative to the previous year, with the S&P GCC composite index registering 12 days of net daily change in excess of 1%, compared to 47 days in the previous year. Nevertheless, volatility in the GCC markets continued to remain fairly elevated in absolute terms, with the twin bourses in the UAE exhibiting the highest levels of volatility among the GCC peer group. The close correlation to movements in global markets and oil prices had an impact on GCC markets, exacerbated by the sharp changes in direction and flows during the pandemic-related lockdowns and subsequent reopening of the economies.

Table 14: Volatility of Indices Across the GCC Markets, 2022

	Year Opening	Year Closing	Year High	Year Low	Index Volatility
S&P GCC composite index	271.90	258.92	329.69	254.51	14.1%
Saudi - Tadawul index	11,281.71	10,478.46	13,820.35	10,033.19	17.1%
Qatar - DSM index	3,698.05	3,415.70	14,494.35	10,681.07	16.1%
UAE - ADSM index	8,488.36	10,211.09	10,629.75	8,332.69	15.2%
UAE - DFM index	3,195.91	3,336.07	3,733.70	3,061.80	15.0%
Kuwait - KSWE index	8,676.31	9,234.91	10,613.60	8,691.42	12.8%
Oman - MSM 30 index	1,797.25	1,895.27	2,122.51	1,788.93	9.8%
Bahrain - BSE index	4,129.54	4,857.44	4,898.86	4,035.96	9.2%

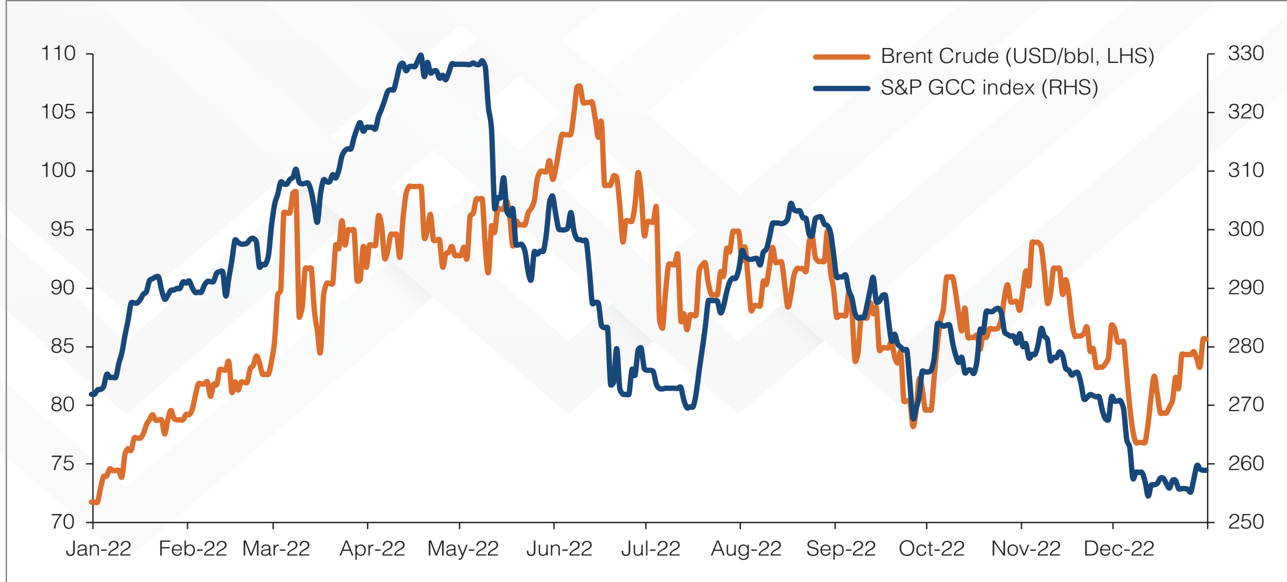
Source: Bloomberg, GIC Research.

The GCC market indices witnessed a higher level of volatility during 2022 relative to the previous year, and the S&P GCC composite index registered a substantial jump in the number of days with net daily change in excess of 1%, from 12 days in 2021 to 53 days this year. Volatility remained elevated throughout most of the year, in both absolute and relative terms, with Saudi Arabia, Qatar and UAE exhibiting the highest levels of volatility among the GCC peer group. The close correlation to movements in global markets and oil prices had an impact on GCC markets, exacerbated by the sharp changes in direction and flows in reaction to the geo-political situation in Ukraine, changes in central bank policy and expectations of a recession in major global economies.

4.5. Relative Performance of market indices to Oil Prices

The correlation between the GCC equity markets and oil prices remained very strong through most of 2022, though there appeared to be a brief decoupling during the second quarter of the year, as the S&P equity benchmark witnessed a sharp correction in tandem with other global equity indices, while oil prices continued their bull-run in the aftermath of the Russia-Ukraine crisis and its potential impact on oil supply. However, during the second half of the year, both oil prices and the S&P index faced corrections on expectations of weaker oil demand amid expectations of a recession in the US and other major global economies.

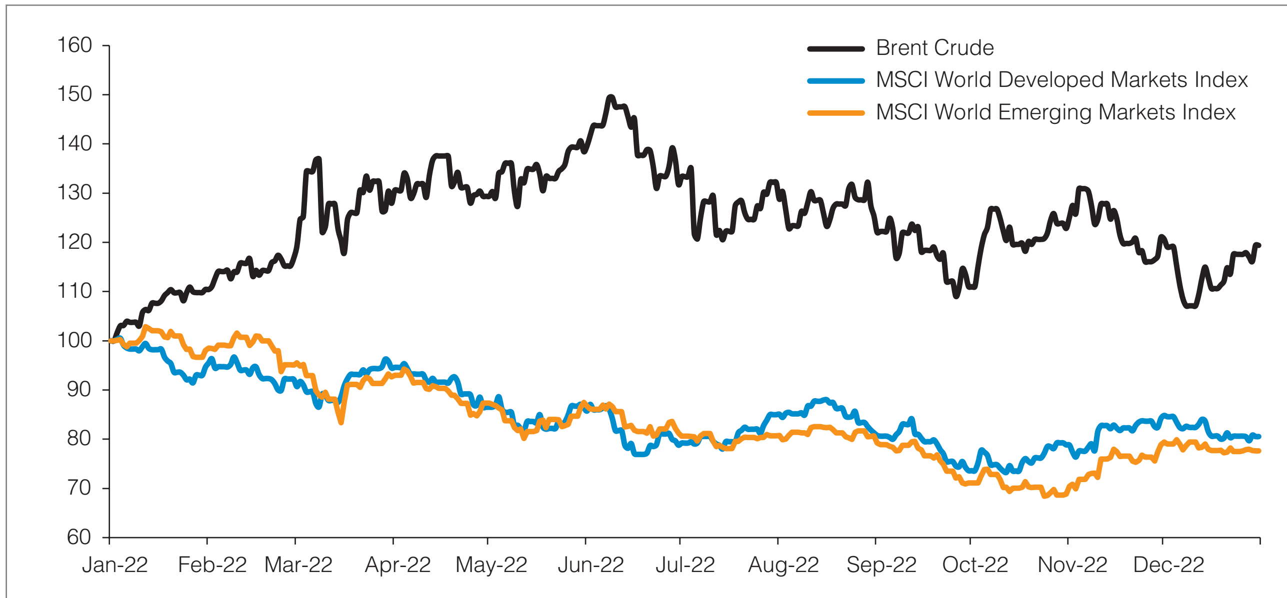
Figure 22: S&P GCC Composite Index Relative to Oil Prices, 2022



Source: Bloomberg, GIC Research.

Oil prices had a strong impact on global equity markets, as seen from the negative correlation between oil prices and the movement of both the MSCI Developed Markets index and the MSCI Emerging Markets index. The robust response of oil markets in response to the Russian invasion of Ukraine, played a sizeable role in stoking global inflation, which in turn prompted global central banks to harden their stance and raise interest rates in rapid succession. However, the hawkish tone on rates led to rising expectations of a recession in major economies including the US and caused equity markets to falter further, mostly in the second half of the year.

Figure 23: Rebased Changes in S&P GCC Composite Index relative to Oil Prices, 2022



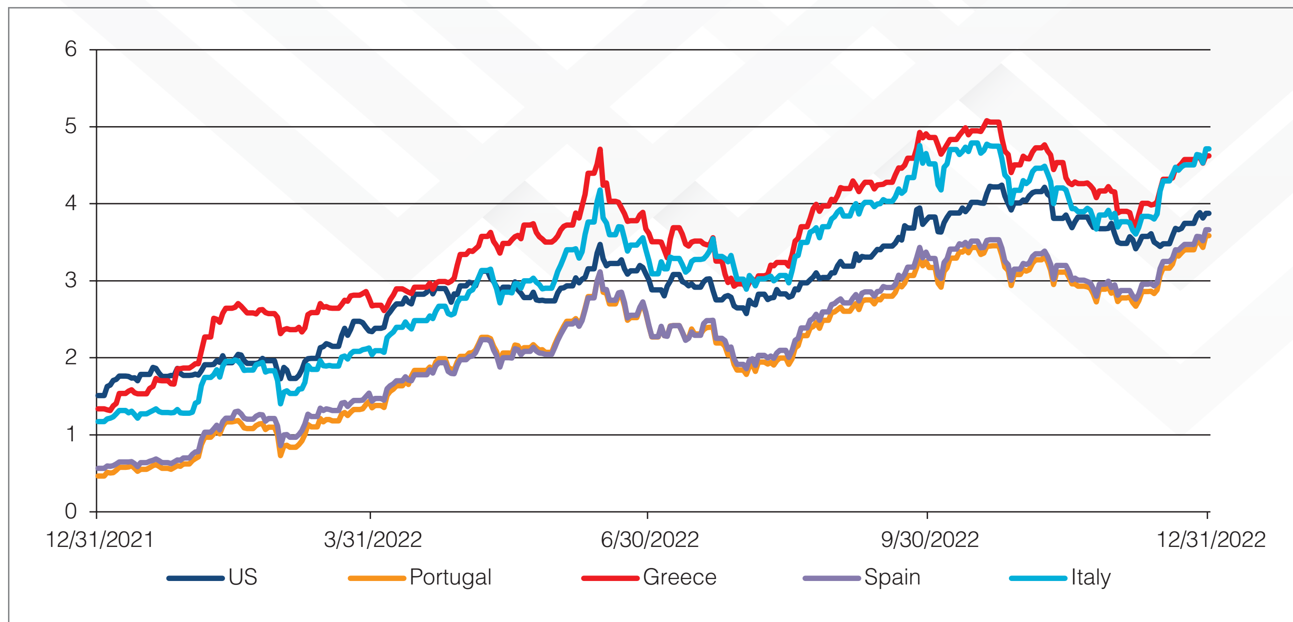
Source: Bloomberg, GIC Research.

5. Selected Measures

5.1. Treasuries

The US Treasury market witnessed a record annual loss in 2022, mainly driven by inflationary pressures and the implications of the Federal Reserve's tighter monetary policy. During October and November, yields peaked and then retreated as inflation measures began to moderate and Federal Reserve officials slowed the pace of policy tightening[20]. US yields started the year at 1.51% and closed out at 3.875%. Meanwhile, the European economies were not fully recovered from the consequences of the pandemic and had to cope with the Ukraine crisis. This resulted in a spike in refugees, surging energy prices, rising inflation, and an increasing threat of a recession[21], clearly reflecting on treasuries performance. As demonstrated below, Greece and Italy closed the year with the highest yields in the euro zone, at 4.624% and 4.715% respectively.

Figure 24: Euro Area and US 10-year Government Bond Yields during 2022



Source: Bloomberg, February 2023.

Table 15: Volatility of Spreads, 2022

	US	Portugal	Greece	Spain	Italy
Opening Value	1.510	0.465	1.338	0.565	1.172
Closing Value	3.875	3.586	4.624	3.663	4.715
Average	2.944	2.165	3.490	2.227	3.121
Standard Deviation	0.717	0.867	0.940	0.865	1.044
Minimum Value	1.510	0.465	1.316	0.565	1.172
Maximum Value	4.242	3.586	5.079	3.663	4.790

Source: Bloomberg, February 2023.

20. Fortune. "The U.S. Treasury market just suffered its worst-ever annual loss in 2022". January 1, 2023.
21. Politico. "2022: The year in figures and charts". December 30, 2022.

Table 16: Government Bond Yields during 2022 (%)

	US	Portugal	Greece	Spain	Italy
Q1	2.338	1.352	2.673	1.436	2.039
Q2	3.013	2.415	3.616	2.423	3.264
Q3	3.829	3.175	4.861	3.289	4.519
Q4	3.875	3.586	4.624	3.663	4.715

Source: Bloomberg, February 2023.

5.2. Credit Default Swaps (CDS)

Geopolitical tensions, soaring energy prices, rising inflation, tighter central bank policies, and aggressive interest rate hikes are driving the amplified credit market volatility and surge in credit default swap (CDS) volumes throughout 2022[22]. During the year 2022, both the EU and US spreads have widened, and are trading at levels in excess of the 2021 year-end levels. Greece, the highest in the EU region, started of the year at 111.99 bps and closed the year at 138 bps. The US spreads, however, doubled, closing the year at 24.97 bps. The GCC's region CDS demonstrated very slight downward changes, except for Abu Dhabi, which inched up from 43.6 bps, to 45.76 bps.

Table 17: CDS Performance, 2022

	Portugal	Ireland	Greece	Spain	Italy	US	Bahrain	Abu Dhabi	Dubai
Opening	31.32	14.63	111.99	34.23	91.54	12.89	291.37	43.60	94.87
Closing	54.73	27.22	138.00	54.91	132.76	24.97	269.31	45.76	84.04
Average	49.97	19.99	153.81	50.86	128.08	19.97	303.61	54.63	111.33
Low	28.74	13.36	105.46	30.50	85.13	11.40	239.32	43.59	81.17
High	69.04	29.61	201.74	70.62	179.35	31.43	337.02	75.87	143.12

March 28, 2022 - November 17, 2022.
Source: Bloomberg, February 2023.

5.3. GCC Monetary Policy

The GCC private sector credit growth continues to trend upwards. In Bahrain, a 4.39% growth has been recorded during 2022 while in the UAE it reached 1.54%. Meanwhile, it contracted in Saudi Arabia by 1.96% in 2022 from 15% in 2021.

Table 18: Private Sector Credit Growth (%)

	2018	2019	2020	2021	2022
Bahrain	2.45	9.93	1.08	6.80	4.39
Kuwait	3.94	4.38	3.57	6.16	3.71
Oman	5.96	2.70	2.42	4.24	2.49
Qatar	12.99	19.49	8.30	9.48	2.93
KSA	2.69	7.61	14.82	15.52	-1.96
UAE	0.70	3.98	0.63	-2.65	1.54

Source: IIF, September 2022.

The year 2022 marked a series of rate hikes in the GCC. In Kuwait, policy rates settled at 2.25% by the end of 2022, from 1.5% in 2021. Meanwhile, policy rates in Qatar, almost tripled from 0.98% in the closing of 2021, to 3% by the end of 2022.

22. Risk.net. "Trends in global credit markets: the rise of credit default swap clearing in a shifting landscape". November 8, 2022.

Table 19: Policy Rate (EOP)

	2018	2019	2020	2021	2022
Bahrain	1.75	2.75	2.25	1.00	1.00
Kuwait	3.00	2.75	1.50	1.50	2.25
Oman	2.93	2.24	0.50	0.50	0.75
Qatar	3.14	2.61	1.22	0.98	3.00
KSA	2.50	1.75	0.50	0.50	2.00
UAE	2.25	3.25	2.50	1.25	1.25

Source: IIF, September 2022.

In addition, money supply in the GCC maintained its growth. Money supply (M2) in Oman has increased by 18.77% in 2022, higher than all GCC economies. The UAE witnessed a slight drop in growth from 4.63% in 2021 to 4% in 2022.

Table 20: M2 (%)

	2018	2019	2020	2021	2022
Bahrain*	4.15	0.81	8.32	3.51	5.18
Kuwait*	4.06	-1.47	3.85	-0.46	7.68
Oman	8.29	2.02	8.93	4.57	18.77
Qatar	-6.52	2.48	3.79	1.44	8.54
KSA*	2.59	7.03	8.30	7.47	8.55
UAE	4.14	2.53	8.00	4.63	4.02

** Broad Money (M3).*
Source: IIF, September 2022.

FINANCIAL REVIEW

Net Income Analysis

Gulf Investment Corporation (GIC) posted net profit of US$131 million, compared to US$130 million in 2021. The incline in profit compared to the previous year is mainly due to the higher share of results from associates companies which increased by US$182 million compared to prior year. This is due to the improvement in the performance of associate companies operating in the metals and utilities sectors. On the other hand, Global Markets portfolio witnessed a negative performance as a result of the performance witnessed by the global financial markets during the year 2022, which led GIC to record unrealised losses amounting to US$72 million due to the decline in equity and bond prices.

During the year, impairment losses of US$9 million, which mainly related to investment in associates, have been reversed against an impairment of US$6 million was provided during 2021 which mainly relates to other assets of a subsidiary. During the year, other comprehensive income for the year is US$54 million (2021: US$111 million) taking the consolidated total comprehensive income to US$185 million (2021: US$241 million).

Interest Income

Interest income is generated from debt securities portfolio and placement with banks.

Interest income for the year US$17 million is US$7 million down from previous year. 65% of the interest income is contributed by debt securities. The gross interest income decreased due to the decline in average volume of GCC bonds compared to last year.

Net (loss) / gain from investments

Net gain from investments represent the realised gain on sale of financial assets at fair value through statement of income, investment in associate, investment in subsidiaries, in addition to unrealised change in fair values of financial assets at fair value through statement of income.

GIC recorded net loss of US$112 million during 2022 (2021: net gain of US$61 million) comprise of realised loss on financial assets at fair value through income statement of US$40 million (2021: realised gain of US$23 million) and unrealised loss of US$72 million (2021: unrealised gain of US$19 million) from financial assets at fair value through statement of income. In 2021, GIC recorded a realised gain on sale of an associate company amounting to US$15 million and a net gain on reclassification of investment in an associate to financial asset at fair value through other comprehensive income amounting to US$4 million.

Dividend Income

Dividend income of US$7 million (2021: US$11 million) comprises of receipts from equity participations, equities and managed funds. Dividends from principal investment portfolio amounted to US$6 million. The remaining balance of US$1 million is contributed by quoted GCC equities portfolio.

Share of Results of Associates

Share of results of associates during the year amounted to profit of US254 million compared to prior year profit of US$72 million. The major factor contributing the incline in share of results in comparison to previous year was the higher results of major associates within Metal sector, as well as the continuous good performance of associates in power & water sectors.

Fees and other income

Fees and other income for the year amounted to US$6 million (2021: US$21 million). During 2021, GIC received fees and commissions amounting to US$17 million and an amount of US$2 million from fully written off investment. In 2021, GIC reported a gain of US$2 million which represent the change in fair value of contingent consideration on acquisition of an associate.

Other Operating Income

Other operating income represents the income from consolidated subsidiaries amounting to US$9 million (2021: US$2 million) (note 17).

Interest Expense

During the year, the interest rate increased significantly due to the US Federal Reserve decisions to raise interest rates to curb the rise in inflation, which contributed to an increase in interest expense by 47% to reach US$12 million, compared to US$8 million in the previous year.

Operating Expenses

Efficiency in operations and higher productivity was achieved with strict control over operating expenses which resulted in maintaining the level of operating expenses at US$47 million (2021: US$47 million).

Reversal of / (provision for) impairment losses and expected credit losses

Net reversal of impairment losses for the year amounted to US$9 million, compared to impairment losses of US$6 million recorded in 2021. Reversal of impairment losses for the year 2022 mainly relates to reversal of net impairment losses on investment in associates amounting to US$7 million and a reversal of net provision for Expected Credit Losses on other assets of US$2 million. While the impairment losses of US$6 million was provided in year 2021 is related to other assets of a subsidiary.

A detailed breakdown is provided in Note 18 to the Financial Statements.

Balance Sheet Analysis

GIC is committing to an investment policy targeting lower leverage and rebalanced investment portfolios to achieve higher returns at reduced level of risk. Initiatives were implemented both, on the assets and liabilities sides. Total assets increased by US$142 million compared to previous year balance to reach US$3,331 million. Equity at US$2,688 million increased by US$80 million compared to last year.

The Corporation's strategic focus continues to be on the GCC region. Note 21 to the Financial Statements presents the geographic distribution of the Corporation's credit risk exposure.

The following sections provide details on the key components of the balance sheet:

Financial Assets at Fair Value through Statement of Income

As at 31 December 2022, financial assets at fair value through statement of income amounted to US$1,069 million, decreased by US$38 million from the prior year balance. Debt and other interest bearing securities, represent 33% of the financial assets at fair value through statement of income, was decreased by US$184 million compared to last year balance.

The debt portfolio is mainly made up of plain floating rate notes, fixed rate securities and structured products. This portfolio is monitored against stringent internal guidelines, ensuring that high quality is maintained. Major portion 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.

Financial assets at fair value through statement of income also include investments in equities and managed funds of US$608 million, equity participation amounting to US$50 million and international & GCC private equity fund exposures of US$56 million. Investment in equities and managed funds increased by US$171 million by increasing emerging and global quoted equity investments by US$105 million and increase in hedge and other alternative funds exposures by US$66 million. Decrease in equity participations is mainly due to sale of a project of US$18 million and fair value loss on unquoted investment of US$4 million, offset by new investments amounting US$8 million.

The private equity funds are principally invested in equity investments of a structured finance nature with a wide range of externally managed private equity funds. These funds invest in leveraged and un-leveraged acquisitions, privatizations, recapitalizations, rapidly growing companies, expansion financings, turnaround situations, and other special equity situations.

Financial assets at fair value through other comprehensive income

As at 31 December 2022, financial assets at fair value through other comprehensive income amounted to US$191 million decreased by US$58 million from the prior year balance due to fair value loss of US$45 million on investment in The National Titanium Dioxide Company Limited ("Cristal") and fair value loss of US$13 million on investment in Shuqaiq International Water and Electricity Company Limited.

Investment in Associates

An associate is a company over which the Group has significant influence. 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 the core activity of GIC. The focus has been on niche sectors like Metal, Chemical, Power & Utilities, Financial services and Building materials, where a sustainable competitive advantage has been built.

Investment in associates at US$1,685 million increased by US$287 million which is mainly due to the share of results of associates amounted to US$254 million. Other changes are related to additional contributions to the existing companies, dividend received and share of net change in revaluation reserves of associates.

Other Assets

Other assets amounted to US$95 million at 31 December 2022. Of this US$18 million related to property and other fixed assets and US$35 million relating to Margin money paid on derivative instruments. The remaining amount comprised of accrued income receivable, trade & accounts receivables, positive fair value of derivative instruments, prepaid expenses and other miscellaneous assets net of expected credit loss on applicable assets. Details are set out in Note 7 to the Financial Statements.

Liquidity and Funding

Total borrowings at US$557 million comprise of deposits from central banks and other financial institutions of US$431 million and term finance US$126 million. Term finance decreased by US$48 million compared to previous year end mainly due to the maturity of US$39 million and US$9 million of foreign exchange movement.

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.

Other Liabilities

At US$86 million other liabilities comprise of trade payables of subsidiaries, accrued interest, accrued expenses, margin money for derivative products and negative fair value of derivative instruments.

Equity

Equity at US$2,688 million increased by US$80 million due to net profit US$131 million and other comprehensive income of US$54 million compared to the payment of dividends to shareholders during the year of $105 million.

RISK MANAGEMENT

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

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

GIC's resilience during 2022, a challenging year in many respects, is testimony to strong business capabilities and a robust enterprise risk framework. Unequivocally, GIC remains a significantly resilient, measurably strong and stable financial institution. Risk management will continue to be an important aspect of corporate strategy and every effort will be made to ensure it is adaptive, effective and value adding.

Since the start of the year, there were many challenges that impacted markets all over the world. The geopolitical situation with Russia and Ukraine war increased volatility and uncertainty for investors. Moreover, 2022 was marked by high inflation and interest rates, where central bankers increased rates in an unprecedented speed. Not to mention swings in oil prices and their impact on the world economy. All of these challenges increased uncertainty in capital markets where equity and fixed income markets saw an increase in volatility. The Risk Management Division at GIC monitored such events during 2021 and made sure that all appropriate risk mitigants and controls were available to the decision makers before making any market moves.

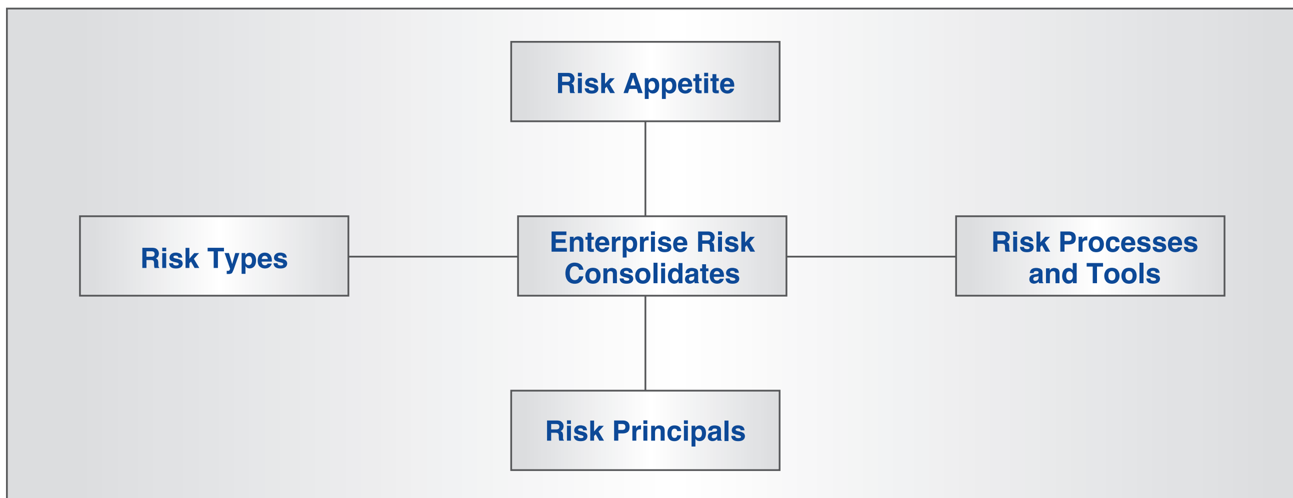
Looking forward to 2023, certain challenges might increase uncertainty during the year. Inflation expectations, volatile commodity prices, swings in equity markets and the continuation of Russia-Ukraine war might bring pressure to GIC's earnings. The Risk Management Division at GIC will keep monitoring all risk limits according to the risk appetites of GIC and make sure that they are communicated effectively with all business units to manage those risks.

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

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

An Independent Risk Management Division (RMD) formalizes the Enterprise Risk Management (ERM) framework. The ERM framework encompasses all facets of prudent risk management via strong enterprise-wide policies, procedures and limits.

With these tools Risk Management is able to identify strategic opportunities and reduce uncertainty from both operational and strategic perspectives. It also enhances GIC's ability to manage risks, evaluate performance and allocate capital.



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

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

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

a) Identifying and measuring the various risks generated,

b) Monitoring, reporting and controlling them, and finally,

c) Optimizing in relation to the return.

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

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

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

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

CREDIT RISK

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

The world credit markets during 2022 was marked by high inflation and interest rates. Volatility in credit markets increased because of these factors. Central bankers increased rates in unprecedented speed and markets adjusted accordingly. Looking forward to 2023, uncertainty is expected to remain high especially if central bankers ease their rate increases due to perceived lower inflation expectations. The net effects on markets remain unclear, which might draw market participants to defensive positions. GIC with its active portfolio management registered an impressive performance on the credit portfolios. GIC remained relatively unscathed during the year, registering nil credit losses, thanks to prudent proactive measures, stringent control frameworks and continuous monitoring. While the Corporation's credit portfolio, mainly made up of debt securities, constitutes a material portion of the overall asset base, strong internal risk guidelines and proactive portfolio management ensure that high quality is maintained at all times. Notwithstanding the Corporation's rigorous and prudent policies for provisioning, no material write-downs were required during 2022. This is a reflection of the good quality of the portfolio.

GIC continued to focus on regional credit markets where the team has a better understanding of inherent risks. This has resulted in an enhanced risk return profile. The Corporation continued to be flexible and ready to adapt rapidly to unforeseen events supported by the efficient utilization of conventional risk management tools, including mathematical and statistical models.

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

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

The Debt Capital Markets (DCM) portfolio constitutes approximately 11% 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 DCM Portfolios. On 31st December 2022 the market value of this portfolio was US$ 355 million, the average Credit VaR and the year-end Credit VaR is lower compared to previous year, the year witnessed a declining trend. Specifically, the maximum point was in January while the year-end marked the minimum. This trend reflects strategic repositioning under DCM and GIC overall.

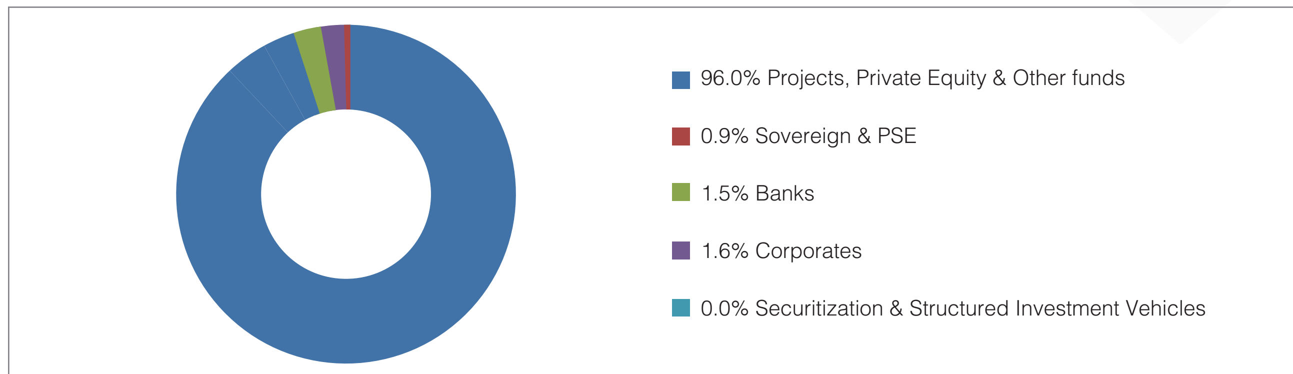
Table 1: 2022 Credit Value at Risk - 99.96% confidence level, 1 year holding period

US$ 000's	Average	Minimum	Maximum	31 Dec 2022
Debt Portfolios	66,555	40,520	99,700	58,330

Although, business units are responsible for maintaining exposures within limits, actual exposures are continuously monitored by Independent control functions including Risk Management, Finance, Compliance and Internal Audit. Technology is a key element in the monitoring process. To illustrate, cutting edge systems that are capable of approaching "real time" monitoring and control of risk taking activities, are effectively utilized.

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

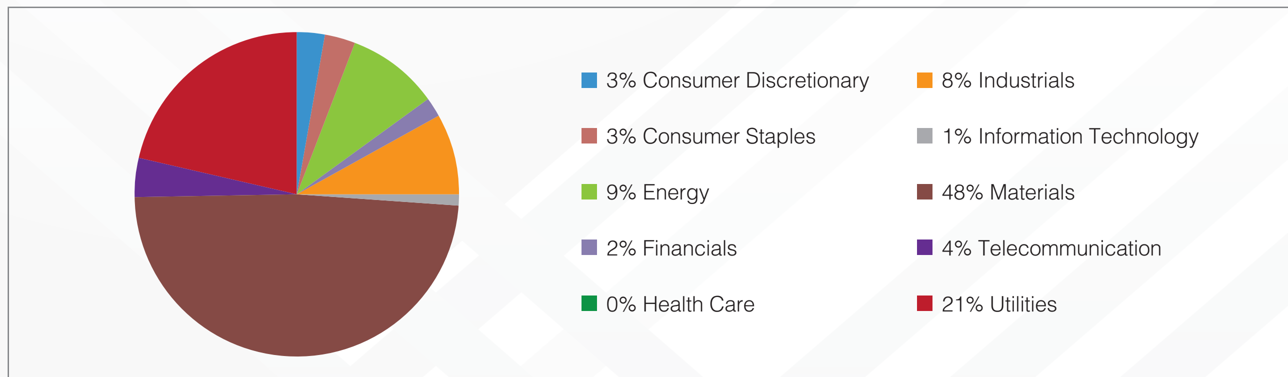
Chart 1: Sources of Credit Risk (Weighted Credit Risk Exposure)



The credit risk weighted exposure for Banks and Corporates both increased from 1% in 2021 to 1.5% by the end of 2022, whereas the credit risk weighted exposure for Projects, Private Equity, and other funds increased from 91% in 2021 to 96% by the end of 2022. However, the credit risk weighted exposure for Banks decreased from 4% in 2021 to 0.9% by the end of 2022.

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

Chart 2: Principal Investing (Projects) by Industry



Off-balance Sheet Financial Instruments

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

In the case of derivatives and foreign exchange transactions, procedures similar to on balance sheet products are used for measuring and monitoring credit risk. Credit risk weighted exposure to off balance sheet products amounted to nearly 0.3% of total credit risk weighted exposure.

At the year-end 2022, there were no outstanding derivatives held for trading. Off balance sheet transactions also include credit related contingent items designed to meet the financial requirement of the Corporation. A detailed credit risk analysis of credit- related contingent items, derivatives and foreign exchange products is set in Notes 20, 21 & 22 to the Consolidated Financial Statements.

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

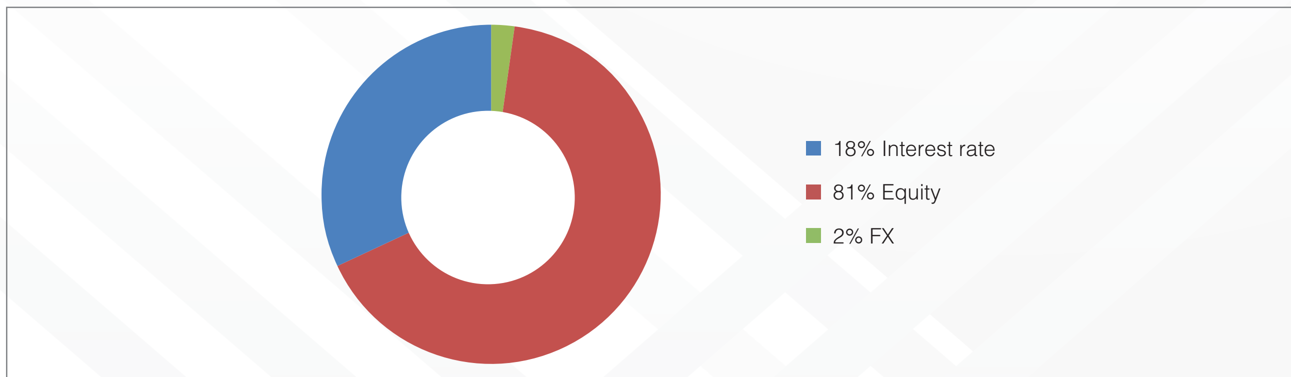
While the mechanism of risk monitoring and control has been fostered further, the risk management function is now more engaged with the business units, having been brought forward within the investment process. In addition to incorporating additional credit information, including Credit Default Swap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

MARKET RISK

Market risk is the possibility of loss from changes in value of financial instruments, resulting from an adverse change in market factors.

Within the Corporation, market risk is made up of three key risk constituents - interest rate risk, equity risk and foreign exchange risk. A breakdown, based on risk constituents, is provided below for the combined mark-to-market and Investment activities, within the Global Markets Group alone (strategic equity positions within the Principal Investment business are not included). The percentages shown on the pie chart reflect average VaR amounts, considered independently, and ignore the effects of diversification across risk classes.

Chart 3: Market Risk Constituents - Overall



Market risk is measured, monitored and managed, both on a notional basis, and using a Market Value- at-Risk (Market VaR) concept. A blend of quantitative statistical methods combined with expert judgments and experienced talent is used to effectively manage market risk. A system of limits and guidelines restrain the risk taking activity with regard to individual transactions, net positions, volumes, maturities, concentrations, maximum allowable losses and other parameters. 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 provides Total Value-at-Risk statistics for Global Markets Group by risk factor (please note: Total Global Markets Group VaR excludes Strategic Equity Investments within Principal Investing). These VaR measures are based on a 95% confidence level, 25 day holding period and use historical data sets.

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

		2022		
US$ 000's	**Average**	**Minimum**	**Maximum**	**31-Dec-22**
Interest rate	5,601	4,424	8,642	5,768
Equity	25,740	14,064	31,202	28,067
Foreign Exchange	574	300	1,105	500
Total*	25,795	15,635	32,238	29,277
		2021		
US$ 000's	**Average**	**Minimum**	**Maximum**	**31-Dec-21**
Interest rate	10,074	7,325	17,127	8,655
Equity	20,509	14,089	28,964	14,089
Foreign Exchange	496	72	1,104	296
Total*	20,691	15,625	25,581	15,625

** Total VaR incorporates benefits of diversification*

On an average basis, VaR pertaining to market risk is higher as compared to the previous year. As at 31st December 2022, total market risk VaR reached US$ 29.3 million. Total market risk VaR remained within limits as approved by the Risk Management Committee and the Board of Directors. The Corporation will closely monitor the operating environment and seek to take on appropriate market risk at opportune times.

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

It should be noted that certain portfolios and positions are not included in the Market VaR analysis, where VaR is not the most suitable measure of risk. These include the principal project investments in the GCC and the portfolio of International private equity funds. The market risk relating to these investments are measured in terms of a 10% sensitivity measure an estimated decline in asset values. The fair values of the underlying positions may be sensitive to changes in a number of factors, Including but not limited to: the financial performance of the companies, projected timing and amount of future cash flows, discount rates, trends within sectors and underlying business models. The table below provides the sensitivity measure for 2022 and 2021. The principal investment and private equity portfolio are categorized as financial assets at fair value through statement of income, investments in subsidiaries and associates.

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

Asset Categories	10% sensitivity measure	10% sensitivity measure	
		31-Dec-22	31-Dec-21
Principal Investments	Underlying asset value	196,006	172,274
Private Equity Funds	Underlying asset value	5,604	6,742

Likewise, scenario analysis is an essential component of the market risk management framework. The assumption of normality on which the statistical models are based may become invalid due to the occurrence of certain events. Future scenarios that result in a breakdown of the historical behavior and relationships between risk constituents are projected, and potential loss amounts are determined. Most of these scenarios are derived from historical macroeconomic trends adjusted for fermenting and unfolding developments and expectations about futuristic events.

Liquidity Risk Management

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

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

a) Cash flow Illiquidity, arising from the inability to honor financial commitments or to procure funds at reasonable rates and required maturities; and

b) Asset illiquidity, relating to the lack of market depth during times when assets are to be liquidated on a forced basis.

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

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

a) Meeting day-to-day cash outflows;

b) Providing for seasonal fluctuation of sources of funds;

c) Providing for cyclical fluctuations in economic conditions that may impact availability of funds;

d) Minimizing the adverse impact of potential future changes in market conditions affecting GIC's ability to fund itself; and

e) Surviving the consequences of loss of confidence that might induce fund providers to withdraw funding to GIC.

Liquidity Limits

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

The liquidity limits that are regularly monitored include the following:

a) Maximum dally 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 2022 was 195%. This figure was determined taking into account the following basic criteria:

a) A 3-month remaining maturity is used to establish the time threshold by which balance sheet items are determined to be liquid or illiquid, stable or volatile;

b) Appropriate "haircuts" are applied on liquid assets to reflect potential market discounts; and

c) A "business as usual" posture is maintained in ascertaining the level of assets to be liquidated or pledged to avoid sending a wrong signal to the market.

The Corporation's Investment portfolio is managed so that the holdings of un-pledged, marketable securities that are comprised of strategic reserves are equivalent to approximately 50% of the projected maximum 30 day cumulative cash outflow. By the end of December 2022, investments in marketable securities tallied at approximately US$ 1 billion, and are primarily made up of investment grade securities.

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

Market Access for Liquidity

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

Proactive and prudent liquidity management requires a stable and diversified funding structure. To this end, GIC always maintains a well-balanced portfolio of liabilities in order to generate a stable flow of financing and to provide protection against sudden market

disruptions. To the extent practical and consistent with other GIC objectives, the Corporation emphasizes both minimal reliance on short-term borrowed funds as well as the use of Intermediate and long-term borrowings in place of short-term funding.

A diversity of funding sources, currencies, and maturities are used in order to gain a broad access to the investor base. The proactive steps GIC undertook during the previous years, particularly in terms of raising medium term financing, enabled the Corporation to secure a sound asset-liability maturity profile. As of 31 December 2022, the Corporation's term financing stood at US$ 126 million.

Further, the Corporation was successful in enhancing the diversity of its depositor base, a reflection of increased market confidence. At year-end 2022 the Corporation's deposit base stood at about US$431 million, 91% of which is due to GCC depositors. GCC deposits have proven to be a stable source of funds over the years.

The table below provides the breakdown of the Corporation's funding source for the comparative years 2021 to 2022.

US$ Millions	2022 (US$)	2022 (%)	2021 (US$)	2021 (%)
GCC Deposits	391	12.1%	234	7.5%
International Deposits	40	1.2%	80	2.5%
Repo Financing		0.0%		0.0%
Term Financing	126	4.0%	174	6.0%
Shareholder's funds and others	2,668	82.7%	2,498	84.0%
Total	3,225	100.0%	2,986	100%

Contingency Funding Plan

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

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

These procedures include:

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

b) Careful identification of specific triggers that would prompt activation of CFP; and;

c) Specification of exact guidelines for adequate management of liquidity crisis.

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

Interest Rate Gapping Risk

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

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

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

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

The Eurodollar futures contract position value as at December 31, 2022 was 1023 contracts, with an estimated VaR of US$ 1,184,288. The number of contracts has increased compared to the year before. In addition, the estimated VaR is higher than the levels of the previous year (31st December 2021: 992 contracts, estimated VaR US$ 138,758). This is excluding the impact of the fixed rate EMTN Issuance.

Maturity profile of assets and liabilities

A detailed breakdown of the maturity profile by individual asset and liability category is provided in Note 21.2 to financial statements. At December 31st 2022, roughly 30% of total assets within 3-months, based on internal assessment of the Corporation's right and ability to liquidate these instruments. Comparatively, on the same basis, approximately 71% of total liabilities were in the same bucket. The sizable portfolio of high quality marketable securities contributed to the relatively high ratio of liquid assets. The Corporation' s GCC retention record shows that short maturity deposits from GCC governments, central banks and other regional financial Institutions have been regularly renewed over the past several years. With the success achieved in raising medium term finance, the Corporation was able to optimize the asset liability maturity gap, especially within the medium and long term buckets.

CREDIT RATING

GIC's strong financial indicators were acknowledged in the rating reports, by all the credit rating agencies. As of end 2022, GIC's long term deposits were rated A2 by Moody's and BBB+ by Fitch.

All ratings carry a stable outlook. GIC continues to be rated AAA by Rating Agency Malaysia (RAM).

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

CAPITAL STRENGTH

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

The Corporation's capital base stood at US$ 2,657.8 billion at 2022 year end. GIC continues to be one of the best capitalized financial Institutions in the region.

OPERATIONAL RISK

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

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

KEY AIMS:

The management of Operational Risk has the following key objectives:

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

OVERVIEW:

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

a) Risk and Control Self-Assessment framework;

b) Loss Event framework;

c) Corrective Action Plans framework; and

d) Operational Risk Reporting framework.

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

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

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

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

b) Loss Event Framework

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

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

c) Corrective Action Plans (CAPs) Framework

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

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

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

d) Operational Risk Reporting Framework

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

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

OPERATION RISK WEIGHTED EXPOSURE:

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

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

INSURANCE:

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

BUSINESS CONTINUITY AND DISASTER RECOVERY PLANNING:

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

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

LEGAL RISK MANAGEMENT:

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

INFORMATION SECURITY FRAMEWORK:

A secure Information security framework is in place to identify the responsibilities at every level of Information handling, i.e. from data ownership (encoding) to data access. Periodic audits are conducted to ensure compliance with the policies and standards set, by Internal Audit, information Security Risk Officer and the Risk and Control Self-Assessment review. Since 2015, the Corporation's Information Security Management obtained the ISO 27001:2013 certification.

OPERATIONAL LOSS EVENT PROFILE FOR 2022:

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

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

During 2022, all events occurred under the stage 1 loss event categories: "Execution, delivery and process management" category.

BASEL III DISCLOSURE

Basel III Rationale:

Aligning banking risk management with Capital Requirements

In response to the lessons learnt from the global financial and economic crisis in 2008, and to address the market failures across the banking sector revealed by the same, the Basel Committee issued the Basel III framework. Basel III regulations aim to strengthen the quality of capital and increase the regulatory capital requirements to help absorb losses. In addition, the introduction of capital buffers as part of prudential policies is applied by regulatory authorities to prevent global risks and enhance financial stability.

With Basel III, the Basel Committee is raising the resilience of the banking sector by strengthening the regulatory capital framework, building on the three pillars of the Basel II framework. The reforms raise both the quality and quantity of the regulatory capital base and enhance the risk coverage of the capital framework. They are underpinned by a leverage ratio that serves as a backstop to the risk- based capital measures, is intended to constrain excess leverage in the banking system and provide an extra layer of protection against model risk and measurement error. Finally, the Committee is introducing a number of macro prudential elements into the capital framework to help contain systemic risks arising from procyclicality and from the interconnectedness of financial institutions.

Also, the Basel Committee is introducing internationally harmonized global liquidity standards. As with the global capital standards, the liquidity standards will establish minimum requirements and will promote an International level playing field to help prevent a competitive race to the bottom.

The Architecture of Basel III- Capital and Liquidity

With Basel III, the Basel Committee continues with the three-pillar that seeks to align regulatory requirements with economic principles of risk management. Principles of sound liquidity risk management and supervision have been incorporated into the standard on account of lessons learned during the crisis and is based on a fundamental review of sound practices for managing liquidity risk in banking organizations.

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. Greater focus under the new accord is on quality and level of capital, capital loss absorption at the point of non-viability, capital conservation buffer and countercyclical buffer. The new framework provides for higher risk coverage for certain complex securitizations, significantly higher capital for trading and derivatives activities, substantial strengthening of the counterparty credit risk framework and risk coverage for bank exposure to central counterparties. A key measure introduced under the new accord is a non-risk based leverage ratio to serve as a backstop to the risk-based capital requirement and to help contain system wide buildup of leverage. The new accord provides for 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 ·Risk Management and Supervision

Pillar 2 defines the process for supervisory review of a bank's governance and 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 December 2010- Basel III: A global regulatory framework for more resilient banks and banking systems and revisions to the same and Liquidity coverage ratio disclosure standards dated January 2014 and revisions to the same.

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 2022 and December 2021. Basel III 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 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 2022, full deduction is made from Tier 1 capital due to negative fair value adjustment. Total eligible regulatory capital was US$ 2,657.8 million by year-end December 2022 compared to US$ 2,563.5 million recorded in December 2021. The Corporation has adopted a conservative policy for the treatment of net fair value reserve, wherein, if negative - the total amount is deducted from eligible capital, and if positive - only 45% of fair value reserve is included within eligible capital.

Table 1: Regulatory Capital Resources

In US$ millions	31 December 2022	31 December 2021
Paid-up capital	2,100.0	2,100.0
Disclosed reserves	566.1	561.4
Retained earnings	145.2	109.7
Less: Goodwill	30.4	30.4
Less: Deductions	0.4	0.97
Less: Adjustment for Fair value reserve	122.7	176.3
Total Tier 1 Capital	2,657.8	2,563.5
Total Tier 2 Capital	-	-
Total eligible regulatory capital	2,657.8	2,563.5
In US$ millions	**31 December 2022**	**31 December 2021**
Common Equity Tier 1 (CET1)	2,657.8	2,563.5
Additional Tier 1 (AET 1)	-	-
Total Tier 1 Capital	2,657.8	2,563.5
Total Tier 2 Capital	-	-
Total eligible regulatory capital	2,657.8	2,563.5

2. Capital Adequacy Management

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

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

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

Table 2: Capital Adequacy Ratios

In US$ millions	Risk-weighted assets	Capital requirement
Credit Risk	7,003.7	560.3
Market Risk	1,314.1	105.1
Operational Risk	328.1	26.2
Total	8,645.9	691.7
Capital Adequacy Ratios		
Total CAR	30.7%	
Common Equity Tier 1 (CET1)	30.7%	
Tier 1 Ratio	30.7%	
Leverage Ratio (Non risk based)	16.8%	

Table 2 details the risk-weighted assets together with their corresponding regulatory capital requirements as at 31 December 2022. Total capital adequacy ratio and Tier 1 capital ratio are likewise calculated. The numbers were generated by applying the Standardized' approach for credit and operational risks, while the 'Internal Model' approach was utilized to yield market risk positions. Total risk-weighted exposures of US$ 8,645.9 million, as at 31 December 2022, requires regulatory capital of US$ 691.7 million to meet the minimum Basel III 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$ 1,383 million. The reported eligible regulatory capital of US$ 2,657.8 million still provides sufficient cushion to support business expansions.

Table 3: Risk Exposure Break-down

In US$ millions	31 December 2022
Credit Risk (RWA)	
Claims on sovereigns	22.6
Claims on Public Sector Entities	37.3
Claims on Banks	105.6
Claims on Corporates	113.1
Securitization and Structured Investment Vehicle	0.6
Venture Capital and Private Equity	65.4
Investments in Commercial Entities	6,301.3
Investments in Other Funds and Quoted Equities	299.9
Other Assets	57.9
Total	7,003.7
Market Risk (VaR)	
Interest rate risk position	0
Foreign exchange risk position	0
Equity risk position	26.8
(Total VaR +Stress VaR) x 3	80.5
Specific risk position	24.7
Total capital requirement	105.1
Total RWA (capital requirement x 12.5)	1314.1
Operational Risk (RWA):	
Operational risk capital charge	26.2
Total RWA (capital charge x 12.5)	328.1

3. Risk Management Structure

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

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

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

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

a) Review and assess the Enterprise Risk Management governance structure;

b) Review the Risk Management framework (encompassing risk assessment guidelines and policies regarding Credit, Market, Liquidity, Interest Rate, and Operational risk management);

c) Oversee policies and guidelines for determining the macro Enterprise Risk Limit levels, and review the utilization of these limits;

d) Review the adequacy of GICs' capital allocations including economic and regulatory, incorporating the risk adjusted return on capital;

e) Review and assess the integrity and adequacy of the Risk Management Division of the Corporation; and

f) Receive and review reports on selected risk topics as management deems appropriate from time to time.

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

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

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

a) Evaluate and analyze the enterprise wide risk profile by developing risk monitoring techniques;

b) Set up and develop criteria for defining the Corporation's risk threshold in terms of various risks;

c) Develop and establish tools for the measurement of the Corporation's various risk types; and

d) Recommend appropriate strategies/actions for mitigating risk and ensuring a sound risk asset structure for the Corporation.

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

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

a) Management Committee covers mainly general management issues including performance review vis-a- vis budget, and assessment of status quo against strategic business plan;

b) Global Markets Group Investment Committee translates Investment strategy directions into asset allocation guidelines, recommends investment proposals, and reviews investment portfolios. The committee also functions as a surrogate Asset Liability Committee;

c) Principle Investing Investment Committee evaluates proposals for Investments and divestiture of assets and ensures compliance to Investment criteria as well as investment procedures at each phase of the Investment process;

d) Human Resource Committee which reviews strategic HR issues;

e) Systems Steering Committee provides the forum to review the IT architecture and its condition to meet current and future business requirements; and

f) Provisioning Committee ensures that all provisioning activity (making or writing back provisions), covering all of GIC's on and off balance sheet items.

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

4. Credit Risk Exposure

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

Portfolio Strategy and Planning

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

The Investment Committees

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

Investment Origination and Maintenance

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

Performance Assessment and Reporting

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

a) Portfolio concentrations by obligor, industry, risk rating, maturity, asset class, as well as other dimensions;

b) Generated Return on Capital Employed (ROCE);

c) Additional economic value created by individual projects;

d) Exceptions to risk acceptance criteria; and

e) Other policy exceptions.

Inherent in the Corporation's business activity is the presence of' portfolio risk', which arises whenever there is high positive correlation between individual credit portfolios. To address this particular risk, the Corporation employs the 'Credit Manager' system promoted by the Risk Metrics Inc. (part of MSCI). The system is a quantitative based program where overall portfolio 'Credit Value at Risk (Credit VaR) 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, RMD is in the process of developing an Internal Credit Risk Rating (ICRR) model that would assist management in determining level of capital allocation and other strategic schemes applicable to the Investment credit rating. Naturally, the model will also be used to benchmark the required return given a particular level of risk. Additionally, the rating results will subsequently be used as valuable inputs into the 'Credit Manager' system mentioned above.

Credit Risk as per Basel III 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 and Fitch for this purpose. When more than one counter-party rating is available, Basel III'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 (COG) 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	Moody's	Fitch
1	Aaa	AAA
	Aa1	AA+
	Aa2	AA
	Aa3	AA-
2	A1	A+
	A2	A
	A3	A-
3	Baa1	BBB+
	Baa2	BBB
	Baa3	888-
4	Ba1	BB+
	Ba2	BB
	Ba3	88-
5	81	B+
	82	B
	83	8-
6	Caa1	CCC+
	Caa2	CCC
	Caa3	CCC-
	Ca	cc
	c	c
		D

Table 4: serves as a sample of mapping notations of rating agencies into COGs for claims on Corporates. At 31 December 2022, rated credit exposures accounted for about 2.5% of total credit exposures. Note that the numbers are after applying the equivalent risk- weights (credit conversion) as provided under the Basel III accord. Meanwhile, gross credit exposure to rated assets was recorded at approximately 7.5% of total gross credit exposure. Assets that are rated single A or better comprised 75% of rated gross credit exposure.

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

Table 5: Credit Exposure (post-credit conversion)

	31 December 2022		
In US$ millions	**Rated**	**Unrated**	**Total**
Claims on Sovereigns	14.1	8.6	22.6
Claims on Public Sector Entities	33.0	4.3	37.3
Claims on Banks	104.5	1.0	105.6
Claims on Corporate	21.5	91.6	113.1
Securitization and SIVs	0.6	0.0	0.6
Venture Capital and Private Equity	-	65.4	65.4
Investments in Commercial Entities	-	6,301.3	6,301.3
Other Funds and Quoted Equities	-	299.9	299.9
Other Assets	-	57.9	57.9
Total	173.7	6,830.0	7,003.7
In Percent	2.5%	97.5%	100.0%

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

	31 December 2022		
In US$ millions	**Rated**	**Unrated**	**Total**
Claims on Sovereigns	130.3	8.6	138.9
Claims on Public Sector Entities	48.2	4.3	52.5
Claims on Banks	346.1	2.1	348.1
Claims on Corporate	26.0	91.6	117.6
Securitization and SIVs	0.8	0.0	0.8
Venture Capital and Private Equity	-	65.4	65.4
Investments in Commercial Entities	-	6,301.3	6,301.3
Other Funds and Quoted Equities	-	299.9	299.9
Other Assets	-	57.9	57.9
Total	551.3	6,831.0	7,382.4
In Percent	7.5%	92.5%	100.0%

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

	31 December 2022		
In US$ millions	**Funded**	**Unfunded**	**Total**
Claims on Sovereigns	138.9	-	138.9
Claims on Public Sector Entities	52.5	-	52.5
Claims on Banks	327.1	21.0	348.1
Claims on Corporate	117.6	-	117.6
Securitization and SIVs	0.8	-	0.8
Venture Capital and Private Equity	56.0	9.3	65.4
Investments in Commercial Entities	6,121.0	180.3	6,301.3
Other Funds and Quoted Equities	299.9	-	299.9
Other Assets	57.9	0.0	57.9
Total	7,171.7	210.7	7,382.4
In Percent	97%	3%	100%

In terms of facility type (Table 7), US$ 7,171 million or approximately 97% 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

	31 December 2022				
In US$ millions	**GCC**	**Europe**	**Americas**	**Others**	**Total**
Claims on Sovereigns	21.9	1.6	106.8	8.6	138.9
Claims on Public Sector Entities	43.0	8.6		1.0	52.5
Claims on Banks	279.1	36.3	5.6	27.2	348.1
Claims on Corporate			91.6	26.0	117.6
Securitization and SIVs			0.8		0.8
Venture Capital and Private Equity	23.4	18.7	19.1	4.1	65.4
Investments in Commercial Entities	6,301.3				6,301.3
Other Funds and Quoted Equities	7.7			292.2	299.9
Other Assets	57.9				57.9
Total	6,734.3	65.2	223.9	359.0	7,382.4
In Percent	91.2%	0.9%	3.0%	4.9%	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$6,734 million or 91.2% of the total. Following suit are exposures to Americas at 3%. 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

	31 December 2022					
In US$ millions	**Banks & Financial Institutions**	**Trading & Manufacturing**	**Energy & Utilities**	**Government Agencies**	**Others**	**Total**
Claims on Sovereigns	14.8			124.1		138.9
Claims on Public Sector Entities		8.6	43.9			52.5
Claims on Banks	348.1					348.1
Claims on Corporate	108.1		9.5			117.6
Securitization and SIV	0.8					0.8
Venture Capital and Private Equity		13.2	14.0		38.1	65.4
Investments in Commercial Entities	315.2	3,236.0	2,750.1			6,301.3
Other Funds and Quoted Equities					299.9	299.9
Other Assets					57.9	57.9
Total	787.0	3,257.8	2,817.5	124.1	396.0	7,382.4
In Percent	10.7%	44.1%	38.2%	1.7%	5.4%	100.0%

The table on industry distribution (Table 9) of the gross credit exposure reveals a concentration on Trading & Manufacturing sector and Energy & Utilities, amounting to 82.3% of total exposure which, is in line with GIC's commitment to support the industrial growth within the GCC region.

The residual maturity of gross credit exposure broken down by standard credit risk exposure is shown in Table 10. Approximately 93.5% of gross credit exposure falls within the longest time bucket of over five years.

Table 10: Credit Exposure by Residual Contractual Maturity

	31 December 2022				
In US$ millions	**Within3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Claims on Sovereigns		28.1		110.8	138.9
Claims on Public Sector Entities	1.0	27.2		24.3	52.5
Claims on Banks	281.9	57.4		8.8	348.1
Claims on Corporate		24.2		93.4	117.6
Securitization and SIVs				0.8	0.8
Venture Capital and Private Equity				65.4	65.4
Investments in Commercial Entities				6,301.3	6,301.3
Other Funds and Quoted Equities				299.9	299.9
Other Assets	57.9				57.9
Total	340.8	136.9		6,904.7	7,382.4
In Percent	4.6%	1.9%		93.5%	100.0%

Recognition of Impairment of Assets

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

5. Securitization Activities

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

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

Table 11: Credit Exposure on Securitization and SIVs

	31 December 2022	
In US$ millions	**Gross Exposure**	**Post-credit Conversion**
COG 1	-	-
COG2	0.4	0.2
COG3	-	-
COG4	-	-
COGS	-	(deduction from capital)
COG 6	0.4	
Unrated	-	
Total	0.8	0.2

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 under Basel Ill. GIC follows the Internal Models Approach (IMA) to quantify the capital charge associated with market risk within the trading portfolio.

The Corporation uses the 'Risk Manager' system, developed by MSCI Risk Metrics, and utilizes a parametric computational method based on the variance- covariance concept. In line with the capital accord, the parameters used in determining the VaR are a 10 day holding period and 99% confidence level. The computation utilizes an equally weighted historical data set going back one year. The computation ignores the correlation benefit amongst the three risk types (Interest rate. equity and foreign exchange), with Total Market Risk VaR being equal to the arithmetic sum of the three components. The capital charge relating to market risk is determined for all portfolios categorized as trading (the trading book), which includes the following (Ref Notes 4 of 2022 consolidated financial statements):

(US$ million)	**2022**	**2021**
Quoted debt instruments	-	-
Hedge and Other unquoted alternative funds	308	242
	308	242

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

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

Scenario analysis and stress testing is an essential component of the market risk management framework. The assumption of normality on which the statistical models are based may become invalid due to the occurrence of certain events.

Future scenarios, which result in a breakdown of the historical behavior and relationships between risk constituents, are projected, and potential loss amounts are determined. Most of these scenarios are derived from macroeconomic events of the past, modified with the expectations for the future.

Back-testing

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

The multiplication factor of 3 is used for capital calculation, in line with the Basel guidelines. Capital charge for market risk is determined based on the following formula:

Capital Charge (market risk) = (Max {Vavg,Vend}) + Max (SVavg,SVend))X Mf

Where, Vavg equals: Average Total VaR for the trading book over the previous 60 business days

Vend equals: End of period Total VaR for the trading book

SVavg equals: Average Stressed VaR for the trading book over the previous 60 business days

SVend equals: End of period Stressed VaR for the trading book

Mf equals: Multiplication factor (a factor of three issued based on the results of back-testing)

Table 12: Trading Book VaR (US$ 000's) - 10 day holding period, 99% confidence level. For the last 60 business days in 2022

In US$ millions	Interest Rate	Equity	FX	Total
Max	0.0	7.8	0.0	7.8
Min	0.0	5.5	0.0	5.5
Average	0.0	7.2	0.0	7.2
31-Dec-2022	0.0	6.7	0.0	6.7
Stress VaR	0.0	19.6	0.0	19.6

7. Operational Risk

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

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

Table 13: Business Lines for Operational Risk

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

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

Table 14: Operational Risk Capital Charge

	31 December 2022		
In US$ millions	**3 year Average Gross Income**	**Beta Factor**	**Capital Charge**
Principal Investment	113.5	18%	20.44
Debt Capital Market	6.3	18%	1.13
Equities Investments	2.3	18%	0.42
Alternative Investments	13.1	18%	2.36
Treasury	5.5	18%	0.98
Head-quarters	5.1	18%	0.92
Total	145.8		26.25
Risk-weighted exposure			328.10

The highest beta factor of 18% is applied on all business lines as suggested in the capital accord.

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

(1) Risk and Control Self-Assessment Framework;

(2) Loss Event Framework;

(3) Corrective Action Plans Framework; and

(4) Operational Risk Reporting Framework.

8. Equity Risk in the Banking Book

Equity investments in the banking book are classified at the time of acquisition into those acquired for realizing capital gain and to those purchased for strategic investments. The decision where to classify investments has 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 of 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. Accounting treatment of equity investments can be found under 'Significant accounting judgments and estimates' in the notes to the consolidated financial statements.

Publicly traded Investments represent quoted equities traded in the local and international stock exchanges. Privately held investments represent investments in unquoted entities and projects. The total value of equity Investments in the banking book at the end of December 2022 is US$ 50 million, net of provision (refer to Table 15 below). The total un-realized loss recorded in equity is US$ 4 million.

Table 15: Equity Holdings in Banking Book

	31 December 2022		
In US$ millions	**Publicly Traded**	**Privately Held**	**Total**
Fair Value of Equity Investments	0	50	50
Unrealized (loss)/gain recorded in equity	0	(4)	(4)
Unrealized (loss)/gain in Tier 2 Capital	0	(4)	(4)

9. Interest Rate Risk in the Banking Book

Treasury manages short term interest rate gapping by means of monitoring over all 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, 2022 was 1023 contracts, with an estimated VaR of US$ 1.2 million. Despite the minimal increase in number of contracts, there was a significant change in the VaR figure, (31st December 2021: 992 contracts, estimated VaR US$ 0.1 million). This is excluding the impact of the fixed rate EMTN issuance.

10. Funding Liquidity Assessment

The Basel committee as a foundation of its liquidity framework in 2008 published Principles for Sound Liquidity Risk Management and Supervision ("Sound Principles"). The Sound Principles provide detailed guidance on the risk management and supervision of funding liquidity risk and should help promote better risk management in this critical area, but only if there is full Implementation by banks and supervisors. A key reform in developing a more resilient banking sector was the Introduction of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

Liquidity Coverage Ratio (LCR)

The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.

Against a prescribed minimum of 100%, GIC's LCR as of 31 December 2022 was 143%.

Table 16: Liquidity Coverage Ratio

In US$ millions	**31 December 2022**
Value of stock of High quality liquid assets (HQLA)	552.5
Total Net Cash outflow over the next 30 calendar days	385.3
Liquidity Coverage Ratio (LCR)	143%

Net Stable Funding Ratio (NSFR)

The objective of the NSFR is to limit quick balance sheet expansion by relying on relatively cheap and abundant short-term wholesale funding and maintenance of stable funding structure.

Table 17: Net stable Funding Ratio

In US$ millions	**31 December 2022**
Total Available Stable Funding (ASF)	2,839.5
Total Required Stable Funding (RSF)	1,737.7
Net Stable Funding Ratio (NSFR)	162.5%

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

Contents	Page
Independent Auditor’s Report	70
Consolidated Statement of Financial Position	72
Consolidated Statement of Income	73
Consolidated Statement of other Comprehensive Income	74
Consolidated Statement of Changes in Equity	75
Consolidated Statement of Cash Flows	76
Notes to the Consolidated Financial Statements	77 - 112

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

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Gulf Investment Corporation G.S.C. (the "corporation") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing "ISAs". Our responsibilities under those standards are further described in the *'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements'* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code")* and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The Groups' consolidated financial statements for the year ended 31 December 2021 was audited by another auditor who have expressed an unmodified audit opinion on those financial statements on 20 April 2022.

Other information in the Group's 2022 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2022 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's 2022 Annual Report after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Report on the Audit of Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

We further report that we have obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements include the information required by the Corporations' Agreement of Incorporations and Articles of Association. In our opinion, proper books of account have been kept by the Corporation, and an inventory count was duly carried out in accordance with recognized procedures, and the accounting information given in the Board of Directors report agrees with the books of accounts of the Corporation. We have not become aware of any violations of the provisions of the Corporations' Agreement of Incorporation and Articles of Association during the year ended 31 December 2022 that might have had a material impact on the business of the Corporation or on its consolidated financial position.

SHEIKHA AL-FULAIJ
LICENCE NO. 289 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

Kuwait: 1 May 2023

Consolidated Statement of Financial Position

as at 31 December 2022

(All amounts in US$ millions)

	Notes	31 December 2022	31 December 2021	1 January 2021
			(Restated) (Note 2.6)	*(Restated) (Note 2.6)*
ASSETS				
Cash and cash equivalents		**49**	52	9
Placements with banks	3	**242**	290	334
Financial assets at fair value through statement of income	4	**1,069**	1,107	1,359
Financial assets at fair value through other comprehensive income	5	**191**	249	127
Investments in associates	6	**1,685**	1,398	1,366
Other assets	7	**95**	93	90
TOTAL ASSETS		**3,331**	3,189	3,285
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from banks and other financial institutions	8	**431**	314	418
Term finance	9	**126**	174	392
Other liabilities	10	**86**	93	108
TOTAL LIABILITIES		**643**	581	918
EQUITY				
Share capital	11	**2,100**	2,100	2,100
Revaluation reserves		**(122)**	(176)	(287)
Other reserves	11	**578**	574	561
Retained earnings / (accumulated losses)		**132**	110	(7)
TOTAL EQUITY		**2,688**	2,608	2,367
TOTAL LIABILITIES AND EQUITY		**3,331**	3,189	3,285

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

Mazen Ibrahim Abdulkarim
Chairman

Ibrahim Ali AlQadhi
Chief Executive Officer

Consolidated Statement of Income

for the year ended 31 December 2022

(All amounts in US$ millions)

	Notes	2022	2021
Interest income	12	**17**	24
Net (loss) / gain from investments	13	**(112)**	61
Dividend income	14	**7**	11
Share of results of associates	6	**254**	72
Fees and other income	15	**6**	21
TOTAL INCOME		**172**	189
Interest expense	16	**(12)**	(8)
Other operating income	17	**9**	2
NET OPERATING INCOME		**169**	183
Staff costs		**(35)**	(36)
Premises costs		**(1)**	(1)
Other operating expenses		**(11)**	(10)
Reversal of / (provision for) impairment losses and expected credit losses	18	**9**	(6)
PROFIT FOR THE YEAR		**131**	130

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

Consolidated Statement of other Comprehensive Income

for the year ended 31 December 2022

(All amounts in US$ millions)

	2022	2021
Profit for the year	**131**	130
Other comprehensive income:		
Items that are or may be subsequently reclassified to consolidated statement of income		
Share of other comprehensive income of associates	**112**	16
Reclassification of cash flow hedge reserve on loss of significant influence	**-**	22
Items that will not be subsequently reclassified to consolidated statement of income		
Fair value changes on financial assets at fair value through other comprehensive income	**(58)**	73
Other comprehensive income for the year	**54**	111
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**185**	241

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2022

(All amounts in US$ millions)

		Revaluation reserves			Other reserves			
	Share capital	Investment revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Compulsory reserve	Voluntary reserve	Retained earnings / (accumulated losses)	Total equity
Balance as at 1 January 2022	**2,100**	**(24)**	**(71)**	**(81)**	**449**	**125**	**110**	**2,608**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**131**	**131**
Other comprehensive (loss) / income for the year	**-**	**(58)**	**110**	**2**	**-**	**-**	**-**	**54**
Total comprehensive (loss) / income for the year	**-**	**(58)**	**110**	**2**	**-**	**-**	**131**	**185**
Transfer to reserve (Note 11)	**-**	**-**	**-**	**-**	**13**	**-**	**(13)**	**-**
Dividend paid (Note 11)	**-**	**-**	**-**	**-**	**-**	**(9)**	**(96)**	**(105)**
Balance as at 31 December 2022	**2,100**	**(82)**	**39**	**(79)**	**462**	**116**	**132**	**2,688**
Balance as at 1 January 2021	2,100	(97)	(115)	(75)	436	125	(21)	2,353
Effect of restatement (Note 2.6)	-	-	-	-	-	-	14	14
At 1 January 2021 (Restated)	2,100	(97)	(115)	(75)	436	125	(7)	2,367
Profit for the year	-	-	-	-	-	-	130	130
Other comprehensive income / (loss) for the year	-	73	44	(6)	-	-	-	111
Total comprehensive income / (loss) for the year	-	73	44	(6)	-	-	130	241
Transfer to reserves (Note 11)	-	-	-	-	13	-	(13)	-
Balance as at 31 December 2021 (Restated)	2,100	(24)	(71)	(81)	449	125	110	2,608

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2022

(All amounts in US$ millions)

	Notes	2022	2021
OPERATING ACTIVITIES			
Profit for the year		**131**	130
Adjustments for:			
(Reversal of) / provision for impairment losses and expected credit losses	18	**(9)**	6
Realised gain on sale of an associate	13	**-**	(15)
Unrealised loss / (gain) from financial assets at fair value through statement of income	13	**72**	(19)
Net gain on reclassification of investment	13	**-**	(4)
Share of results of associates	6	**(254)**	(72)
		(60)	26
Changes in operating assets and liabilities:			
Placements with banks		**48**	44
Financial assets at fair value through statement of income		**(34)**	271
Deposits from banks and other financial institutions		**117**	(104)
Movement in other assets and other liabilities		**(16)**	(33)
Net cash flows from operating activities		**55**	204
INVESTING ACTIVITIES			
Proceeds from sale of an associate		**-**	31
Dividends from associates		**87**	28
Additional investments in associates		**(1)**	(11)
Net cash flows from investing activities		**86**	48
FINANCING ACTIVITIES			
Term finance repaid		**(39)**	(209)
Dividend paid	11	**(105)**	-
Net cash flows used in financing activities		**(144)**	(209)
NET (DECREASE) /INCREASE IN CASH AND CASH EQUIVALENTS		**(3)**	43
Cash and cash equivalents at 1 January		**52**	9
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**49**	52

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

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

1 CORPORATE INFORMATION AND ACTIVITIES

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.

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

The consolidated financial statements of the Corporation and its subsidiaries (collectively "the Group") for the year ended 31 December 2022 were approved by the Board of Directors of the Corporation on 19 March 2023. The Annual General Assembly of shareholders has the power to amend these consolidated financial statements after issuance.

The Corporation's Agreement of Incorporation and Articles of Association gives it a special, supranational status. In particular, Article 8 of GIC's Agreement of Incorporation provides that local laws in each GCC state complement the provisions of GIC's Agreement of Incorporation and Articles of Association provided that such laws do not conflict with GIC's Agreement of Incorporation or Articles of Association. To the extent there is such a conflict, GIC's Agreement of Incorporation and Articles of Association prevail over local laws, including the Kuwait Companies Law No. 1 of 2016, as amended and its Executive Regulations.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Committee of the IASB. In addition, the consolidated financial statements have been prepared in accordance with the Corporation's Agreement of Incorporation and Articles of Association.

The consolidated financial statements are presented in United States Dollars, rounded to the nearest million, which is the functional and presentation currency of the Group.

The consolidated financial statements are prepared on a historical cost convention, except for the measurement at fair value of financial assets at fair value through statement of income, financial assets at fair value through other comprehensive income and derivative financial instruments.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries including special purpose entities. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed off during the year are included in the consolidated financial statements from the date the Group gains control till the date the Group ceases to control the subsidiary.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except as mentioned below:

New and amended standards and interpretations

The nature and the impact of each new standard and amendment is described below:

Several other amendments and interpretations apply for the first time in 2022, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Group applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the year.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES (continued)

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Group applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. These amendments had no impact on the consolidated financial statements of the Group as it is not a first-time adopter.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement*.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's financial instruments during the year.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued. The Group intends to adopt those standards and interpretations, if applicable when they become effective.

IFRS 17: *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 'Insurance Contracts', a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts that was issued in 2005. IFRS 17 applied to all kinds of insurance contracts (i.e. life, non-life, direct insurance and re-insurance) regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent will issuers. In contrast to the requirement of IFRS 4, with are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A Specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applied IFRS 9 and IFRS 15 on or before the date it first applied IFRS 17. The amendments are not expected to have a material impact on the Group.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Amendments to IAS 1: *Classification of liabilities as current or non-current*

In January 2020, the IASB issued amendments to paragraph 69 to 76 of IAS 1 to specify the requirements for classifying as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments to the classification of liabilities is not expected to have a significant impact on the Group's consolidated financial statements.

Amendments to IAS 8: *Definition of Accounting Estimates*

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

Amendments to IAS 1 and IFRS Practice Statement 2: *Disclosure of Accounting Policies*

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

Other new or amended standards which are issued but not yet effective, are not relevant to the Group and have no impact on the accounting policies, financial position or performance of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combination and goodwill

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

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

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

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

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

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

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

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

Financial instruments

Financial assets

The Group classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost; or
- Financial assets carried at fair value through other comprehensive income ("FVOCI") (with and without recycling of gains or losses to profit or loss on de-recognition of debt and equity securities, respectively); or
- Financial assets carried at fair value through statement of income ("FVTPL").

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the consolidated statement of income. Financial assets and financial liabilities not at fair value through profit or loss are initially recognised at fair value, plus transaction costs that are directly attributable to their acquisition or issue.

Financial assets carried at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- The asset is held within a "business model" whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives and in order to generate contractual cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model and measured at FVTPL.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process, the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium / discount).

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Further, financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of income. Any gain or loss on derecognition is recognised in the consolidated statement of income.

Cash and cash equivalents, placements with banks and other assets are classified as financial assets carried at amortised cost.

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.

Financial assets carried at FVOCI

a) Equity instruments

Upon initial recognition, the Group makes an irrevocable election to classify its equity investments as equity investments at FVOCI if they meet the definition of equity under IAS 32, *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis. Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in consolidated statement of other comprehensive income ("OCI") and presented in the investment revaluation reserve as part of equity. Cumulative gains and losses previously recognised in OCI are transferred to retained earnings on de-recognition and are not recycled in the consolidated statement of income.

b) Debt instruments

The Group designates debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value are recognised in OCI. Interest income and foreign exchange gains and losses and impairment losses are recognised in consolidated statement of income. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified to consolidated statement of income.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets carried at FVTPL

The Group does not have debt instrument at FVOCI category as at the reporting date.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair values, interest income and dividends are recorded in consolidated statement of income according to the terms of the contract, or when the right to payment has been established.

Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its consolidated statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Impairment of financial assets

The Group applies three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: *12 months ECL*

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: *Lifetime ECL – not credit impaired*

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: *Lifetime ECL – credit impaired*

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

Lifetime ECL is recorded on financial assets that are credit impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired. Evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of the instruments by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

The Group evaluates the probability of default considering the period of past due receivables. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Presentation of allowance for ECL in the consolidated statement of financial position

ECL for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in consolidated statement of income. Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Interest expense and foreign exchange gains and losses are recognised in consolidated statement of income. Any gain or loss on derecognition is also recognised in consolidated statement of income.

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

Deposits from banks and financial institutions

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

Term finance

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

Other liabilities

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

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities (continued)

Derecognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in consolidated statement of income.

Offsetting of financial instruments

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.

Fair value of financial instruments

The Group measures financial instruments, such as, financial assets at fair value through profit or loss, and non-financial assets such as investment properties, at fair value at each financial position date.

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

- In the principal market for the asset or liability, or

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments (continued)

The management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted financial assets available-for-sale, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to recent arm's length transactions, current fair value of another instrument that is substantially the same, an earnings multiple, an industry specific price to book multiple, or an industry specific 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 profit bearing financial instruments is estimated based on discounted cash flows using profit 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 24.

Impairment of non-financial assets

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

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

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

Investments in associates

An associate is an entity over which the Group exerts significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee company but is not control or joint control over those policies, which is usually evidenced by a holding of 20% to 50% of the voting power of the investee company. The Group's investment in associates is accounted for using the equity method of accounting. Where an associate is acquired and held exclusively for resale, it is accounted for as a non-current asset held for sale under IFRS 5.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

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

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

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

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

The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Gain or loss on this transaction is computed by comparing the carrying amount of the associate at the time of loss of significant influence with the fair value of retained investment as on that date. This resulting gain or loss is recorded in the consolidated statement of income

Associates of the Group are listed in Note 27.

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.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial year in which they are incurred.

The carrying amounts are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Depreciation is calculated on a straight-line basis over 3-20 years which the estimated useful lives of the assets.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

An item of Property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in to the consolidated statement of income in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in consolidated statement of income.

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.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

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

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.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to consolidated statement of income in the same period or periods as the hedged expected future cash flows affect consolidated statement of income.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to consolidated statement of income.

Recognition of income and expenses

The following specific recognition criteria must also be met before revenue is recognised.

Interest income and expense

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

Fees 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.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income and expenses (continued)

Net gains from investments

Investment income represents results arising from investment trading activities, including all gains and losses from changes in fair value for financial assets measured at FVTPL.

Dividend income

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

Employees end of service benefits

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

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.

Foreign currency

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

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

Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items at fair value through statement of income are recognised in the consolidated statement of income within the net change in fair value. 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 Group's presentation currency at the rate of exchange ruling at the reporting date and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to foreign exchange translation adjustments within equity. On disposal of a foreign entity, the cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated statement of income.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated statement of financial position, but are disclosed when an inflow of economic benefits is probable.

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 accompanying disclosures, and the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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 financial assets

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest.

Fair value measurement

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model reference to recent market transactions, market comparable approach etc. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates, as well as, the use of different, but equally reasonable estimates may have an impact on their carrying amounts.

Considerable judgement by management is required in the estimation of the fair value of the assets acquired and liabilities assumed as a result of business combination including intangibles and contingent liabilities.

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 of investment in associates

The Group calculates the amount of impairment as the difference between the recoverable amount and its carrying value if there is any objective evidence that the investment in associates are impaired. The estimation of recoverable amount requires the Group to make an estimate of the expected future cash flows and selection of appropriate inputs for valuation.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one or a combination 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;
- discounted cash flows; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 RESTATEMENT OF PRIOR YEARS' ERROR

During 2022, an associate discovered that consolidation adjustments relating to borrowing cost capitalised during the plant construction phase was wrongly eliminated. The error has been corrected by restating each of the affected financial statement line items for prior periods in accordance with IAS 1 *"Presentation of Financial Statements"* and IAS 8 *"Accounting Policies, Changes in Accounting Estimates and Errors"*. The following tables summarise the impacts on the Group's consolidated statement of financial position:

	31 December 2021			*1 January 2021*		
	As previously reported	**Correction of an error**	**As restated**	As previously reported	Correction of an error	As restated
Assets						
Investment in associates	1,384	14	**1,398**	1,352	14	1,366
Equity						
Retained earnings / (accumulated losses)	96	14	**110**	(21)	14	(7)

The correction of above error did not have an impact on the consolidated statement of income, consolidated statement of other comprehensive income and consolidated statement of cash flows for the year ended 31 December 2021.

3 PLACEMENTS WITH BANKS

	2022	2021
Local banks	**1**	60
Other GCC and International banks	**241**	230
	242	290

Placements with banks carry an effective average interest rate of 1.82% per annum (2021: 0.54% per annum).

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

4 FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2022	2021
Debt instruments		
International bonds	**200**	123
GCC and Islamic bonds	**154**	408
Structured debt instruments	**1**	8
	355	539
Equities and managed funds		
Quoted equity investments	**300**	195
Hedge and other unquoted alternative funds	**308**	242
	608	437
Equity participations		
Unquoted equity investments	**50**	64
Private equity funds		
Managed funds portfolio	**52**	59
Real estate funds portfolio	**4**	8
	56	67
	1,069	1,107

The debt instruments carry effective interest rate ranging from 1.37% to 8.50% per annum (2021: 0.13% to 7.63% per annum).

The classification of financial assets at fair value through statement of income by levels of the fair value hierarchy has been disclosed in Note 24.

5 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022	2021
Equity participation		
Unquoted equity investment	**191**	249

The classification of financial assets at fair value through other comprehensive income by levels of the fair value hierarchy has been disclosed in Note 24.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

6 INVESTMENTS IN ASSOCIATES

The Group's investments in associates that are listed on a stock exchange have a carrying value of US$ 118 million (2021: US$ 110 million) and a market value of US$ 108 million (2021: US$ 130 million).

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

	2022	2021 (Restated)
Share of assets	**4,767**	4,295
Share of liabilities	**(3,001)**	(2,808)
Share of net assets	**1,766**	1,487
Goodwill	**68**	67
Accumulated impairment losses	**(149)**	(156)
Carrying amount	**1,685**	1,398
Share of revenue	**2,551**	2,563
Share of results for the year	**254**	72

Associates of the Group are set out in Note 27.

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

2022	**Foulath Holding B.S.C. (C)**	**Tristar Holding Ltd.**	**Wataniya Telecom Algerie S.P.A.**	**Aviation Lease and Finance Company K.S.C.P.**	**Al Dur Holding Company Limited**
Assets	**2,798**	**1,583**	**1,010**	**1,220**	**1,823**
Liabilities	**(997)**	**(917)**	**(535)**	**(967)**	**(1,094)**
Non-controlling interests	**(280)**	**(184)**	**-**	**-**	**-**
Net assets	**1,521**	**482**	**475**	**253**	**729**
Revenue	**3,102**	**854**	**610**	**261**	**361**
Results for the year	**468**	**66**	**23**	**(94)**	**27**
Other comprehensive (loss) / income for the year	**(7)**	**(1)**	**3**	**10**	**129**

2021	Foulath Holding B.S.C. (C)	Tristar Holding Ltd.	Wataniya Telecom Algerie S.P.A.	Aviation Lease and Finance Company K.S.C.P.	Al Dur Holding Company Limited *(Restated)*
Assets	2,404	1,004	988	4,294	1,831
Liabilities	(1,000)	(571)	(487)	(3,372)	(1,233)
Non-controlling interests	(224)	(9)	-	-	-
Net assets	1,180	424	501	922	598
Revenue	3,142	540	625	323	377
Results for the year	114	44	13	(66)	27
Other comprehensive income / (loss) for the year	6	(14)	(26)	-	77

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

6 INVESTMENTS IN ASSOCIATES (continued)

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

	2022	2021
Assets	**6,214**	5,794
Liabilities	**(4,516)**	(4,325)
Net assets	**1,698**	1,469
Revenue	**2,178**	2,191
Results for the year	**21**	(2)
Other comprehensive income / (loss) for the year	**230**	(17)

The management has carried out an assessment of impairment indicators on the Group's investments in associates considering the significant adverse changes in economy, market factors, legal environment, industry or the political factors affecting the investees business including the consideration for the changes in investees' financial condition.

The management has estimated the recoverable amount of the Group's investments in associates through determining the value-in-use and as a result, a reversal of impairment of US$7 million (2021: US$ nil) has been recorded in the consolidated statement of income (Note 18).

7 OTHER ASSETS

	2022	2021
Others, including trade receivable of subsidiaries	**35**	39
Less: expected credit losses	**(8)**	(10)
	27	29
Accrued interest, fees, commissions and dividends	**5**	8
Positive fair value of derivative financial instruments	**8**	-
Prepayments	**2**	2
Property, plant and equipment	**18**	19
Margin money paid on derivative financial instruments	**35**	35
	95	93

8 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2022	2021
Deposits from GCC central banks	**150**	30
Deposits from other GCC financial institutions	**241**	204
Deposits from other international financial institutions	**40**	80
	431	314

Deposits from central banks and other financial institutions carry an effective average interest rate of 1.77% per annum (2021: 0.45% per annum).

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

9 TERM FINANCE

		2022	2021
Medium Term Note Issues (EMTN)	**Interest rate %**		
MYR medium term fixed rate note due in 2022	5.10% per annum (semi-annual)	**-**	41
MYR medium term fixed rate note due in 2023	4.52% per annum (semi-annual)	**91**	96
MYR medium term fixed rate note due in 2027	5.30% per annum (semi-annual)	**35**	37
		126	174

10 OTHER LIABILITIES

	2022	2021
Accrued interest	**6**	3
Negative fair value of derivative financial instruments	**48**	52
Others, including trade payable of subsidiaries and accrued expenses	**32**	38
	86	93

11 EQUITY

11.1 The authorised, issued and fully paid capital comprises of 2.1 million shares of US$ 1,000 each (2021: 2.1 million shares of US$ 1,000 each).

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

During the year, the Corporation has transferred 10% of the profit for the year to the compulsory reserve.

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

As set out in Note 28, the Board of Directors have recommended not to transfer the 10% of the profit for the years 2022 and 2021 to the voluntary reserve.

11.4 The Board of Directors meeting which was held on 17 March 2022 proposed distributing cash dividend of US$ 50 per share amounting to US$ 105 million for the year ended 31 December 2021. The shareholders in the Annual General Assembly meeting held on 17 April 2022 approved the cash dividend and approved to utilise US$ 9 million from voluntary reserve and US$ 96 million from retained earnings for the distribution of dividends which was paid subsequently.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

12 Interest income

	2022	2021
Placements with banks	**6**	2
Financial assets at fair value through statement of income	**11**	22
	17	24

13 NET (LOSS) / GAIN FROM INVESTMENTS

	2022	2021
Realised gain on sale of an associate	**-**	15
Realised (loss) / gain from financial assets at fair value through statement of income	**(40)**	23
Unrealised (loss) / gain from financial assets at fair value through statement of income	**(72)**	19
Net gain on reclassification of investment	**-**	4
	(112)	61

14 DIVIDEND INCOME

	2022	2021
Equities and managed funds	**1**	3
Equity participations	**6**	8
	7	11

15 FEES AND OTHER INCOME

	2022	2021
Fees and commission	**-**	17
Change in fair value of contingent consideration	**-**	2
Other income	**6**	2
	6	21

16 INTEREST EXPENSE

	2022	2021
Deposits from banks and other financial institutions	**(6)**	(2)
Term finance	**(6)**	(6)
	(12)	(8)

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

17 Other operating income

	2022	2021
Sales	**58**	41
Cost of sales	**(49)**	(35)
Gross profit	**9**	6
Other income	**5**	-
Selling and distribution expenses	**(2)**	(2)
Administrative expenses	**(3)**	(2)
	9	2

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

18 REVERSAL OF / (PROVISION FOR) IMPAIRMENT LOSSES AND EXPECTED CREDIT LOSSES

	2022	2021
Reversal of impairment of investment in associates	**7**	-
Reversal of / (provision for) expected credit losses for other assets	**2**	(6)
	9	(6)

19 RETIREMENT AND OTHER TERMINAL BENEFITS

The Corporation has defined voluntary contribution and end of service indemnity plans which cover all its employees. Contribution to the voluntary plan is based on a percentage of pensionable salary and consists of contribution by employees and a matched contribution, up to a certain limit, by the Corporation. Contribution to the end of service indemnity plan is based on a percentage of pensionable salary and number of years of service by the employees. The amounts to be paid at the end of service benefits are determined by reference to the amounts of the contributions and investment earnings thereon.

The Corporation also pays contributions to government defined contribution pension plan for certain employees in accordance with the legal requirements in the State of 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 costs for the year ended 31 December 2022 amounted to US$ 7 million (2021: US$ 7 million).

20 COMMITMENTS AND CONTINGENT LIABILITIES

In the usual course of meeting the requirements of its operations of Group, the Group has commitments to extend credit and provide financial guarantees and letters of credit to guarantee the performance of group companies to third parties. The credit risk on these transactions is generally less than the contractual amount.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

20 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The table below sets out the notional principal amounts of guarantees and outstanding commitments as at the reporting date:

	2022	2021
Credit risk amounts		
Transaction-related contingent items:		
Letter of guarantees	**353**	347

Certain letters of guarantees are issued by the Corporation on behalf of its related parties (Note 25).

Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

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

	2022	2021
Undrawn commitments for investments in private equity funds	**16**	22
Other commitments	**-**	2
	16	24

21 RISK MANAGEMENT

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

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

Risk management begins with the Risk Management Committee which is composed of members from the Corporation's Board of Directors and senior management, which defines and recommends the Group's risk appetite to the Board of Directors. The Board of Directors is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

21.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Corporation's Board of Directors has set limits for individual borrower 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 2022 and 2021, the Group has not obtained any collateral on any of the financial assets.

ECL on financial assets recognised in consolidated statement of income were as follows.

	2022	2021
Reversal of / (provision for) ECL on other assets	**2**	(6)

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

21 RISK MANAGEMENT (continued)

21.1 Credit risk (continued)

21.1.1 Maximum exposure to credit risk

The maximum credit exposure of the Group is as follows:

	2022	2021
Cash and cash equivalents	**49**	52
Placements with banks	**242**	290
Debt securities at fair value through statement of income	**355**	539
Other assets	**77**	74
	723	955
Credit commitments	**353**	347
Total credit exposure	**1,076**	1,302

Credit risk with respect to 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 is US$ 105 million (2021: US$ 95 million).

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

	GCC	**Europe**	**America**	**Asia / Africa**	**Total**
At 31 December 2022					
Cash and cash equivalents	**40**	**6**	**3**	**-**	**49**
Placements with banks	**212**	**30**	**-**	**-**	**242**
Debt securities at fair value through statement of income	**154**	**2**	**199**	**-**	**355**
Other assets	**35**	**3**	**2**	**37**	**77**
	441	**41**	**204**	**37**	**723**
Credit commitments	**353**	**-**	**-**	**-**	**353**
Total credit exposure	**794**	**41**	**204**	**37**	**1,076**

	GCC	Europe	America	Asia / Africa	Total
At 31 December 2021					
Cash and cash equivalents	52	-	-	-	52
Placements with banks	270	-	-	20	290
Debt securities at fair value through statement of income	408	12	119	-	539
Other assets	27	10	-	37	74
	757	22	119	57	955
Credit commitments	347	-	-	-	347
Total credit exposure	1,104	22	119	57	1,302

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

21 RISK MANAGEMENT (continued)

21.1 Credit risk (continued)

21.1.1 Maximum exposure to credit risk (continued)

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

	Banks & FIs	**Trading & Mftg**	**Energy & Utilities**	**Govt. agencies**	**Other**	**Total**
At 31 December 2022						
Cash and cash equivalents	**49**	**-**	**-**	**-**	**-**	**49**
Placements with banks	**242**	**-**	**-**	**-**	**-**	**242**
Debt securities at fair value through statement of income	**75**	**3**	**36**	**138**	**103**	**355**
Other assets	**47**	**22**	**6**	**1**	**1**	**77**
Credit exposure on assets	**413**	**25**	**42**	**139**	**104**	**723**
Credit commitments	**-**	**-**	**353**	**-**	**-**	**353**
Total credit exposure	**413**	**25**	**395**	**139**	**104**	**1,076**

	Banks & FIs	Trading & Mftg	Energy & Utilities	Govt. agencies	Other	Total
At 31 December 2021						
Cash and cash equivalents	52	-	-	-	-	52
Placements with banks	290	-	-	-	-	290
Debt securities at fair value through statement of income	143	-	82	289	25	539
Other assets	37	15	8	2	12	74
Credit exposure on assets	522	15	90	291	37	955
Credit commitments	-	-	347	-	-	347
Total credit exposure	522	15	437	291	37	1,302

21.1.2 Credit quality of financial assets

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

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

21 RISK MANAGEMENT (continued)

21.1 Credit risk (continued)

21.1.2 Credit quality of financial assets (continued)

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

	Neither past due nor impaired		Total
At 31 December 2022	**Investment grade**	**Unrated**	
Cash and cash equivalents	**49**	**-**	**49**
Placements with banks	**242**	**-**	**242**
Debt securities at fair value through statement of income	**355**	**-**	**355**
Other assets	**47**	**30**	**77**
Credit exposure on assets	**693**	**30**	**723**
Credit commitments	**353**	**-**	**353**
Total credit exposure	**1,046**	**30**	**1,076**

	Neither past due nor impaired		Total
At 31 December 2021	Investment grade	Unrated	
Cash and cash equivalents	52	-	52
Placements with banks	290	-	290
Debt securities at fair value through income statement	539	-	539
Other assets	52	22	74
Credit exposure on assets	933	22	955
Credit commitments	347	-	347
Total credit exposure	1,280	22	1,302

The table below shows the credit exposure of financial assets carried at amortised cost on year-end stage allocation. The amounts presented are gross of impairment allowances.

2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	**49**	**-**	**-**	**49**
Placements with banks	**242**	**-**	**-**	**242**
Other assets	**71**	**6**	**8**	**85**
Total	**362**	**6**	**8**	**376**

2021	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	52	-	-	52
Placements with banks	290	-	-	290
Other assets	65	9	10	84
Total	407	9	10	426

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

21 RISK MANAGEMENT (continued)

21.2 Liquidity risk

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

The liquidity profile of financial liabilities reflects the projected cash flows, based on contractual repayment obligations which include future interest payments over the life of these financial liabilities. The liquidity profile of undiscounted financial liabilities at 31 December 2022 and 2021 was as follows:

31 December 2022	**Within 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Deposits from banks and other financial institutions	**325**	**107**	**-**	**-**	**432**
Term finance	**91**	**2**	**42**	**-**	**135**
Gross settled derivative instruments:					
- Contractual amount payable	**328**	**65**	**49**	**-**	**442**
- Contractual amount receivable	**(296)**	**(71)**	**(35)**	**-**	**(402)**
Other liabilities	**42**	**14**	**24**	**6**	**86**
Total undiscounted financial liabilities	**490**	**117**	**80**	**6**	**693**
Commitments	**-**	**-**	**16**	**-**	**16**
Contingent liabilities	**3**	**105**	**224**	**21**	**353**

31 December 2021	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Deposits from banks and other financial institutions	212	102	-	-	314
Term finance	-	48	104	38	190
Gross settled derivative instruments:					
- Contractual amount payable	239	54	123	49	465
- Contractual amount receivable	(239)	(41)	(96)	(37)	(413)
Other liabilities	6	31	37	19	93
Total undiscounted financial liabilities	218	194	168	69	649
Commitments	-	2	22	-	24
Contingent liabilities	6	13	224	104	347

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

21 RISK MANAGEMENT (continued)

21.2 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.

	Within 3 months	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
At 31 December 2022					
Assets					
Cash and cash equivalents	**49**	**-**	**-**	**-**	**49**
Placements with banks	**242**	**-**	**-**	**-**	**242**
Financial assets at fair value through statement of income	**654**	**315**	**17**	**83**	**1,069**
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**191**	**191**
Investment in associates	**-**	**-**	**-**	**1,685**	**1,685**
Other assets	**44**	**15**	**16**	**20**	**95**
Total assets	**989**	**330**	**33**	**1,979**	**3,331**
Liabilities					
Deposits from banks and other financial institutions	**324**	**107**	**-**	**-**	**431**
Term finance	**91**	**-**	**35**	**-**	**126**
Other liabilities	**42**	**14**	**24**	**6**	**86**
Total liabilities	**457**	**121**	**59**	**6**	**643**
Net gap	**532**	**209**	**(26)**	**1,973**	

	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
At 31 December 2021 *(Restated)*					
Assets					
Cash and cash equivalents	52	-	-	-	52
Placements with banks	290	-	-	-	290
Financial assets at fair value through statement of income	726	256	18	107	1,107
Financial assets at fair value through other comprehensive income	-	-	-	249	249
Investment in associates	-	-	-	1,398	1,398
Other assets	19	16	32	26	93
Total assets	1,087	272	50	1,780	3,189
Liabilities					
Deposits from banks and other financial institutions	212	102	-	-	314
Term finance	-	41	96	37	174
Other liabilities	6	31	37	19	93
Total liabilities	218	174	133	56	581
Net gap	869	98	(83)	1,724	

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

21 RISK MANAGEMENT (continued)

21.3 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. The related sensitivity of changes in interest rates is not material to the consolidated statement of income.

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.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate of the Arab Emirates Dirham and Saudi Riyal against US Dollars, with all other variables held constant, on the Group's profit and other comprehensive income.

	2022			*2021*		
Currencies	***Change in currency rate %***	***Effect on profit***	***Effect on other comprehensive income***	*Change in currency rate %*	*Effect on profit*	*Effect on other comprehensive income*
Arab Emirates Dirham	**+ 5%**	6	-	+ 5%	6	-
Saudi Riyal	**+ 5%**	5	6	+ 5%	3	5

The Group's exposure to foreign currency changes for all other currencies is not material.

Equity price risk

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

Market risk pertaining to investments by the Debt Capital Market, Equity and Alternative Investments and Treasury divisions are measured, monitored and managed both on a notional basis and using the Market Value at Risk (Market VaR) concept.

The table below shows Total Value at Risk (Total VaR) by risk factor. These VaR measures are based on a 95% confidence level, 25 day holding period and use historical market data.

2022	***Average***	***Minimum***	***Maximum***	***31 December 2022***
Interest rate	**6**	**4**	**9**	**6**
Equity price	**26**	**14**	**31**	**28**
Foreign exchange	**1**	**-**	**1**	**1**
Total*	**26**	**16**	**32**	**29**

2021	*Average*	*Minimum*	*Maximum*	*31 December 2021*
Interest rate	10	7	17	9
Equity price	21	14	29	14
Foreign exchange	-	-	1	-
Total*	21	16	26	16

** Total VaR incorporates benefits of diversification.*

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

22 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial 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.

Cross currency swaps are used to hedge non US$ term finance issued in fixed rate coupon. As at the reporting date, the notional amount of cross currency swaps amounted to US$ 172 million (2021: US$ 226 million) and its net fair value was a swap loss of US$ 46 million (2021: US$ 52 million).

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

	2022			2021		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount
Derivatives held for hedging						
- Cross currency swaps	**-**	**(46)**	**172**	-	(52)	226
- Forward foreign exchange contracts	**8**	**(2)**	**442**	-	-	465
	8	**(48)**	**614**	-	(52)	691

Maturity analysis

	Within 1 year	**Year 1 to 5**	**Above 5 years**	**Total**
At 31 December 2022				
Notional amounts				
Cross currency swaps	**123**	**49**	**-**	**172**
Forward foreign exchange contracts	**393**	**49**	**-**	**442**
	516	**98**	**-**	**614**

	Within 1 year	Year 1 to 5	Above 5 years	Total
At 31 December 2021				
Notional amounts				
Cross currency swaps	54	123	49	226
Forward foreign exchange contracts	293	123	49	465
	347	246	98	691

23 SEGMENTAL INFORMATION

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

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

23 SEGMENTAL INFORMATION (continued)

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 in spot and forward foreign exchange and options, cash money markets, floating rate notes, interest rate swaps and other derivatives. Interest is charged / credited to business segments based on rates which approximate the marginal cost of funds on external borrowings while considering the equity as free capital.

The Corporate and Other division comprises items which are not directly attributable to specific business divisions. Other operations of the Group includes operations, risk management and finance.

31 December 2022	Principal Investments	Debt Capital Markets	Equity and Alternative Investments	Treasury	Corporate and Other	Eliminations	Total
Interest income	1	12	-	18	-	(14)	17
Interest expense	(9)	(2)	(3)	(12)	-	14	(12)
Share of results of associates	254	-	-	-	-	-	254
Other operating income / (loss)	12	(46)	(62)	(1)	7	-	(90)
Net operating income	258	(36)	(65)	5	7	-	169
Other operating expenses	(10)	(2)	(2)	(2)	(31)	-	(47)
Reversal of impairment and ECL	8	-	-	1	-	-	9
Profit / (loss) for the year	256	(38)	(67)	4	(24)	-	131
Segment assets	1,983	357	670	3,056	3	(2,738)	3,331
Segment liabilities	1,636	389	728	611	17	(2,738)	643
Equity							2,688
Total liabilities and equity							3,331
Investment in associates	1,685	-	-	-	-	-	1,685

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

23 SEGMENTAL INFORMATION (continued)

31 December 2021 (Restated)	Principal Investments	Debt Capital Markets	Equity and Alternative Investments	Treasury	Corporate and Other	Eliminations	Total
Interest income	2	22	1	13	-	(14)	24
Interest expense	(10)	(3)	(1)	(8)	-	14	(8)
Share of results of associates	72	-	-	-	-	-	72
Other operating income / (loss)	42	(19)	72	-	-	-	95
Net operating income	106	-	72	5	-	-	183
Other operating expenses	(9)	(2)	(2)	(3)	(31)	-	(47)
ECL for other assets	(6)	-	-	-	-	-	(6)
Profit / (loss) for the year	91	(2)	70	2	(31)	-	130
Segment assets	1,758	543	515	2,846	4	(2,477)	3,189
Segment liabilities	1,521	526	443	543	25	(2,477)	581
Equity							2,608
Total liabilities and equity							3,189
Investment in associates	1,398	-	-	-	-	-	1,398

24 FAIR VALUE INFORMATION

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data.

For other financial asset and liabilities carried at cost less impairment or amortised cost, the carrying value is not significantly different from their fair values as most of these assets and liabilities are of short term maturity or re-priced immediately based on market movement in interest rates.

Determination of fair value and fair value hierarchy:

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

Level 1: quoted prices in active market for the same instrument;

Level 2: quoted prices in active market for similar instruments or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data including the net asset value of private equity funds where the underlying investments are unquoted private companies / real estate assets.

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

24 FAIR VALUE INFORMATION (continued)

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

2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Financial assets at fair value through statement of income				
Debt instruments	**354**	**-**	**1**	**355**
Hedge and other unquoted alternative funds	**-**	**308**	**-**	**308**
Quoted equity investments	**300**	**-**	**-**	**300**
Equity participations	**-**	**-**	**50**	**50**
Private equity funds	**-**	**-**	**56**	**56**
Financial assets at fair value through other comprehensive income				
Equity participation	**-**	**-**	**191**	**191**
Other assets- fair value of derivative financial instruments				
Forward foreign exchange contracts	**-**	**8**	**-**	**8**
	654	**316**	**298**	**1,268**
Other liabilities – fair value of derivative financial instruments				
Cross currency swaps	**-**	**46**	**-**	**46**
Forward foreign exchange contracts	**-**	**2**	**-**	**2**
	-	**48**	**-**	**48**

2021	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through statement of income				
Debt instruments	516	15	8	539
Hedge funds & other alternative funds	-	242	-	242
Equities	195	-	-	195
Equity participations	-	-	64	64
Private equity funds	-	-	67	67
Financial assets at fair value through other comprehensive income				
Equity participation	-	-	249	249
Other assets - fair value of derivative financial instruments				
Cross currency swaps	-	-	-	-
	711	257	388	1,356
Other liabilities - fair value of derivative financial instruments				
Cross currency swaps	-	52	-	52
	-	52	-	52

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

24 FAIR VALUE INFORMATION (continued)

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

	At 1 January 2022	***Loss recorded in the consolidated statement of income***	***Loss recorded in equity***	***Net purchases, sales, transfers and settlements***	***At 31 December 2022***
Assets measured at fair value					
Financial assets at fair value through statement of income					
Debt instruments	**8**	**-**	**-**	**(7)**	**1**
Equity participations	**64**	**(4)**	**-**	**(10)**	**50**
Private equity funds	**67**	**(2)**	**-**	**(9)**	**56**
Financial assets at fair value through other comprehensive income					
Equity participation	**249**	**-**	**(58)**	**-**	**191**
	388	**(6)**	**(58)**	**(26)**	**298**

	At 1 January 2021	*(Loss) / gain recorded in the consolidated statement of income*	*Gain recorded in equity*	*Net purchases, sales, transfers and settlements*	*At 31 December 2021*
Assets measured at fair value					
Financial assets at fair value through statement of income					
Debt instruments	9	-	-	(1)	8
Equity participations	78	(8)	-	(6)	64
Private equity funds	71	14	-	(18)	67
Financial assets at fair value through other comprehensive income					
Equity participation	127	-	73	49	249
	285	6	73	24	388

The fair value of Group's investments in private equity funds classified under Level 3 of the fair value hierarchy is determined based on the net asset values reported by the fund managers considering the nature of underlying assets, geographic location and expected economic conditions pertaining to the underlying assets.

With respect to the equity participations carried at fair value through other comprehensive income classified under Level 3 of the fair value hierarchy, the fair values are estimated using appropriate valuation techniques such as discounted cash flows, market multiples of comparable companies, recent arm's length transactions, reference to current fair value of similar assets and other valuation techniques.

Significant unobservable inputs used by the management in determining the fair value of the equity participations represent the discount rates used in determining the present value of future cash flows. The quantitative sensitivity analysis as at 31 December is as below:

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

24 FAIR VALUE INFORMATION (continued)

Significant unobservable inputs	Range	Sensitivity of the input to fair value
Discount rates used for determining the present value of future cash flows	5.5% to 14% (2021: 6.1% to 21%)	A 5% (2021: 5%) increase in the discount rate would decrease the fair value by US$ 3 million (2021: US$ 3 million)

Measurement of other financial instruments under Level 3

Debt instruments: The fair values are based on broker quotes, prices quoted on Bloomberg and Reuters.

25 RELATED PARTY TRANSACTIONS

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

Outstanding balances with associates during the year are as follows:

	2022	2021
Letter of guarantees	**353**	347
Commitments	**-**	2
Receivables from associates	**4**	10

Compensation of key management personnel

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

	2022	2021
Salaries and short-term employee benefits	**10**	8
Post-employment benefits	**2**	2
	12	10

26 CAPITAL MANAGEMENT

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

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

The Corporation manages its capital taking into account both regulatory and economic requirements. No changes were made in the objectives, policies or processes from the previous year. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity as follows:

	2022	2021
Interest-bearing deposits, term finance and other borrowings	**557**	488
Other liabilities	**86**	93
Less: Cash and cash equivalents and placements with banks	**(291)**	(342)
Net debt	**352**	239
Equity attributable to equity holders of the Corporation	**2,688**	2,608
Gearing ratio (net debt / equity)	**0.1**	0.1

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

27 PRINCIPAL SUBSIDIARIES AND ASSOCIATES

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

Subsidiaries	Country of incorporation	% of shareholding		Financial statements reporting date	Principal business activity
		2022	2021		
Bituminous Products Company Limited (Bitumat)	Saudi Arabia	**100**	100	31 December 2022	Building material manufacturing

Associates	Country of incorporation	% of shareholding		Financial statements reporting date	Principal business activity
		2022	2021		
Gulf Re Holdings Limited	Cayman Islands	**50.0**	50.0	31 December 2022	Re-insurance
Foulath Holding B.S.C (c)	Bahrain	**50.0**	50.0	31 December 2022	Holding company
Al Ezzel Power Company B.S.C. (c)	Bahrain	**45.0**	45.0	31 December 2022	Power & Water Utility project
Water Consortium Holding Co.	Saudi Arabia	**40.1**	40.1	31 December 2022	Power & Water Utility project
Shams Ad-Dhahira Generating Company SAOC	Oman	**40.0**	40.0	31 December 2022	Power & Water Utility project
Horizon (ED) Investment Ltd.	Cayman Islands	**35.0**	35.0	31 August 2022	Education
SGA Mafariq Holdings W.L.L.	Bahrain	**33.3**	33.3	31 December 2022	Power & Water Utility project
Technical Supplies & Services Co. Ltd.	UAE	**30.7**	30.7	31 December 2022	Refrigeration & Cooling Services
Osool Poultry Company S.A.O.C.	Oman	**26.7**	26.7	31 December 2022	Poultry & Dairy Products
Al Dur Holding Company Limited	UAE	**25.0**	25.0	31 December 2022	Power & Water Utility project
Jeddah Cables Company Ltd.	Saudi Arabia	**25.0**	25.0	31 December 2022	Manufacturing Cables
Moon Iron & Steel Company SAOC	Oman	**25.0**	25.0	31 December 2022	Iron and steel
Bahrain LNG Ltd.	Bahrain	**24.0**	24.0	31 December 2022	Oil and Gas
Interplast Company Ltd.	UAE	**23.5**	23.5	31 December 2022	Plastic
Rawabi Emirates (PJSC)	UAE	**22.5**	22.5	31 December 2022	Dairy Products
The Dubai Wellness Center Ltd.	UAE	**21.6**	21.6	31 December 2022	Medical services
Wataniya Telecom Algerie S.P.A.	Algeria	**20.0**	20.0	31 December 2022	Telecom service provider
Gulf Stone Company SAOG	Oman	**20.0**	20.0	31 December 2022	Building Materials
A'Saffa Foods Company SAOG	Oman	**20.0**	20.0	31 December 2022	Poultry & Dairy Products
Tristar Holdings Ltd.	UAE	**19.6**	19.6	31 December 2022	Logistics
Aviation Lease and Finance Company K.S.C.P.	Kuwait	**14.0**	14.0	30 September 2022	Aviation Leasing

Notes to the Consolidated Financial Statements

as at and for the year ended 31 December 2022

(All amounts in US$ millions)

28 SUBSEQUENT EVENT

The Board of Directors meeting held on 19 March 2023, proposed cash dividend of US$ 50 per share amounting to US$ 105 million for the year ended 31 December 2022. The proposed dividend is subject to approval of the shareholders in their Annual General Assembly. The Board of Directors further recommended not to transfer the 10% of the profit for the year ended 31 December 2022 to the voluntary reserve.

Gulf Investment Corporation G.S.C.

Stand-alone Statement of Financial Position

as at 31 December 2022

(All amounts in US$ millions)

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

	2022	2021
Assets		
Cash and cash equivalents	41	46
Placements with banks	238	288
Financial assets at fair value through statement of income	1,069	1,107
Financial asset at fair value through other comprehensive income	191	249
Investments in associates	1,680	1,394
Investment in subsidiaries	40	31
Other assets	57	61
Total assets	**3,316**	3,176
Liabilities and equity		
Liabilities		
Deposits from banks and other financial institutions	431	314
Term finance	126	174
Other liabilities	71	80
Total liabilities	**628**	568
Equity		
Share capital	2,100	2,100
Revaluation reserves	(122)	(176)
Other reserves	578	574
Retained earnings	132	110
Total equity	**2,688**	2,608
Total liabilities and equity	**3,316**	3,176

PRINCIPAL INVESTING

Major Projects and Equity Participations
As of 31 December 2022

	Name of the Project	Location	GIC Effective holding %	GIC holding type
	Subsidiaries and Associates of GIC			
1	Bituminous Products Company Ltd. (Bitumat)	Saudi Arabia	100.00%	Direct
2	Foulath Holding B.S.C (c)	Bahrain	50.00%	Direct
3	Al Ezzel Power Company B.S.C. (c)	Bahrain	45.00%	Direct
4	Jazlah Water Desalination Company J.S.C.	Saudi Arabia	40.00%	Indirect
5	Shams Ad-Dhahira Generating Company SAOC	Oman	40.00%	Direct
6	Horizon (ED) Investment Ltd.	Cayman Islands	35.00%	Direct
7	Technical Supplies & Services Co. Ltd.	UAE	30.67%	Direct
8	Osool Poultry SAOC	Oman	26.68%	Direct
9	Jeddah Cables Company Ltd.	Saudi Arabia	25.00%	Direct
10	Al Dur Power & Water Co. B.S.C. (c)	Bahrain	25.00%	Indirect
11	Bahrain LNG Ltd.	Bahrain	24.00%	Direct
12	Interplast Company Ltd.	UAE	23.50%	Direct
13	Rawabi Emirates PJSC	UAE	22.54%	Direct
14	A'Saffa Foods Company SAOG	Oman	20.01%	Direct
15	Wataniya Telecom Algerie S.P.A.	Algeria	20.00%	Indirect
16	Jubail Water & Power Company J.S.C.	Saudi Arabia	20.00%	Indirect
17	Tristar Holdings Ltd.	UAE	19.61%	Direct
18	Aviation Lease & Finance Company K.S.C. (p) (ALAFCO)	Kuwait	14.00%	Direct

	Name of the Project	Location	GIC Effective holding %	GIC holding type
	Equity Participations			
1	The National Titanium Dioxide Company Ltd. (CRISTAL)	Saudi Arabia	20.00%	Direct
2	Shuqaiq Water & Electricity Company J.S.C.	Saudi Arabia	20.00%	Indirect
3	Shuaa Energy 3 P.S.C.	UAE	16.00%	Indirect
4	TMK Gulf International Pipe Industry Ltd.	Oman	14.20%	Direct
5	Ras Laffan Power Company Limited Q.S.C.	Qatar	10.00%	Direct

CORPORATE DIRECTORY 2022

Senior Management Team

Mr. Ibrahim Ali AlQadhi
Chief Executive Officer

Mr. Meshary Al-Judaimi
Group Head of Principal Investment

Mr. Talal Al-Tawari
Group Head of Global Markets

Mr. Hani Al-Shakhs
Group Head of Support

Global Markets Group

Mr. Osama Al-Musallam
Head of Treasury Div.

Mr. Raffaele Bertoni
Head of Debt Capital Markets Div.

Mr. Abdulla Al-Derbass
Head of Equities Div.

Dr. Mohammad Al-Omar
Head of Research Div.

Principal Investment Group

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

Mr. Mohammad Al-Fares
Head of Diversified Projects Div.

Mr. Meshari Al-Bader
Head of Principal Investment Analytics Div.

Mr. Fahad Al-Nusef
Head of Financial Services & Utilities Div.

Mr. Fadi Twainy
Head of Light Industry Projects Div.

Support Group

Mr. Talal Al-Zamami
Head of Operations Div.

Mr. Mohammed Al-Jallal
Head of Human Resources Div.

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

Mr. Khaled Al-Suraye
Head of Public Relations Dept.

Mr. Hazem El-Rafie
Head of Finance Div.

Corporate Office

Dr. Faisal Al-Fahad
Head of Legal & Compliance Div.

Dr. Yaqoub Ahmad Alabdullah
Head of Risk Management Div.

Mr. Mohammad Al-Rashed
Head of Internal Audit Div.

Ms. Maryam AlKooheji
Secretary to the BOD

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