ANNUAL REPORT & ACCOUNTS 2019

مؤسسة الخليج للاستثمار
Gulf Investment Corporation

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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**	2017	2018	2019
Gross Operating and Other Income	236	177	208
Operating Expenses	55	52	52
Net Profit	121	107	131
At year end			
Total Assets	4,228	3,498	3,534
Interest Bearing Securities and Funds	1,168	689	796
Equities and Managed Funds	536	396	429
Projects and Equity Participations	1,873	1,862	1,779
Deposits	571	298	418
Shareholders' Equity	2,647	2,598	2,623
Selected Ratios (%)			
Profitability			
Return on Paid-up Capital	5.8	5.1	6.2
Return on Adjusted Shareholders' Equity	4.6	3.9	4.6
Capital			
BIS Ratios			
- Total	40.5	40.9	44.2
- Tier 1	40.5	40.9	44.2
Shareholders' Equity as a % of Total Assets	62.6	74.3	74.2
Asset Quality			
Marketable Securities as a % of Total Assets	36.0	27.0	27.2
GCC Country Risk as a % of Total Assets	79.8	80.7	76.5
Liquidity			
Liquid Assets Ratio	52.4	34.8	45.3
Productivity			
Operating Income as Multiple of Operating Expenses	4.3	3.4	4.0

BOARD OF
DIRECTORS

State of Kuwait

H.E. Mr. Bader Al-Ajeel * ***

Chairman of the Board

Executive Director - General Reserve Sector
Kuwait Investment Authority

H.E. Mr. Faisal M.H. Boukhadour ** ****

Advisor in the Diwan of H.H.,
the Prime Minister

United Arab Emirates

H.E. Mr. Faisal Ali Almansouri * ***

Chairman of the Executive Committee

Director of Macro-Fiscal Policy,

Ministry of Finance

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

Advisor at the Ministry of Finance

Kingdom of Bahrain

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

Businessman

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

Chairman of Audit Committee

Head of Treasury and Capital Markets
Bahrain Mumtalakat Holding Company B.S.C.

Kingdom of Saudi Arabia

H.E. Mr. Khaled S. Al-Khattaf * ***

Chairman of the Risk Management Committee

CEO of Lafana Investment Company

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

Deputy Chief Executive Officer
Chief Operations Officer,
Sanabil Investments Company

Sultanate of Oman

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

Chairman of Remuneration and
Human Resources Committee

Executive President,
State General Reserve Fund

H.E. Mr. Darwish Ismail Ali Al-Bulushi ** ***

Minister Responsible for Financial Affairs,
Ministry of Finance

State of Qatar

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

Minister of State

H.E. Dr. Hussain Ali Al-Abdula Al-Abdulla ** ***

Minister of State & Board Member
Qatar Investment Authority

* 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 pleasure to present the Annual Report on the Corporation's activities and its financial results for the year ended 31 December 2019.

With the grace of God, the Corporation has continued its path of success amid many economic and political challenges, in a manner that reflects the Corporation's experience for over thirty-five years, as well as its resilience to face the changing nature of the business environment.

With a business environment characterized by continuous developments impacting the economies of GCC states, such as the fluctuations in oil prices, the consequent varying budget deficits of GCC countries, the tendency to lower interest rates by main central banks, challenges related to the trade war between the US and China, the implementation of economic and financial reform policies in some of the GCC states, and the geopolitical tensions in the region. Nonetheless, the Corporation has been able to achieve a net profit of $131 million, compared to profits of $107 million in 2018, thanks to its well diversified investment portfolios.

These sound results were achieved through the various activities of GIC, whether in direct investment or the global market portfolios. It is also worth noting that the Corporation follows high professional standards, including those related to capital adequacy rates and asset quality, as well as liquidity and cash flow ratios and prudent risk management, which is reflected in the achievement of strong financial indicators, as shown in this year's annual report.

Parallel with the improvement in financial performance indicators, and in order to enhance performance to meet the operating environment, the Corporation continued to implement the new investment policy that aims to reduce financial obligations and to concentrate on direct investment, while continuing to maintain global investments to distribute risk with the aim of achieving the highest possible returns. In this regard, the Corporation followed several procedures to reduce leverage that reached 1.3 times, which contributed to a decrease in financing expenses by 10% to amount to $30 million, compared to $33 million in the previous year. The Corporation continued its efforts to rationalize general expenses, maintaining expenses levels at $52 million in 2019 and 2018.

During the year, the Corporation refinanced a group of various projects, in addition to exiting from other projects. It should be noted that the direct investment portfolio includes investments in multiple sectors such as infrastructure, energy, services, and metals and petrochemicals.

GIC has established its pioneering position in the region, through its proven ability to adapt to various economic conditions, and its high degree of resilience to withstand various economic challenges, thanks to the strong financial position and the excellence of its human capital, evidenced by the reaffirmation of Moody's credit rating in 2019 at A2 with Stable outlook. Fitch also raised its short-term rating to F1 from F2 in 2018, and confirmed its long-term rating at BBB+ with a stable outlook, which reflect the ability of GIC to maintain the quality of key financial indicators amidst various economic and political fluctuations and high levels of uncertainties, which pushes us towards achieving more achievements in the future.

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

I would also like to express my appreciation to the Board of Directors and all the members of executive management, and staff for their commitment and effort during the year in achieving the Corporation's goals.

Bader Al-Ajeel

Chairman

CEO'S STATEMENT

Gulf Investment Corporation continued its mission to promote economic growth and to support financial markets across the GCC. In spite of the various economic challenges, the Corporation achieve commendable profit of $131 million, compared to net profit of $107 million in the previous year, which reflects the strong performance of the Corporation and the strength of its financial position.

Despite the economic fluctuations and uncertainties that prevailed in the global markets during the year, the Corporation was able to overcome them, thanks to the corporation's prudent strategy and risk management. The net operating income before impairments and provisions amounted to $156 million, with shareholders' equity of $2.62 billion.

Indicating its solid financial performance, Fitch has upgraded the Corporation's short-term credit rating from F2 to F1 and reaffirmed its long-term rating at BBB+ with a stable outlook. Moody's reaffirmed GIC's long-term credit rating at A2 and short-term rating at P1 with a stable outlook. The Malaysian RAM also reaffirmed the Corporation's rating at AAA with a stable outlook.

In its quest for investment diversification, the revenues of the global investment portfolio reached $143 million, compared to $36 million in the previous year. It also outperformed most of benchmarks, especially bonds, international equities, and hedge funds indices. The total revenues of the direct investment portfolio after provisions reached $69 million and continued to implement its strategy of exiting from some non-core direct investments while reducing its concentration in other investments. The Corporation completed other projects during the year such as the Bahrain LNG project and the Moon Iron & Steel Company in Oman, while it has also started construction of the Osool Poultry project.

The Corporation focuses on the infrastructure sector, which is considered to be one of the high value-added sectors, where GIC has a great experience. The Corporation's alliance won IBRI solar project in Oman, and was selected as the preferred alliance for the fifth phase of the solar energy project from Dubai Electricity and Water Authority. Meanwhile, the Corporation's other alliances have submitted bids for three other different projects.

Moreover, GIC endeavors to continue its successful path and to exploit the available investment opportunities to become an active member in the GCC economic development and to contribute to the development of the private sector.

During the year, the Corporation adhered to its approved investment policy, which includes maintaining the existing balance of medium and long-term financing without increase until maturities, with the possibility of diversifying short-term financing sources in line with the needs of the financing plans of the investment portfolios.

The Corporation has also diversified its short-term financing sources during the year in the form of third-party deposits, which amounted to $418 million, bringing the leverage ratio to 1.3 times.

In line with our developmental mandate, the corporation continued its efforts to maintain and develop the GCC human capital, through specialized training programs and courses, both inside and outside the Corporation. The ratio of GCC leaders rose to 75% of the Corporation's total employees.

In conclusion, I would like to extend my sincere gratitude and thanks to the GIC's shareholders and its board of directors as well as its subcommittees for their continued support and valuable guidance. I would also like to express my appreciation for the efforts, commitment, and dedication of GIC staff. The corporation's performance and success in 2019 is a source of pride to all of us and represents a motivation to continue to succeed and contribute more effectively to supporting the economic development of the GCC and helps bring added value to our shareholders.

Ibrahim Al-Qadhi
CEO

ECONOMIC REVIEW

1. INTRODUCTION

Economic growth in the GCC fell slightly from 2.1% in 2018 to 1.6% in 2019 on the back of lower oil production, weak oil prices that fell to an average of $64 a barrel from an average of $71.13 a barrel in 2018, and geopolitical developments in the region. Nonetheless, the recovery in non-hydrocarbon growth, from 1.3% on average in 2018 to an average of 1.7% in 2019, provided the necessary support for economic growth across the GCC amid modest participation of the oil sector. Moreover, the GCC financial markets were resilient despite some geopolitical incidents. The stronger fiscal and current account balances as well as falling breakeven oil prices enabled the GCC governments to withstand negative impacts of low oil revenues in the past few years.

In addition, a broad based slowdown in manufacturing and global trade was evident in both advanced and emerging market economies, which in turn caused global growth to slow to its slowest annual pace since the global financial crisis. This global growth slowdown was accompanied by easing financial market conditions and falling commodity prices. In the absence of inflationary pressures and to reduce downside risks, macroeconomic policies, especially monetary policy, remained supportive and eased significantly across advanced and emerging markets. Such easing provided support for risk appetite and emerging markets flows with emerging markets securities attracted more inflows, both debt and equity, in 2019 than in 2018. A marked increase in protectionist measures and trade disputes, contributed to a slowdown in global trade growth. The marked decline in global capital and intermediate goods production in 2019 highlighted the weakness in trade and investment.

1.1. Global Growth

Global GDP growth eased to 2.9% in 2019, from 3.6% in 2018, largely due to a broad based slowdown in manufacturing and global trade accompanied by persistent high policy uncertainty. This broad based slowdown, which was evident in both advanced and emerging market economies, would be the slowest annual global growth pace since the global financial crisis. In advanced economies, growth proved weaker than anticipated in manufacturing sector especially those economies strongly exposed to the slowdown in global trade. Other factors behind this restraining growth were rising trade barriers, elevated uncertainty, low productivity growth, and aging demographics. In contrast, service sector output held up for much of the year, helped by steady growth in consumer spending, especially in the US as well as in many central European economies. In many emerging market economies (EMEs), growth remained modest, with GDP growth in China continued to ease gradually, but import demand slowed more sharply. In the second half of the year, trade policy uncertainty as well as geopolitical and idiosyncratic tensions in key EMEs continued to weigh on global economic activity, especially manufacturing and trade[1].

Table 1: Real GDP and Trade Growth, Regional Comparison

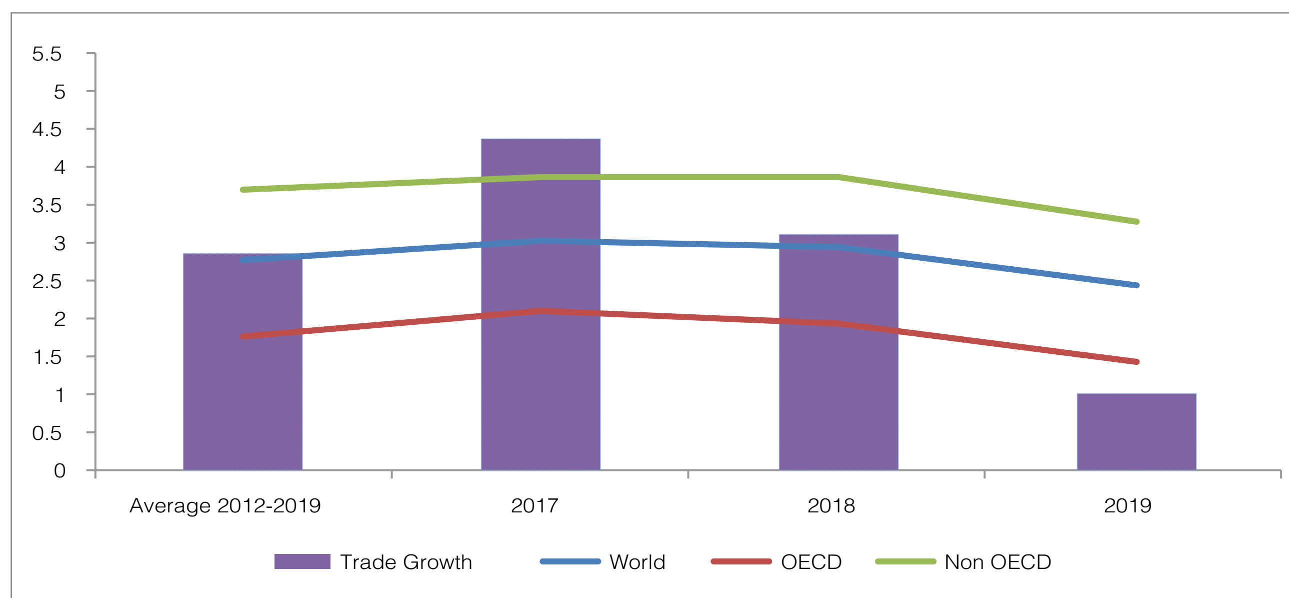
World GDP and Trade growth (annual % change)	Average 2001-2010	2018	2019
World Output	**3.9**	**3.6**	**2.9**
Advanced Economies	1.7	2.2	1.7
United States	1.7	2.9	2.3
Euro area	1.2	1.9	1.2
Japan	0.6	0.3	1.0
Emerging Market & Developing Economies	6.2	4.5	3.7
China	10.5	6.6	6.1
India	7.5	6.8	4.8
Brazil	3.7	1.3	1.2
Volume of Trade	**5.0**	**3.7**	**1.0**

Source: OECD Economic Outlook, 2019 issue & 2020 Update, GIC Research.

Figure 1 shows regional growth estimates for both real GDP and trade growth in 2019 according to the OECD economic outlook, which puts global GDP growth at 2.9% and trade growth at 1.2%.

1. IMF "WEO Update", January 2020 & IMF World Economic Outlook, October 2019.

Figure 1: Real Global GDP and Trade Growth (annual % change)



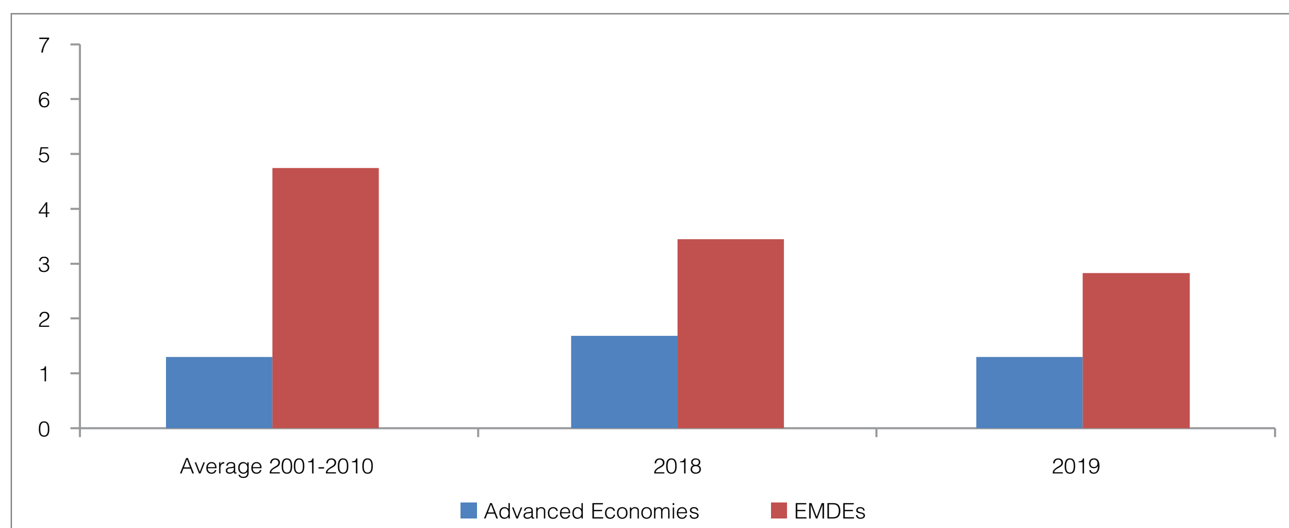
Source: OECD Economic Outlook, 2019, GIC Research.

The global growth pattern in 2019 reflected a persistent decline in the growth rate of EMEs below trend levels together with a sustained decline in the growth rate of advanced economies toward their long-term potential as a consequence of weaker than expected trade and manufacturing activity particularly in the Euro area.

Growth slowed broadly in the advanced economies, mostly reflecting softer growth in the US while growth across EMEs was weaker than expected, largely due to country specific shocks weighing on domestic demand.

Aggregate GDP of advanced economies decelerated considerably to 1.7% on average in 2019, from 2.2% in 2018, equivalent to its 2001-2010 long-term average. In contrast, GDP growth of emerging markets and developing economies (EMDEs) though eased markedly to 3.7%, from 4.5% in 2018, it fell below its long-term average of 6.2%.

Figure 2: Regional Comparison of GDP Growth (%)



Source: IMF, WEO Update, January 2020 and IMF WEO, October 2019, GIC Research.

The US growth moderated to 2.3% in 2019 from 2.9% in 2018, as rising tariffs increased trade costs while policy uncertainty weighed negatively on business investment and manufacturing sector. The diminishing support from both tax cuts and changes in government spending during the year was another drag on growth. Despite these headwinds, employment, household spending, and housing investment continued to be robust, supported by rising real wages and accommodative monetary policy[2].

2. World Bank. "Global Economic Prospects". January 2020.

In the Euro Area, growth remained subdued, falling to 1.2%, from 1.9% in 2018, as weak external demand, high uncertainty, and low confidence continued to weigh on investment and exports. Output growth rate of 0.5% and 0.2% in Germany and Italy respectively, remained weaker than the 1.3% and 2% pace in France and Spain, reflecting in part their greater dependence on industrial sector and global trade[3].

In the UK, GDP growth in 2019 remained flat at the 1.3% pace realized in 2018, as weaker global growth and Brexit-related uncertainty continued to weaken investment and spending. The labor market remained tight, causing domestic cost pressures to increase but employment growth weakened while the slowing in demand growth increased spare capacity[4].

In Japan, growth picked up to 1% in 2019, from 0.3% in 2018, reflecting healthy private consumption, supported by both robust capital expenditure and government countermeasures that accompanied the October increase in the consumption tax rate. Labor shortages and capacity constraints continued to stimulate private investment while stronger social spending supported domestic demand. However, exports, production, and business sentiment showed some weakness, mainly affected by the slowdown in overseas economies and natural disasters[5].

Aggregate growth in EMDEs eased considerably to 3.7% in 2019, from 4.5% in 2018, as industrial production, trade flows, and investment decelerated sharply. Growth was particularly weak in both India and China as India's growth decelerated from 6.8% in 2018 to 4.8% while China's growth pace inched down from 6.6% to 6.1%. India's domestic demand slowed more sharply than expected amid tighter credit conditions in the non-bank financial sector, which caused a decline in credit growth. In China, cooling domestic demand, escalating tariffs, and weakening external demand weighed on investor sentiment for most of 2019. In addition, it worsened the slowdown associated with needed regulatory strengthening to restrain the accumulation of debt[6].

Growth in commodity exporters slowed from 2% in 2018 to 1.5% in 2019, reflecting softer than projected commodity prices and oil production cuts. Growth in Russia and to a lesser extent Brazil was weak, as both countries experienced financial pressures and stresses, with Russia's GDP growth slowed to 1.1%, from 2.3% in 2018 while Brazil's GDP grew at nearly the 2018 pace of 1.3%. Weakening global demand and ongoing domestic challenges, including large macroeconomic imbalances and domestic policy uncertainty, continued to discourage investment and delayed recovery in many commodity exporters such as Nigeria and South Africa. However, countries with more policy space implemented countercyclical measures to offset partly the drag from weakening global demand and lower commodity prices, resulting in stable or moderately slower growth such as Indonesia and Peru.

Growth in commodity importers excluding China eased from 5% in 2018 to 3.3% in 2019. This reflected a marked deceleration in Turkey due to earlier financial stress, heightened policy uncertainty in Mexico, and a tightening of domestic non-bank credit conditions in India. Growth momentum was weaker than expected, reflecting declining exports and investment, but was offset partially by more accommodative monetary stances and fiscal support measures. Nevertheless, growth in many commodity importers remained solid due to robust private consumption and supportive policies in a context of subdued inflation and resilient capital flows[7].

1.2. Inflation

As the global expansion weakened, metals and energy prices fell while core inflation dropped further below target across advanced economies and below historical averages in many EMDEs. Despite higher import tariffs in some countries, cost pressures generally remained subdued. Wage growth inched up from modest levels as unemployment rates dropped further (closed to record lows in the US and the UK).

Core consumer price Inflation remained broadly muted and below target in many OECD countries, at around 1.75% in the US, 1% in the euro area and 0.5% in Japan, despite continued job creation and despite closed unemployment gap. It softened further across most EMDEs, but headline inflation slightly ticked up to 5.1% in 2019, from 4.8% in 2018 as labor shortages contributed to robust wage growth.

However, wage growth in both regions appeared not to have passed through to core consumer price inflation. Meanwhile, the subdued impulses from commodity prices to headline inflation caused the annual rate of headline consumer price inflation to ease in advanced economies to 1.4% in 2019 from 2% in 2018, helped by a downturn in energy price pressures[8].

3. OECD, "Economic Outlook", November 2019.

4. Bank of England, "Monetary Policy Report", November 2019.

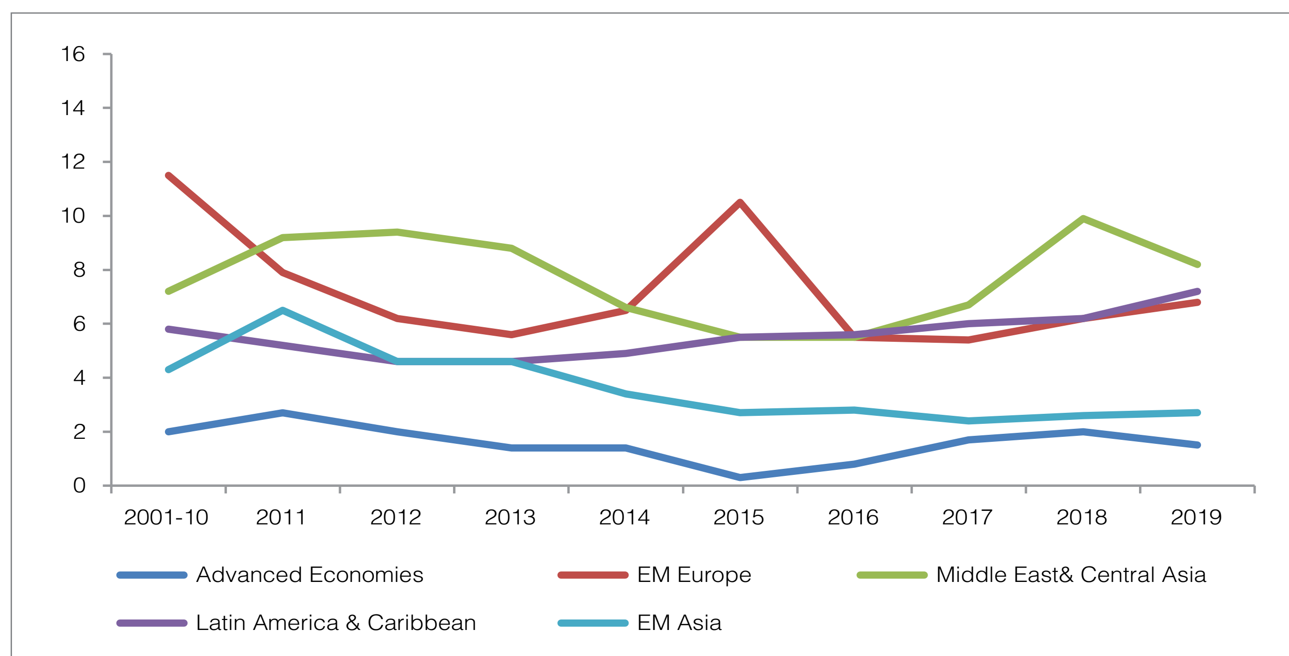
5. BOJ, "Summary of Opinions at the Monetary Policy Meeting", December 27, 2019.

6. The IMF WEO Update, January 2020.

7. World Bank, "Global Economic Prospects", January 2020.

8. IMF World Economic Update, January 2020.

Figure 3: Consumer Prices across Regions (annual % change)



Source: IMF, GIC Research.

1.3. Financial Markets Conditions

The ongoing slowdown in global growth has been reflected in financial markets and commodity prices. Long-term interest rates on government bonds declined, from already low levels, by around 30-50bps in the US, the Euro area, and the UK. In several European countries and Japan, ten-year government bond yields were near record negative values. The global value of government and corporate bonds trading at negative values were estimated at $11.6 trillion, or about 21% of total stock of global bonds. The decline in bond yields was due to a more accommodative monetary policy and the robust demand for safe assets in the face of softening global economic prospects, heightened downside risks, and persistently low inflation[9].

Financial market developments varied among the large EMEs, with some signs of lower risk appetite, but remained broadly unchanged in China. In most EMEs, yields on long-term government bonds in local currencies declined, helped by cuts in monetary policy interest rates. In general, EMDEs borrowing costs have fallen and debt issuances have increased. EMDEs that already had low spreads experienced further declines, while economies with low sovereign credit ratings suffered from a flight to safety. Investors were particularly cautious about equity markets in riskier EMDEs, which experienced significant portfolio outflows during the period of heightened trade tensions and global growth concerns starting around August of 2019, before recovering later[10].

1.3.1. Monetary Policy and Central Banks' Balance Sheets

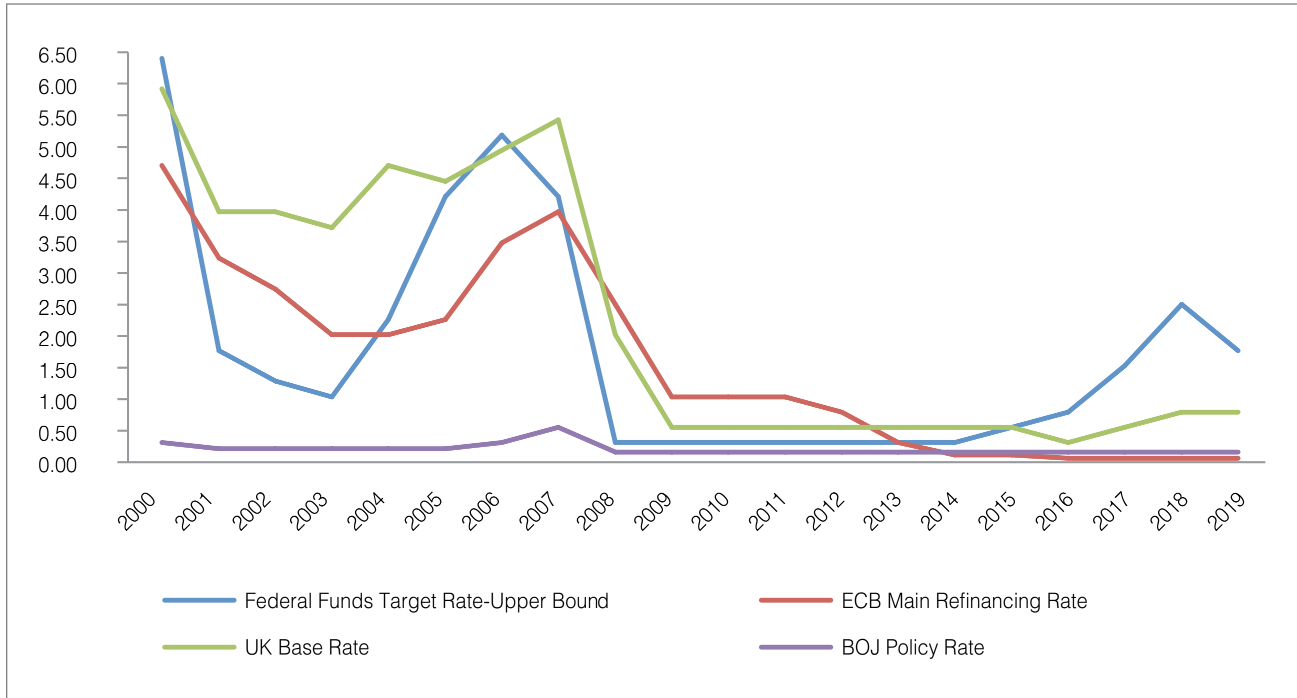
Monetary policy remained supportive and significantly eased almost simultaneously across advanced and emerging markets. The absence of inflationary pressures, along with weakness in investment and exports, particularly in the euro area prompted a broad shift toward monetary easing. Major central banks moved preemptively and cut interest rates to unprecedented lows in order to reduce downside risks and to support resilient financial conditions.

The Federal Reserve cut its policy rates by 75bps since mid-2019 while the European Central Bank (ECB) provided monetary stimulus by pushing its policy rate deeper into negative territory, restarting quantitative easing, and providing inexpensive credit to banks. The Bank of England maintained its bank rate at 0.75% throughout the year on growth slowdown, which reflected weaker global growth and elevated Brexit uncertainties. In this context, the Bank of Japan left policy rates unchanged, at (0.1%) and continued to expand the monetary base until the y-o-y rate of change in the CPI exceeded 2%, which ranged between 0.5-1% in 2019[11].

9. OECD, "Economic Outlook", November 2019.
10. World Bank, "Global Economic Prospects", January 2020.
11. Bank of Japan Minutes of the Monetary Policy Meeting, December 18-19, 2019.

By December 2019, total assets of major central banks reached $19.9 trillion, including the $5.3 trillion owned by people's bank of China. It also include the BOJ's $5.3 trillion, the ECB $5.2 trillion, and the Federal Reserve's $4.1 trillion. By the fourth quarter of 2019, the Fed's total assets to local currency nominal GDP fell to 18.4% while China's central bank total assets were equivalent to 35.9% of China's nominal GDP. By the third quarter of 2019, the ECB's total assets accounted for 39.2% of the euro area nominal GDP. They remained far behind Japan however, with the Bank $5.3 trillion total assets were equivalent to about 102.0% of the country's GDP[12].

Figure 4: Major Central Banks Benchmark Rates (%)



Source: Bloomberg, GIC Research.

By December 2019, policy rates ranged between 0% in the Euro area, 0.1% in Japan, 0.75% in the UK, 1.75% in Canada, and 1.75% in the US. Monetary policy stances varied across EMEs during the year, reflecting these economies' diverse cyclical positions. In China, the central bank reduced its reverse repo rate only by 5bps to 2.5% to step up credit support and boost domestic demand. In India, the central bank cut the reverse repo rate four consecutive times by 135bps to 4.9% to help revive growth. Likewise, Turkish central bank cut its policy rate by 450bps while the central bank in Russia and Brazil reduced their interest rates by 75bps and 100bps respectively[13].

12. Yardeni Research. "Global Economic Briefing". January 2020.
13. IMF World Economic Update, January 2020.

Table 2: Short-Term Policy Rates (%)

Date	US	Canada	Euro Area	UK	Japan	China	India
Q2:12	0.25	1.00	1.00	0.50	0.10	3.30	7.00
Q3:12	0.25	1.00	0.75	0.50	0.10	3.30	7.00
Q4:12	0.25	1.00	0.75	0.50	0.10	3.35	7.00
Q1:13	0.25	1.00	0.75	0.50	0.10	3.35	6.50
Q2:13	0.25	1.00	0.50	0.50	0.10	3.35	6.25
Q3:13	0.25	1.00	0.50	0.50	0.10	3.35	6.50
Q4:13	0.25	1.00	0.25	0.50	0.10	3.90	6.75
Q1:14	0.25	1.00	0.25	0.50	0.10	4.10	7.00
Q2:14	0.25	1.00	0.15	0.50	0.10	4.10	7.00
Q3:14	0.25	1.00	0.05	0.50	0.10	4.10	7.00
Q4:14	0.25	1.00	0.05	0.50	0.10	4.10	7.00
Q1:15	0.25	0.75	0.05	0.50	0.10	4.10	6.50
Q2:15	0.25	0.75	0.05	0.50	0.10	3.55	6.25
Q3:15	0.25	0.50	0.05	0.50	0.10	2.50	5.75
Q4:15	0.50	0.50	0.05	0.50	0.10	2.35	5.75
Q1:16	0.50	0.50	0.00	0.50	0.10	2.25	5.75
Q2:16	0.50	0.50	0.00	0.50	0.10	2.25	6.00
Q3:16	0.50	0.50	0.00	0.25	0.10	2.25	6.00
Q4:16	0.75	0.50	0.00	0.25	0.10	2.25	5.75
Q1:17	1.00	0.50	0.00	0.25	0.10	2.25	5.75
Q2:17	1.25	0.50	0.00	0.25	0.10	2.45	6.00
Q3:17	1.25	1.00	0.00	0.25	0.10	2.45	5.75
Q4:17	1.50	1.00	0.00	0.50	0.10	2.45	5.75
Q1:18	1.75	1.25	0.00	0.50	0.10	2.50	5.75
Q2:18	2.00	1.25	0.00	0.50	0.10	2.55	6.00
Q3:18	2.25	1.50	0.00	0.75	0.10	2.55	6.25
Q4:18	2.50	1.75	0.00	0.75	0.10	2.55	6.25
Q1:19	2.50	1.75	0.00	0.75	0.10	2.55	6.00
Q2:19	2.50	1.75	0.00	0.75	0.10	2.55	5.50
Q3:19	2.00	1.75	0.00	0.75	0.10	2.55	5.15
Q4:19	1.75	1.75	0.00	0.75	0.10	2.50	4.90

Note: Bank of China's 7-day Reverse Repurchase rate & Reserve Bank of India Reverse Repo Rate.
Source: Bloomberg, GIC Research.

1.4. Exchange Rates and Capital Flows

1.4.1. Exchange Rates Movements

Currency movements between September 2019 and early January 2020 reflected the general strengthening of risk sentiment and reduced trade tensions as the US dollar and the Japanese yen weakened by about 2%, while the Chinese renminbi gained about 1.5%. The most notable movement across major currencies was the appreciation of the British pound (4% since September) on perceptions of reduced risks of a no-deal Brexit.

During the summer, the Japanese yen and the Swiss franc, the two usual safe haven currencies, appreciated against the US dollar, prompting the Swiss National Bank to intervene to prevent the Swiss franc from appreciating further. While equity and bond market developments in EMDEs diverged considerably according to risk perception, many EMDEs currencies depreciated, and a growing share fell to their lowest exchange rate with the US dollar in a decade[14].

14. IMF World Economic Update, January 2020.

1.4.2. Total Portfolio Flows to Emerging Markets

Flows to EMs continued their recovery in 2019 as monetary easing by major central banks provided support for risk appetite and EM flows. Emerging markets securities attracted inflows of more than $310 billion in 2019, significantly higher than the $194.1 billion in 2018. Debt flows continued their robust performance, reaching $260.7 billion in 2019, significantly higher than the $174.4 billion in 2018.

Equity flows continued their recovery, growing to $49.7 billion, though higher than the $19.7 billion in 2018.Equity flows to China grew only to $36.4 billion, significantly lower than the $60 billion in 2018. China's debt flows grew to $93.4 billion in 2019, lower than the $99.5 billion in 2018[15].

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

Year / Total	Emerging Asia	Latin America	Emerging Europe	ME & Africa	Total
Portfolio Debt Flows					
2016	36.87	-2.87	22.04	30.64	**86.69**
2017	154.26	49.67	54.62	47.25	**305.80**
2018	105.95	41.58	19.29	7.60	**174.42**
2019	136.19	61.48	32.99	30.05	**260.70**
Total	**433.27**	**149.86**	**128.94**	**115.54**	**827.61**
Portfolio Equity Flows					
2016	41.63	22.78	-2.82	-9.51	**52.09**
2017	48.61	16.96	7.25	-3.53	**69.29**
2018	30.29	-4.07	-1.51	-5.06	**19.65**
2019	61.18	-4.24	1.51	-8.75	**49.70**
Total	**181.71**	**31.42**	**4.43**	**-26.84**	**190.72**
Total Portfolio Flows (Equity and Debt)					
2016	78.50	19.92	19.22	21.14	**138.78**
2017	202.87	66.63	61.87	43.72	**375.09**
2018	136.24	37.50	17.78	2.55	**194.07**
2019	197.38	57.23	34.49	21.30	**310.40**
Total	**614.99**	**181.28**	**133.37**	**88.70**	**1018.33**

Source: IIF and GIC Research.

The increase in debt flows was largely a result of positive dynamics in all region as debt flows grew to $136.2 billion in emerging Asia, $61.5 billion in Latin America, $33 billion in emerging Europe, and $30.05 billion in Middle East & Africa region. In contrast, the positive swing in equity flows was due to a large increase of such flows to emerging Asia, of $61.2 billion. Positive contributions also came from smaller outflows of $4.2 billion and $8.8 billion in Latin America and Middle East & Africa regions respectively[16].

1.5. Global Trade

A marked increase in protectionist measures and trade disputes, contributed to a slowdown in global trade growth. The marked decline in global capital and intermediate goods production in 2019 highlighted the weakness in trade and investment. Manufacturing export orders continued to contract, and services export orders decelerated.

As a result, world trade volume growth slowed to 2.1% in 2019, down from 3.9% in 2018. The slowdown in trade growth was broad-based, with the sharpest declines occurring in Asia and North America, together with a mild further easing in Europe and a continued slowdown in many commodity-producing economies[17].

15. IIF, "Capital Flows Tracker", January 2020.
16. IIF, "Capital Flows Tracker", January 2020.
17. World Bank, "Global Economic Prospects", January 2020.

Table 4: World Trade Growth and Regional Contributions (annual % change)

A. Trade growth	2014	2015	2016	2017	2018	2019
Total OECD	**4.4**	**4.8**	**2.7**	**4.6**	**3.3**	**2.2**
Total non-OECD	3.3	-0.2	1.9	7.1	4.8	2.1
China	6.0	-0.1	3.9	9.1	5.9	2.1
Brazil	-1.9	-5.2	-5.1	5.6	5.5	4.5
India	2.5	-6.0	2.1	11.1	12.8	9.1
Russia	-3.5	-10.6	0.3	10.0	4.3	2.2
Other oil producers	4.4	-0.1	-2.9	0.5	-1.8	-1.1
World	**3.9**	**2.8**	**2.4**	**5.5**	**3.9**	**2.1**
B. Contributions to world trade growth						
Total OECD	2.6	2.9	1.7	2.8	2.0	1.3
Total non-OECD	1.3	-0.1	0.7	2.7	1.9	0.8
China	0.6	0.0	0.4	1.0	0.6	0.2
Brazil	0.0	-0.1	-0.1	0.1	0.1	0.0
India	0.1	-0.1	0.0	0.2	0.3	0.2
Russia	-0.1	-0.2	0.0	0.2	0.1	0.0
Other oil producers	0.3	0.0	-0.2	0.0	-0.1	-0.1
World	**3.9**	**2.8**	**2.4**	**5.5**	**3.9**	**2.1**

Source: GIC Research & OECD Economic Outlook, 2019.

In advanced economies, trade volume growth eased to 1.3% in 2019 from 3.2% in 2018 while it fell markedly to 0.4%, from 4.6% in EMDEs. Volume of exports in advanced economies grew by 0.9% in 2019, down from 3.1% in 2018, below its long-term average of 3.3%. In EMDEs, volume of exports grew by 1.9% in 2019, down from 3.9% in 2018. In addition, volume of imports grew at 1.2% in advanced economies, down from 3% in 2018 and it grew by 0.7% in EMDEs, down from 5.1%[18].

Table 5: World Trade Volume (goods and services)

Annual % change	Average 2011-20		2018		2019	
	EXP	**IMP**	**EXP**	**IMP**	**EXP**	**IMP**
Advanced Economies	3.3	3.3	3.1	3.0	0.9	1.2
EM & Developing Economies	4.1	4.4	3.9	5.1	1.9	0.7
World Trade Volume	**3.6**		**3.7**		**1.0**	

Source: IMF, GIC Research.

18. *IMF, WEO Update, January 2020 & IMF World Economic Outlook, October 2019.*

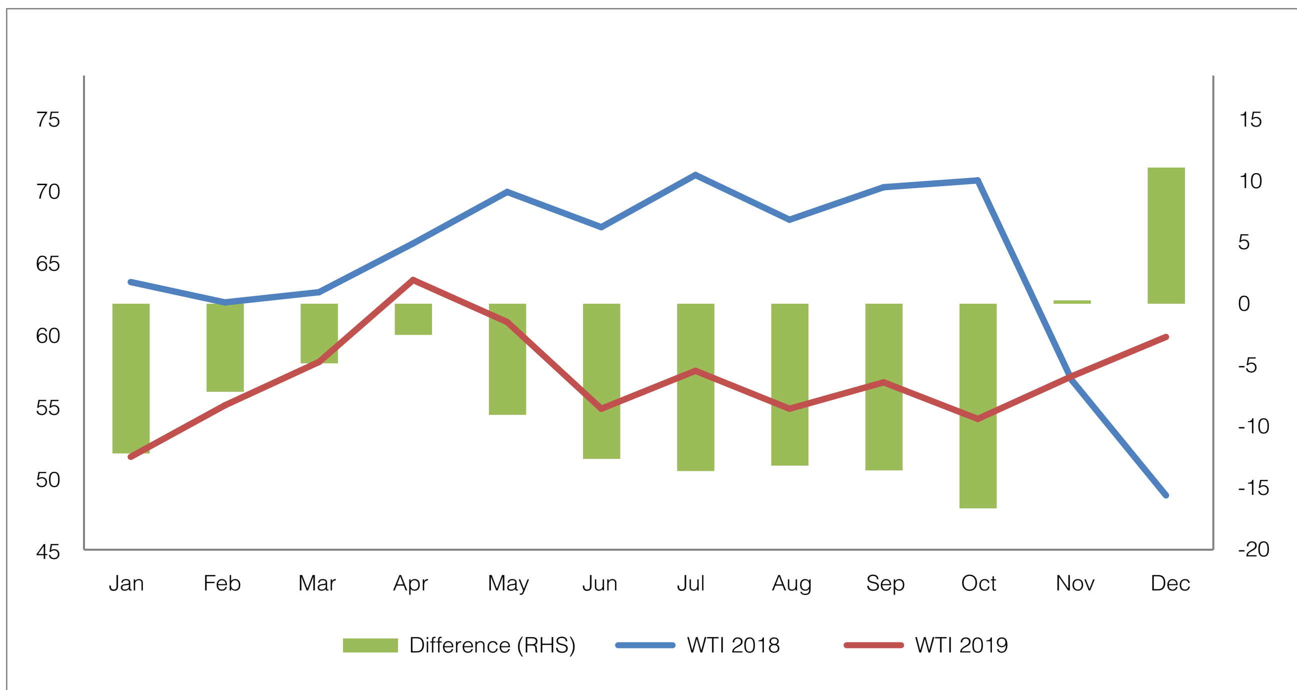
2. OIL DYNAMICS

Oil prices started the year on a strong note on the back of production cut extension by OPEC and its major allies including Russia. West Texas Intermediate (WTI) registered its highest price level on April 23 at $66.4 a barrel while BRENT crude oil reached its maximum price level of $73.89 a barrel on May 16. Yet, oil prices failed to maintain their gains despite several supply shocks that developed throughout the year such as the attack on oil processing facilities in Saudi Arabia, US sanctions on Iran and Venezuela, and geopolitical tensions in the region. On August 7, crude oil prices reached their lowest as WTI and BRENT closed at $51.09 a barrel and $57.08 a barrel respectively. Nonetheless, oil prices started to recover by the end of the year with the support of the extended production cut, optimism about reaching a trade-war agreement, higher Chinese oil imports, and the decline in US commercial oil stocks. Therefore, WTI closed the year at $61.06 a barrel while BRENT settled at $66.42 a barrel.

In addition, WTI averaged $57 a barrel during the year versus $64.86 a barrel in 2018. It averaged $57.35 a barrel in the first half of the year and $56.65 a barrel in the second half, compared to $65.44 barrel in the first half of 2018 and $64.27 a barrel in the second half of 2018.

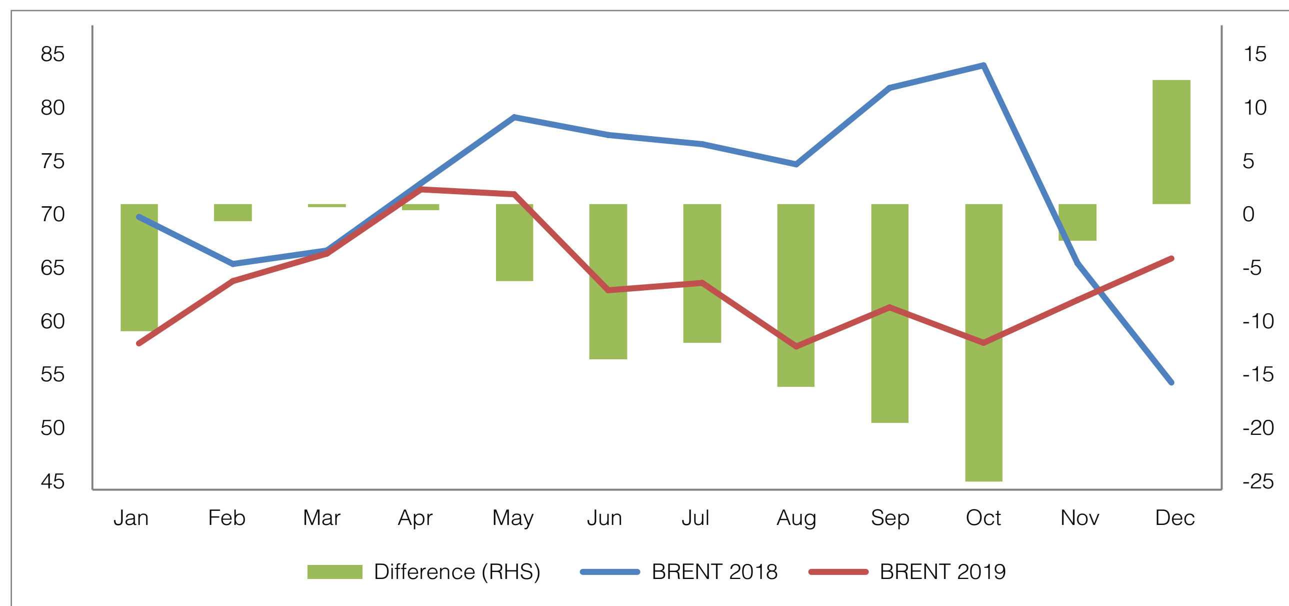
This is slightly lower than BRENT, which averaged $64.06 a barrel during the year versus $71.12 a barrel in 2018. BRENT averaged $65.88 a barrel in the first half of the year and $62.26 a barrel in the second half, compared to $70.78 a barrel in the first half of 2018 and $71.46 a barrel in the second half of 2018.

Figure 5: WTI Average Monthly Prices in 2018 and 2019 ($/b)



Source: Bloomberg, GIC Research.

Figure 6: Brent Average Monthly Prices in 2018 and 2019 ($/b)



Source: Bloomberg, GIC Research.

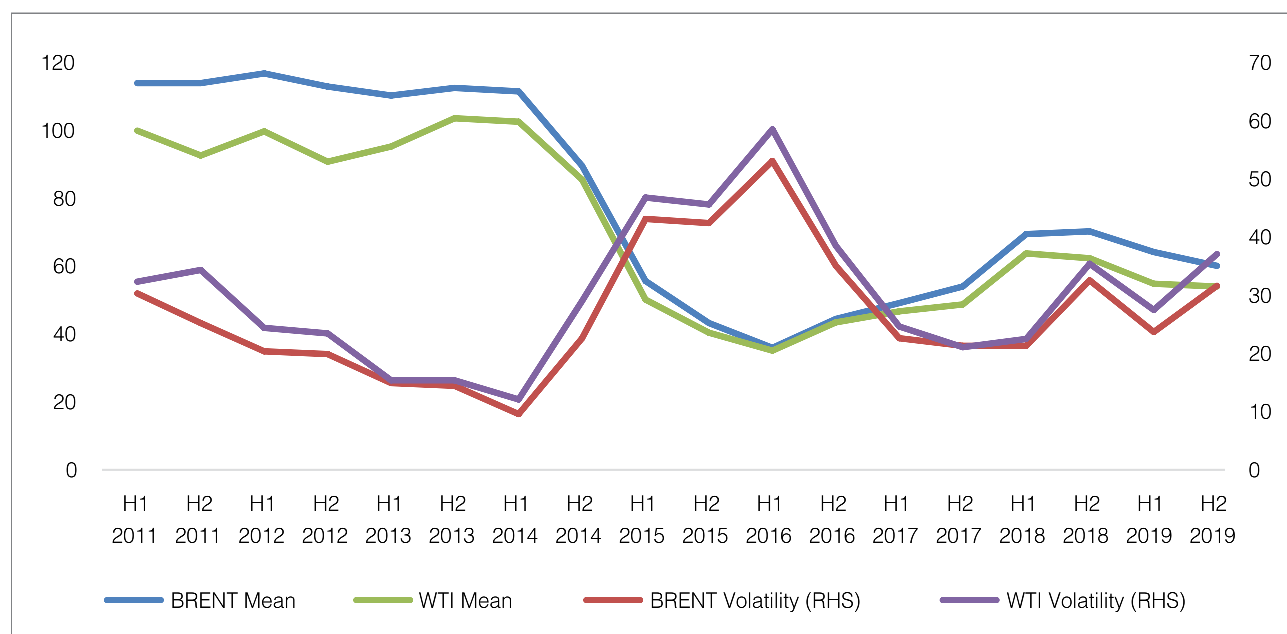
When compared to the first half of the year, WTI lost around 1.22% in the second half of 2019 while BRENT lost around 5.5%. The average volatility coefficients for WTI increased from 30.75% in 2018 to 33.73% in 2019 while it ticked higher for BRENT from 28.91% in 2018 to 29.59% in 2019.

Table 6: WTI and Brent Mean and Volatility ($/b)

	WTI		**BRENT**	
	Mean	**Volatility (%)**	**Mean**	**Volatility (%)**
H1 2011	98.37	33.83	111.14	31.95
H2 2011	91.73	35.66	111.18	27.33
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

Source: Bloomberg, GIC Research.

Figure 7: WTI and BRENT Mean and Volatility ($/b, %)



Source: Bloomberg, GIC Research.

2.1. Oil Fundamentals and Prices

Geopolitical tensions, gloomy global economic growth outlook, and trade tensions were among major factors that affected oil prices during 2019. The increase in US oil production and fears of weak oil demand placed a cap on oil prices during the year, preventing relatively solid recoveries in the price of oil, which hovered around $64 a barrel, compared to $71 a barrel in 2018. According to EIA estimates, global inventories fell slightly by less than 0.1 mb/d on average in 2019, highlighting the fact that oil markets were almost in balance throughout the year[19].

Meanwhile, total oil production witnessed a modest decline in 2019 compared to 2018, as lower production from OPEC+ was nearly compensated by higher production from OECD member countries and the US. The overall oil production fell from 100.86 mb/d in 2018 to 100.75 mb/d in 2019. During the year, OPEC production fell by an average 5.65% to reach 35.21 mb/d in 2019, down from 37.32 mb/d in 2018. In addition, OECD production increased by 5% to reach 31.68 mb/d while US production ticked higher by 9.09% to average 19.5 mb/d in 2019.

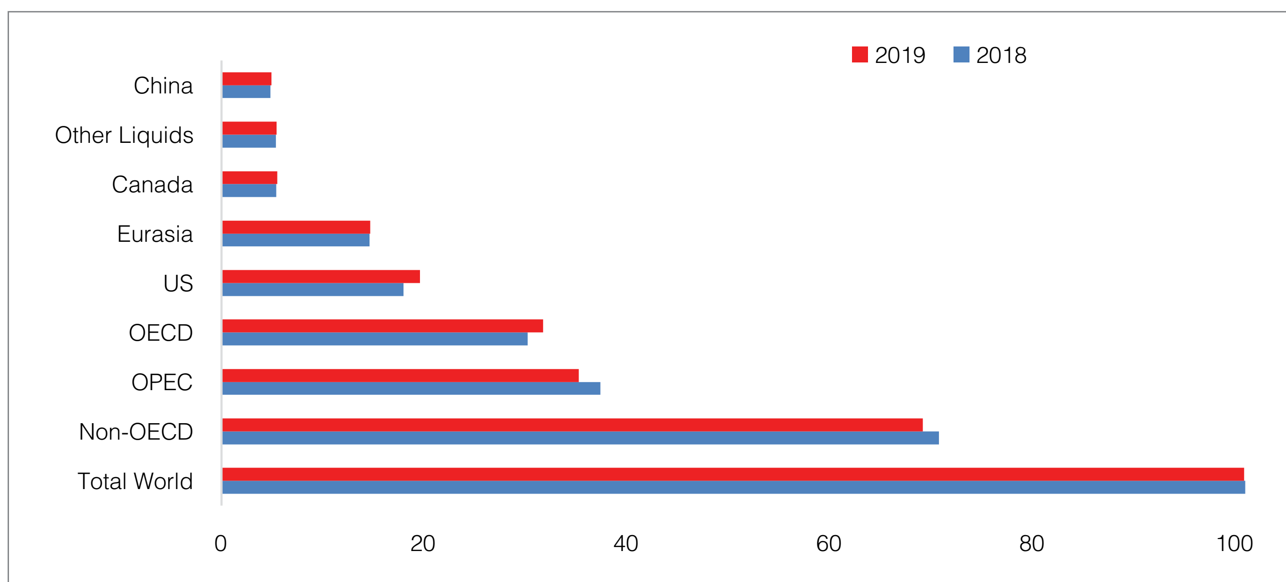
Table 7: International Petroleum and Other Liquids Production (mb/d, 2019)

	Q1	Q2	Q3	Q4	2019
OECD	31.08	31.32	31.49	32.8	31.68
US	18.91	19.38	19.49	20.48	19.57
Canada	5.44	5.47	5.52	5.57	5.50
OPEC	36.05	35.5	34.57	34.73	35.21
Crude Oil Portion	30.47	30	29.21	29.47	31.92
Other Liquids	5.58	5.5	5.36	5.26	5.42
Eurasia	14.87	14.47	14.71	14.65	14.67
China	4.94	4.96	4.93	4.89	4.93
Other Non-OECD	13.55	14.26	14.7	14.52	14.26
Total World	**100.48**	**100.52**	**100.41**	**101.59**	**100.75**

Source: EIA, "Short-Term Energy Outlook", January 2020.

19. EIA, "Short-Term Energy Outlook", January 2020.

Figure 8: International Petroleum and Other Liquids Production: 2019 vs. 2018 (mb/d)



Source: EIA, "Short-Term Energy Outlook", January 2020, GIC Research.

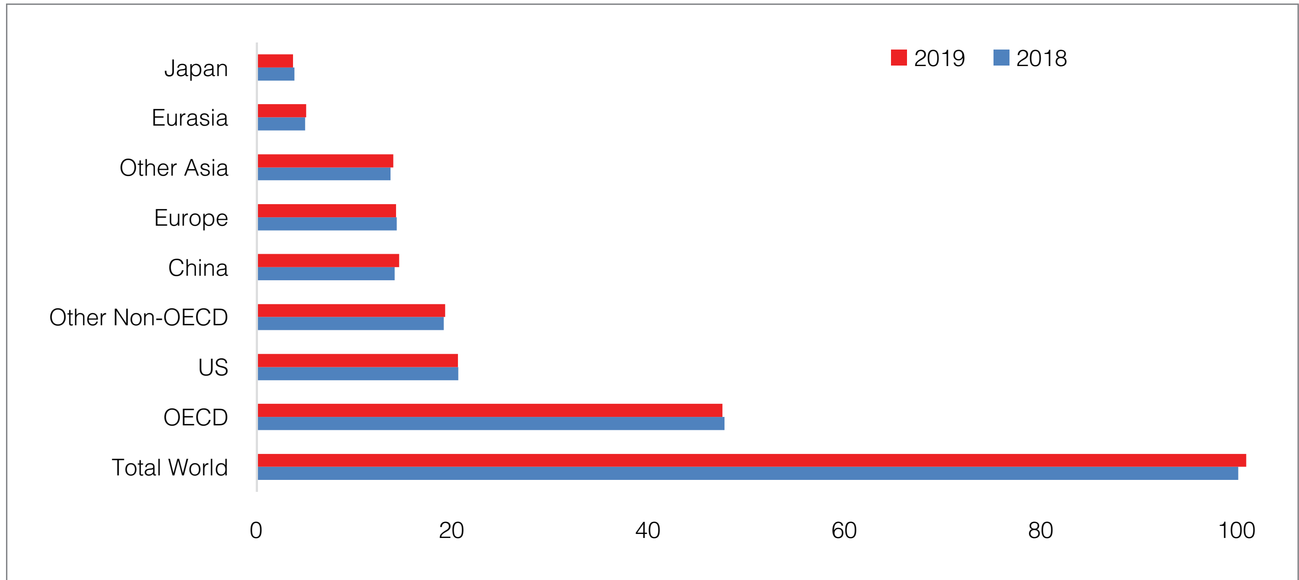
The overall global consumption for the year grew on average by 0.82 mb/d to 100.77 mb/d in 2019 compared to 99.95 mb/d in 2018. Oil demand increased modestly from 100 mb/d in the first quarter to 101.46 mb/d in the last quarter of 2019. Initially, the increase in consumption was due to rising demand from Non-OECD members and in China. However, oil demand eased in Japan.

Table 8: International Petroleum and Other Liquids Consumption (mb/d, 2019)

	Q1	Q2	Q3	Q4	2019
OECD	47.4	46.69	47.82	47.76	47.42
US	20.29	20.32	20.68	20.64	20.48
Europe	13.91	14.02	14.51	14.18	14.16
Japan	4.09	3.41	3.44	3.85	3.70
Non-OECD	4.83	4.9	5.17	5.12	5.01
Eurasia	14.38	14.67	14.39	14.61	14.51
China	13.95	13.97	13.62	13.99	13.88
Other Asia	18.68	19.24	19.61	19.19	19.18
Total World	**100**	**100.23**	**101.39**	**101.46**	**100.77**

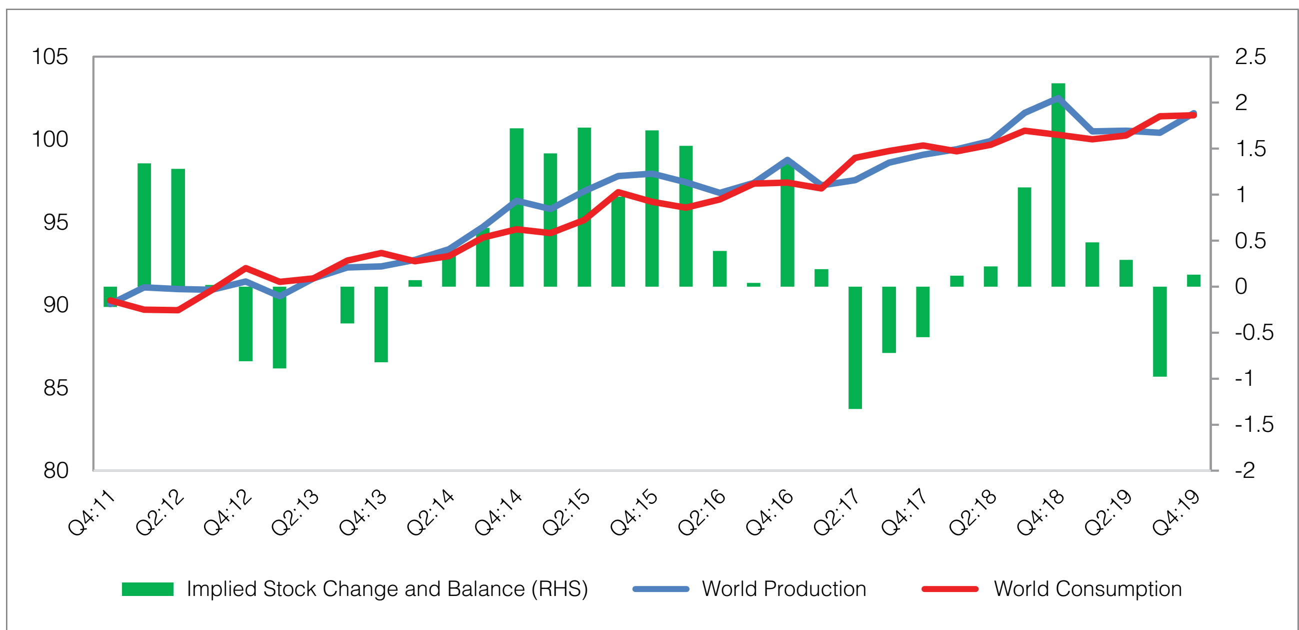
Source: EIA, "Short-Term Energy Outlook", January 2020.

Figure 9: International Petroleum and Other Liquids Consumption: 2019 vs. 2018 (mb/d)



Source: EIA, "Short-Term Energy Outlook", January 2020, GIC Research.

Figure 10: World Liquid Fuels Production and Consumption Balance (mb/d)

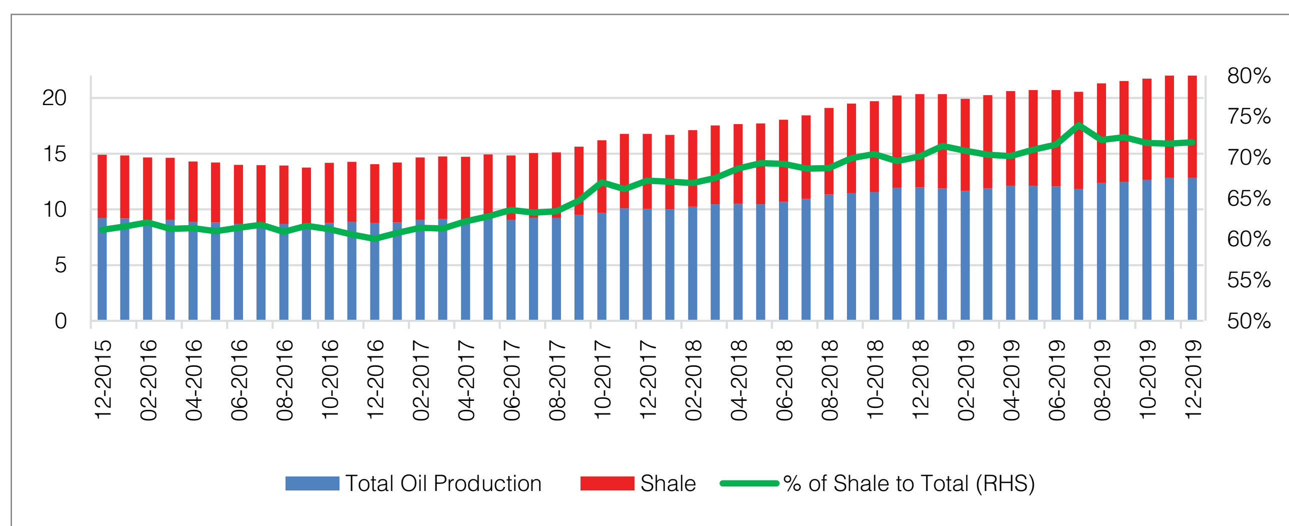


Source: EIA, "Short Term Energy Outlook", January 2020, and GIC Research.

2.2. US Crude Oil Production

US crude oil production exceeded 12 mb/d for the first time in April 2019 as oil production has been witnessing solid growth since 2016, driven mainly by higher shale oil production that increased from 8.38 mb/d in December 2018 to 9.24 mb/d in December 2019. Meantime, the US is set to become the top oil producer in the world in 2019 as crude oil production reached 12.86 mb/d by yearend.

Figure 11: US Crude Oil Production: Share of Shale Oil to Total Oil Production (mb/d)



Source: EIA, Weekly US Field Production of Crude Oil, Bloomberg, and GIC Research.

3. GCC Economies Review

GCC's real GDP continued to grow in 2019. Although the growth in the region as a whole was slower than 2018, the UAE and Qatar managed to outperform their growth of 2018 and the growth of other members in 2019. The UAE has grown by 2.2% y-o-y and Qatar by 2.1%, followed by Bahrain at a rate of 1.8% and Oman at 1.4%, while the growth of Kuwait and KSA fell below 1%.

Table 9: Real GDP Growth (% change)

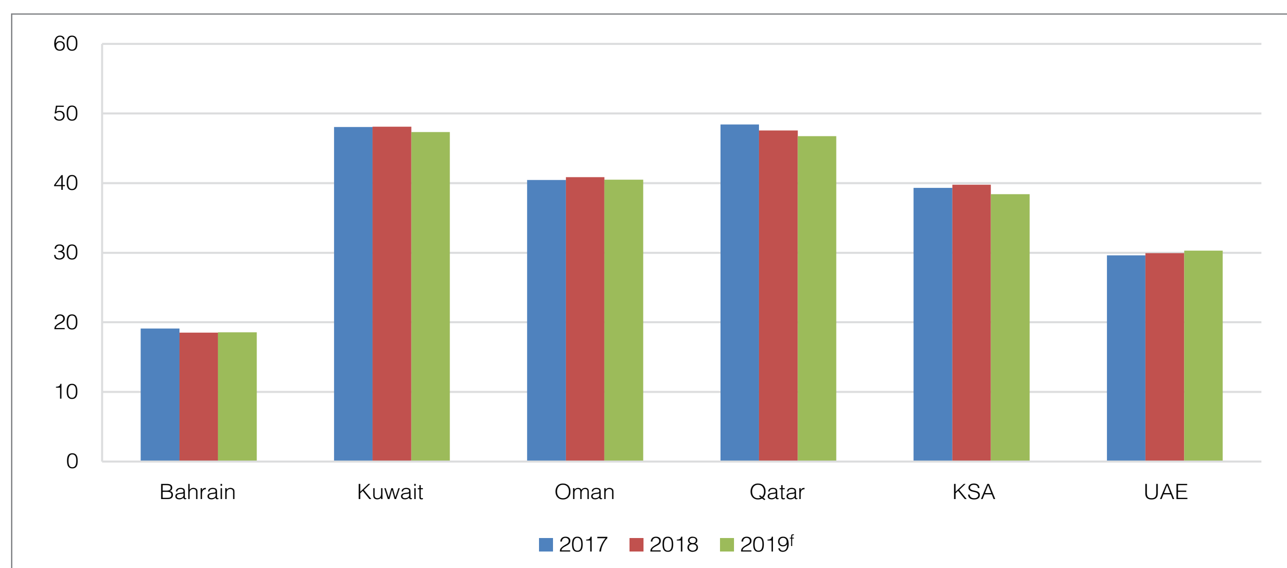
	2016	2017	2018	2019[f]
Bahrain	3.5	3.8	2.2	1.8
Kuwait	2.8	-2.8	1.2	0.9
Oman	5.1	0.3	1.8	1.4
Qatar	2.1	1.6	1.5	2.1
Saudi Arabia	1.7	-0.7	2.4	0.5
United Arab Emirates	3.1	0.5	1.7	2.2
GCC	**2.4**	**-0.4**	**2.1**	**1.6**

f: IIF Forecast.

Source: IIF, Respective Country's Database and GCC's Database.

Meanwhile, the average contribution of hydrocarbons to real GDP in the GCC remained the same. Kuwait and Qatar are the most dependent members on hydrocarbons, as it accounts for approximately 47% of their real GDP. Bahrain remains to be the least hydrocarbons-dependent with 18.55% contribution to real GDP.

Figure 12: Hydrocarbon's Contribution to Real GDP in GCC (%)



f: IIF Forecast.

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

Non-hydrocarbon real GDP registered a fair growth in 2019. Qatar continues to outperform the region with an annual growth of 3.7%, followed by Saudi Arabia at 3%, Kuwait at 2.6%, Oman at 2%, Bahrain and UAE at 1.7%. Noteworthy, Bahrain was the only member to underperform the growth of 2018.

Table 10: Non-Hydrocarbon Real GDP Growth (% change)

	2016	2017	2018	2019[f]
Bahrain	4.3	4.9	3.0	1.7
Kuwait	1.6	2.2	1.1	2.6
Oman	6.1	2.8	1.1	2.0
Qatar	5.3	3.8	3.2	3.7
Saudi Arabia	0.2	1.2	2.2	3.0
UAE	3.3	1.9	1.3	1.7

f: IIF Forecast.
Source: IIF, Respective Country's Database.

Furthermore, the size of fiscal deficit as a share of GDP increased from 2.6% in 2018 to 4% in 2019. Kuwait continued to outperform its peers maintaining the highest positive fiscal balance accounting for 4% of GDP. The UAE and Qatar are expected to achieve positive fiscal balances by the end of the year after a period of continuous deficits. Although Bahrain has concluded the year with a negative balance, the size of the deficit has significantly shrunk compared to previous years. While both of Oman and Saudi Arabia are expected to report heavier deficits for the year 2019.

Table 11: GCC Overall Fiscal Balance (% GDP)

	2016	2017	2018	2019[f]
Bahrain	-17.5	-14.2	-10.2	-6.1
Kuwait	0.9	7.8	10.5	4.0
Oman	-20.9	-13.8	-6.5	-7.1
Qatar	-9.2	-6.6	2.2	0.2
Saudi Arabia	-17.2	-9.2	-5.9	-8.5
UAE	-2.0	-1.7	-1.8	0.3
GCC	**-11.0**	**-5.8**	**-2.6**	**-4.0**

f: IIF Forecast.
Source: IIF, GCC's Database.

On a positive note, the average fiscal breakeven price declined shaving $6 in 2019 to stand at $74. Although the fiscal breakeven price for the UAE increased, it is still below the region's average. Bahrain continued to endure the highest breakeven price of $95.1; however, it was significantly lower than previous years. The same case is exhibited in both of Oman and KSA were the breakeven prices are fairly declining over the years.

Table 12: GCC Fiscal Breakeven Prices ($/b)

Country	2016	2017	2018	2019[f]
Bahrain	105.7	112.6	118.4	95.1
Kuwait	43.4	45.7	54.2	54.3
Oman	101.7	96.9	99.5	87.3
Qatar	54.0	50.6	50.3	48.8
Saudi Arabia	96.4	83.7	88.6	86.5
UAE	51.1	59.8	66.7	70.2
GCC (average)	**75**	**75**	**80**	**74**

f: IMF Forecast.

Source: IMF, "Regional Economic Outlook: Middle East, North Africa, Afghanistan, and Pakistan", October 2019.

3.1. Inflation

Inflation rates varied among the GCC members ranging around an average of 0.3%, considerably lower than 2.1% of the previous year. While growth in prices held the same base of the previous year in Qatar, prices in Kuwait have slightly increased further by 0.9% compared to 0.6% of 2018. While the growth in Bahrain and Oman was slower than the previous year, it fell in the negative territory in both of Saudi Arabia and the UAE.

Table 13: Average Consumer Prices (annual % Change)

	2016	2017	2018	2019[f]
Bahrain	2.8	1.4	2.1	1.2
Kuwait	2.9	1.6	0.6	0.9
Oman	1.1	1.6	0.9	0.6
Qatar	2.7	0.4	0.2	0.2
Saudi Arabia	2.1	-0.8	2.5	-1.0
UAE	1.6	2.0	3.1	-1.3
GCC	**2.1**	**0.4**	**2.1**	**0.3**

f: IIF Forecast.

Source: IIF, Respective Country's Database and GCC's Database.

3.2. GCC Trade

GCC's hydrocarbon exports declined considerably in 2019 falling below the levels of 2018 partly due to lower oil prices in 2019. Meanwhile, non-hydrocarbon and total imports remained fairly close to previous levels. Noteworthy, The UAE was the only country in the region to have non-hydrocarbon exports exceeding the hydrocarbons, with a ratio of 4:1.

Saudi Arabia has exhibited the largest decline in hydrocarbon exports accounting for $32bn, followed by Kuwait and Qatar. In addition, Saudi non-hydrocarbon exports declined by $3bn, while Bahraini non-hydrocarbon exports inched by $1bn.

Table 14: GCC's Trade ($ bn)

	2016	2017	2018	2019 f
Hydrocarbon Exports				
Bahrain	6.08	8.41	10.81	10.11
Kuwait	41.46	49.54	65.63	57.71
Oman	15.94	19.13	27.24	24.34
Qatar	46.53	55.10	68.72	60.68
KSA	136.59	170.67	229.46	197.39
UAE	47.99	58.17	66.24	61.54
Non-Hydrocarbon Exports				
Bahrain	6.70	6.96	7.45	8.34
Kuwait	5.05	5.65	6.65	6.80
Oman	11.57	13.71	14.44	14.45
Qatar	10.78	12.39	12.64	12.77
KSA	47.02	51.19	62.07	59.12
UAE	247.04	255.37	250.68	250.10
Total Imports				
Bahrain	13.59	16.08	19.11	19.57
Kuwait	26.99	29.50	31.34	32.33
Oman	21.26	24.09	23.62	22.32
Qatar	31.93	30.77	33.31	34.47
KSA	127.84	123.40	125.64	126.36
UAE	239.92	246.34	235.37	235.55

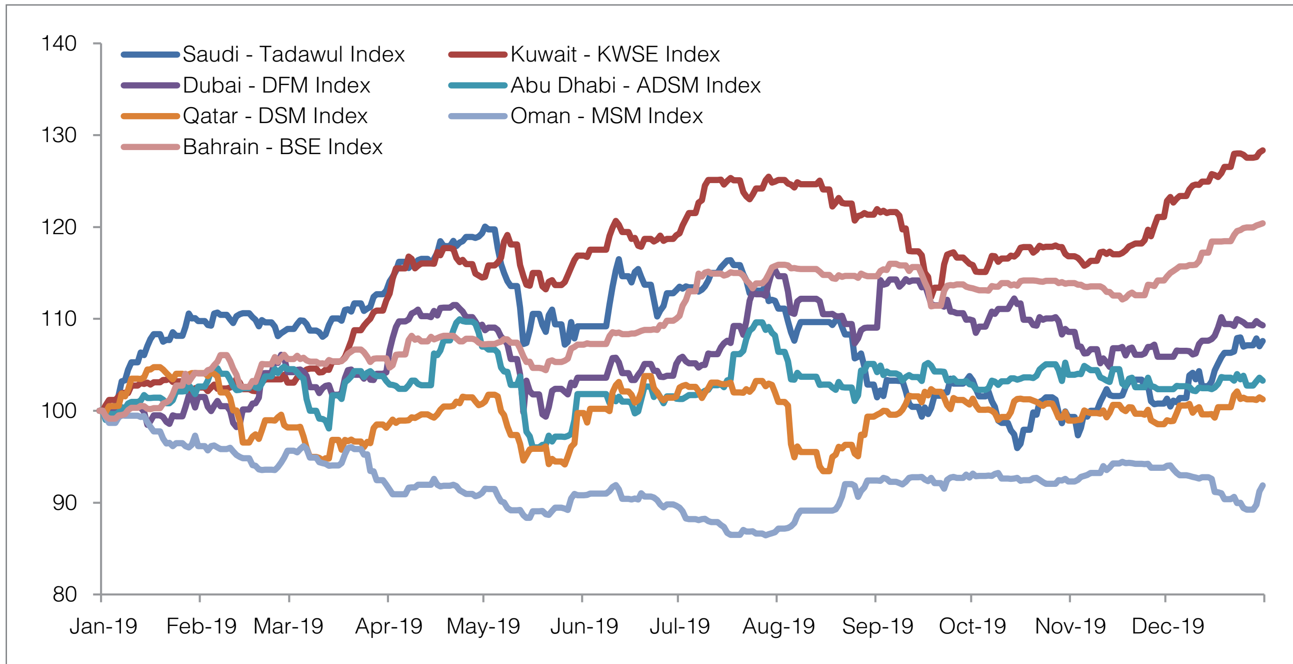
f: IIF Forecast.
Source: IIF, Respective Country's Database.

4. Equity Markets Review

GCC equity markets closed the year on a positive note, with a net gain of 12.5% on the S&P GCC composite index that extended gains to the fourth consecutive year. The GCC markets were swayed by the positive momentum across most major global financial markets, despite challenges that included heightened geopolitical tensions in the region, weakness in oil prices, the unresolved trade dispute between US and China and expectations for a slowdown in global economic growth rates.

Indications of a shift in the monetary policy stance from the US Fed during 2019 set the pace for global and GCC markets at the beginning of the year. However, the second half of the year witnessed a cascading series of events that led to a significant elevation in geo-political tensions for the region, which in turn offset the positive impact of fund flows tracking the inclusion of Saudi Arabia to the FTSE and MSCI EM indices. A sedate but sustained recovery during the last quarter helped to shore up net gains for the year.

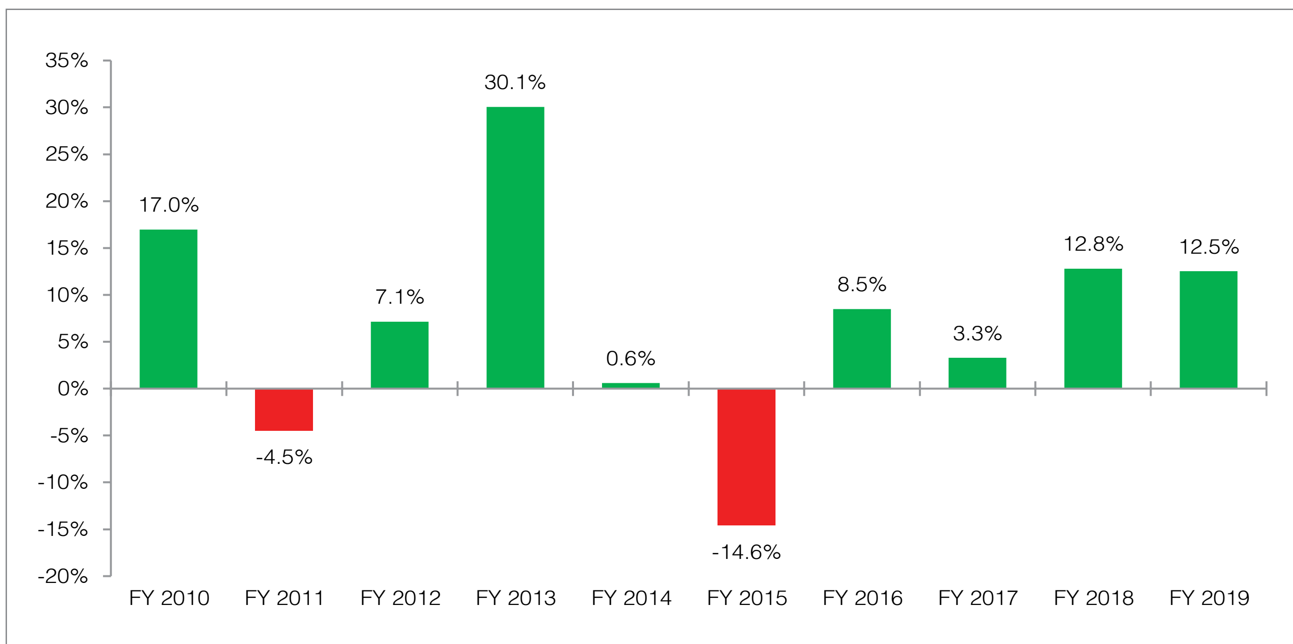
Figure 13: Rebased Performance of GCC Market Indices, 2019



Source: Bloomberg, GIC Research.

Despite starting the year with a strong connect to global market trends, subsequent market returns among the GCC indices were not very coherent and the markets exhibited a high degree of volatility during the year. Individual markets were swayed by varying factors including regional geopolitical issues, oil price movement and index inclusion. Consequently, Kuwait emerged the best-performing among its peers with a net return of 28.3%, while Oman was the least-performing with a modest net loss of 1.4%.

Figure 14: Performance of S&P GCC Composite Index (2010-2019)



Source: Bloomberg, GIC Research.

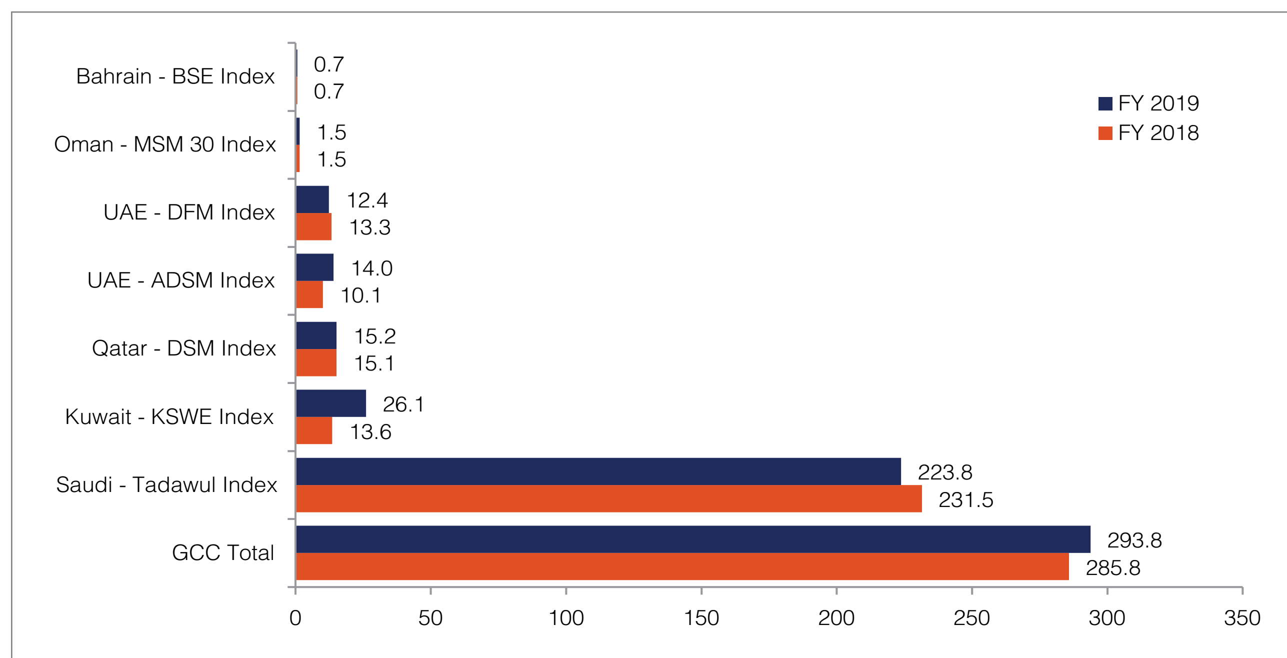
The GCC equity markets had a good start to 2019 that led to a strong run during Q1, and marked the best quarterly return since 2017, following on the performance for 2018 where the GCC benchmark registered the best yearly returns in 5 years. The direction in the GCC markets during the quarter was influenced by the sustained uptrend in global benchmarks as well as improved fund flows to the GCC markets. A dovish monetary policy stance from the US Fed and indications of a freeze in rate hikes, set the pace for sentiment in global equity markets. Fund flows tracking the inclusion of Kuwait and Saudi Arabia to the FTSE and MSCI EM indices helped to shore up sentiment further, and trading activity in the GCC bounced back with improvements seen in almost all the markets.

The markets experienced bouts of volatility during the course of Q2, taking the edge off gains during the previous quarter. The positive sentiment at the beginning of the quarter, in sync with the sustained uptrend in global benchmarks as well as improved fund flows to the GCC markets, was impacted by a cascading series of events that led to an elevation in geopolitical tensions, partly offsetting the impact of index inclusion. The Saudi bourse was the most affected by the volatility during the quarter, as local investors turned net sellers even as foreign fund flows tracking the various phases of inclusion helped to prop up the market during the latter part of the quarter.

Volatility picked up during the third quarter of the year, which caused more markets to shed the gains accumulated over the previous six months, amid heightened geo-political tensions. Saudi Arabia was the most affected by the volatility during Q3, dragged by negative sentiment following the attacks on Aramco's oil facilities. This stemmed the flow of funds leading up to the MSCI index inclusion, and prompted an extended selloff, that affected the large-cap Banks and Materials sectors the most. In addition to the Kuwait witnessed further pressure due to escalating geopolitical tension the region.

The fourth quarter was mixed with markets moving in slightly different tangents, though most indices closed the quarter with net gains. Easing of geo-political uncertainties led to a resurgence in the oil markets, and expectations of some form of resolution to the US-China trade discussions, helped to bolster sentiment in the market. Kuwait witnessed a sharp recovery during Q4 and emerged the best-performing market for the quarter, adding to robust earlier gains. The Kuwait market was helped by strong flows tracking the potential inclusion of the bourse into the MSCI EM index, both before and after the reaffirmation in mid-December.

Figure 15: Trading activity on individual GCC indices for 2018 and 2019 ($bn)



Source: Bloomberg, GIC Research.

Saudi Arabia witnessed a modest, but still sizeable, decline of 3% in trading activity during the year to $ 223.8 billion. Saudi Arabia continued to account for the largest share of trading in the GCC by a large margin, but its share in the total has fallen to 76% in 2019, from 81% in 2018. The decline in trading activity was largely due a high base in 2018, which had witnessed a surge in fund flows tracking various stages of inclusion of the bourse to the MSCI EM and FTSE EM indices.

Trading activity on the Dubai bourse fell by 7% over the year to $12.4 billion, receding for the second consecutive year, due to lackluster investor interest in the bellwether real estate sector. The outflow of liquidity from the region and reallocation of regional funds in favor of Saudi Arabia and Kuwait, also contributed to the decline. However, trading activity in Abu Dhabi registered a strong rise of 39% over the year to $14.0 billion.

Trading activity in Qatar did not witness any major changes in 2019, registering a modest rise of 1% to $15.2 billion. Similarly, Oman and Bahrain registered year-on-year growth of 2% each in trading values, to $1.52 billion and $0.73 billion, respectively.

4.2. GCC Markets Volatility

The GCC market indices witnessed an elevation in volatility, both in relation to the previous year, as well as in comparison to global and regional markets. This can largely be attributed to the changes in investor sentiment during the year as the positive flows tracking index inclusion in the earlier part of the year was replaced by negative sentiment following geo-political tensions which in turn was followed by a modest resurgence towards the end of the year. Saudi Arabia faced the brunt of these changes in direction, and marked the highest degree of volatility, alongside the twin bourses in the UAE.

Table 15: Volatility of Indices Across The GCC Markets, 2019

	Year Opening	Year Closing	Year High	Year Low	Index Volatility
S&P GCC	175.13	197.06	205.33	174.41	10.3%
Saudi - Tadawul index	7826.73	8389.23	9361.96	7481.53	14.1%
UAE - DFM index	2529.75	2764.86	2918.38	2484.80	13.9%
UAE - ADSM index	4915.07	5075.77	5404.53	4719.26	12.7%
Qatar - DSM index	3079.09	3099.21	10787.75	9621.70	12.6%
Kuwait - KSWE index	5652.34	7254.75	7254.75	5652.34	9.4%
Oman - MSM 30 index	4323.74	3981.19	4333.39	3745.65	7.4%
Bahrain - BSE index	1337.26	1610.18	1610.18	1325.76	6.7%

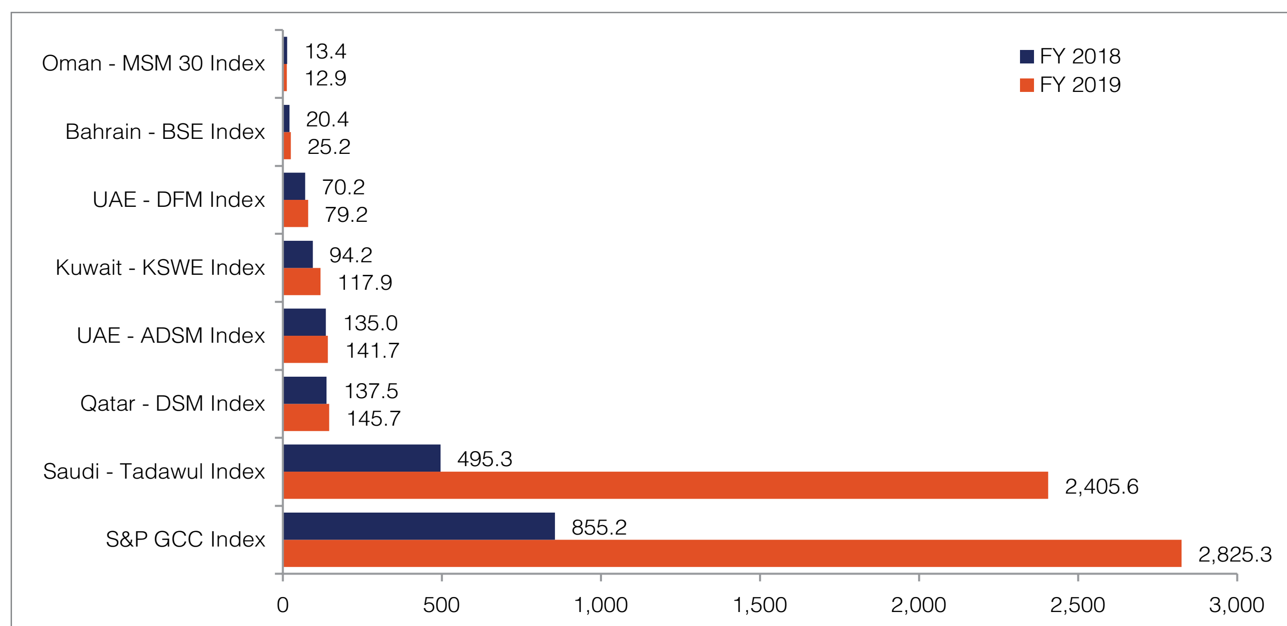
Source: Bloomberg, GIC Research.

4.3. GCC Market Capitalization

The total market capitalization of the S&P GCC Composite Index more than tripled during the year to $2.82 trillion at the end of 2019, from the level of $855 billion at the end of last year. This phenomenal increase was driven by Saudi Arabia following the listing of the Saudi oil major Aramco in late December. Aramco's IPO valued the company at close to $2 trillion, thus elevating the market capitalization of the Saudi bourse to $2.41 trillion from $495 billion at the end of 2018, a jump of almost five-fold.

The listing of Aramco has also elevated the share of Saudi Arabia to 85% of the total market capitalization in the GCC, registering a sizeable jump from 58% at the end of 2018. This has also resulted in a significant change in the representation from the other bourses. All other markets registered positive change in market capitalization, with the exception of Oman which registered a 3% decline for the year.

Figure 16: GCC Market Capitalization for 2018 and 2019 ($bn)

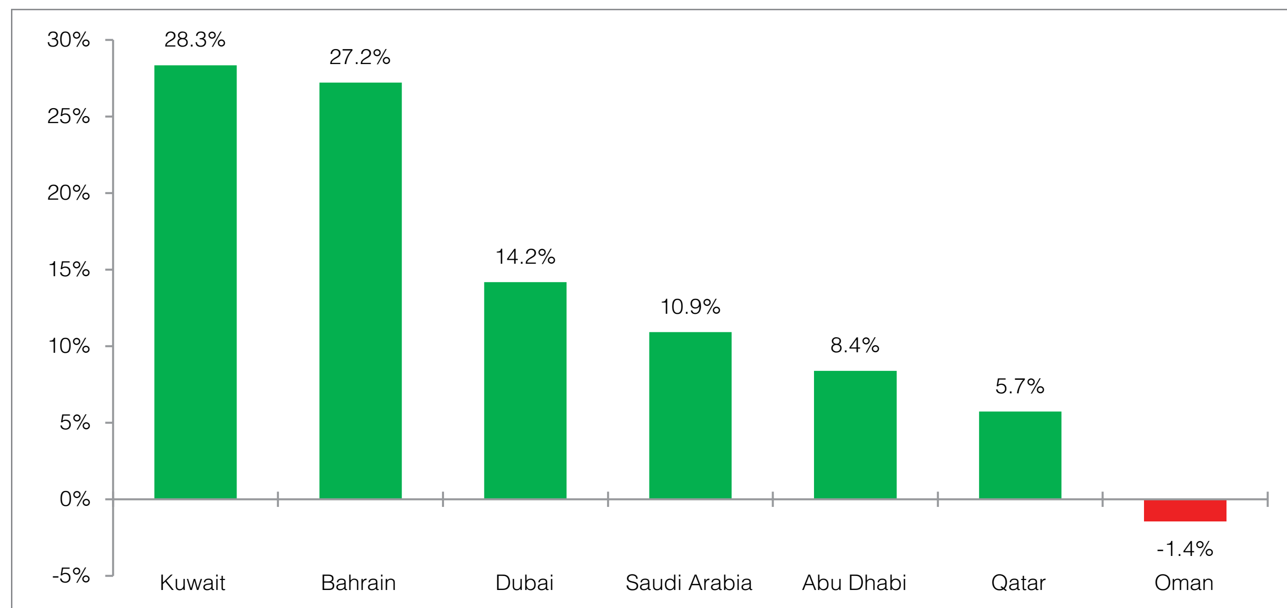


Source: Bloomberg, GIC Research.

4.4. Country Performances

The GCC indices exhibited a lack of coherence in direction and pace of movement during the calendar quarters, along with varying degrees of volatility during the year, as individual markets were swayed by multiple factors including regional geopolitical issues, corporate actions, oil price movements, index inclusion and in the case of Saudi Arabia index a historically significant IPO.

Figure 17: Performance of individual indices, 2019



Source: Bloomberg, GIC Research.

At the end of the year, Kuwait emerged as the best-performing market in the GCC, and Kuwait's benchmark KWSE all share index recorded a net gain of 28.3% for the year, marking the fourth consecutive year of gains, with most major sectors contributing to the rally. The gains came mostly in anticipation of MSCI's stated intent to upgrade Kuwait to its EM index, with the formal announcement arriving in December 2019. Not surprisingly, the large-cap Banks sector was the best-performing as it attracted most of the flows, while also benefitting from M&A activity.

The Saudi bourse continued to witness bouts of sharp volatility during the course of 2019, continuing the trend seen in the previous year. The Saudi market notched up robust YTD gains till the end of April 2019, ahead of the final phases of its inclusion to the MSCI EM index, before geopolitical events and a prolonged post-inclusion selloff wiped off the bulk of those gains by the close of the year. The correction was exacerbated by domestic selling pressure ahead of the Aramco IPO, as investors mobilized liquidity through selling other positions. A relief rally at the end of the year, helped the index to shore up its net gains for the year. The banks sector emerged among the gainers, while the large-cap Materials sector, which includes the Petrochemicals companies, under-performed for the year.

Bahrain remained consistently above its peers with strong gains since the beginning of the year spread across all four calendar quarters. However, the rally was not broad-based and mostly limited to a handful of names. Ahli United Bank emerged as the best-performing stock in Bahrain, driven by specific M&A related repricing. Consequently, the Banking sector was the best-performing for the year, while the Services sector also posted robust gains, even as all other sectors registered negative returns for the year.

In the UAE bourses, the Dubai market outperformed its neighbor Abu Dhabi by a sizeable margin for the year, despite sustained weakness in the bellwether Real estate sector. In contrast, the Real estate names in Abu Dhabi attracted investor attention and posted sizeable gains, while the large-cap Banks sector emerged among the best-performing in Dubai.

The Qatar bourse managed to record only modest gains at the end of 2019, after being the best-performing GCC market in 2018. Investor sentiment was mostly muted and there were no major catalysts to drive the market. Qatar could not build on a good start to the year, as modest gains were mostly followed by profit-taking sessions that offset earlier gains. The small and mid-cap names managed to record most of the gains, while the Banking sector also closed with moderately good gains.

Oman closed the year as the only market to record a net loss for the year, amid weakness across the board with all sectors closing in the red. Investor sentiment was overshadowed by worried about the financial health of the economy.

Table 16: Index Returns for 2019

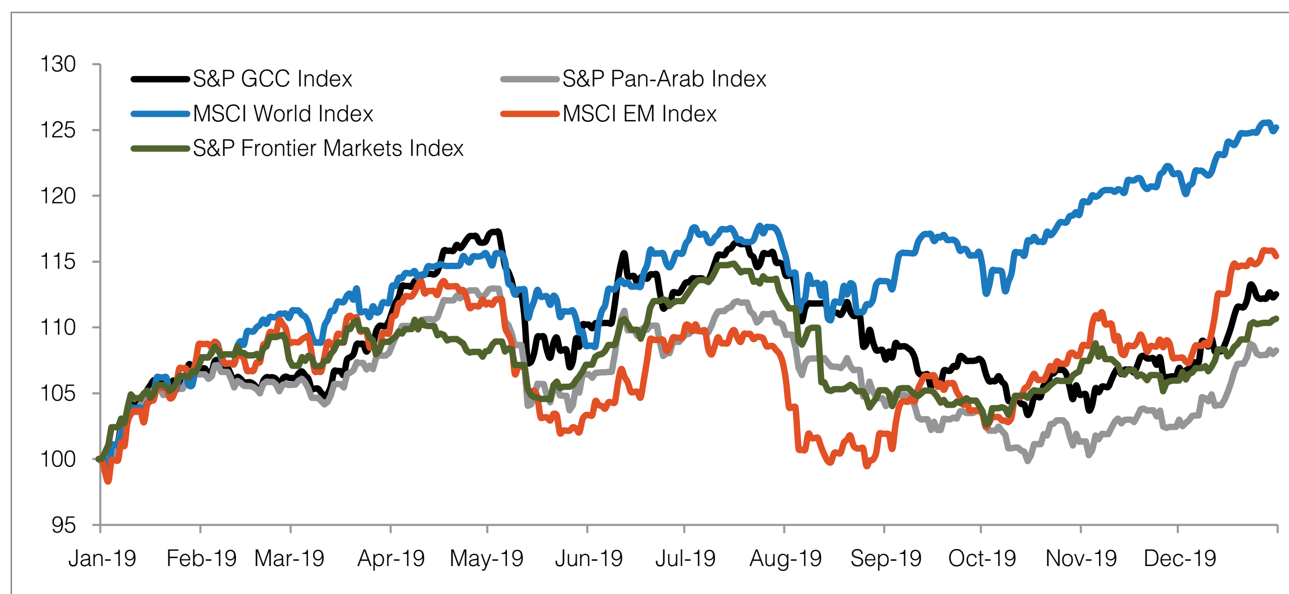
	31 December 2018	31 December 2019	% change
S&P GCC Composite Index	175.13	197.06	12.5%
Kuwait - KSWE Price Index	5,652.34	7,254.75	28.3%
Bahrain - BSE Index	1,337.26	1,610.18	27.2%
UAE - DFM Index	2,529.75	2,764.86	14.2%
Saudi - Tadawul Index	7,826.73	8,389.23	10.9%
UAE - ADSM Index	4,915.07	5,075.77	8.4%
Qatar - DSM Index	10,299.01	10,425.51	5.7%
Oman - MSM 30 Index	4,323.74	3,981.19	-1.4%

Source: Bloomberg, GIC Research.

4.5. Relative Performance of S&P GCC Composite Index to Global Benchmarks

During the year, the S&P GCC Composite Index under-performed the major international benchmarks, including the MSCI EM and MSCI World indices, while managing to out-perform the MSCI Frontier Markets and S&P Pan-Arab indices. This is in contrast to 2018 when the GCC benchmark out-performed the others by a large margin. Most global benchmarks managed to move in the same direction at the beginning of the year, but the GCC appeared to disconnect from the rest during the second quarter.

Figure 18: Rebased returns of major global benchmarks, 2019

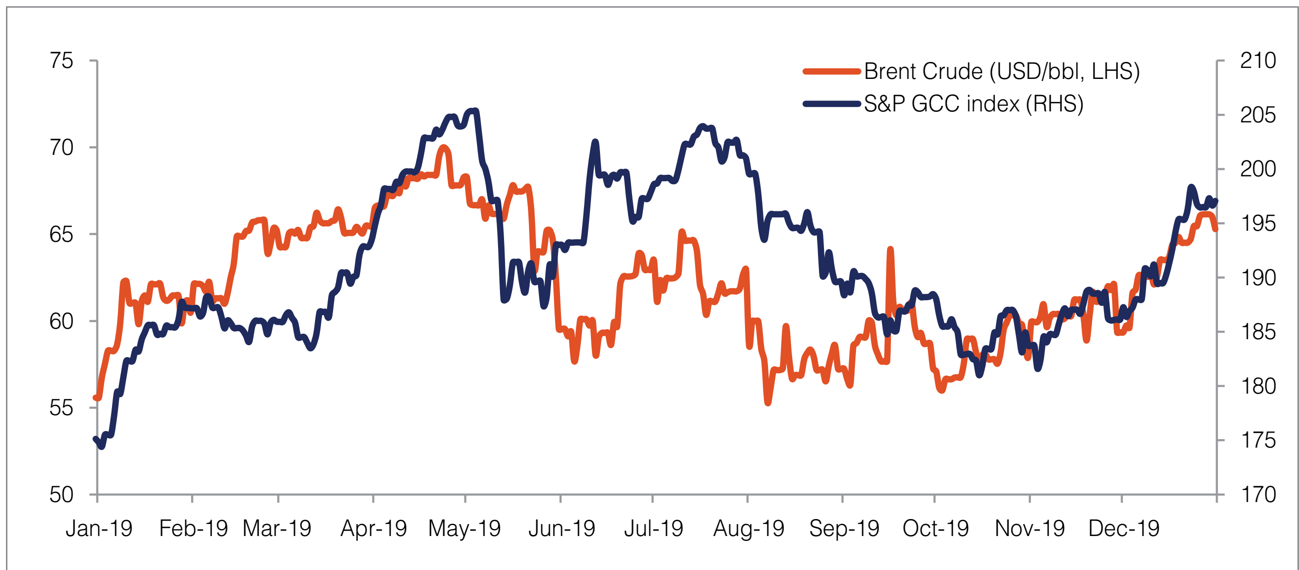


Source: Bloomberg, GIC Research.

4.6. Relative Performance of S&P GCC Composite Index to Oil Prices

In the middle of the year, we witnessed a decoupling of the earlier strong correlation between oil prices and equity markets in the GCC, which lasted through the third quarter, before the relationship became more closely aligned towards the end of the year. Investment sentiment in the GCC received a boost from the sustained rally in oil prices during most of the last quarter of the year.

Figure 19: S&P GCC Composite Index relative to Oil Prices, 2019



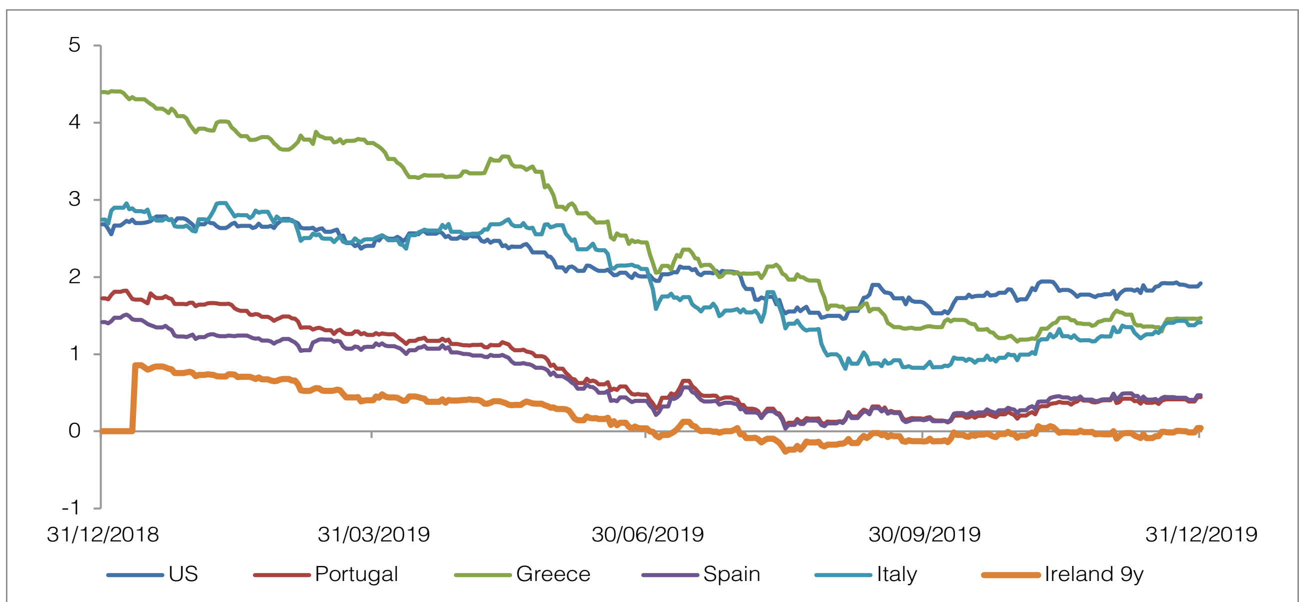
Source: Bloomberg, GIC Research.

5. Selected Measures

5.1. Treasuries

In 2019, US spreads opened the year at 2.684% and closed at 1.918%. Although the Federal Reserve cut the rates three times during the second half of 2019, US treasury spreads initially declined, but then began increasing by the end of August. By year-end, the chance of an occurrence of a recession stood at 23.6%, relatively a high probability yet a relief from an earlier 40% chance when the curve inverted. European economies, on the other hand, witnessed noteworthy drops in their 10-year government bond yields during 2019. For instance, Greece remains with the highest yields in the Euro zone, opening the year at 4.4% and closing at 1.47%. Italy follows starting the year at 2.74%, and reached 1.41% by year-end.

Figure 20: Euro Area and US 10-year Government Bond Yields, 2019



Source: Bloomberg, February 2020.

Table 17: Volatility of Spreads, 2019

	US	Portugal	Greece	Spain	Italy	Ireland
Opening Value	2.684	1.722	4.398	1.416	2.742	0.856
Closing Value	1.918	0.442	1.468	0.468	1.412	0.044
Average	2.138	0.768	2.580	0.664	1.911	0.198
Standard Deviation	0.402	0.546	1.053	0.426	0.730	0.309
Low	1.457	0.071	1.163	0.035	0.810	-0.264
High	2.784	1.823	4.409	1.513	2.958	0.856

Source: Bloomberg, February 2020.

Table 18: Government Bond Yields (%, 2019)

	US	Portugal	Greece	Spain	Italy	Ireland
Q1	2.405	1.251	3.736	1.097	2.488	0.403
Q2	2.0051	0.476	2.45	0.395	2.102	0.038
Q3	1.6646	0.161	1.347	0.145	0.822	-0.13
Q4	1.9175	0.442	1.468	0.468	1.412	0.044

Source: Bloomberg, February 2020.

5.2. Credit Default Swaps (CDS)

CDS drops globally have been prominent during the 2019. European economies slashed over 40% of their value. Greece dropped by almost 77%, starting the year at 481.17bps and closing the year at 111.92bps. The United States CDS witnessed a 40% drop during the year, from its opening value of 21.83bps, while it reached a maximum value of 22.45bps and a minimum of 11.17bps. Similarly, CDS demonstrated declines across the GCC during the year. Bahrain, with the highest CDS value in the region, witnessed a 40% drop, to close the year at 176bps.

Table 19: CDS Performance, 2019

	Portugal	Ireland	Greece	Spain	Italy	US	Bahrain	Abu Dhabi	Dubai
Opening	89.11	42.07	481.17	80.09	165.27*	21.83	291.54	42.96**	129.22
Closing	37.72	22.55	111.92	40.72	123.14	13.13	176.00	35.37	91.01
Average	55.13	32.10	282.95	50.79	144.10	16.15	246.20	44.87	128.20
Low	34.35	20.93	110.83	33.79	108.97	11.17	170.85	35.17	89.07
High	93.00	43.00	481.17	85.27	220.74	22.45	325.84	56.04	144.79

**Data as of July 3, 2019.*

*** Data as of 19th of September 2019.*

Source: Bloomberg, February 2020.

5.3 GCC Monetary Policy

Private sector credit growth in the GCC trended downwards during 2019. Bahrain's private sector credit growth moved down from 9.9% in 2018, to 6.9% in 2019. In Kuwait, however, private sector credit growth increased from 4.1% to 6.6%, and in the UAE from 4.0% to 5.2%, while is remained flat in Saudi Arabia at 2.8%.

Table 20: Private Sector Credit Growth (% change)

	2015	2016	2017	2018	2019
Bahrain	7.6	1.5	2.5	9.9	6.9
Kuwait	7.9	2.5	2.8	4.1	4.6
Oman	12.2	9.5	6.8	6.0	4.4
Qatar	19.7	6.5	6.4	13.0	11.1
KSA	9.2	2.4	-0.8	2.8	2.8
UAE	8.4	5.8	0.7	4.0	5.2

Source: IIF, February 2020.

The central banks of the UAE, Kuwait, Bahrain and Saudi Arabia cut interest rates during October 2019, following the US Federal Reserve's decision to reduce rates by 25 bps earlier. In Kuwait, policy rates settled at 2.75% by the end of 2019. The UAE cut its rates from 3.25% in 2018 to 2.5% in 2019. Bahrain cut rates by 0.5% during 2019. KSA also cut rates from 2.5% to 1.75%.

Table 21: Policy Rate (EOP)

	2015	2016	2017	2018	2019
Bahrain	0.75	1.00	1.75	2.75	2.25
Kuwait	2.25	2.50	2.75	3.00	2.75
Oman	1.00	1.19	1.95	2.93	2.16
Qatar	1.31	1.90	2.20	2.25	2.00
KSA	0.50	0.75	1.50	2.50	1.75
UAE	1.25	1.50	2.25	3.25	2.50

Source: IIF, February 2020, Qatar Central Bank.

In addition, money supply growth rate has varied across the GCC. For instance, the growth rate of monetary aggregate (M3) has slightly increased in Kuwait to reach 4.3%. Similarly, in Saudi Arabia to M3 increased from 2.7% to 3.0% in 2019. M2 increased sharply in Qatar from (-6.5%) in 2018 to 5.1% in 2019. Oman witnessed sharper drops in M2 from 8.3% to 3.7%.

Table 22: M2 and M3 (% change)

	2015	2016	2017	2018	2019
Bahrain	2.2	1.1	4.2	0.8	5.6
Kuwait	1.7	3.5	3.8	4.0	4.3
Oman*	10.0	1.8	4.2	8.3	3.7
Qatar*	3.4	-4.6	21.3	-6.5	5.1
KSA	2.5	0.7	0.1	2.7	3.0
UAE*	5.5	3.3	4.1	2.5	4.4

**M2.*

Source: IIF, February 2020.

FINANCIAL REVIEW

Net Income Analysis

Gulf Investment Corporation (GIC) posted consolidated net profit of US$ 131 million for the year 2019 compared to US$107 million in 2018. This is after impairment losses of US$25 million (2018: US$18 million) which mainly relates to investment in associates and provision for Expected Credit Loss on other assets. Net change in share of other comprehensive loss of associates totaling to US$1 million (2018: loss of US$41 million) taking the consolidated total comprehensive income to US$130 million (2018: US$66 million).

The increase in 2019 profit came as a result of good performance from Global Market portfolios including Bond portfolio, Equities, Private Equity funds and Hedge Funds which was marginally offset by lower share of results of investments in associates and increase in impairment losses.

Interest Income

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

Gross interest income for the year US$38 million is 14% less than previous year. 76% of the interest income is contributed by securities. The gross interest income decreased due to the decline in average volume of GCC bonds compared to last year.

Net Gains from Investments

Net gains 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 gain of US$63 million during 2019 (2018: loss of US$4 million) comprise of realised gains on financial assets at fair value through income statement of US$41 million (2018: realised gain of US$ 25 million), Unrealised gain of US$52 million (2018: Unrealised loss of US$ 33 million) from financial assets at fair value through statement of income and US$30 million net loss on reclassification of investment in an associate to financial asset at fair value through other comprehensive income. In 2018, GIC recorded a gain on sale of a subsidiary company amounting to US$ 4 million.

Dividend Income

Dividend income of US$11 million (2018: US$10 million) comprises of receipts from equity participations, private equity funds, equities and managed funds. Dividends from principal investment portfolio amounted to US$8 million compared to US$4 million in 2018. The balance of US$ 3 million contribution is from quoted GCC equities portfolio.

Share of Results of Associates

Share of results of associates during the year amounted to profit of US$111 million compared to prior year profit of US$143 million. The major factor contributing the decline in share of results in comparison to previous year was the lower results of major associates within Chemical, Metal and Aviation leasing sectors, which was balanced by continuing good performance of associates in power & water, financial and education sectors.

Net Fees, Commission and Other Income

Income for the year amounted to US$14 million (2018: US$17 million) includes receipt of US$ 12 million (2018: US$7 million) from fully written off investment. During the year 2018, GIC recorded the change in fair value of contingent consideration on acquisition of an associate of US$ 6 million.

Other Operating Income

Other operating income represents the income from consolidated subsidiaries amounting to US$ 1 million compared to US$ nil million in previous year (note 17).

Interest Expense

Interest expense decreased by 9% compared to prior year to reach US$30 million for the year, which can be mainly attributed to the decrease in the overall funding volume, whereas the interest rates slightly increased from last year.

Operating Expenses

Efficiency in operations and higher productivity was achieved with strict control over operating expenses which resulted in a maintained level of operating expenses at US$52 million.

Impairment losses

Net charge for the year in impairment losses totaled US$25 million, compared to US$18 million recorded in 2018. Impairment losses for the year 2019 mainly relates to investment in associates of US$23 million (2018; US$12 million) and net provision for Expected Credit Loss on other assets of US$2 million (2018: US$ 5 million).

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

Balance Sheet Analysis

GIC is implementing new investment policy targeting lower leverage and rebalanced portfolios to achieve higher returns at reduced level of risk. Initiatives were implemented both, on the assets and liabilities sides maintaining the asset base at US$3,534 million. Equity at US$2,623 million increased by US$25 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 2019, financial assets at fair value through statement of income amounted to US$1,413 million, increased by US$2 million from the prior year balance. Debt and other interest bearing securities, represent 56% of the Financial Assets at Fair Value through Statement of Income, was increased by US$ 107 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.

FVTPL also include investments in Equities and managed funds of US$429 million, Equity participation amounting to US$111 million and International & GCC private equity fund exposures of US$77 million. Investment in Equities and managed funds increased by US$33 million by rising GCC and global quoted equity investments by US$24 million and exposure in hedge and other alternative funds by US$9 million. Decrease in Equity participations is mainly due to partial sale of some quoted projects of US$122 million and fair value loss on unquoted investment of 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 2019, financial assets at fair value through other comprehensive income amounted to US$224 million due to reclassification of investment in The National Titanium Dioxide Company Limited ("Cristal") from investment in associate upon loss of significant influence.

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$1,444 million decreased by US$180 million which is mainly due to the reclassification of the investment in Cristal to financial assets at fair value through other comprehensive income of US$224 million. Other changes are related to share of results, investment in new associate companies, additional contributions to the existing companies, dividend received and share of net change in revaluation reserves.

Other Assets

Other assets amounted to US$140 million at 31 December 2019. Of this US$24 million related to property and other fixed assets and US$39 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$805 million comprise of deposits from banks and other financial institutions of US$418 million and term finance US$387 million. Deposits from banks and other financial institutions increased by US$120 million compared to previous year end mainly due to increase in short term deposits.

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$106 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$2,623 million increased by US$25 million due to net profit US$131 million offset by other comprehensive loss of US$1 million and dividend paid during the year of US$ 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 well.

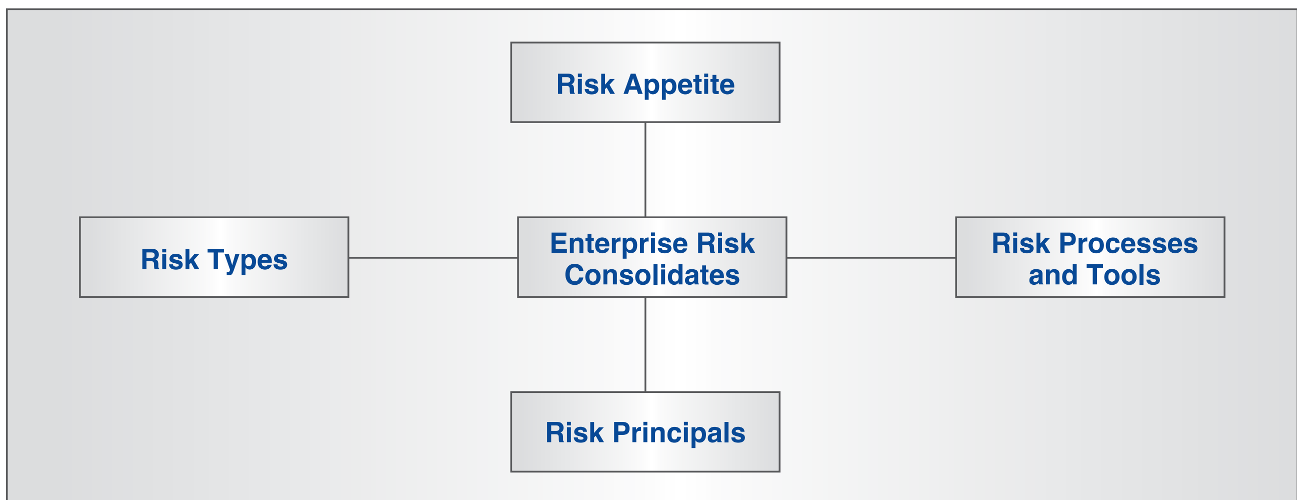
GIC's resilience during 2019, a challenging year in many respects, is testimony to strong business capabilities and a robust enterprise risk framework. Unequivocally, GIC remains a significantly resilient, measurably strong and stable financial institution. Risk management will continue to be an important aspect of corporate strategy and every effort will be made to ensure it is adaptive, effective and value adding.

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 / 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 Finance, 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 2019 witnessed volatility on account of geopolitical risks and global trade wars. As we move into 2020, volatility in the market is expected to remain high as markets digest a weakening global economy, geopolitical risks and economic impact of covid-19 outbreak. 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 2019. 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 23% 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 Dec 2019 the market value of this portfolio was US$ 796.2 million. As of 1st Jan 2019, it was US$ 688.4 million. Though the average Credit VaR was down compared to the previous year, the year-end Credit VaR is higher as compared to previous year end. The increase in Credit VaR was in line with the overall repositioning under DCM Portfolios.

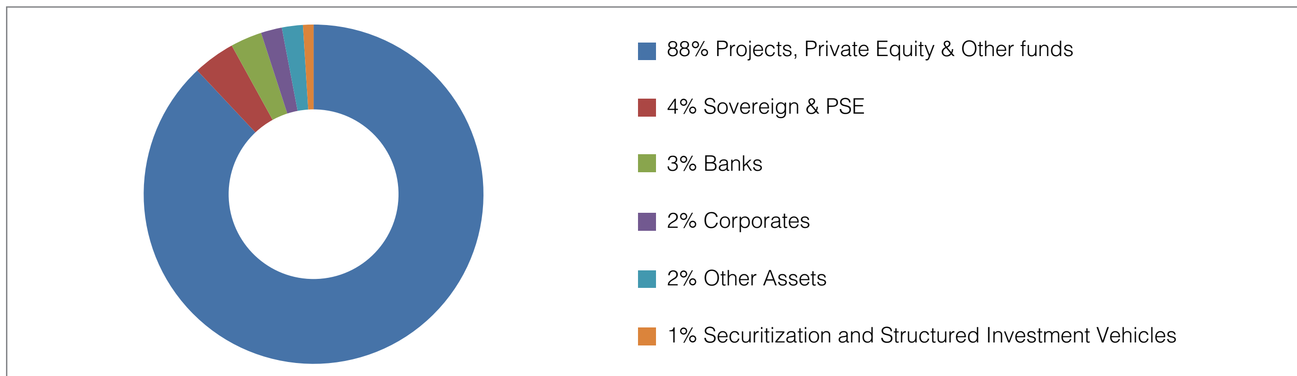
Table 1: 2019 Credit Value at Risk - 99.96% confidence level, 1 year holding period

US$ 000's	Average	Minimum	Maximum	31 Dec 2019
Debt Portfolios	86,729	65,500	102,400	95,322

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.

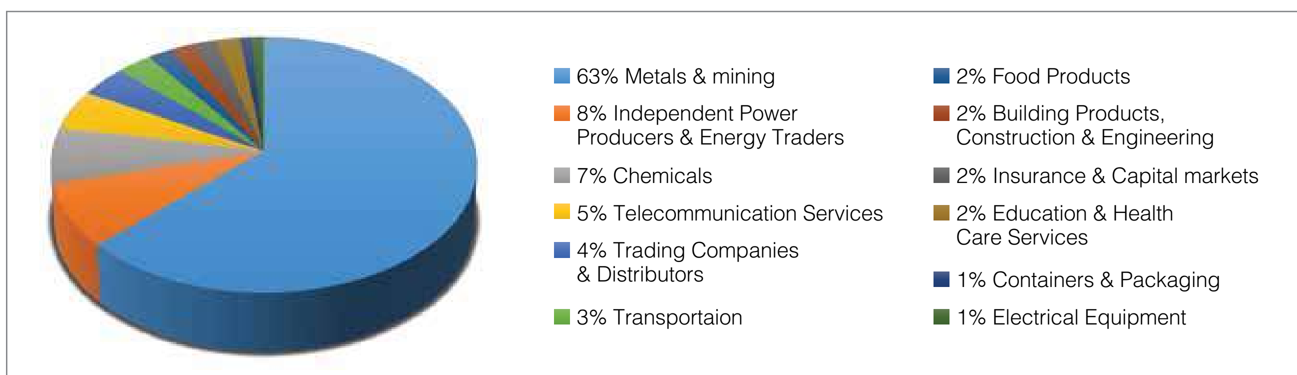
Chart 1: Sources of Credit Risk (Weighted Credit Risk Exposure)



Noteworthy, most of the realignment in the credit risk pie at the end of 2019 compared to the previous year end, pertained to Projects, Private Equity & other funds. Credit risk weighted exposure for Projects, Private Equity & other funds decreased from 89% of total in 2018 to 88% at the 2019 year-end and for Sovereigns & PSE increased from 3% of total in 2018 to 4% at the 2019 year-end. The two key components of total credit risk exposure were Projects, Private Equity & other funds, and debt securities of banks, sovereign & PSE and Corporates.

The projects activity mainly focuses on the GCC countries, a region whose thriving dynamics we comprehend well and where we have a better understanding of the inherent 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 0.2% of total credit risk weighted exposure.

At the year-end 2019, 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.

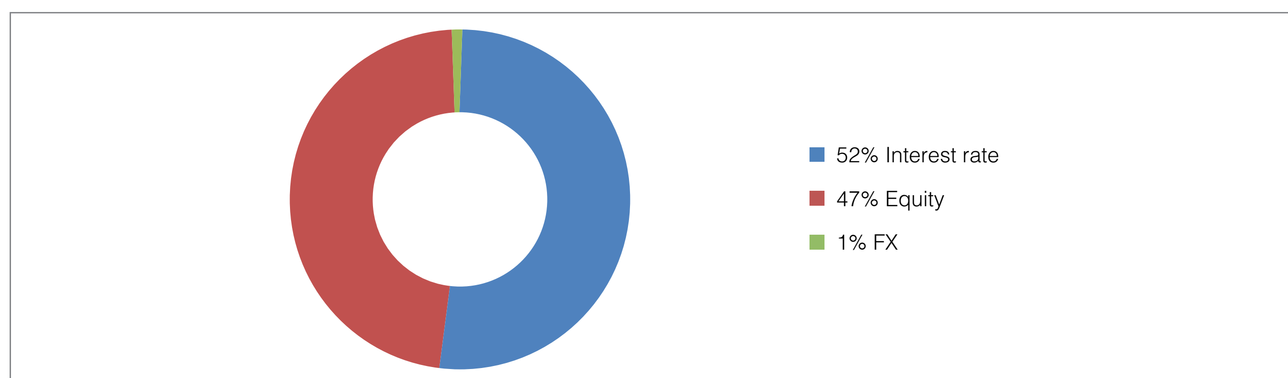
While the mechanism of risk monitoring and control has been fostered further, the risk management function is now more engaged with the business units, having been brought forward within the investment process. In addition to incorporating additional credit information, including Credit Default Swap (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.

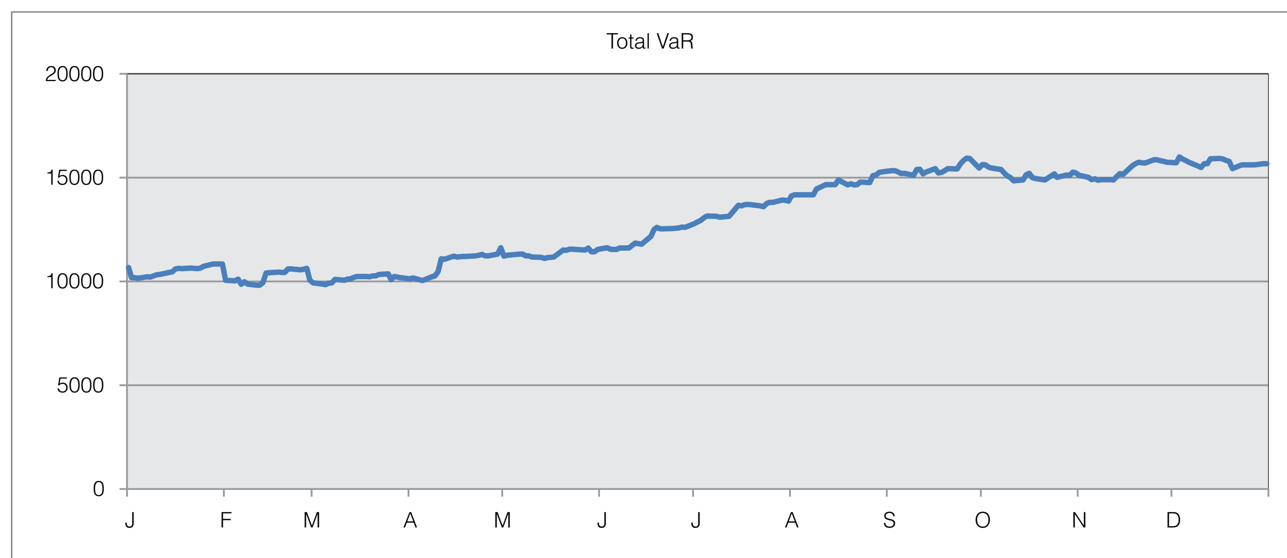
Table 2: Market Value at Risk for Global Markets Group alone - 25 day holding period, 95% confidence level

		2019		
US$ 000's	**Average**	**Minimum**	**Maximum**	**31-Dec-19**
Interest rate	11,479	6,072	16,164	15,617
Equity	10,448	8,779	11,795	11,300
Foreign Exchange	211	80	377	94
Total*	12,921	9,818	15,997	15,670
		2018		
US$ 000's	**Average**	**Minimum**	**Maximum**	**31-Dec-18**
Interest rate	8,600	6,790	10,791	7,021
Equity	9,734	7,182	12,143	9,670
Foreign Exchange	281	152	407	300
Total*	11,749	10,496	13,746	10,669

** Total VaR incorporates benefits of diversification*

On an average basis, VaR pertaining to market risk is approximately higher as compared to the previous year. As at 31st December 2019, total market risk VaR reached US$ 15.7 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 2019 and 2018. 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-19	31-Dec-18
Principal Investments	Underlying asset value	181,921	190,135
Private Equity Funds	Underlying asset value	7,634	8,847

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 2019 was 293%. 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 2019, investments in marketable securities tallied at approximately US$ 1.2 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 2019, the Corporation's term financing stood at US$ 387 million.

Further, the Corporation was successful in enhancing the diversity of its depositor base, a reflection of increased market confidence. At year-end 2019 the Corporation's deposit base stood at about US$418 million, 88% 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 2018 to 2019.

US$ Millions	**2019 (US$)**	**2019 (%)**	**2018 (US$)**	**2018 (%)**
GCC Deposits	368	10%	298	9%
International Deposits	50	2%	0	0%
Repo Financing		0%	0	0%
Term Financing	387	11%	384	11%
Shareholder's funds and others	2,755	77%	2,684	80%
Total	3,560	100%	3,366	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, 2019 was 1,330 contracts, with an estimated VaR of US$ 872,500. This is lower than the levels of the previous year (31st December 2018: 1,473 contracts). 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 21.1 to financial statements. At December 31st 2019, roughly 37% 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 41% 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 2019, 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$ 2,624 million at 2019 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 III ratings methodology. This will help to:

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

OPERATION RISK WEIGHTED EXPOSURE:

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

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

INSURANCE:

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

BUSINESS CONTINUITY AND DISASTER RECOVERY PLANNING:

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

- Kuwait (Local)
- 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:

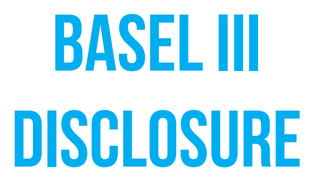
A secure Information security framework is in place to identify the responsibilities at every level of Information handling, i.e. from data ownership (encoding) to data access. Periodic audits are conducted to ensure compliance with the policies and standards set, by Internal Audit, information Security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

OPERATIONAL LOSS EVENT PROFILE FOR 2019:

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 2019, the highest frequency of events occurred under the Execution, delivery & 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 2019 and December 2018. 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 2019, full deduction is made from Tier 1 capital due to negative fair value adjustment. Total eligible regulatory capital was US$ 2,592.4 million by year-end December 2019 compared to US$ 2,530.4 million recorded in December 2018. 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 2019**	**31 December 2018**
Paid-up capital	2,100.0	2,100.0
Disclosed reserves	548.3	537.6
Retained earnings	132.7	117.7
Less: Goodwill	30.4	67.5
Less: Deductions	0.8	1.0
Less: Adjustment for Fair value reserve	157.4	156.4
Total Tier 1 Capital	2,592.4	2,530.4
Total Tier 2 Capital	-	-
Total eligible regulatory capital	2,592.4	2,530.4
	-	-
In US$ millions	**31 December 2018**	**31 December 2018**
Common Equity Tier 1 (CET1)	2,592.4	2,530.4
Additional Tier 1 (AET 1)	-	-
Total Tier 1 Capital	2,592.4	2,530.4
Total Tier 2 Capital	-	-
Total eligible regulatory capital	2,592.4	2,530.4

2. Capital Adequacy Management

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

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

The annual dividend payout, meanwhile, is prudently determined and proposed by the Board of Directors, endeavoring to meet shareholder expectations while ensuring adequate retention of capital to support organic growth. Finally, the Corporation targets a credit risk rating of single 'A' or better. This would allow easy access to capital from the market at competitive pricing in the event additional funding needs to be appropriated. GIC is among a select few financial institutions in the region to maintain high ratings by both major International agencies (Moody's & Fitch). Details of the Corporation's ratings are provided on page 48 of this annual report.

Table 2: Capital Adequacy Ratios

In US$ millions	Risk-weighted assets	Capital requirement
Credit Risk	4,350.9	348.1
Market Risk	1,047.2	83.8
Operational Risk	464.5	37.1
Total	5,862.6	469.0
Capital Adequacy Ratios		
Total CAR	44.2%	-
Common Equity Tier 1 (CET1)	44.2%	-
Tier 1 Ratio	44.2%	-
Leverage Ratio (Non risk based)	22.9%	-

Table 2 details the risk-weighted assets together with their corresponding regulatory capital requirements as at 31 December 2019. Total capital adequacy ratio and Tier 1 capital ratio are likewise calculated. The numbers were generated by applying the Standardized' approach for credit and operational risks, while the 'Internal Model' approach was utilized to yield market risk positions. Total risk-weighted exposures of US$ 5,862.6 million, as at 31 December 2019, requires regulatory capital of US$ 469.0 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$ 938.0 million. The reported eligible regulatory capital of US$ 2,592.4 million still provides sufficient cushion to support business expansions.

Table 3: Risk Exposure Break-down

In US$ millions	31 December 2019
Credit Risk (RWA)	
Claims on sovereigns	134.3
Claims on Public Sector Entities	63.5
Claims on Banks	133.9
Claims on Corporates	76.5
Securitization and Structured Investment Vehicle	2.7
Venture Capital and Private Equity	106.6
Investments in Commercial Entities	3,578.4
Investments in Other Funds and Quoted Equities	163.1
Other Assets	91.9
Total	4,350.9
Market Risk (VaR)	
Interest rate risk position	0.1
Foreign exchange risk position	0.0
Equity risk position	20.7
(Total VaR +Stress VaR) x 3	62.5
Specific risk position	21.3
Total capital requirement	83.8
Total RWA (capital requirement x 12.5)	1,047.2
Operational Risk (RWA):	
Operational risk capital charge	37.1
Total RWA (capital charge x 12.5)	464.5

3. Risk Management Structure

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

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

The Risk Management Committee (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:

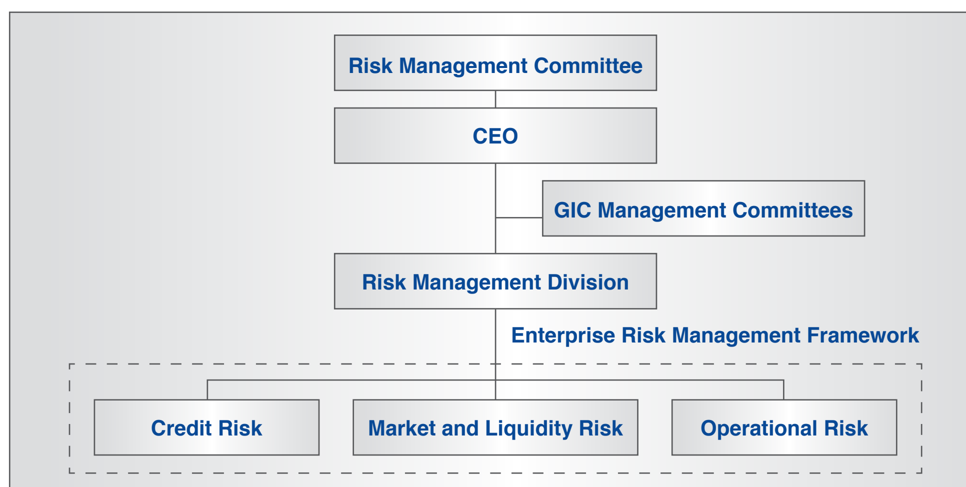
a) Evaluate and analyze the enterprise wide risk profile by developing risk monitoring techniques;

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 (CreditVaR) is measured and controlled. This model calculates CreditVaR based on credit ratings of the names. default probabilities, loss given default, current market prices of the credits, while considering the impact of correlation of the various credits in the portfolio. In order to institute a common language for understanding and dimensioning credit risk across GIC's range of investments in projects, RMD is in the process of developing an Internal Credit Risk Rating (ICRR) model that would assist management in determining level of capital allocation and other strategic schemes applicable to the Investment credit rating. Naturally, the model will also be used to benchmark the required return given a particular level of risk. Additionally, the rating results will subsequently be used as valuable inputs into the 'Credit Manager' system mentioned above.

Credit Risk as per Basel 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 Ill'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 2019, rated credit exposures accounted for about 8% 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 21% of total gross credit exposure. Assets that are rated single A or better comprised 77% 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 2019		
In US$ millions	**Rated**	**Unrated**	**Total**
Claims on Sovereigns	113.4	20.9	134.3
Claims on Public Sector Entities	48.9	14.6	63.5
Claims on Banks	132.3	1.6	133.9
Claims on Corporate	60.7	15.8	76.5
Securitization and SIVs	2.7	-	2.7
Venture Capital and Private Equity	-	106.6	106.6
Investments in Commercial Entities	-	3,578.4	3,578.4
Other Funds and Quoted Equities	-	163.1	163.1
Other Assets	-	91.9	91.9
Total	358.0	3,992.9	4,350.9
In Percent	8.2%	91.8%	100.0%

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

	31 December 2019		
In US$ millions	**Rated**	**Unrated**	**Total**
Claims on Sovereigns	470.4	20.9	491.3
Claims on Public Sector Entities	81.7	14.6	96.3
Claims on Banks	426.4	3.3	429.7
Claims on Corporate	79.0	15.8	94.8
Securitization and SIVs	10.9	-	10.9
Venture Capital and Private Equity	-	106.6	106.6
Investments in Commercial Entities	-	3,578.4	3,578.4
Other Funds and Quoted Equities	-	163.0	163.0
Other Assets	-	91.9	91.9
Total	1,068.4	3,994.5	5,062.9
In Percent	21.1%	78.9%	100.0%

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

	31 December 2019		
In US$ millions	**Funded**	**Unfunded**	**Total**
Claims on Sovereigns	491.3	-	491.3
Claims on Public Sector Entities	96.3	-	96.3
Claims on Banks	411.8	17.9	429.7
Claims on Corporate	94.8	-	94.8
Securitization and SIVs	10.9	-	10.9
Venture Capital and Private Equity	76.4	30.2	106.6
Investments in Commercial Entities	3,378.3	200.1	3,578.4
Other Funds and Quoted Equities	163.0	-	163.0
Other Assets	91.9	-	91.9
Total	4,814.7	248.2	5,062.9
In Percent	95.1%	4.9%	100.0%

In terms of facility type (Table 7), US$ 4,814.7 million or approximately 95% 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 2019				
In US$ millions	**GCC**	**Europe**	**Americas**	**Others**	**Total**
Claims on Sovereigns	223.5	-	257.1	10.7	491.3
Claims on Public Sector Entities	96.3	-	-	-	96.3
Claims on Banks	367.3	23.7	11.6	27.1	429.7
Claims on Corporate	73.9	5.0	15.9	-	94.8
Securitization and SIVs	-	8.0	2.9	-	10.9
Venture Capital and Private Equity	25.5	25.5	31.0	24.6	106.6
Investments in Commercial Entities	3,558.4	-	20.0	-	3,578.4
Other Funds and Quoted Equities	76.2	-	86.8	-	163.0
Other Assets	47.5	-	1.8	42.6	91.9
Total	4,468.6	62.2	427.1	105.0	5,062.9
In Percent	88.3%	1.2%	8.4%	2.1%	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$4,468.6 million or 88.3% of the total. Following suit are exposures to Americas at 8.4%. 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 2019					
In US$ millions	**Banks & Financial Institutions**	**Trading & Manufacturing**	**Energy &Utilities**	**Government Agencies**	**Others**	**Total**
Claims on Sovereigns	-	-	-	491.3	-	491.3
Claims on Public Sector Entities	-	-	79.0	-	17.3	96.3
Claims on Banks	429.7	-	-	-	-	429.7
Claims on Corporate	-	-	57.6	-	37.2	94.8
Securitization and SIV	10.9	-	-	-	-	10.9
Venture Capital and Private Equity	106.6	-	-	-	-	106.6
Investments in Commercial Entities	67.6	2,654.1	439.3	-	417.4	3,578.4
Other Funds and Quoted Equities	163.0	-	-	-	-	163.0
Other Assets	67.7	16.0	2.6	-	5.6	91.9
Total	845.5	2,670.1	578.5	491.3	477.5	5,062.9
In Percent	16.7%	52.8%	11.4%	9.7%	9.4%	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 64.2% 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 84% of gross credit exposure falls within the longest time bucket of over five years.

Table 10: Credit Exposure by Residual Contractual Maturity

	31 December 2019				
In US$ millions	**Within3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Claims on Sovereigns	50.0	10.0	179.7	251.6	491.3
Claims on Public Sector Entities	-	14.2	32.5	49.6	96.3
Claims on Banks	308.9	9.0	93.6	18.2	429.7
Claims on Corporate	-	5.1	16.9	72.8	94.8
Securitization and SIVs	-	-	-	10.9	10.9
Venture Capital and Private Equity	-	-	-	106.6	106.6
Investments in Commercial Entities	-	-	-	3,578.4	3,578.4
Other Funds and Quoted Equities	-	-	-	163.0	163.0
Other Assets	29.0	3.2	45.7	14.0	91.9
Total	387.9	41.5	368.4	4,265.1	5,062.9
In Percent	7.7%	0.8%	7.3%	84.2%	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

<table>
<tr><th></th><th colspan="2">31 December 2019</th></tr>
<tr><th>In US$ millions</th><th>Gross Exposure</th><th>Post-credit Conversion</th></tr>
<tr><td>COG 1</td><td>8.0</td><td>1.6</td></tr>
<tr><td>COG2</td><td>2.1</td><td>1.1</td></tr>
<tr><td>COG3</td><td>-</td><td>-</td></tr>
<tr><td>COG4</td><td>-</td><td>-</td></tr>
<tr><td>COGS</td><td>-</td><td rowspan="3">(deduction from capital)</td></tr>
<tr><td>COG 6</td><td>0.8</td></tr>
<tr><td>Unrated</td><td>-</td></tr>
<tr><td>Total</td><td>10.9</td><td>2.7</td></tr>
</table>

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 III. 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 2019 consolidated financial

(US$ million)	2019	2018
Quoted debt instruments	-	7
Hedge and Other unquoted alternative funds	266	257
	266	264

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 2019

In US$ millions	Interest Rate	Equity	FX	Total
Max	0.1	6.2	0.0	6.3
Min	0.0	5.2	0.0	5.2
Average	0.1	5.5	0.0	5.6
31-Dec-19	0.0	5.3	0.0	5.3
Stress VaR	0.0	15.2	0.0	15.2

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 2019		
In US$ millions	**3 year Average Gross Income**	**Beta Factor**	**Capital Charge**
Principal Investment	110.3	18%	19.8
Debt Capital Market	41.5	18%	7.5
Equities Investments	11.0	18%	2.0
Alternative Investments	27.8	18%	5.0
Treasury	4.0	18%	0.7
Head-quarters	11.9	18%	2.1
Total	206.5		37.1
Risk-weighted exposure			464.5

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 2019 is US$ 110.9 million, net of provision (refer to Table 15 below). The total un-realized gain recorded in equity is US$ 7.3 million.

Table 15: Equity Holdings in Banking Book

	31 December 2019		
In US$ millions	**Publicly Traded**	**Privately Held**	**Total**
Fair Value of Equity Investments	7.6	103.4	110.9
Unrealized gain / (loss) recorded in equity	-	7.3	7.3
Unrealized gain / (loss) in Tier 2 Capital	-	3.3	3.3

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, 2019 was 1,330 contracts, with an estimated VaR of US$ 0.9 million. 2019 year end contract position value is lower than the levels of the previous year (31st December 2018: 1,473 contracts). 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 2019 was 234%.

Table 16: Liquidity Coverage Ratio

In US$ millions	31 December 2019
Value of stock of High quality liquid assets (HQLA)	843.3
Total Net Cash outflow over the next 30 calendar days	360.0
Liquidity Coverage Ratio (LCR)	234%

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 2019
Total Available Stable Funding (ASF)	3,016.8
Total Required Stable Funding (RSF)	1,685.9
Net Stable Funding Ratio (NSFR)	179%

CONSOLIDATED FINANCIAL STATEMENTS

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KPMG Safi Al-Mutawa & Partners
Al Hamra Tower, 25th Floor
Abdulaziz Al Saqr Street,
P.O. Box 24, Safat 13001, Kuwait
Tel : + 965 2228 7000
Fax : + 965 2228 7444

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

Opinion

We have audited the consolidated financial statements of Gulf Investment Corporation G.S.C. ("the Corporation") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("the 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 Information

Management is responsible for the other information. The other information comprises the information included in the Group's annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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 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 IFRS, 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.

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 ISA 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 ISA, we exercise professional judgment and maintain professional skepticism 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 Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Corporation's Agreement of Incorporation and Articles of Association. In our opinion, proper books of account have been kept by the Corporation and an inventory count was carried out in accordance with recognised 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 Corporation's Agreement of Incorporation and Articles of Association during the year ended 31 December 2019 that might have had a material effect on the business of the Corporation or on its consolidated financial position.

Safi A. Al-Mutawa
License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 12 April 2020

Consolidated Statement of Financial Position

as at 31 December 2019

(All amounts in US$ millions)

	Note	**2019**	2018
Assets			
Cash and cash equivalents		**22**	40
Placements with banks	3	**291**	153
Financial assets at fair value through statement of income	4	**1,413**	1,411
Financial asset at fair value through other comprehensive income	5	**224**	-
Investments in associates	6	**1,444**	1,624
Other assets	7	**140**	270
Total assets		**3,534**	3,498
Liabilities and equity			
Liabilities			
Deposits from banks and other financial institutions	8	**418**	298
Term finance	9	**387**	392
Other liabilities	10	**106**	210
Total liabilities		**911**	900
Equity			
Share capital	11	**2,100**	2,100
Reserves	11	**404**	392
Retained earnings		**119**	106
Total equity		**2,623**	2,598
Total liabilities and equity		**3,534**	3,498

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

Bader Al - Ajeel
Chairman

Ibrahim Ali AlQadhi
Chief Executive Officer

Consolidated Statement of Income

for the year ended 31 December 2019

(All amounts in US$ millions)

	Note	2019	2018
Interest income	12	**38**	44
Net gain / (loss) from investments	13	**63**	(4)
Dividend income	14	**11**	10
Share of results of associates	6	**111**	143
Net fee, commission and other income	15	**14**	17
Total income		**237**	210
Interest expense	16	**(30)**	(33)
Other operating income	17	**1**	-
Net operating income		**208**	177
Staff costs		**(37)**	(36)
Premises costs		**(2)**	(3)
Other operating expenses		**(13)**	(13)
Impairment losses	18	**(25)**	(18)
Profit for the year		**131**	107
Attributable to:			
Equity holders of the Corporation		**131**	107
Non-controlling interests		**-**	-
		131	107

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 2019

(All amounts in US$ millions)

	2019	2018
Profit for the year	**131**	107
Other comprehensive income that may be reclassified to consolidated statement of income in subsequent periods:		
Share of other comprehensive loss of associates	**(1)**	(41)
Other comprehensive loss for the year	**(1)**	(41)
Total comprehensive income for the year	**130**	66
Attributable to:		
Equity holders of the Corporation	**130**	66
Non-controlling interests	**-**	-
	130	66

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 2019

(All amounts in US$ millions)

		Reserves						
	Share capital	**Compulsory reserve**	**Voluntary reserve**	**Investment revaluation reserve**	**Cash flow hedge reserve**	**Foreign currency translation reserve**	**Retained earnings**	**Total equity**
Balance as at 1 January 2018	2,100	412	125	112	(98)	(47)	43	2,647
Adjustment on initial application of IFRS 9	-	-	-	(82)	-	-	82	-
Adjustment on initial application of IFRS 9 in associates	-	-	-	-	-	-	(2)	(2)
Prior period adjustments	-	-	-	-	-	-	(8)	(8)
Balance as at 1 January 2018	2,100	412	125	30	(98)	(47)	115	2,637
Profit for the year	-	-	-	-	-	-	107	107
Other comprehensive (loss) / income	-	-	-	(30)	13	(24)	-	(41)
Total comprehensive (loss) / income	-	-	-	(30)	13	(24)	107	66
Transfer to reserves (note 11)	-	11	-	-	-	-	(11)	-
Dividend	-	-	-	-	-	-	(105)	(105)
Balance as at 31 December 2018	2,100	423	125	-	(85)	(71)	106	2,598
Balance as at 1 January 2019	**2,100**	**423**	**125**	**-**	**(85)**	**(71)**	**106**	**2,598**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**131**	**131**
Other comprehensive (loss) / income	**-**	**-**	**-**	**-**	**(9)**	**8**	**-**	**(1)**
Total comprehensive (loss) / income	**-**	**-**	**-**	**-**	**(9)**	**8**	**131**	**130**
Transfer to reserves (note 11)	**-**	**13**	**-**	**-**	**-**	**-**	**(13)**	**-**
Dividend (note 11)	**-**	**-**	**-**	**-**	**-**	**-**	**(105)**	**(105)**
Balance as at 31 December 2019	**2,100**	**436**	**125**	**-**	**(94)**	**(63)**	**119**	**2,623**

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 2019

(All amounts in US$ millions)

	Note	**2019**	2018
Cash flows from operating activities:			
Profit for the year		**131**	107
Adjustments for:			
Impairment losses	18	**25**	18
Realised gain on sale of a subsidiary	13	**-**	(4)
Unrealised (gain) / loss from financial assets at fair value through statement of income	13	**(52)**	33
Net loss on reclassification of investment	13	**30**	-
Share of results of associates	6	**(111)**	(143)
		23	11
Changes in operating assets and liabilities:			
Placements with banks		**(138)**	79
Financial assets at fair value through statement of income		**50**	647
Deposits from banks and other financial institutions		**120**	(273)
Movement in other assets and other liabilities		**17**	(18)
Net cash flows generated from operating activities		**72**	446
Cash flows from investing activities:			
Dividends from associates		**39**	59
Proceeds from sale of a subsidiary		**-**	6
Purchase of investments in associates		**(86)**	(22)
Repayment of advances from associates		**62**	15
Net cash flows from investing activities		**15**	58
Cash flows from financing activities:			
Dividend paid	11	**(105)**	(105)
Term finance repaid		**-**	(400)
Net cash flows used in financing activities		**(105)**	(505)
Net change in cash and cash equivalents		**(18)**	(1)
Cash and cash equivalents at 1 January		**40**	41
Cash and cash equivalents at 31 December		**22**	40

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

(All amounts in US$ millions)

1 Incorporation and activity

Gulf Investment Corporation G.S.C. ("the Corporation") is an investment company incorporated in the State of Kuwait on 15 November 1983 as a Gulf shareholding company. It is equally owned by the governments of the six member states of the Gulf Co-operation Council ("GCC") – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The Corporation is engaged in various investing and financing activities.

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 2019 were approved by the Board of Directors on 5 March 2020. 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.

2 Significant accounting policies

2.1 Basis of accounting

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.

Changes to significant accounting policies are described in note 2.4.

2.2 Basis of preparation

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 asset at fair value through other comprehensive income and derivative financial instruments.

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.

2.3 Summary of significant accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual audited consolidated financial statements for the year ended 31 December 2018, except for the adoption of IFRS 16, Leases, which is effective for annual reporting periods starting from 1 January 2019.

2.4 Leases

The Group has applied IFRS 16, Leases from 1 January 2019. The standard introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has applied IFRS 16 using the modified approach. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

The Group's adoption of IFRS 16 had no impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.5 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.

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.

2.6 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

for the year ended 31 December 2019

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.6 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 in accordance with IAS 39 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.

2.7 Financial instruments

i) Classification of 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 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.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.7 Financial instruments (continued)

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 recognised 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.

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

Financial assets carried at FVTPL

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.7 Financial instruments (continued)

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

The Group does not reclassify its financial assets subsequent to their initial recognition apart in the exceptional circumstances in which the Group acquires, disposes of or terminates a business line.

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. As this uses the same criteria as under IAS 39, the Group's methodology for specific provisions remains largely unchanged.

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.

At each reporting date, the Group assesses whether financial assets carried at amortised cost 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.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.7 Financial instruments (continued)

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.

ii) 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, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

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.

2.8 Offsetting

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

2.9 Fair value of financial instruments

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

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

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.9 Fair value of financial instruments (continued)

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

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.

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

An analysis of fair value of financial instruments and further details as to how they are measured are set out in note 24.

2.10 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.

2.11 Repurchase and resale arrangements

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

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

Securities purchased under resale agreements are not recognised in the consolidated statement of financial position. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

2.12 Investment in associates

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.12 Investment 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.

2.13 Other provisions

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

2.14 Property, plant and equipment

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

2.15 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.15 Derivative financial instruments and hedge accounting (continued)

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.

2.16 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.

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.

2.17 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.

2.18 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. Translation gains or losses on non-monetary items are included in equity as part of the fair value adjustment on financial assets available for sale, unless they form part of an effective hedging strategy.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.18 Foreign currency (continued)

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.

2.19 Segment reporting

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

2.20 Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020 and earlier application is permitted, however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements, when adopted:

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendments to IFRS 3);
- Definition of Material (Amendments to IAS 1 and IAS 8); and
- IFRS 17, Insurance Contracts.

2.21 Significant accounting judgements and estimates

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

Judgements

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

Classification of 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.21 Significant accounting judgements and estimates (continued)

Fair value measurement (continued)

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.

Measurement of ECL

The measurement of ECL under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The key elements in the measurement of ECL include probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”).

PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognised and is still in the portfolio.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities.

LGD is an estimate of the loss arising in the case where a default occurs at a given time.

The Group’s ECL calculations are outputs of complex model with a number of underlying assumptions regarding the choice of variable inputs and their dependencies. Elements of the ECL model that are considered accounting judgements and estimates include:

- The Group’s internal credit rating model, which assigns PDs to the individual grades;
- The Group’s criterial for assessing if there has been a significant increase in credit risk so allowances for financial assets should be measured on a lifetime ECL basis and qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including various formulas and choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PD, EAD and LGD; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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

for the year ended 31 December 2019

(All amounts in US$ millions)

3 Placements with banks

	2019	2018
Local banks	**60**	1
Other GCC and International banks	**231**	152
	291	153

Placements with banks carry an effective average interest rate of 2.62% per annum (2018: 2.32% per annum).

4 Financial assets at fair value through statement of income

	2019	2018
Debt instruments		
International bonds	**292**	142
GCC and Islamic bonds	**477**	521
Emerging market bonds	**16**	14
Structured debt instruments	**11**	12
	796	689
Equities and managed funds		
Quoted equity investments and funds	**163**	139
Hedge and other unquoted alternative funds	**266**	257
	429	396
Equity participations		
Quoted equity investments	**8**	130
Unquoted equity investments	**103**	108
	111	238
Private equity funds		
Managed funds portfolio	**68**	77
Real estate funds portfolio	**9**	11
	77	88
	1,413	1,411

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

5 Financial assets at fair value through other comprehensive income

	2019	2018
Equity Participations		
Unquoted equity investments	**224**	-

The unquoted equity investment carried at fair value through other comprehensive income was previously accounted as an investment in associates, which has been reclassified during the year (note 6).

Notes to the Consolidated Financial Statements

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6 Investments in associates

The Group's investments in associates that are listed on a stock exchange have a carrying value of US$ 168 million (2018: US$ 170 million) and a market value of US$ 156 million (2018: US$ 193 million).

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

	2019	2018
Share of assets	**3,848**	4,313
Share of liabilities	**(2,390)**	(2,699)
Share of net assets	**1,458**	1,614
Goodwill	**67**	69
Accumulated impairment losses	**(81)**	(59)
Carrying amount	**1,444**	1,624
Share of revenue	**1,872**	1,998
Share of results for the year	**111**	143

Associates of the Group are set out in note 27.

During the year, the Group discontinued the equity method of accounting with respect to its investment in The National Titanium Dioxide Company Limited ("Cristal") upon loss of significant influence and reclassified the investment to financial asset at fair value though other comprehensive income. The net loss arising from this reclassification amounted to US$ 30 million, which is included under net gain / (loss) on investments (note 13).

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

2019	**Foulath Holding B.S.C. (C)**	**Tristar Holding Limited**	**Wataniya Telecom Algerie S.P.A.**	**The National Titanium Dioxide Co. Ltd. (Cristal)**	**Aviation Lease and Finance Company K.S.C.**
Assets	**2,327**	**905**	**1,229**	**-**	**4,906**
Liabilities	**(1,040)**	**(500)**	**(608)**	**-**	**(3,852)**
Non-controlling interests	**(238)**	**(5)**	**-**	**-**	**-**
Net assets	**1,049**	**400**	**621**	**-**	**1,054**
Revenue	**1,697**	**519**	**686**	**-**	**359**
Results for the year	**81**	**41**	**14**	**-**	**73**
Other comprehensive (loss) / income for the year	**(5)**	**1**	**(5)**	**-**	**-**

Notes to the Consolidated Financial Statements

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(All amounts in US$ millions)

6 Investments in associates (continued)

2018	Foulath Holding B.S.C. (C)	Tristar Holding Limited	Wataniya Telecom Algerie S.P.A.	The National Titanium Dioxide Co., Ltd. (Cristal)	Aviation Lease and Finance Company K.S.C.
Assets	2,462	794	1,183	3,540	4,016
Liabilities	(1,104)	(431)	(513)	(2,621)	(2,978)
Non-controlling interests	(277)	(5)	-	(32)	-
Net assets	1,081	358	670	887	1,038
Revenue	1,464	456	758	2,233	416
Results for the year	108	44	40	199	99
Other comprehensive income / (loss) for the year	1	-	(22)	(112)	-

The movement in the carrying values of the material associates during the year is as follows:

2019	**Foulath Holding B.S.C. (C)**	**Tristar Holding Limited.**	**Wataniya Telecom Algerie S.P.A.**	**The National Titanium Dioxide Co., Ltd. (Cristal)**	**Aviation Lease and Finance Company K.S.C.**
Opening balance	**1,081**	**358**	**670**	**-**	**1,038**
Dividend	**-**	**-**	**(58)**	**-**	**(57)**
Results	**81**	**41**	**14**	**-**	**73**
Repayment of shareholders loans	**(108)**	**-**	**-**	**-**	**-**
Other comprehensive (loss) / income	**(5)**	**1**	**(5)**	**-**	**-**
Closing balance	**1,049**	**400**	**621**	**-**	**1,054**

2018	Foulath Holding B.S.C. (C)	Tristar Holding Limited	Wataniya Telecom Algerie S.P.A.	The National Titanium Dioxide Co., Ltd. (Cristal)	Aviation Lease and Finance Company K.S.C.
Opening balance	972	335	823	800	943
Opening balance adjustment	-	(14)	-	-	(4)
Dividend	-	(7)	(171)	-	-
Results	108	44	40	199	99
Other comprehensive income / (loss)	1	-	(22)	(112)	-
Closing balance	1,081	358	670	887	1,038

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

	2019	2018
Assets	**5,735**	5,125
Liabilities	**(3,612)**	(3,292)
Net assets	**2,123**	1,833
Revenue	**2,554**	1,934
Results for the year	**84**	84
Other comprehensive (loss) / income for the year	**(56)**	53

Notes to the Consolidated Financial Statements

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7 Other assets

	2019	2018
Others, including trade receivable of subsidiaries	**69**	160
Expected credit loss	**(8)**	(3)
	61	157
Accrued interest, fees, commissions and dividends	**11**	10
Positive fair value of derivative financial instruments	**3**	1
Prepayments	**2**	2
Property, plant and equipment	**24**	53
Margin money paid on derivative financial instruments	**39**	47
	140	270

8 Deposits from banks and other financial institutions

	2019	2018
Deposits from central banks	**50**	30
Deposits from other financial institutions	**317**	217
Other deposits	**51**	51
	418	298

At 31 December 2019, deposits from central banks and other financial institutions headquartered in the GCC states amounted to US$ 367 million (2018: US$ 298 million).

Deposits from banks and other financial institutions carry an effective interest rate of 2.04 % per annum (2018: 1.75% per annum).

9 Term finance

	Interest rate %	**2019**	2018
USD medium term deposits maturing in 2021	6 months LIBOR plus 180 bps	**100**	100
AED bank loans (Subsidiary loans)	Floating rate ranging from 5.50 % to 7.10 %	**-**	7
Medium Term Note Issues (EMTN)			
MYR medium term fixed rate note due in 2021	5.10% per annum (semi annual)	**110**	109
MYR medium term fixed rate note due in 2022	5.10% per annum (semi annual)	**41**	41
MYR medium term fixed rate note due in 2023	4.52% per annum (semi annual)	**98**	97
MYR medium term fixed rate note due in 2027	5.30% per annum (semi annual)	**38**	38
		387	392

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10 Other liabilities

	2019	2018
Accrued interest	**9**	12
Negative fair value of derivative instruments	**49**	51
Others, including trade payable of subsidiaries and accrued expenses	**48**	147
	106	210

11 Equity

11.1 The authorised, issued and fully paid capital comprises of 2.1 million shares of US$ 1,000 each (2018: 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.

As mentioned in note 28, the Board of Directors have recommended not to transfer the 10% of the profit for the current year to the voluntary reserve.

11.4 The Annual General Assembly of the Corporation, held on 8 April 2019, approved the payment of cash dividend of US$ 50 per share amounting to US$ 105 million for the year ended 31 December 2018.

12 Interest income

	2019	2018
Placements with banks	**9**	12
Financial assets at fair value through statement of income	**29**	32
	38	44

13 Net gain / (loss) from investments

	2019	2018
Realised gain from financial assets at fair value through statement of income	**41**	25
Unrealised gain / (loss) from financial assets at fair value through statement of income	**52**	(33)
Net loss on reclassification of investment (note 6)	**(30)**	-
Realised gain on sale of a subsidiary	**-**	4
	63	(4)

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(All amounts in US$ millions)

14 Dividend income

	2019	2018
Private equity funds	**-**	1
Equities and managed funds	**3**	5
Equity participations	**8**	4
	11	10

15 Net fee, commission and other income

	2019	2018
Change in fair value of contingent consideration	**-**	6
Other income	**14**	11
	14	17

16 Interest expense

	2019	2018
Deposits from banks and other financial institutions	**(9)**	(12)
Term finance	**(21)**	(21)
	(30)	(33)

17 Other operating income

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

	2019	2018
Sales	**41**	37
Cost of sales	**(35)**	(32)
Gross profit	**6**	5
Selling and distribution expenses	**(2)**	(1)
Administrative expenses	**(3)**	(4)
	1	-

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18 Impairment losses

	2019	2018
Other assets	**-**	(1)
Investment in associates	**(23)**	(12)
Reversal of / (expected credit losses) for guarantees	**2**	(2)
Expected credit losses for other assets	**(4)**	(3)
	(25)	(18)

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 Kuwait, as well as, contribution in line with the labour law in the countries where its subsidiaries operate.

The total cost of retirement and other end of service benefits included in staff expenses for the year ended 31 December 2019 amounted to US$ 7 million (2018: US$ 7 million).

20 Commitments and contingent liabilities

In the usual course of meeting the requirements of the 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. The table below sets out the notional principal amounts of outstanding commitments.

	Notional principal amount	
	2019	2018
Credit Risk Amounts		
Transaction-related contingent items:		
- Letter of guarantees	**338**	379

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

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

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

	2019	2018
Undrawn commitments for investments in private equity funds	**60**	62
Undrawn commitments for investments in associates	**37**	47
Other commitments	**25**	5
	122	114

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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 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 2019 and 2018 was as follows:

31 December 2019	**Within 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Deposits from banks and other financial institutions	**360**	**60**	**-**	**-**	**420**
Term finance	**2**	**16**	**372**	**43**	**433**
Gross settled derivative instruments:					
- Contractual amount payable	**418**	**-**	**284**	**49**	**751**
- Contractual amount receivable	**(418)**	**-**	**(249)**	**(38)**	**(705)**
Other liabilities	**19**	**8**	**61**	**18**	**106**
Total undiscounted financial Liabilities	**381**	**84**	**468**	**72**	**1,005**
Commitments	-	30	92	-	122
Contingent liabilities	-	78	233	27	338

31 December 2018	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Deposits from banks and other financial institutions	72	229	-	-	301
Term finance	2	16	392	45	455
Gross settled derivative instruments:					
- Contractual amount payable	645	-	284	49	978
- Contractual amount receivable	(644)	-	(247)	(37)	(928)
Other liabilities	49	43	100	18	210
Total undiscounted financial liabilities	124	288	529	75	1,016
Commitments	-	28	86	-	114
Contingent liabilities	-	145	208	26	379

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21 Risk management (continued)

21.1 Liquidity risk (continued)

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

	Within 3 months	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
At 31 December 2019					
Assets					
Cash and cash equivalents	**22**	**-**	**-**	**-**	**22**
Placements with banks	**291**	**-**	**-**	**-**	**291**
Financial assets at fair value through statement of income	**961**	**283**	**23**	**146**	**1,413**
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**224**	**224**
Investment in associates	**-**	**-**	**-**	**1,444**	**1,444**
Other assets	**37**	**6**	**60**	**37**	**140**
Total assets	**1,311**	**289**	**83**	**1,851**	**3,534**
Liabilities					
Deposits from banks and other financial institutions	**358**	**60**	**-**	**-**	**418**
Term finance	**-**	**-**	**349**	**38**	**387**
Other liabilities	**19**	**6**	**63**	**18**	**106**
Total liabilities	**377**	**66**	**412**	**56**	**911**
Net gap	**934**	**223**	**(329)**	**1,795**	

	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
At 31 December 2018					
Assets					
Cash and cash equivalents	40	-	-	-	40
Placements with banks	153	-	-	-	153
Financial assets at fair value through statement of income	946	14	282	169	1,411
Investment in associates	-	-	-	1,624	1,624
Other assets	37	27	87	119	270
Total assets	1,176	41	369	1,912	3,498
Liabilities					
Deposits from banks and other financial institutions	71	227	-	-	298
Term finance	6	1	347	38	392
Other liabilities	49	42	102	17	210
Total liabilities	126	270	449	55	900
Net gap	1,050	(229)	(80)	1,857	

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21 Risk management (continued)

21.2 Market risk

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

Interest rate risk

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

Foreign exchange risk

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

Equity price risk

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

Market risk pertaining to investments 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.

2019	***Average***	***Minimum***	***Maximum***	***31 December 2019***
Interest rate	**11**	**6**	**16**	**16**
Equity price	**10**	**9**	**12**	**11**
Foreign exchange	**-**	**-**	**-**	**-**
Total*	**13**	**10**	**16**	**16**

2018	*Average*	*Minimum*	*Maximum*	*31 December 2018*
Interest rate	9	7	11	7
Equity price	10	7	12	10
Foreign exchange	-	-	-	-
Total*	12	10	14	11

** Total VaR incorporates benefits of diversification.*

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

Market indices	*Change in equity price*	***Effect on Income***	*Effect on equity*
		2019	2018
Saudi Stock Exchange	+/-10	**1**	16

The analysis is based on the assumption that the equity indexes if increased / decreased by 10% with other variables held constant and all the Principal Investment division's quoted equity instruments moved according to the historical correlation with the index.

Please refer note 23 for distribution of assets and liabilities between the divisions.

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21 Risk management (continued)

21.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Corporation's Board of Directors has set limits for individual 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 2019 and 2018, 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.

	2019	2018
ECL on other assets	**4**	3
(Reversal of) / ECL on guarantees	**(2)**	2

21.3.1 Maximum exposure to credit risk

The maximum credit exposure of the Group is as follows:

	2019	2018
Cash and cash equivalents	**22**	40
Placements with banks	**291**	153
Debt securities at fair value through statement of income	**796**	689
Other assets	**105**	208
	1,214	1,090
Credit commitments	**338**	379
Total credit exposure	**1,552**	1,469

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$ 257 million (2018: US$ 126 million).

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

	GCC	**Europe**	**America**	**Asia / Africa**	**Total**
At 31 December 2019					
Cash and cash equivalents	**17**	**4**	**1**	**-**	**22**
Placements with banks	**271**	**20**	**-**	**-**	**291**
Debt securities at fair value through statement of income	**477**	**13**	**286**	**20**	**796**
Other assets	**58**	**4**	**1**	**42**	**105**
	823	**41**	**288**	**62**	**1,214**
Credit commitments	**338**	**-**	**-**	**-**	**338**
Total credit exposure	**1,161**	**41**	**288**	**62**	**1,552**

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21 Risk management (continued)

21.3 Credit risk (continued)

21.3.1 Maximum exposure to credit risk (continued)

	GCC	Europe	America	Asia / Africa	Total
At 31 December 2018					
Cash and cash equivalents	11	28	1	-	40
Placements with banks	153	-	-	-	153
Debt securities at fair value through statement of income	498	19	143	29	689
Other assets	155	5	-	48	208
Credit exposure on assets	817	52	144	77	1,090
Credit commitments	369	-	-	10	379
Total credit exposure	1,186	52	144	87	1,469

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

At 31 December 2019	**Banks & FIs.**	**Trading & Mftg.**	**Energy & Utilities**	**Govt. agencies**	**Other**	**Total**
Cash and cash equivalents	**22**	**-**	**-**	**-**	**-**	**22**
Placements with banks	**291**	**-**	**-**	**-**	**-**	**291**
Debt securities at fair value through statement of income	**171**	**-**	**119**	**452**	**54**	**796**
Other assets	**57**	**19**	**10**	**4**	**15**	**105**
Credit exposure on assets	**541**	**19**	**129**	**456**	**69**	**1,214**
Credit commitments	**-**	**-**	**338**	**-**	**-**	**338**
Total credit exposure	**541**	**19**	**467**	**456**	**69**	**1,552**

	Banks & FIs.	Trading & Mftg.	Energy & Utilities	Govt. agencies	Other	Total
At 31 December 2018						
Cash and cash equivalents	40	-	-	-	-	40
Placements with banks	153	-	-	-	-	153
Debt securities at fair value through statement of income	261	7	136	216	69	689
Other assets	55	104	15	2	32	208
Credit exposure on assets	509	114	151	218	101	1,090
Credit commitments	-	34	309	36	-	379
Total credit exposure	509	145	460	254	101	1,469

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21 Risk management (continued)

21.3 Credit risk (continued)

21.3.2 Credit quality of financial assets

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

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

	Neither past due nor impaired		**Total**
At 31 December 2019	**Investment grade**	**Unrated**	
Cash and cash equivalents	**22**	**-**	**22**
Placements with banks	**291**	**-**	**291**
Debt securities at fair value through statement of income	**796**	**-**	**796**
Other assets	**68**	**37**	**105**
Credit exposure on assets	**1,177**	**37**	**1,214**
Credit commitments	**338**	**-**	**338**
Total credit exposure	**1,515**	**37**	**1,552**

	Neither past due nor impaired		Total
At 31 December 2018	Investment grade	Unrated	
Cash and cash equivalents	40	-	40
Placements with banks	153	-	153
Debt securities at fair value through statement of income	689	-	689
Other assets	58	150	208
Credit exposure on assets	940	150	1,090
Credit commitments	379	-	379
Total credit exposure	1,319	150	1,469

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

	Stage 1	**Stage 2**	**Stage 3**	**Total**
2019				
Cash and cash equivalents	**22**	**-**	**-**	**22**
Placements with banks	**291**	**-**	**-**	**291**
Other assets	**86**	**27**	**-**	**113**
Total	**399**	**27**	**-**	**426**

	Stage 1	Stage 2	Stage 3	Total
2018				
Cash and cash equivalents	40	-	-	40
Placements with banks	153	-	-	153
Other assets	190	21	-	211
Total	383	21	-	404

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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.

Interest rate swaps under which the Group pays a fixed rate and receives a floating rate are used in fair value hedges of fixed income financial assets at fair value through statement of income. As at the reporting date, the notional amount of interest rate swaps and interest rate futures used to hedge interest rate risk amounted to US$ 13 million (2018: US$ 17 million).

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$ 333 million (2018: US$ 333 million) and its net fair value was a swap loss of US$ 47 million (2018: US$ 49 million).

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

	2019			2018		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount
Derivatives held for hedging						
- Interest rate swaps	**-**	**-**	**13**	-	-	17
- Cross currency swaps	**2**	**(49)**	**333**	1	(50)	333
- Forward foreign exchange contracts	**1**	**-**	**751**	1	(1)	978
	3	**(49)**	**1,097**	2	(51)	1,328

Maturity analysis

	Within 1 year	**Year 1 to 5**	**Above 5 years**	**Total**
At 31 December 2019				
Notional amounts				
Interest rate swaps	**13**	**-**	**-**	**13**
Cross currency swaps	**-**	**284**	**49**	**333**
Forward foreign exchange contracts	**418**	**284**	**49**	**751**
	431	**568**	**98**	**1,097**

	Within 1 year	Year 1 to 5	Above 5 years	Total
At 31 December 2018				
Notional amounts				
Interest rate swaps	2	15	-	17
Cross currency swaps	-	284	49	333
Forward foreign exchange contracts	645	284	49	978
	647	583	98	1,328

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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.

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 2019	Principal Investments	Debt Capital Markets	Equity and Alternative Investments	Treasury	Corporate and Other	Eliminations	Total
Interest income	3	31	1	29	-	(26)	38
Interest expense	(17)	(6)	(3)	(30)	-	26	(30)
Share of results from associates	111	-	-	-	-	-	111
Other operating income	(21)	55	55	-	-	-	89
Net operating income	76	80	53	(1)	-	-	208
Other operating expenses	(11)	(2)	(2)	(2)	(35)	-	(52)
Impairment losses	(20)	-	(5)	-	-	-	(25)
Profit for the year	45	78	46	(3)	(35)	-	131
Segment assets	1,850	805	524	3,350	6	(3,001)	3,534
Segment liabilities	1,883	785	529	733	(18)	(3,001)	911
Equity							2,623
Total liabilities and equity							3,534
Other information							
Investment in associates	1,444						1,444

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23 Segmental information (continued)

	Principal Investments	Debt Capital Markets	Equity and Alternative Investments	Treasury	Corporate and Other	Eliminations	Total
31 December 2018							
Interest income	4	33	1	41	-	(35)	44
Interest expense	(20)	(9)	(6)	(33)	-	35	(33)
Share of results from associates	143	-	-	-	-	-	143
Other operating income	24	(28)	24	-	3	-	23
Net operating income	151	(4)	19	8	3	-	177
Other operating expenses	(13)	(2)	(2)	(3)	(32)	-	(52)
Impairment losses	(16)	-	(2)	-	-	-	(18)
Profit for the year	122	(6)	15	5	(29)	-	107
Segment assets	2,051	696	515	3,202	8	(2,974)	3,498
Segment liabilities	2,029	685	489	686	(15)	(2,974)	900
Equity							2,598
Total liabilities and equity							3,498
Other information							
Investment in associates	1,624						1,624

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 amortized cost, the carrying value is not significantly different from their fair values as most of these assets and liabilities are of short term maturity or re-priced immediately based on market movement in interest rates.

Determination of fair value and fair value hierarchy:

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

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

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

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

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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:

2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Financial assets at fair value through statement of income				
Debt instruments	**785**	**-**	**11**	**796**
Hedge funds & other alternative funds	**-**	**266**	**-**	**266**
Equities and managed funds	**163**	**-**	**-**	**163**
Equity participations	**8**	**-**	**103**	**111**
Private equity funds	**-**	**-**	**77**	**77**
Financial assets at fair value through other comprehensive income				
Equity participations	**-**	**-**	**224**	**224**
Other assets- derivative financial instruments				
Cross currency swaps	**-**	**-**	**2**	**2**
Forward foreign exchange Contracts	**-**	**-**	**1**	**1**
	956	**266**	**418**	**1,640**
Other liabilities –derivative financial instruments				
Cross currency swaps	**-**	**-**	**49**	**49**

2018	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through statement of income				
Debt instruments	677	-	12	689
Hedge funds & other alternative funds	-	257	-	257
Equities and managed funds	139	-	-	139
Equity participations	130	-	108	238
Private equity funds	-	-	88	88
Other assets- derivative financial instruments				
Cross currency swaps	-	-	1	1
Forward foreign exchange Contracts	-	-	1	1
	946	257	210	1,413
Other liabilities - derivative financial instruments				
Cross currency swaps	-	-	50	50
Forward foreign exchange Contracts	-	-	1	1
	-	-	51	51

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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:

31 December 2019	**At 1 January 2019**	**Gain / (loss) recorded in the consolidated statement of income**	**Net purchases, sales, transfers and settlements**	**At 31 December 2019**
Assets measured at fair value				
Financial assets at fair value through statement of income				
Debt instruments	**12**	**-**	**(1)**	**11**
Equity participation	**108**	**(7)**	**2**	**103**
Private equity funds	**88**	**2**	**(13)**	**77**
Financial assets at fair value through other comprehensive income				
Equity participation	**-**	**-**	**224**	**224**
Other assets - derivative financial instruments				
Cross currency swaps	**1**	**1**	**-**	**2**
Forward foreign exchange contracts	**1**	**-**	**-**	**1**
Other liabilities - derivative financial instruments				
Cross currency swaps	**50**	**(1)**	**-**	**49**
Forward foreign exchange contracts	**1**	**(1)**	**-**	**-**

31 December 2018	At 1 January 2018	Gain / (loss) recorded in the consolidated statement of income	Loss recorded in equity	Net purchases, sales, transfers and settlements	At 31 December 2018
Assets measured at fair value					
Financial assets at fair value through statement of income					
Debt instruments	18	-	-	(6)	12
Equity participation	113	(3)	-	(2)	108
Private equity funds	104	10	(5)	(21)	88
Other assets - derivative financial instruments					
Cross currency swaps	4	(3)	-	-	1
Forward foreign exchange contracts	-	1	-	-	1
Other liabilities - derivative financial instruments					
Cross currency swaps	47	3	-	-	50
Forward foreign exchange contracts	2	(1)	-	-	1

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

(All amounts in US$ millions)

24 Fair value information (continued)

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:

Significant unobservable inputs	**Range**	**Sensitivity of the input to fair value**
Discount rates used for determining the present value of future cash flows	6.1% to 14% (2018: 6.7% to 14%)	A 5% (2018: 5%) increase (decrease) in the discount rate would decrease (increase) the fair value by US$ 4 million (2018: US$ 4 million)

Measurement of other financial instruments under Level 3

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

ii. Cross currency swaps and forward foreign exchange contracts: The fair values are calculated using foreign exchange rates available in the market.

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:

	2019	2018
Guarantees	**338**	343
Commitments	**62**	47
Receivables from associates	**19**	19
Payable to associates	**11**	6

Compensation of key management personnel

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

	2019	2018
Salaries and short-term employee benefits	**10**	11
Post-employment benefits	**2**	2
	12	13

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

(All amounts in US$ millions)

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:

	2019	2018
Interest-bearing deposits, term finance and other borrowings	**805**	690
Other liabilities	**106**	210
Less: Cash and cash equivalents and placements with banks	**(313)**	(193)
Net debt	**598**	707
Equity attributable to equity holders of the Corporation	**2,623**	2,598
Gearing ratio (net debt / equity)	**0.2**	0.3

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**
		2019	**2018**		
Bituminous Products Company Limited (Bitumat)	Saudi Arabia	**100**	100	31 December 2019	Building material manufacturing
GIC Technologies Company W.L.L	Kuwait	**80**	80	31 December 2019	Technical advisory

GIC Technologies Company W.L.L. (the "subsidiary") is the only partly owned subsidiary of the Group which does not have material operations and therefore, there is no non-controlling interests recorded in the consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

(All amounts in US$ millions)

27 Principal subsidiaries and associates (continued)

Associates	Country of incorporation	% of shareholding		Financial statements reporting date	Principal business activity
		2019	2018		
Gulf Re Holdings Limited	Channel Islands	**50.0**	50.0	31 December 2019	Re-insurance
Foulath Holding B.S.C (c)	Bahrain	**50.0**	50.0	31 December 2019	Holding company
Al Ezzel Power Company B.S.C. (c)	Bahrain	**45.0**	45.0	31 December 2019	Power & Water Utility project
Shams Ad-Dhahira Generating Company SAOC	Oman	**40.0**	-	31 December 2019	Power & Water Utility project
Sudair Pharmaceutical Company Ltd.	Saudi Arabia	**35.0**	35.0	31 December 2019	Pharmaceutical
Horizon Investment Ltd	Cayman Islands	**35.0**	35.0	31 August 2019	Education
Shuqaiq International Water and Electricity Company Limited	Saudi Arabia	**33.3**	33.3	31 December 2019	Power & Water Utility project
SGA Marafiq Holdings W.L.L.	Bahrain	**33.3**	33.3	31 December 2019	Power & Water Utility project
Technical Supplies & Services Co. Ltd.	UAE	**30.7**	30.7	31 December 2019	Refrigeration & Cooling Services
Osool Poultry Company S.A.O.C	Oman	**26.7**	26.7	31 December 2019	Poultry & Dairy Products
Al Dur Power and Water Co. B.S.C. (c)	UAE	**25.0**	25.0	31 December 2019	Power & Water Utility project
Jeddah Cables Company Ltd.	Saudi Arabia	**25.0**	25.0	31 December 2019	Manufacturing Cables
Moon Iron and Steel Company SAOC	Oman	**25.0**	25.0	31 December 2019	Iron and steel
Bahrain LNG Ltd.	Bahrain	**24.0**	24.0	31 December 2019	Oil and Gas
Interplast Company Limited Ltd.	UAE	**23.5**	23.5	31 December 2019	Plastic
Rawabi Emirates (PJSC)	UAE	**22.5**	22.5	31 December 2019	Dairy Products
The Dubai Wellness Centre Ltd.	UAE	**21.6**	21.6	31 December 2019	Medical services
Wataniya Telecom Algerie S.P.A.	Algeria	**20.0**	20.0	31 December 2019	Telecom service provider
Gulf Stone Company SAOG	Oman	**20.0**	20.0	31 December 2019	Building Materials
The National Titanium Dioxide Co., Ltd. (Cristal)	Saudi Arabia	**-**	20.0	31 December 2019	Production of Titanium Dioxide
A'Saffa Foods Company SAOG	Oman	**20.0**	20.0	31 December 2019	Poultry & Dairy Products
Tristar Holdings Limited	UAE	**19.6**	19.6	31 December 2019	Logistics
Aviation Leasing & Finance Company KSC.	Kuwait	**14.0**	14.0	30 September 2019	Aviation Leasing

28 Subsequent events

a) The Board of Directors meeting held on 5 March 2020, proposed cash dividend of US$ 50 per share amounting to US$ 105 million for the year ended 31 December 2019. 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 2019 to the voluntary reserve.

b) The presence of the novel Coronavirus (Covid-19) was confirmed in early 2020 and has spread to various countries, causing disruption in business and economic activity worldwide. The Corporation has considered this outbreak to be an event after the reporting date of non-adjusting nature. The management has been closely monitoring the impact of the developments on Corporation's business and this will be continuously monitored as the situation evolves. The scale and duration of these developments remain uncertain at this stage but could negatively impact the Corporation's financial performance, cash flows and financial position. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these consolidated financial statements.

Gulf Investment Corporation G.S.C.

Stand-alone Statement of Financial Position

as at 31 December 2019

(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

	2019	2018
Assets		
Cash and cash equivalents	19	31
Placements with banks	290	145
Financial assets at fair value through statement of income	1,413	1,411
Financial asset at fair value through other comprehensive income	224	-
Investments in associates	1,438	1,618
Investment in subsidiaries	46	45
Other assets	92	116
Total assets	**3,522**	3,366
Liabilities and equity		
Liabilities		
Deposits from banks and other financial institutions	418	298
Term finance	387	384
Other liabilities	94	86
Total liabilities	**899**	768
Equity		
Share capital	2,100	2,100
Reserves	404	392
Retained earnings	119	106
Total equity	**2,623**	2,598
Total liabilities and equity	**3,522**	3,366

Principal Investing

Major Projects and Equity Participations

As of 31 December 2019

	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	Shams Ad-Dhahira Generating Company SAOC	Oman	40.00%	Direct
5	Sudair Pharmaceutical Company Ltd.	Saudi Arabia	35.00%	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	Moon Iron and Steel Company SAOC	Oman	25.00%	Direct
12	Bahrain LNG Ltd.	Bahrain	24.00%	Direct
13	Interplast Company Ltd.	UAE	23.50%	Direct
14	Rawabi Emirates PJSC	UAE	22.54%	Direct
15	The Dubai Wellness Center Ltd.	UAE	21.63%	Direct
16	A'Saffa Foods Company SAOG	Oman	20.01%	Direct
17	Gulf Stone Company SAOG *	Oman	20.00%	Indirect
18	Wataniya Telecom Algerie S.P.A.	Algeria	20.00%	Indirect
19	Jubail Water & Power Company J.S.C.	Saudi Arabia	20.00%	Indirect
20	Shuqaiq Water & Electricity Company J.S.C.	Saudi Arabia	20.00%	Indirect
21	Tristar Holdings Ltd.	UAE	19.61%	Direct
22	Aviation Lease & Finance Company K.S.C. (p) (ALAFCO)	Kuwait	14.00%	Direct

* The shares in this associate are owned by GIC's subsidiary Bitumat

	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	Moobility Telecom International Holding Ltd.	British Virgin Islands	17.20%	Direct
3	TMK Gulf International Pipe Industry Ltd.	Oman	14.20%	Direct
4	Ras Laffan Power Company Limited Q.S.C.	Qatar	10.00%	Direct
5	Securities and Investment Company B.S.C.	Bahrain	7.70%	Direct

Corporate Directory 2019

Senior Management Team

Mr. Ibrahim Ali AlQadhi
Chief Executive Officer

Mr. Meshary M. 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. Talal Al-Tawari
Acting Head of GCC Equities Div.

Mr. Osama Al-Musallam
Head of Treasury Div.
Acting Head of Managed Funds Div.

Mr. Raffaele Bertoni
Head of Debt Capital Markets Div.

Principal Investment Group

Mr. Fadi Twainy
Head of Light Industry Projects Div.

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

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.

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. Qais Al-Shatti
Head of Public Relations Dept.

Corporate Office

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

Mr. Pervaz Akthar
Head of Risk Management Div.

Mr. Hazem El-Rafie
Head of Finance Div.

Dr. Khaled Bukhamseen
Head of Internal Audit Div.

Dr. Mohamed Elliwa
Head of Legal & Compliance Div.

Dr. Mohammad Al-Omar
Head of Research Div.

Contact Details

Mailing Address

P.O. Box 3402, Safat 13035, Kuwait

Courier Address

Sharq, Jaber Al-Mubarak Street, Kuwait

Website

www.gic.com.kw

Email

gic@gic.com.kw

S.W.I.F.T.

GCOR KWKW

Telephone

(+965) 2222 5000

Fascimile

(+965) 2222 5010