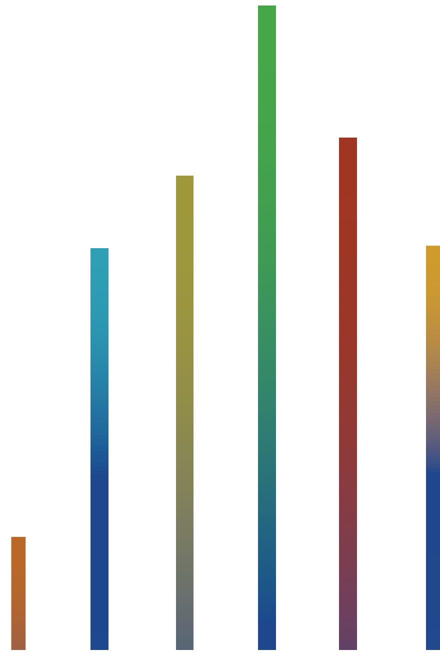

Annual Report and Accounts

2015

مؤسسة الخليج للاستثمار
Gulf Investment Corporation

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Mission

Statement

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

Financial Highlights

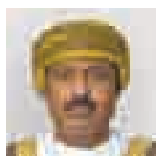
(US$ million)

For the year	2013	2014	2015
Gross Operating and Other Income	302	336	209
Operating Expenses	66	67	57
Net Profit	163	201	110
At year end			
Total Assets	5,704	5,186	5,097
Interest Bearing Securities and Funds	1,750	1,691	1,969
Equities and Managed Funds	660	483	611
Projects and Equity Participations	2,278	1,856	1,376
Deposits	1,109	772	919
Shareholders' Equity	2,559	2,729	2,491
Selected Ratios (%)			
Profitability			
Return on Paid-up Capital	7.8	9.6	5.2
Return on Adjusted Shareholders' Equity	6.7	7.6	4.0
Capital			
BIS Ratios			
- Total	36.0	42.6	45.9
- Tier 1	36.0	42.6	45.9
Shareholders' Equity as a % of Total Assets	44.9	52.6	48.9
Asset Quality			
Marketable Securities as a % of Total Assets	41.6	38.5	44.1
GCC Country Risk as a % of Total Assets	71.2	71.1	63.8
Liquidity			
Liquid Assets Ratio	59.8	62.0	65.1
Productivity			
Operating Income as Multiple of Operating Expenses	4.6	5.0	3.7

Board of

Directors

Sultanate of Oman



H.E. Mr. Darwish Ismail Ali Al-Bulushi *
Vice Chairman of the Board
Minister Responsible for Financial Affairs,
Ministry of Finance

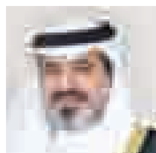
H.E. Mr. Abdul Kader Askalan ** *** ****
Chairman of the Board-
Gulf Investment Corporation
Businessman

State of Qatar

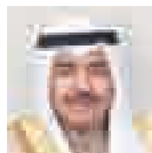
H.E. Shaikh Fahad Faisal Al-Thani * ****
Vice Chairman of the Board
& Chairman of the Executive Committee-
Gulf Investment Corporation
Deputy Governor, Qatar Central Bank

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

State of Kuwait



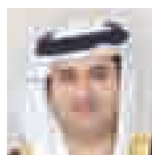
H.E. Mr. Bader Al-Ajeel * ***
Executive Director - General Reserve Sector
Kuwait Investment Authority



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

United Arab Emirates

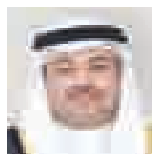
H.E. Mr. Faisal Ali Almansouri * ***
Chairman of the Risk Management Committee-
Gulf Investment Corporation
Director of Strategic Planning
& Performance Department
Minister Office, Ministry of Finance



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

Kingdom of Bahrain

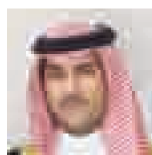
H.E. Dr. Zakaria Ahmed Hejres * ****
Chairman of Remuneration and
Human Resources Committee-
Gulf Investment Corporation
Chief Executive Officer
Global Banking Corporation B.S.C. (Closed)



H.E. Mr. Khalid A. Al-Bassam ** ***
Chairman of Foulath Holding co.
Foulath Group co.

Kingdom of Saudi Arabia

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



H.E. Mr. Turki AlMalik ** ****
Deputy Chief Executive Officer
Chief Operating Officer
Sanabil Investments

Senior Management Team

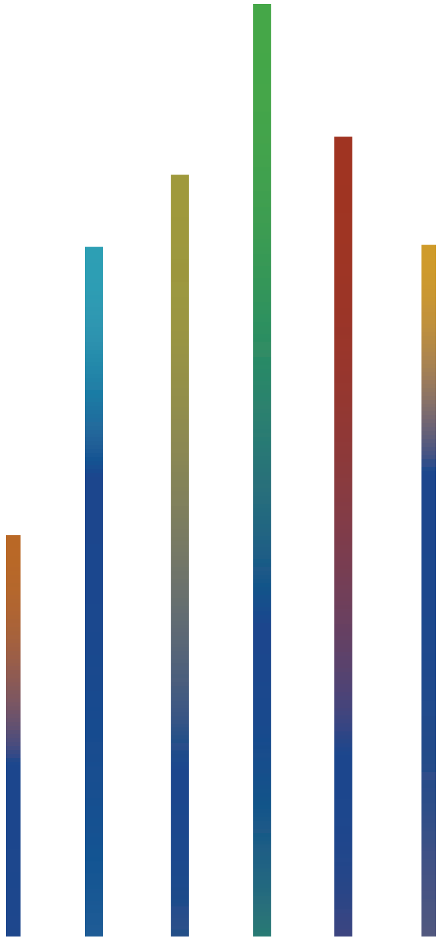
Mr. Ibrahim Ali AlQadhi
Chief Executive Officer

Mr. Shafiq Ali
Group Head of Principal Investment

Mr. Talal Al-Tawari
Group Head of Global Markets

Mr. Hani Shakhs
Group Head of Support

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



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 2015.

Despite the slowdown in global economic growth, lower oil prices, along with volatile financial markets globally and regionally, the Corporation accomplished different milestones, including net profit of US$ 110, representing return on shareholders' equity of 4%. Also, the Corporation has taken significant actions towards restructuring the Principal investment portfolio in order to reduce concertation in volatile sectors, as well as pursuing new sectors with potential for high returns.

The achieved results are the outcome of the Corporation's strategy which is based on the balance between different elements, including strong asset quality, diversification of investments, maintaining sound capital adequacy ratios, high levels of liquidity within defined risk appetite levels.

GIC has been successful in its key mandate of promoting economic development in the GCC and contributing to promoting GCC's private sector, supported by GIC's solid capital base of US$ 2.5 billion. The GCC economies remain the main destination of GIC's investment, with approximately 67% of its total investment distributed across a variety of GCC economic sectors such as infrastructure, power and utilities, services, metals, and petrochemicals.

GIC has established its pioneering position in the region, through its proven ability to adapt to various economic environments, and a high degree of resilience in coping with various economic challenges, thanks to the strong financial position and the excellence of its human capital, in addition to the pursuit of continuous initiative to improve operational efficiency and increase the value addition of its investments.

GIC's exposure to the GCC region is then complemented by investments in international equities, bonds, and related funds that are managed internally by our expertise or through global fund managers, thus diversifying GIC's total assets, as well as sources of income and risk. Endowed with expertise across global markets, GIC aims to become a world class financial institution.

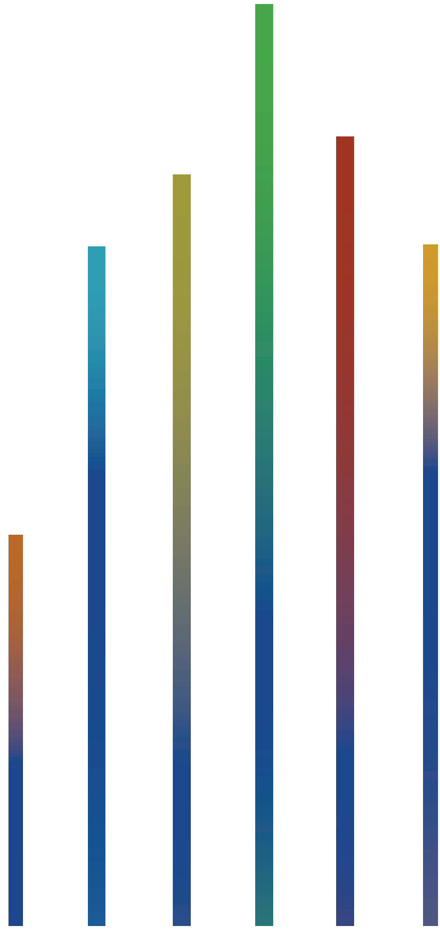
Key among its 2015 achievements was Moody's reaffirmation of GIC's credit rating at 'A2', alongside Fitch's reaffirmation of the Corporation's credit rating at 'A-', and that from Rating Agency Malaysia (RAM) at 'AAA' with stable outlook for all of these ratings. These rating affirmations are a consequence of the continuous improvement in key financial indicators of the Corporation, despite global and regional economic challenges. It also reflects the strong financial position, and proof of its caliber as a financial institution and an economic actor in pursuit of greater achievements in the future

Finally, on behalf of the Board of Directors, I wish to take this opportunity to extend my appreciation to the Royal Highnesses, Kings and Amirs, rulers of the GCC countries for their continuous support. I would also like to thank 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 Excellences and Ministers of Finance of the Gulf Cooperation Council for their support.

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

Abdul Kader Askalan

Chairman



CEO's

Review

In 2015, the Corporation managed to continue its achievements despite the slowdown in global economic growth along with falling oil prices and their consequent impact on business environment as well as on financial markets. During the year, the corporation achieved a net profit of US$ 110 million, with a 4% return on shareholders' equity, and net operating income before provision of US$ 150 million. In the meantime, shareholders' equity stood at US$ 2.5 billion, reflecting the durability and strength of its financial position.

As with all other financial institutions, our business environment faced several challenges over the past year, including the decline in oil prices and its repercussions on the economies of the region, the instability in global and regional financial markets, in addition to the uncertainties from increased geopolitical risks in the region. Yet, the corporation was able to endure these challenges and cope with market developments, thus confirming the validity of its strategy and its prudent management of risk.

In recognition of the financial strength of the corporation, several credit rating agencies have affirmed GIC's credit rating. Moody's affirmed GIC's Long Term rating at 'A2' and Short Term ratings at 'P1', which is the highest in this category, with stable outlook. Similarly, Fitch affirmed GIC's Long Term rating at 'A' and short term ratings at 'F1', while the viability ratings were reaffirmed at 'bb' with stable outlook for all categories. Also, Rating Agency Malaysia (RAM) reaffirmed their existing ratings for long-term and short-term deposits at 'AAA', with a Stable outlook.

Moreover, the corporation's Principal Investments Group achieved a significant record, following unprecedented activity where many investment opportunities in various sectors were evaluated for inclusion to the portfolio, in addition to partial or complete exits from other projects, with the aim to reduce investment concentration, and utilize the sale proceeds in other, more feasible, investments. The Global Markets Group also contributed to the diversification of the revenue stream and distribution of risks. This was done through achieving a good and satisfactory performance given the volatility and uncertainty in financial markets throughout the year.

The corporation was able to further enhance its liability structure and liquidity profile during the year. It also increased its operational performance through effective management of expenses and diversification of funding sources. In addition, a provision of US$ 40 million was set aside as a prudent measure, against fair value losses on some investments that were categorized as 'available for sale' within the Principal Investments and Global Markets portfolios.

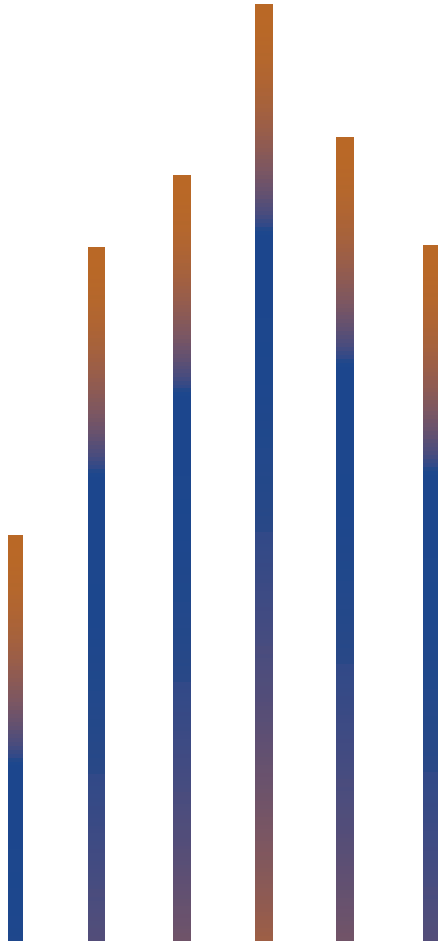
In line with our mandate, the corporation continued its efforts to build and develop the GCC human capital, where the proportion of GCC leaders rose to 65% of total GIC leaders. GIC has always sought to develop the skills and capacity of its staff, through specialized on-site and off-site training programs and courses, and conducted several such programs through the year.

The corporation seeks to continue its successful journey, and exploit investment opportunities, while following prudent financial policies and conservative risk management. It is also keen to ensure that its investments are mission effective in promoting GCC economic development and empowering the region's private sector.

I would like to take this opportunity to thank GIC's shareholders and its board of directors for their constant support and guidance. I would also like to express my appreciation of the efforts, commitment, and dedication of GIC staff.

The corporation's performance and success in 2015 amid the challenging environment is a subject of pride to all of us. It is a motivation to continue our success, to contribute effectively in supporting GCC's economic development, and bring added value to our shareholders.

Ibrahim Al-Qadhi
CEO



Economic

1. INTRODUCTION

Although the global economy continued to recover gradually in 2015, the pace of economic expansion remained modest and uneven. Relative to 2014, the recovery picked up marginally in advanced economies due to subdued investment and slow productivity growth, a recipe for wage deflation. In the meantime, activity in EM and developing economies slowed for the fifth consecutive year, reflecting primarily China's transition from exports and investment to services and consumption-based economy.

The slowdown in China's economy not only weakened growth prospects for its trading partners, but also global demand for commodities and a disturbance in global FX markets. It also impacted growth prospects for other large EM economies, notably Brazil and Russia, along with oil exporting countries. During the year, challenges have increased for EM economies, mainly falling commodity prices and tighter external financing conditions that resulted from the normalization of US monetary policy.

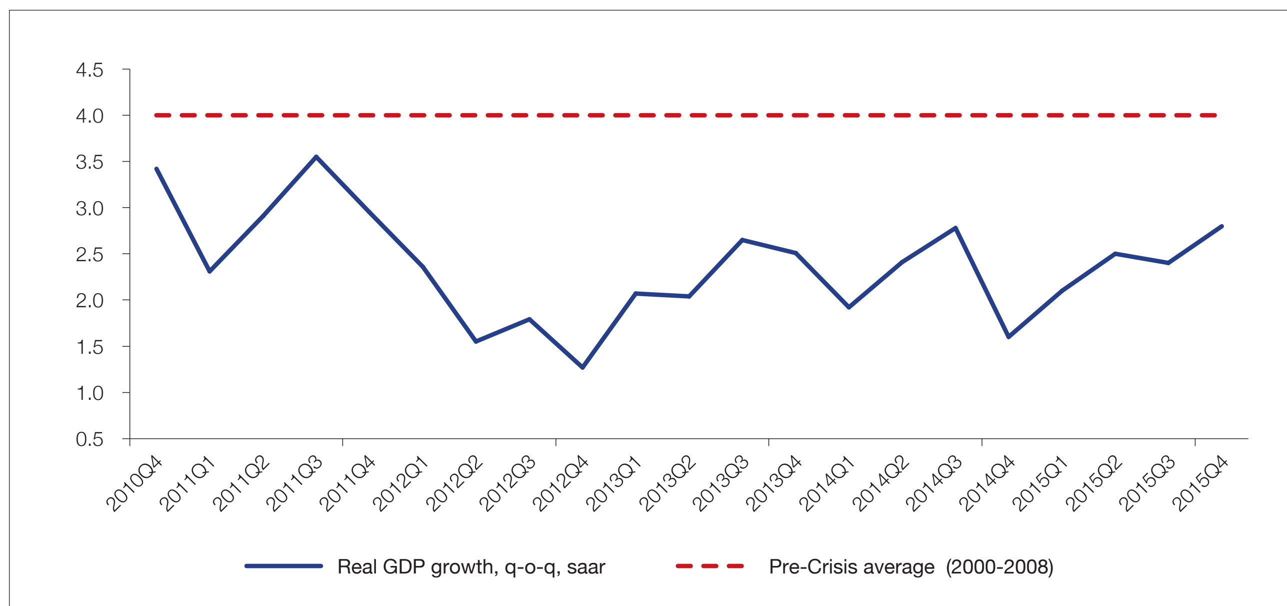
Additionally, GCC economies were challenged by low oil prices, which placed more deficit pressures and forced GCC governments to implement economic reform policies that ranged from fiscal austerity measures to subsidy reform and imposing taxes.

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

1.1. Global Growth

Global growth eased to 3.1% y-o-y, in 2015, down from 3.4% in 2014. It picked up however, from 2.2% in the first half of the year to 2.6% in the second half as the global economy grew by 2.8% annualized rate in the fourth quarter, well below its pre-crisis average of 4% as shown in Figure 1.

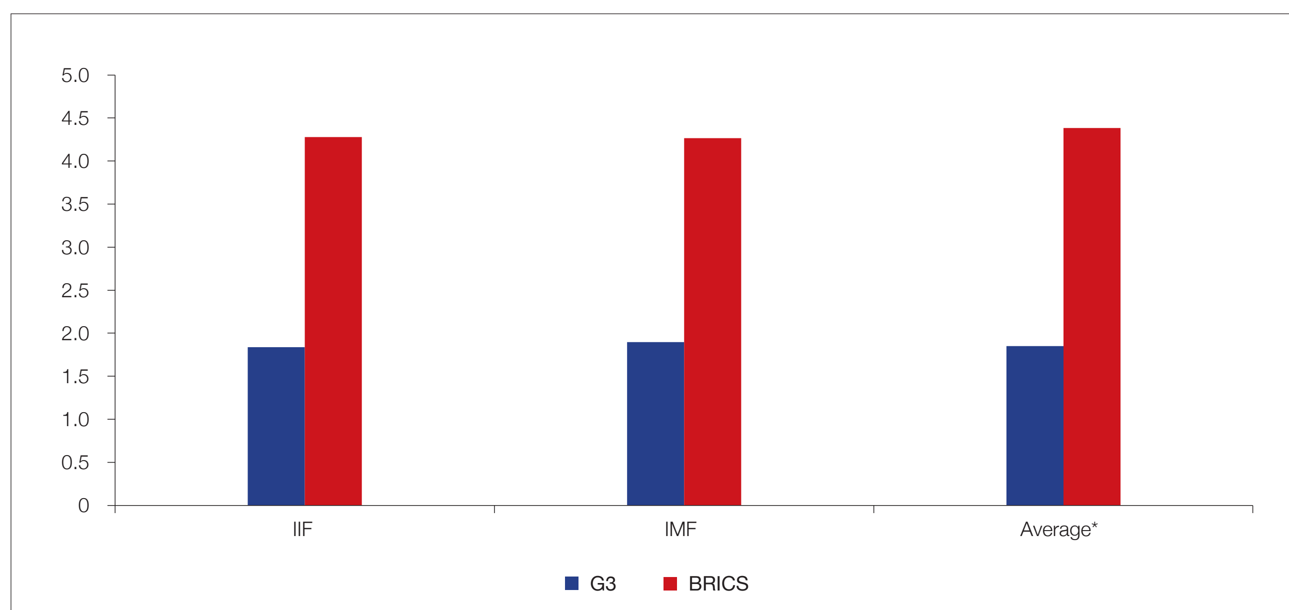
Figure 1: The Global Economy: Quarterly Real GDP Growth (%)



Source: IIF database, December 2015.

In advanced economies, growth increased modestly reflecting better trends in Europe and a return to positive growth in Japan supported largely by declining oil prices and accommodative monetary policy. The pickup in advanced economies was tempered however, by flat US growth, low growth in commodity exporters in Asia, excluding Japan, together with output contraction in Brazil and Russia. Figure 2 shows that aggregate GDP in G3 grew by 1.8% on average in 2015 while that of BRICs countries grew by 4.3% based on consensus forecasts of the IMF, IIF and a simple average of different estimates by major investment banks.

Figure 2: Comparison of GDP Growth Forecasts in 2015, (%)



Source: IMF, WEO Update, January 2016 & IIF November Global Economic Monitor, November 2015.
**Simple Average of different estimates by major investment banks.*

The US economy grew by 2.5% y-o-y in 2015, following 2.4% in 2014, assisted by positive contributions from household spending which in part reflected a favorable employment and income situation, in contrast with a lackluster industrial production sector. However, the US growth rate was negatively impacted by the appreciation of the US dollar and the slowdown in EM economies. Business fixed investment started to pick up on the whole, although investment related to energy was weak. Exports lacked momentum due to the effects of foreign exchange markets developments and weakening external demand[1].

The European economy grew by 1.5% y-o-y in 2015, up from 0.9% in 2014 as activity maintained its moderate recovery with private consumption and investment showed signs of recovery to increase by 1.4% and 2.3% respectively. Moreover, the pace of exports rose slightly from 4.1% to 4.8% due to the effects of the slowdown in EM economies. High unemployment, though declined by 6bps to 11.0% in 2015, remained a growth headwind together with deteriorating structural primary balance[2].

In the meantime, Japan returned to a positive growth as GDP grew by 0.6% y-o-y in 2015 following a flat growth in 2014. Private consumption continued to be resilient on rising employees' income moderately along with steadily improving labor market conditions. Likewise, housing and business fixed investment increased modestly as corporate profits continued to improve markedly in contrast with a moderate declining trend in public investment, exports and production as a result of the slowdown in manufacturing and industrial production in EM economies, including China and the commodity exporting economies[3].

In the UK, GDP growth eased to 2.2% y-o-y in 2015, down from 2.9% in 2014, largely due to a more abrupt slowdown in EM economies. Robust private domestic demand continued to be solid despite continuing fiscal consolidation, as tighter labor market and stronger productivity supported real income and consumption. Also, strong investment and a pickup in housing market were encouraged by accommodative credit conditions and weaker inflationary pressures[4].

With regard to EM economies, economic activity in Asia remained in a deceleration face on the whole, partly due to the effects of adjustments in China and declining output in commodity exporting countries such as Brazil and Russia. The pace of growth eased to 4.0% y-o-y in 2015, down from 4.6% in emerging market and developing economies due to growth moderation in China and output contraction in both Brazil and Russia[5].

1. OECD Economic Outlook, November 2015.

2. ECB, "Macroeconomic projections for the Euro Area", December 2015.

3. BOJ, Minutes of the Monetary Policy Meeting November 18-19", December 24, 2015.

4. Bank of England, Inflation report, November 2015.

5. IMF, WEO Update, January 2016.

The pace of growth of the Chinese economy moderated in 2015, to 6.9% y-o-y, down from 7.3%. This growth moderation was due to several factors including the transition from industrial to services and consumption based growth, high government and corporate debt levels as well as domestic financial fragilities. The latter was largely motivated by the large fall in Chinese share prices since June, along with an unexpected adjustment in the exchange rate pricing mechanism. Stable growth in private consumption continued due to favorable employment and income situation. Although investment was supported by government stimulus, its pace of increase decelerated as a result of excess production capacity in manufacturing. Exports continued to be relatively weak, due in part to a pause in the export drive, particularly that of materials.

Meanwhile, India's economy picked up steadily, particularly in domestic demand, partly in reflection of expectations for structural reforms and of monetary easing effects. Growth prospects remained relatively robust supported by the progress made in implementing structural reforms and sustained economic growth continued to be more broad-based with real GDP growing by 7.3% y-o-y in 2015[6].

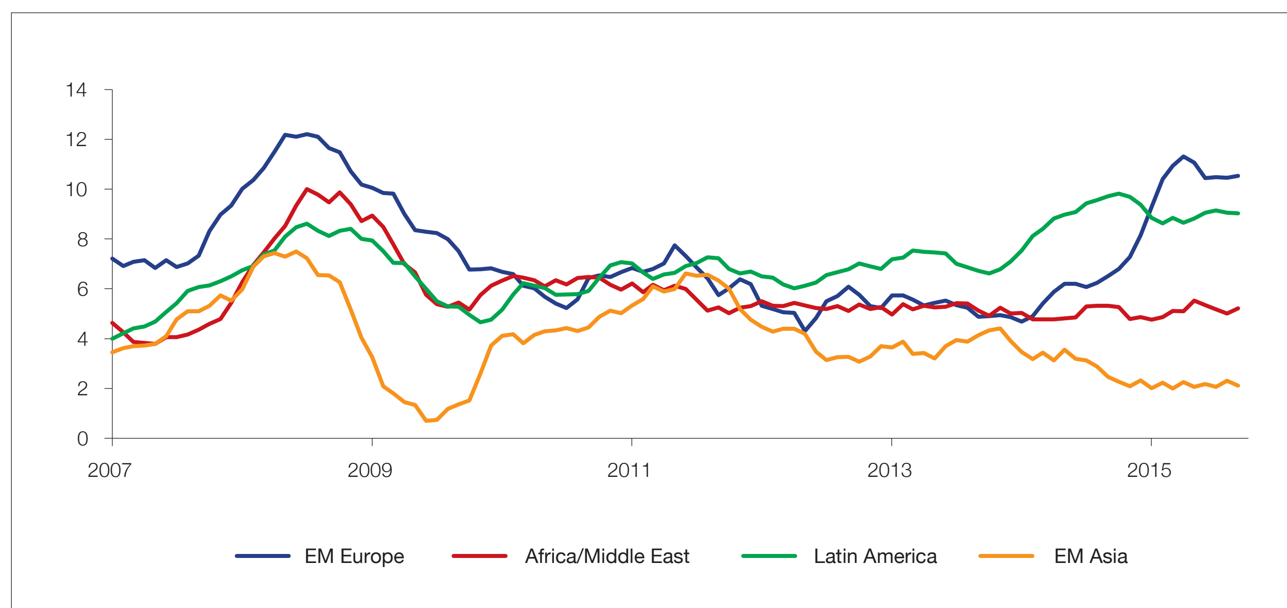
As commodity producers, both Brazil and Russia fell into deep recession largely due to lower government revenues, resulting from lower commodity prices and spillovers associated with China's slowdown. Also, the rise of household and corporate foreign debt together with deteriorating fiscal situation weakened economic activity and domestic demand in both countries. GDP contracted by 3.8% in Brazil and 3.7% in Russia, following feeble growth rate of 0.1% and 0.6% respectively in 2014[7].

1.2. Inflation

Inflationary pressures remained weak in the major OECD economies as inflation rates moderated in advanced economies to 0.3% in 2015, down from 1.4% in 2014 following the further sharp decline in commodity prices. It edged to 5.5%, up from 5.1% in EM and developing economies as many EM economies experienced large currency depreciations. In the meantime, core inflation remained comparatively stable at low levels, reflecting persistent economic slack and weak import prices, particularly in the US where the effective exchange rate has appreciated by around 15% in 2015 relative to 2014. In the US, y-o-y increase in the core personal consumption expenditure reached 1.3% mainly due to the decline in energy prices. Likewise, in the euro area, core inflation remained low at 0.8% while in Japan it expanded only a couple of months into the year but then remained flat at 0.7%. Amongst the major EM economies, inflation remained relatively low in India and China, helped by weak import price pressures. However, inflation remained stronger in Russia and Brazil, due to currency depreciations in both and sanctions in Russia.

As for prices in other EM economies, inflation rates remained flat at low levels on the whole, as the fall in energy prices and the depreciation of their currencies offset each other. However, inflation rates rose or remained at high levels in some economies. It ranged between a high of 10.5% in Emerging Europe, 9% in Latin America, 5.2% in MENA to a low of 2.1% in Emerging Asia[8].

Figure 3: Headline Inflation across EM Regions (% change)

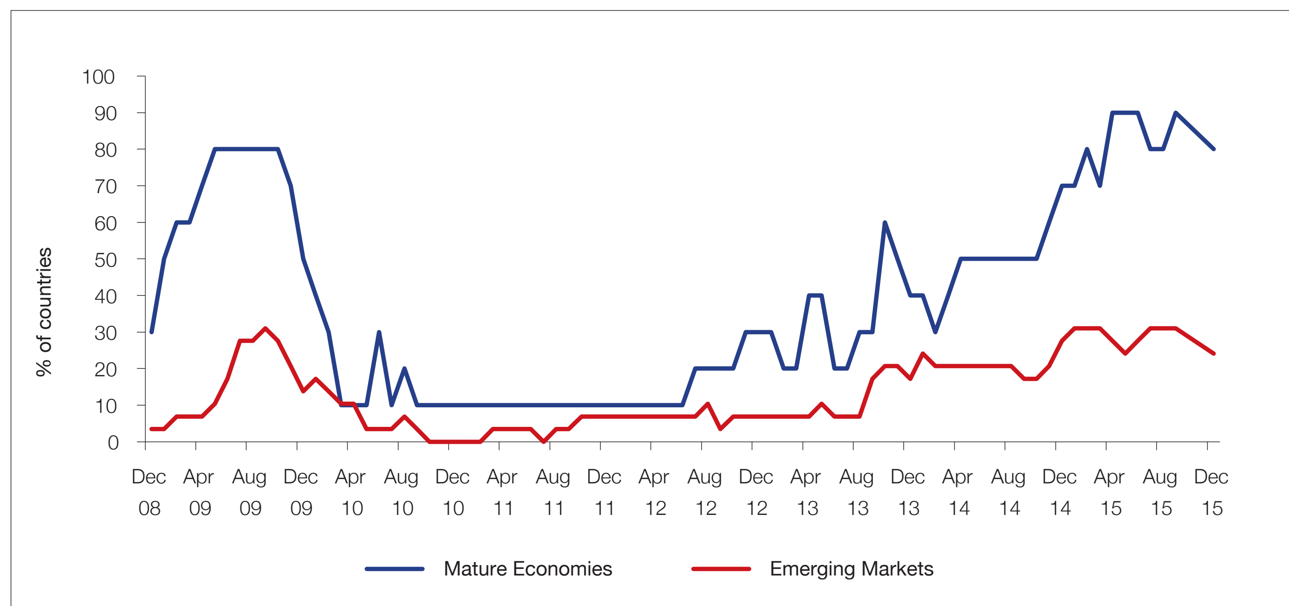


Source: IIF.

6. IMF, WEO Update, January 2016.
7. OECD Economic Outlook, November 2015.
8. OECD Economic Outlook, November 2015.

The share of countries with inflation below 1% increased in mature economies from 70% in 2014 to 80% in 2015, while it declined to 24% from 27.6% in EM as shown in Figure 4[9].

Figure 4: Share of Countries with Headline Inflation Below 1%



Source: IIF.

In advanced economies, consumer prices declined and converged to a lower rate. It declined to 0.7% y-o-y in Japan, 0.2% in the Euro area, and to 0.1% annualized rate in both the US and the UK. Developments were also mixed among EM economies, with annual consumer price inflation climbed to 8.9% in Brazil from 6.3%, and to 15.8% from 7.8% in Russia, while it continued to decline steadily in India and China to 5.4% and 1.5%, respectively[10].

1.3. Supportive Economic Policy

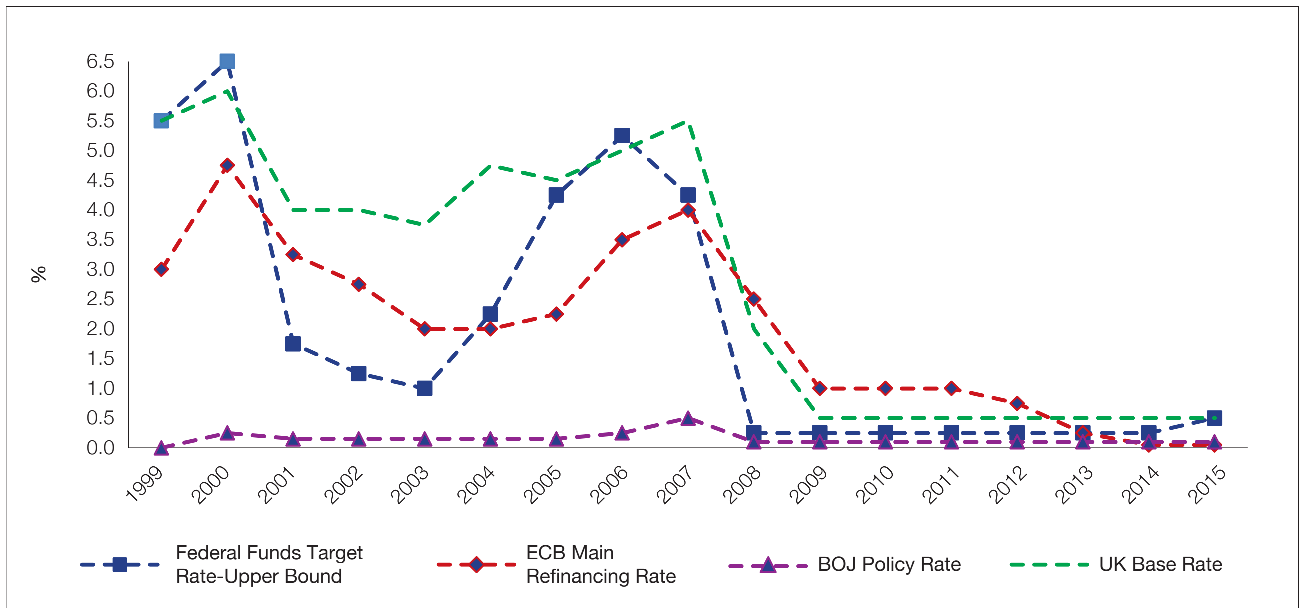
In the US, despite job growth gains in 2015, wages rose less than expected as employment strength was insufficient to generate quicker inflation. As a result, the Fed kept its key rate unchanged till December when it was increased by 25bps, to 0.50%. In contrast, monetary stimulus continued to support domestic demand-led recovery and avert deflationary fears in the Euro area and Japan. This was accompanied by a broadly neutral or moderate fiscal policy stance in the Euro area, Japan, and the US. Although structural fiscal balances as percent of GDP continued to fall, it remained in the negative territory and ranged between a deficit of 5.5% in Japan, 3.6% in the UK, 3.1% in the US, and 0.9% in the Euro area. In tandem, central banks' total assets as percent of GDP continued to diverge across major central banks, increasing from 21.7% to 28% for the ECB, whereas it remained at historically high levels of 61.6% in Japan, and at 24.8% and 35% of GDP in the US and in the UK respectively in 2015[11].

9. IIF, Global Economic Chart book, November 2015.

10. IMF, WEO, "Adjusting to lower commodity prices", October 2015.

11. IMF, WEO, October 2015.

Figure 5: The Fed and ECB Benchmarks (%)



Source: Bloomberg, December 2015.

Table 1 exhibit the level of short term interest rates pre and post the global financial crisis. It remained unchanged and close to zero in nominal terms in the Euro area, Japan and the UK but fell in Canada, China and India. It rose however, in the US in December 2015 on job growth gains and improving labor markets conditions. In 2015, it ranged between 0.1% in Japan and the Euro area, 0.5% in the US, Canada and the UK. Policy rates in China and India were reduced to 4.35% and 5.8%, respectively.

Table 1: Short Term Policy Rates (%)

Date	USA	Canada	Euro Area	UK	Japan	China	India
2008 Q1	2.61	3.50	4.0	5.25	0.5	7.47	6.0
2008 Q2	2.25	3.00	4.0	5.00	0.5	7.47	6.0
2008 Q3	2.00	3.00	4.3	5.00	0.5	7.20	6.0
2008 Q4	0.25	1.50	2.5	2.00	0.1	5.31	5.0
2009 Q1	0.25	0.50	1.5	0.50	0.1	5.31	3.5
2009 Q2	0.25	0.25	1.0	0.50	0.1	5.31	3.3
2009 Q3	0.25	0.25	1.0	0.50	0.1	5.31	3.3
2009 Q4	0.25	0.25	1.0	0.50	0.1	5.31	3.3
2010 Q1	0.25	0.25	1.0	0.50	0.1	5.31	3.5
2010 Q2	0.25	0.50	1.0	0.50	0.1	5.31	3.8
2010 Q3	0.25	1.00	1.0	0.50	0.1	5.31	5.0
2010 Q4	0.25	1.00	1.0	0.50	0.1	5.81	5.3
2011 Q1	0.25	1.00	1.0	0.50	0.1	6.06	5.8
2011 Q2	0.25	1.00	1.3	0.50	0.1	6.31	6.5
2011 Q3	0.25	1.00	1.5	0.50	0.1	6.56	7.3
2011 Q4	0.25	1.00	1.0	0.50	0.1	6.56	7.5
2012 Q1	0.25	1.00	1.0	0.50	0.1	6.56	7.5
2012 Q2	0.25	1.00	1.0	0.50	0.1	6.31	7.0
2012 Q3	0.25	1.00	0.8	0.50	0.1	6.00	7.0
2012 Q4	0.25	1.00	0.8	0.50	0.1	6.00	7.0
2013 Q1	0.25	1.00	0.8	0.50	0.1	6.00	6.5
2013 Q2	0.25	1.00	0.5	0.50	0.1	6.00	6.3
2013 Q3	0.25	1.00	0.5	0.50	0.1	6.00	6.5
2013 Q4	0.25	1.00	0.3	0.50	0.1	6.00	6.8
2014 Q1	0.25	1.00	0.3	0.50	0.1	6.00	7.0
2014 Q2	0.25	1.00	0.2	0.50	0.1	6.00	7.0
2014 Q3	0.25	1.00	0.1	0.50	0.1	6.00	7.0
2014 Q4	0.25	1.00	0.1	0.50	0.1	5.60	7.0
2015 Q1	0.25	0.75	0.1	0.50	0.1	5.35	6.5
2015 Q2	0.25	0.75	0.1	0.50	0.1	4.85	6.3
2015 Q3	0.25	0.50	0.1	0.50	0.1	4.60	5.8
2015 Q4	0.50	0.50	0.1	0.50	0.1	4.35	5.8

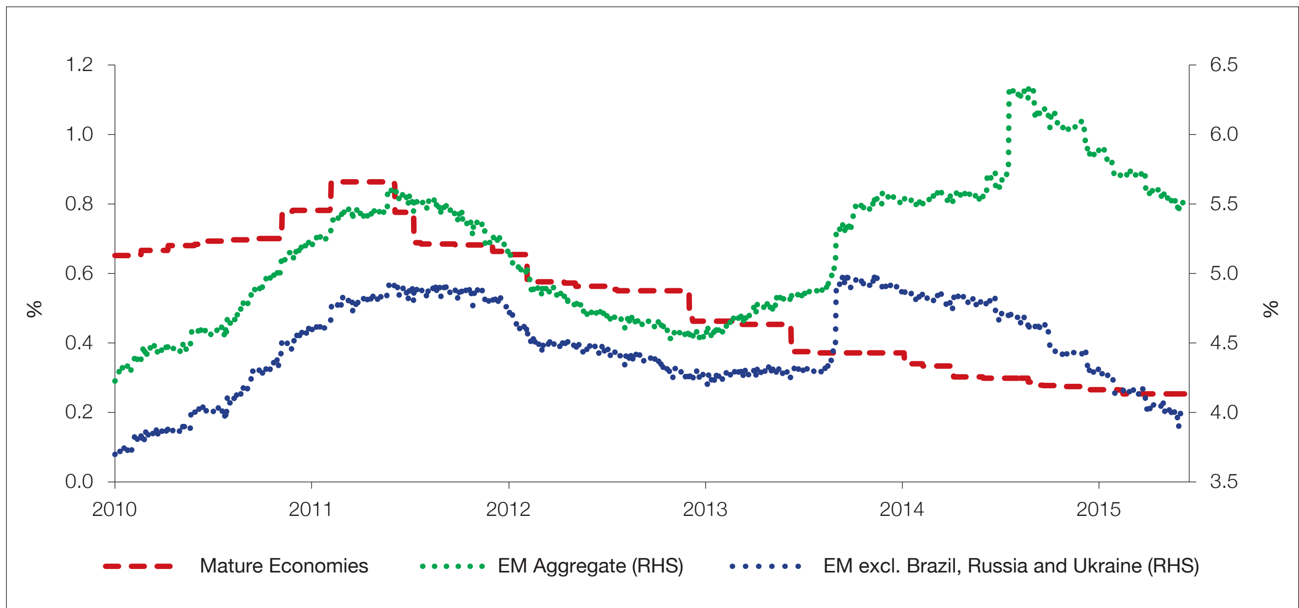
Source: Bloomberg, December 2015.

Note: China 1-year lending rate set by the central bank.

In EM economies, fiscal stances continued to ease to offset the slowdown in economic growth, albeit with marked differences across countries and regions. Government spending and investment accelerated in China and India mainly on social infrastructure programs. In China, fiscal stimulus amounted to 1.5% of GDP while primary budget surplus in Brazil reached 0.2% in 2015. Official policy rates in mature economies remained virtually near zero at 0.3% during 2015 whereas rates in EM declined on aggregate from 6.3% to 5.5%. Rates were declined further to 4.0%, down from 4.7% in 2014 after excluding high inflation countries such as Brazil, Russia and Ukraine[12].

12. IIF Database, November 2015.

Figure 6: Trends in Official Policy Rates, (%)



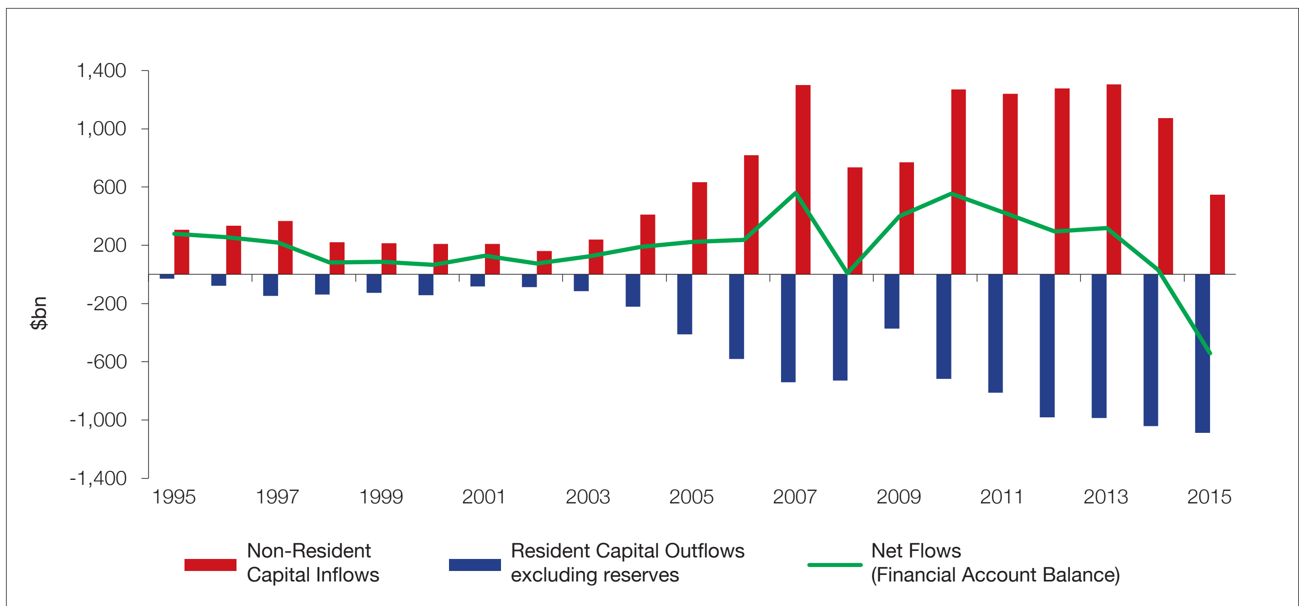
Source: IIF.

1.4. Capital Flows

Non-resident private capital flows to EM fell to only $231 billion in 2015, after averaging $1.2 trillion per year from 2010-2014. As a share of EM GDP, private capital inflows declined to about 0.9% in 2015 from a record high of almost 8% in 2007. While net non-resident inflows reached $548 billion in 2015, down from $1.1 trillion in 2014, resident outward investment flows have accelerated amid the recent turbulence in global financial markets, putting further downward pressure on EM reserves, exchange rates, and asset prices.

EM saw for the first time since 1988 net capital outflows, worth $531 billion in 2015, compared with net inflows of $32 billion in 2014. Non-resident capital inflows were $548 billion whereas resident capital outflows were in the negative territory, at $1,089 billion as shown in Figure 7. China was the dominant driver of EM capital flows as it saw a retrenchment of non-resident capital worth $110bn, after average annual inflows of $387bn from 2010-2014, or 40% of total EM inflows[13].

Figure 7: Capital Flows to Emerging Markets ($bn)



Source: IIF.

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13. IIF, "Capital Flows to Emerging Markets", January 2016.

While all regions have experienced weaker inflows as shown in Table 2, a large part of the decline in EM overall flows in 2015 was attributed to outflows from China, which intensified after the PBOC announced a mini-devaluation of the renminbi and a shift to a more flexible exchange rate regime in August. Private capital flows to Emerging Asia plunged in 2015 to lows of $184.9 billion unseen since the global financial crisis. Much of the drop reflected reduced offshore borrowing by Chinese corporates responding to shifting perceptions about renminbi management.

EM Europe experienced substantial net capital outflows through both nonresident capital withdrawals and heavy resident outflows. Net outflows continued to be driven primarily by Russia, the Czech Republic, and Turkey. In Latin America, continued commodity price weakening and heightened global risk aversion put sustained downward pressure on local currencies and held down private capital inflows in 2015. Private capital inflows to the Middle East and Africa fell to $79.5 billion in 2015 from $97.2 billion in 2014, as a result of a shift in the aggregate current account balance of MENA oil exporting countries and a shift from resident capital outflows of $212 billion in 2014 to small net inflows of $15 billion in 2015[14].

Table 2: Private Capital Inflows to EMs ($bn)

Region	2012	2013	2014	2015
Latin America	313.9	303.8	291.2	239.5
Emerging Europe	241.4	218.1	30.6	-20.3
Middle East / Africa	87.3	82.6	97.2	79.5
Emerging Asia	607.5	668.3	613.1	184.9
Emerging Markets	1250.1	1272.8	1032.1	483.6

Source: IIF.

1.4.1. EM Total Portfolio Inflows

Bank lending was affected the most by recent market volatility as commercial banks reduced cross border exposure to EM by $134 billion on net in 2015, led by repayments of dollar denominated loans by Chinese corporates after years of heavy offshore borrowing. In addition, Russia saw a further reduction in foreign bank credit to the tune of $22 billion, after years of heavier retrenchment. Meanwhile, after being resilient since the crisis, FDI inflows showed signs of a modest decline, and dipped to $535 billion from $586 billion in 2014. This decline reflected in parts cutbacks in spending on commodity-related infrastructure projects in the wake of steep commodity price declines. Table 3 shows the evolution of portfolio flows for both equity and bond flows during the period from 2012 until 2015. It declined in 2015 with portfolio flows fell to $12.8 billion for equity flows and to $28.1 billion for debt flows[15].

Table 3: Net Non-Resident Purchase of EM Stocks and Bonds ($bn)

Portfolio Flows					
Equity Flows	**Emerging Asia**	**Latin America**	**Emerging Europe**	**ME & Africa**	**Total**
2012	66.90	17.20	10.60	-0.50	94.23
2013	29.60	17.90	4.60	-0.21	51.89
2014	46.20	16.60	4.80	0.60	68.15
2015	10.01	8.49	-4.85	-0.83	12.81
Regional Total	**152.81**	**60.19**	**15.15**	**-0.94**	**227.21**
Debt Flows					
2012	75.17	121.39	55.96	5.99	258.52
2013	46.80	87.84	15.64	-7.24	143.04
2014	61.67	107.04	-5.71	-9.79	153.20
2015	33.09	35.69	-31.36	-9.31	28.10
Regional Total	**216.73**	**351.96**	**34.53**	**-20.35**	**582.87**

Source: IIF.

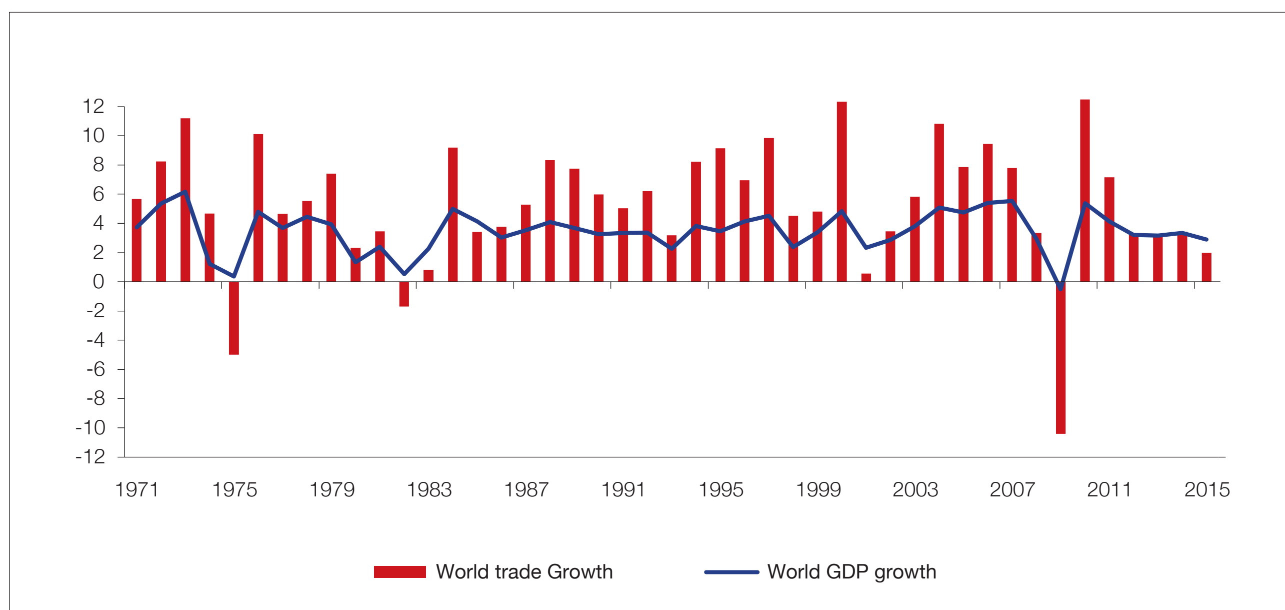
14. IMF, WEO October 2015.

15. IMF, WEO October 2015.

1.5. Global Trade

In 2015, world trade growth slowed down sharply and unexpectedly to an estimated 2%, down from 3.4% in 2014. This trade slowdown reflected in part weaker global GDP growth which has eased to around 3.0% from 3.4% in both years, well below its long run average. Over the past five decades, there were only five other years in which global trade growth was 2% or less, all of which coincided with a marked downturn of global growth, shown in Figure 8 below[16].

Figure 8: Global trade growth (y-o-y % change)



Source: OECD Statistics, November 2015.

Table 4 shows that in 2015, weak global trade growth centered on EM economies, mainly in China as its new growth model contributed to the decline in oil and commodity prices. Evidently, a substantial proportion of the overall slowdown in global trade growth in 2015 was accounted for by a decline in import volumes in non-OECD economies, reflecting both weaker demand growth and a reduction in import intensity. This has contributed to weaker external demand in the advanced economies and reduced their GDP growth by less than half a percentage point.

Table 4: Imports of Goods and Services, Volume (% change)

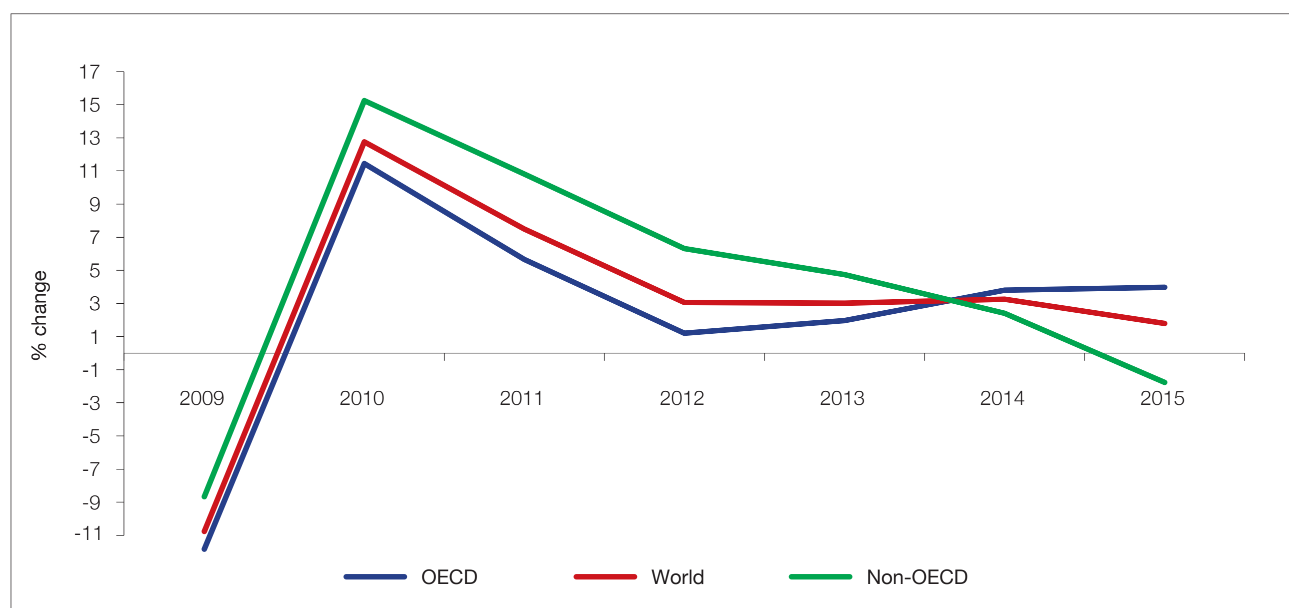
Region	2009	2010	2011	2012	2013	2014	2015
OECD	-11.8	11.4	5.7	1.2	2.0	3.8	4.0
World	-10.8	12.8	7.5	3.1	3.0	3.3	1.8
Non-OECD	-8.7	15.3	10.8	6.3	4.8	2.4	-1.8
Other oil producers	-4.7	3.9	5.8	10.6	3.5	3.1	-1.0
Asian Economies	-11.8	18.8	4.6	3.0	4.8	2.4	-0.1

Source: OECD Economic Outlook No. 98, November 2015.

Non-OECD Import volumes fell by 1.8% compared with a 2.4% increase in 2014. While other oil producers realized a 1% fall in their import volumes, those of Asian economies barely fell by 0.1%. In contrast, world and OECD import volumes increased by 1.8% and 4% respectively in 2015.

16. IMF, WEO October 2015.

Figure 9: Global Import Volume, y-o-y (% change)



Source: OECD Economic Outlook No. 98, November2015.

A number of factors contributed to this sharp fall in non-OECD trade including over 10% and 20% fall of Brazil and Russia's import volumes respectively, accounting for nearly one-third of the slowdown in non-OECD import volume growth between 2014 and 2015. Softer import volume growth in China, from 7% in 2014 to about 2% in 2015, also accounted directly for just one-third of the slowdown in non-OECD import volume growth. The slowdown in China hampered external demand for other Asian economies, including Japan and Korea, as well as many commodity exporters which are also relatively exposed to weaker demand in China. The US and the Euro area have less direct trade exposures to China but are more heavily exposed to weaker demand in China's main trading partners[17].

Table 5 summarizes trade growth estimates for 2015, which are conditional upon consensus estimates of real GDP at market exchange rates. The WTO expects the volume of World merchandise trade to have grown by 2.8% in 2015, up from 2.5%, as slowing import demand in China, Brazil and other emerging economies reduces exports of trading partners. On the export side, shipments from developed economies are expected to have increased by 3% in 2015 while exports of developing economies grew by 2.4% in 2015. Imports of developed economies are likely to have increased by 3.1% in 2015, while those of developing economies increased by 2.5% in 2015[18].

Table 5: Volume of World Merchandise Trade and Real GDP Growth: 2011-2015 (Annual % change)

Year	Merchandise Trade Growth	Real GDP Growth
2010	13.9	4.1
2011	5.3	2.8
2012	2.2	2.3
2013	2.5	2.3
2014	2.5	2.5
2015 [e]	2.8	2.5

e: Estimate.
Source: WTO, International Trade Statistics, 2015.

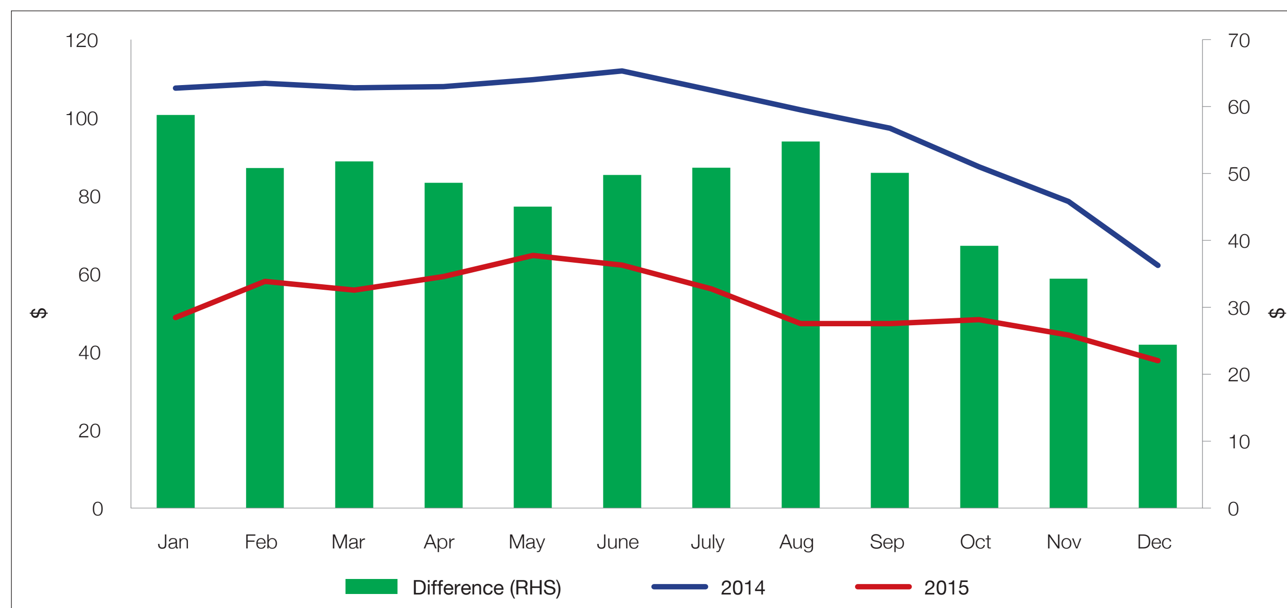
17. IMF, WEO October 2015.
18. IMF, WEO October 2015.

2. OIL DYNAMICS

Oil prices fell dramatically between July 2014 and January 2015 from about $110 a barrel to less than $50 a barrel. Since then, oil prices remained volatile, initially rebounding to about $50 a barrel during spring months of 2015, but then falling back below $40 a barrel at the yearend with resilient supply and still feeble demand. OPEC, WTI and Brent prices have declined by more than 50% during the second half of 2014, and by more than 65% in 2015 to mark the lowest price level since 2009. On December 31st, OPEC daily basket settled at $31.27 per barrel, while WTI and benchmark Brent closed at $37.04 a barrel and $37.28 a barrel respectively[19].

Similarly, WTI averaged $44.3 per barrel in the second half and $49 per barrel for the whole year, slightly lower than Brent crude which averaged $46.8 per barrel in the second half and $52 per barrel for the year. In addition, OPEC averaged $44.05 per barrel in second half and $49.55 per barrel for the whole year, compared to $87.2 per barrel for the same period in 2014[20].

Figure 10: Brent Average Monthly Prices in 2014 and 2015 ($pb)



Source: Bloomberg.

Table 6: OPEC, WTI, and BRENT Prices (Mean & Volatility in $ per barrel)

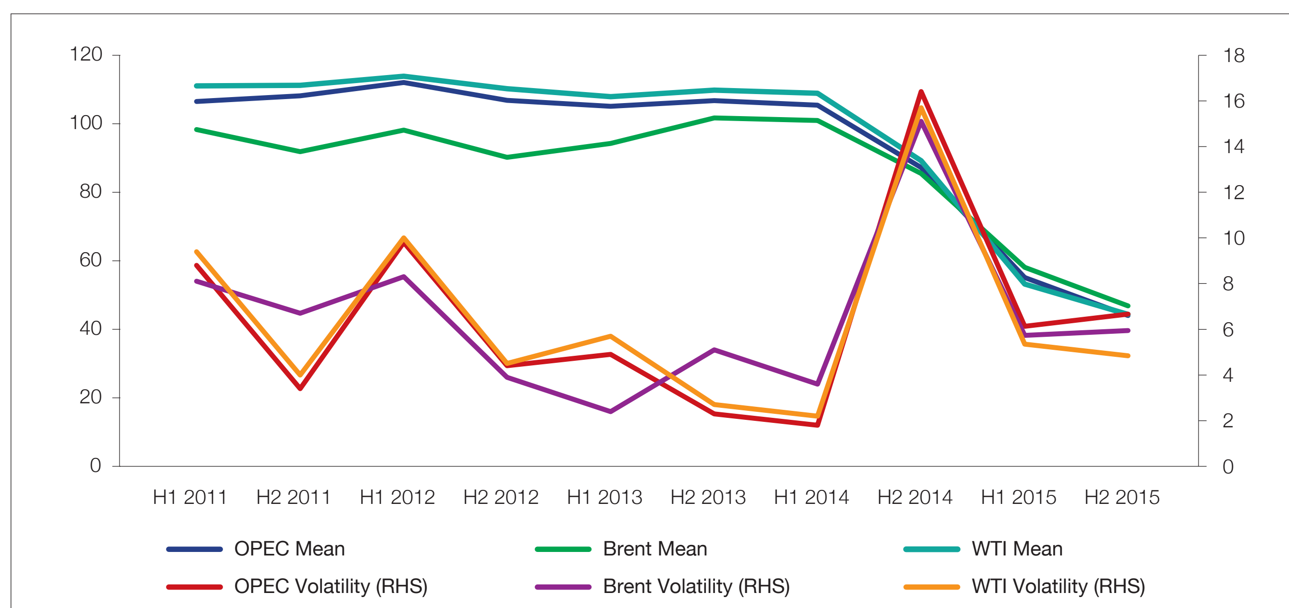
	OPEC		Brent		WTI	
	Mean	**Volatility**	**Mean**	**Volatility**	**Mean**	**Volatility**
H1 2011	106.5	8.8	98.3	8.1	111.0	9.4
H2 2011	108.1	3.4	91.8	6.7	111.2	4.0
H1 2012	112.0	9.8	98.1	8.3	113.8	10.0
H2 2012	106.8	4.4	90.2	3.9	110.2	4.5
H1 2013	105.1	4.9	94.2	2.4	107.9	5.7
H2 2013	106.7	2.3	101.7	5.1	109.8	2.7
H1 2014	105.4	1.8	100.9	3.6	108.9	2.2
H2 2014	87.2	16.4	85.5	15.1	89.2	15.7
H1 2015	55.14	6.13	58.10	5.73	53.23	5.35
H2 2015	44.05	6.66	46.81	5.95	44.33	4.84

Source: Bloomberg.

Moreover, oil prices lost between 20-25% in the second half of 2015, pulling the year average volatilities to 6.39 for OPEC, 5.84 for WTI, and 5.09 for Brent.

19. IMF, WEO October 2015.
20. IMF, WEO October 2015.

Figure 11: OPEC, WTI, and Brent Mean and Volatility



Source: Bloomberg.

2.1. Oil Fundamentals and Prices

Access oil supply and hence increasing inventories are major factors that contributed to low oil prices in 2015. EIA estimates that in 2015, global oil inventories increased by 1.9 mb/d leading to further downward pressure on the price of the crude. The increase in production came mainly from higher OPEC's production which increased by 3%, to reach 37.4 mb/d and by an increased production of non-OPEC members which increased by 1.23 mb/d to average around 56.87 mb/d in 2015[21].

Table 7: International Petroleum and Other Liquids Production (mb/d, 2015)

	Q1	Q2	Q3	Q4
OECD	26.65	26.48	26.79	26.59
U.S.	14.81	15.10	15.14	15.05
Canada	4.69	4.22	4.55	4.52
Non-OECD	68.04	69.11	69.81	69.36
OPEC	37.53	38.24	38.75	38.67
Crude Oil Portion	30.98	31.67	32.03	31.90
Other Liquids	6.55	6.57	6.72	6.77
Eurasia	14.09	14.01	14.01	13.93
China	4.66	4.73	4.72	4.69
Other Non-OECD	11.76	12.13	12.33	12.07
Total World	94.69	95.58	96.60	95.95

Source: EIA, "Short-Term Energy Outlook", January 2016.

On the other hand, global consumption for the year grows by 1.4 mb/d to average 93.8 mb/d. Oil demand increased modestly from 92.89 mb/d in the first quarter to 94.28 mb/d in the last quarter of 2015. The increase in consumption came at the first place from rising demand from OECD Europe and Other Asia. In the last quarter of 2015 however, oil demand eased in US, Europe, and other Non-OECD. Unexpectedly, China's demand increased from 10.77 mb/d in the first quarter to 11.27 mb/d in the fourth quarter of 2015.

21. IMF, WEO October 2015.

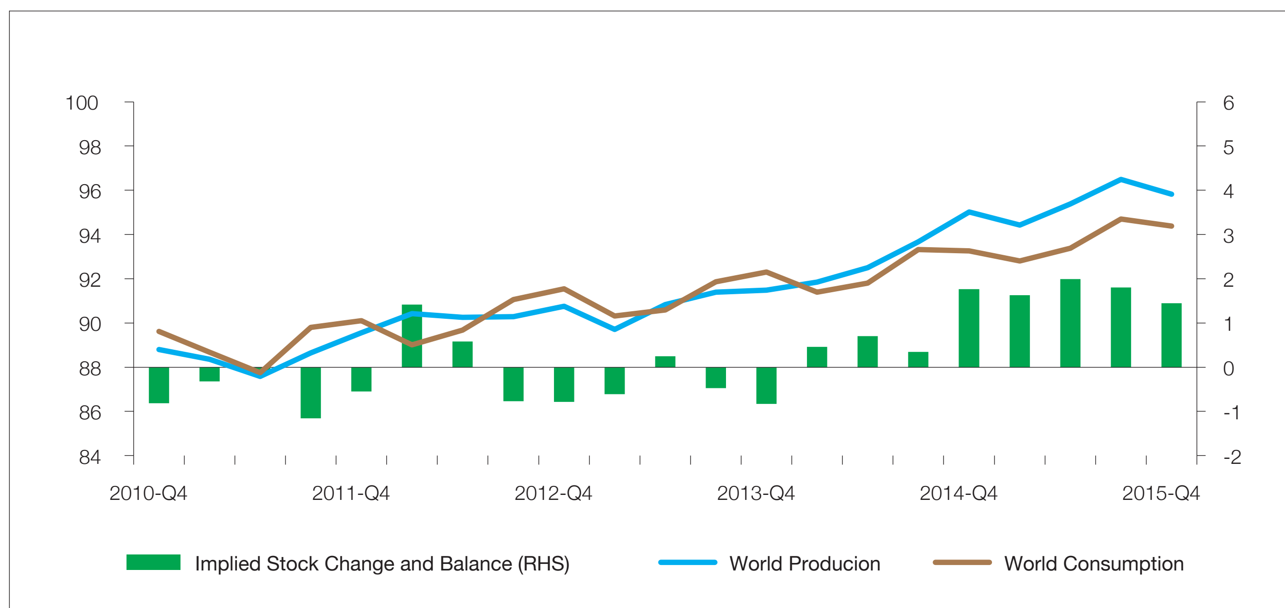
Table 8: International Petroleum and Other Liquids Consumption (mb/d, 2015)

	Q1	Q2	Q3	Q4
OECD	46.62	45.36	46.51	46.65
U.S.	19.29	19.25	19.68	19.27
Canada	2.36	2.27	2.43	2.41
Europe	13.53	13.43	13.91	13.86
Japan	4.80	3.92	3.91	4.28
Non-OECD	46.27	47.85	48.19	47.63
Eurasia	4.71	4.65	4.92	4.90
Europe - Other	0.71	0.72	0.74	0.74
China	10.77	11.36	11.32	11.27
Other Asia	12.11	12.33	11.87	12.19
Other Non-OECD	17.96	18.79	19.35	18.53
Total World	92.89	93.21	94.69	94.28

Source: EIA, "Short-Term Energy Outlook", January 2016.

Furthermore, unrestrained production from OPEC as well as non-OPEC members, the return of Iranian oil exports to the market, resilient US shale oil production, weaker global demand, and last but not least geopolitical tensions are among other factors that exerted a downward pressure on oil prices during the year.

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



Source: EIA, Short Term Energy Outlook. January 12, 2016.

3. GCC ECONOMIES REVIEW

GCC's real GDP continued to grow at slower rates than those realized in the past years due to low oil prices. Oman is expected to have realized the highest growth rate at 4.4%, exceeding both Qatar and the UAE. While realizing a slight increase in growth levels at 4.1%, Qatar maintained its economic growth trend above 4% in 2015. The UAE's real GDP growth slowed down significantly in 2015 from 4.6% to 3.3% while Bahrain's growth rate declined from 4.5% in 2014 to 3.7%. Saudi Arabia slightly slowed down in terms of real GDP growth and registered 3.3%. Kuwait's real GDP growth improved marginally to 0.6% after shrinking by 1.6% in 2014.

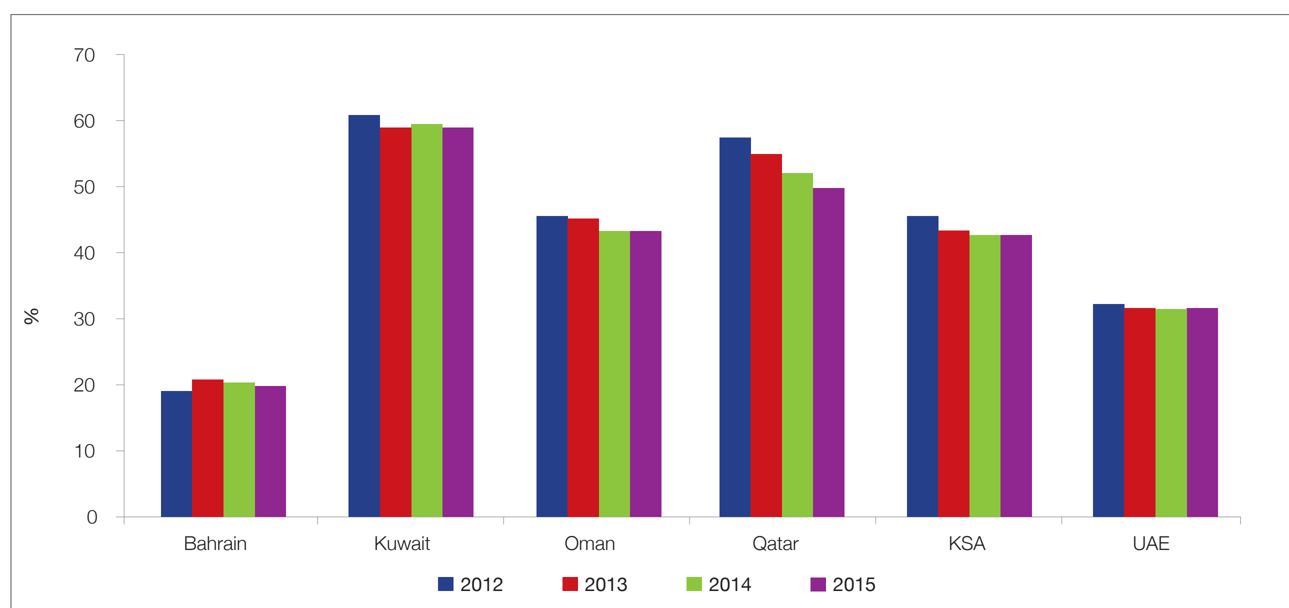
Table 9: Real GDP Growth (% change)

Country	2011	2012	2013	2014	2015 f
Bahrain	2.1	3.6	5.4	4.5	3.7
Kuwait	9.6	6.6	1.1	-1.6	0.6
Oman	-1.1	7.1	3.9	4.0	4.4
Qatar	13.4	4.9	4.6	4.0	4.1
Saudi Arabia	10.0	5.4	2.7	3.6	3.3
United Arab Emirates	4.9	7.2	4.3	4.6	3.3

f: IIF forecast.
Source: Institute of International Finance (IIF).

The contribution of hydrocarbons to real GDP in the GCC accounted for an average of 41% in 2015 with Kuwait being the most dependent on hydrocarbons where it constituted more than 59% of real GDP. Bahrain was the least hydrocarbons-dependent with 19.8%, as shown in Figure 13.

Figure 13: Hydrocarbons Contribution to Real GDP in GCC (%)



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

3.1. Inflation

Inflation was mild with rates ranging between 0.3% and 4.4% across the region. GCC inflation rates were restrained mostly by subdued global food and commodity prices. The UAE exhibited the highest inflation rate at 4.4%, up from 2.3% in 2014, followed by Kuwait at 3.3% while the rate for the rest of the GCC countries hovered around 1.4%.

Table 10: Consumer Prices, % change

	2011	2012	2013	2014	2015f
Bahrain	-0.4	2.8	3.3	2.6	1.7
Kuwait	4.9	3.2	2.7	2.9	3.3
Oman	4.03	2.93	1.25	0.94	0.3
Qatar	1.9	1.9	3.1	3.0	1.5
Saudi Arabia	3.7	2.8	3.5	2.7	2.1
United Arab Emirates	0.9	0.7	1.1	2.3	4.4

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

3.2. GCC Trade

GCC total exports declined sharply in 2015 by 31.3% y-o-y due to the drastic fall in oil prices with hydrocarbon exports constituting more than 50% of total exports. Saudi Arabia's hydrocarbon exports hit $157 billion followed by Qatar with $60.9 billion and the UAE with $61.4 billion while hydrocarbon exports of the remaining GCC countries did not exceed $82 billion. GCC's total imports fell by 4.5% y-o-y, constituting a combined trade balance of $463 billion compared to $523 billion in 2014. The UAE and Saudi Arabia recorded the highest level of imports in contrast with Bahrain that registered the lowest level.

Table 11: GCC's Trade ($bn)

	2011	2012	2013	2014	2015f
Hydrocarbon Exports					
Bahrain	15.5	15.2	15.3	15.0	8.27
Kuwait	96.7	112.9	108.6	97.5	53.8
Oman	33.36	36.33	37.32	34.83	19.9
Qatar	105.4	122.3	121.4	114.5	60.9
KSA	317.6	337.7	321.9	284.4	157.4
UAE	111.7	126.3	131.0	111.6	61.4
Non-Hydrocarbon Exports					
Bahrain	4.4	4.8	6.0	6.1	6.22
Kuwait	6.2	6.7	7.2	7.3	6.7
Oman	13.7	15.81	19.11	18.39	16.55
Qatar	9.0	10.7	11.9	13.0	13.8
KSA	47.1	50.7	54.0	57.9	47.0
UAE	188.0	233.4	244.8	259.1	248.8
Total Imports					
Bahrain	12.1	13.24	13.66	13.32	9.84
Kuwait	22.47	24.26	25.58	27.38	26.10
Oman	21.5	25.63	32.04	27.89	25.32
Qatar	26.93	30.8	31.47	31.15	30.41
KSA	120.0	141.8	153.4	158.5	141.8
UAE	195.4	218.2	231.2	240.3	229.6

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

3.3. GCC Projects

Historically, oil prices played a key role in the region projects market where high oil revenues enabled GCC governments to allocate more spending into infrastructure projects, construction, and transportation. However, the recent fall in oil prices created more challenges for the projects market in the GCC during 2015, as governments across the region implemented some degree of fiscal austerity measures and cut back on planned projects while expediting their spending alternatives.

According to MEED Projects, during 2015, $164 billion worth of projects contracts had been awarded in the GCC, slightly higher than awarded projects in 2014. Saudi Arabia came first with $50 billion, followed by the UAE with $37 billion, and Kuwait with $32 billion.

Table 12: Projects Awarded in the GCC ($bn)

	2014	2015	% Change
Bahrain	2	3	50%
Kuwait	25	32	28%
Oman	12	13	8%
Qatar	30	29	-3%
KSA	48	50	4%
UAE	44	37	-16%
GCC	161	164	2%

Source: MEED Projects Database.

3.4. GCC's Competitiveness

According to the World Economic Forum (WEF), the competitiveness of the GCC economies remained fair as two members were ranked among the top 20 while all of the others were ranked among the top 50 except for Oman. Qatar continued to outperform the region with an advance in ranking from the 16th place to the 14th. Although the global ranking of UAE was pushed back to the 17th place, it is still ranked 2nd regionally, followed by Saudi Arabia which claimed the 25th place on the GCI. Both of Kuwait and Bahrain improved in terms of competitiveness next to their global comparators while Oman's competitiveness fell behind from the 46th place to the 62nd.

Table 13: GCC's Global Competitiveness Index Rankings

	2014-15	2015-2016
Qatar	16	14
UAE	12	17
KSA	24	25
Kuwait	40	34
Bahrain	44	39
Oman	46	62

Source: The Global Competitiveness Report 2015-2016.

3.5. GCC's Ease of Doing Business

On the other hand, GCC rankings on the Doing Business Index 2015 lagged behind significantly compared to the previous year where only UAE, KSA and Qatar were ranked in the “Top 50” tier. Moreover, Kuwait has managed to advance through the index from the 104th place to the 86th.

Table 14: GCC’s Ease of Doing Business Ranking

	2014	2015
UAE	23	22
KSA	26	49
Qatar	48	50
Bahrain	46	53
Oman	47	66
Kuwait	104	86

Source: Doing Business 2014 and Doing Business 2015.

3.6. Sovereign Wealth Funds

In 2015, the main areas of investments of SWFs were real estate and infrastructure. As per the Sovereign Wealth Funds transaction database, activities in the real estate sector investments were cut almost by half, accounting for only $6,621 million. Similarly, the investments in the infrastructure contracted to $3,534 million, driven mainly by activities in the UAE and Kuwait. Meanwhile, the SWF transactions were reduced drastically by around 77% in the Financials, 90% in Health Care and up to 95% in Industry as shown in Table 15.

Table 15: GCC Sovereign Wealth Fund Yearly Investments by Sector, ($ mn)

	Energy	Financials	Health Care	Industry	IT	Infrastructure	Real Estate
2011	5,421.40	5,794.46	-	120.42	14.63	1,586.32	3,283.50
2012	4,803.90	616.56	87.89	387.06	884.74	2,446.75	3,346.50
2013	310.49	2,513.99	163.53	864.84	942.21	1,287.23	9,619.08
2014	305.16	1,173.85	559.57	259.70	358.66	5,534.67	12,134.42
2015	219.56	273.68	56.63	12.95	221.47	3,534.96	6,621.13

Source: www.swftransaction.com.

3.7. Sovereign Credit Ratings

GCC’s sovereign credit ratings remained in the upper tiers of investment grade and comparably competitive with most advanced economies. Qatar and Kuwait have qualified as the highest ranked member countries with a ranking of AA alongside with Abu Dhabi.

Overall sovereign creditworthiness in the GCC region remained quite stable during the past decade thanks to superb oil prices. However, the recent fall in oil prices had its toll on the ratings. Standard & Poor’s Ratings Services (S&P) downgraded the ratings of Bahrain, Oman and KSA in 2015.

Bahrain’s sovereign credit rating was lowered on the 9th of February 2015 by the S&P given its “weakening fiscal profile and its uncertain policy response”[22]. On the same day, Oman’s rating was downgraded as well from “A” to “A-” before it was reviewed and downgraded once again on the 20th of November from “A-” to “BBB+” after the agency projected that persistent low oil prices “will impair Oman’s fiscal and external balances” more than they have expected[23]. Similarly, KSA’s rating was cut down by S&P from “AA-” to “A+” on the 30th of October on the back of a “pronounced negative swing” in the country’s fiscal balance[24].

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22. “Research Update: Bahrain Downgraded To ‘BBB-/A-3’ Following Sharp Decline In Oil Prices; Outlook Negative”. S&P. February 9, 2015.

23. “S&P cuts Oman credit rating as budget deficit widens”. Reuters. November 21, 2015.

24. “Research Update: Ratings on Saudi Arabia Lowered To ‘A+/A-1’; Outlook Remains Negative”. S&P. October 30, 2015.

Table 16: GCC Sovereign Credit Ratings (Foreign Currency Long-Term Debt)

Country	2015 Year-end Rating (S&P)
Bahrain	BBB-
Kuwait	AA
Oman	BBB+
Qatar	AA
Saudi Arabia	A+
UAE (Abu Dhabi)	AA

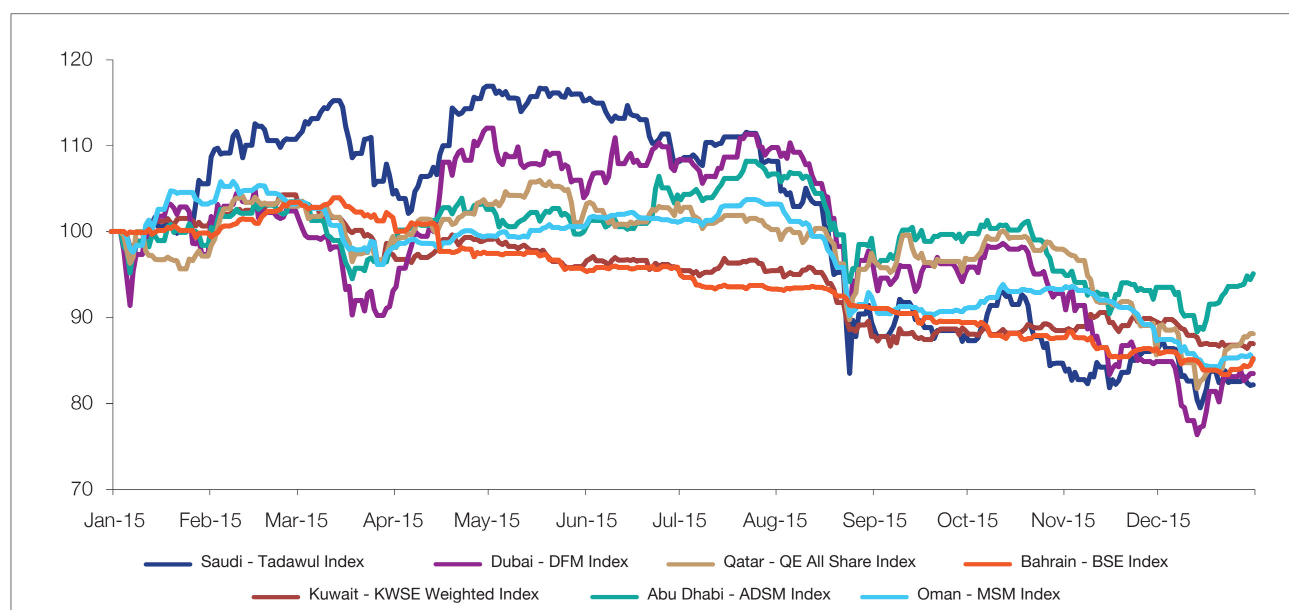
Note: The above ratings are as of 31 December 2015.
Source: Bloomberg Data Base, 14 January 2016.

4. EQUITY MARKETS REVIEW

4.1. GCC Equity Markets Overview

GCC markets closed on a weak note at the end of 2015, despite a short rally on select indices towards the end, as investor sentiment remained weighed down by sustained weakness in oil prices and the expectation of cuts in spending during 2016. The escalation of geopolitical tensions in the wider MENA region created further uncertainty, as unprecedented terrorist attacks in Kuwait and Saudi Arabia led to an escalation in volatility, prompting foreign investors to reduce positions in the GCC markets in general. Investors remained concerned about the mounting pressure on fiscal sustainability and economic growth for the region, following the dramatic fall in oil prices.

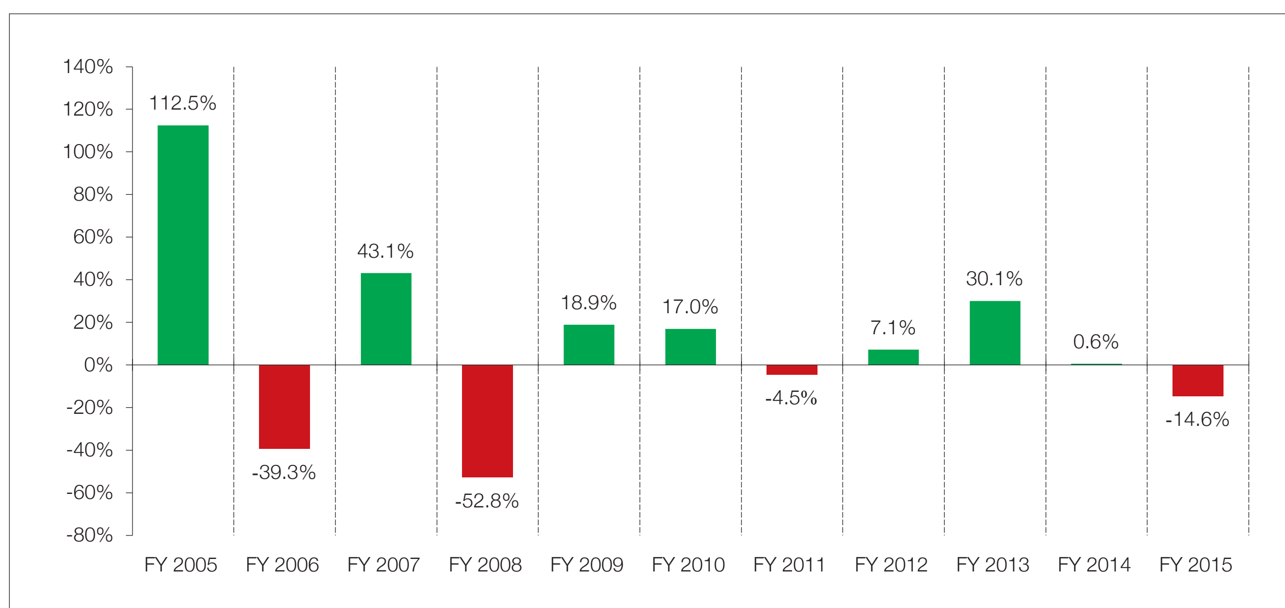
Figure 14: Performance of GCC Indices, 2015



Source: GIC Research, Bloomberg.

The S&P GCC Composite index shed a net loss of 14.6% for the year, its worst YTD returns since 2008, and follows three consecutive years of gains on the index. None of the individual benchmark country indices managed to secure net gains at the end of the year. Saudi Arabia's Tadawul index was the least performing among its GCC peers, as it dropped by 17.1% y-o-y, followed by the DFM index in Dubai that moved down by a net 16.5% y-o-y.

Figure 15: Performance of S&P GCC Composite index (2005-2015)



Source: GIC Research, Bloomberg.

The steady weakening of investor sentiment caused the uncertainties of global and regional markets to transmit to the GCC markets as well. Global volatility was largely linked to the decline in oil prices, the timing and quantum of the rate hike by the US Fed, as well as weakening expectations of economic growth in China. GCC market volatility remained high throughout most of 2015, with large daily losses emerging as a common occurrence in most markets.

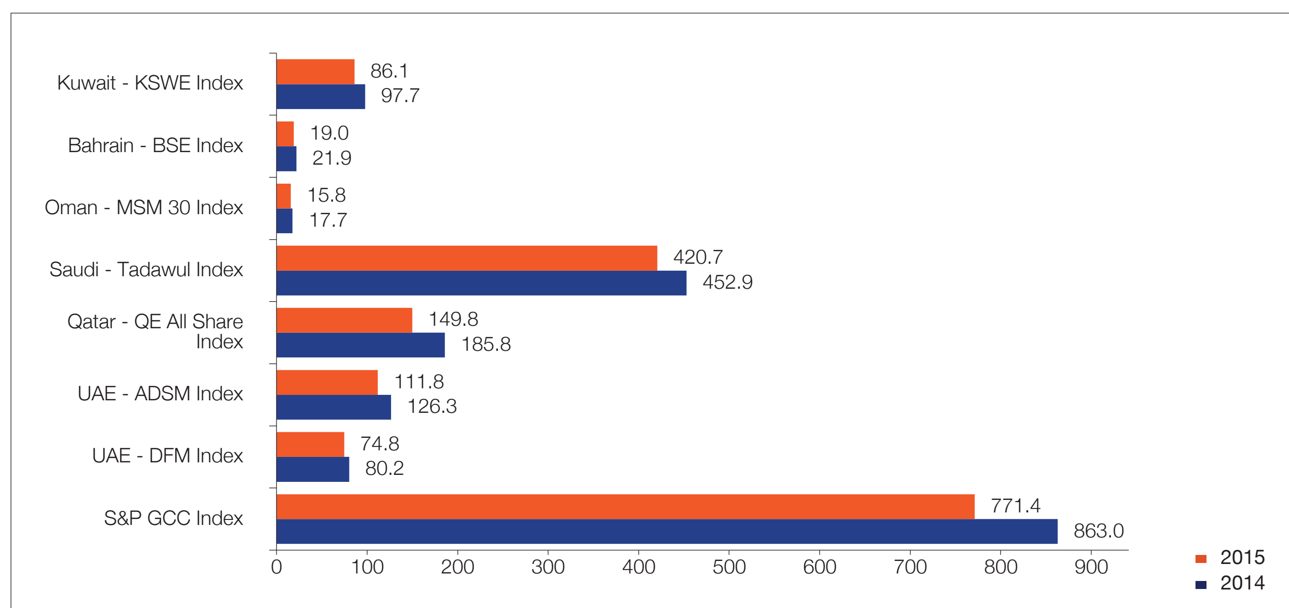
Table 17: Volatility Index across the GCC Markets, 2015

	Year Opening	Year Closing	Year High	Year Low	Index Volatility
S&P GCC Composite Index	162.24	138.56	182.83	133.59	16.7%
UAE - DFM Index	3774.00	3151.00	4229.04	2882.80	23.8%
UAE - ADSM Index	4528.93	4307.26	4902.09	4000.71	14.9%
Qatar - QE Index	3151.00	2776.78	3339.23	2575.79	15.9%
Saudi - Tadawul index	8333.30	6911.76	9834.49	6686.27	22.3%
Oman - MSM 30 Index	6343.22	5406.22	6725.47	5354.97	9.3%
Bahrain - BSE Index	1426.57	1215.89	1494.03	1247.98	7.3%
Kuwait - KSWE (Weighted Index)	438.88	381.70	457.73	379.34	9.0%

Source: GIC Research, Bloomberg.

The total market capitalization of the S&P GCC Composite index declined by 10.6% to $771.4 billion at the end of 2015, compared to $862.9 billion at the end of 2014. The Saudi market, the biggest in the GCC, recorded a decline of 7.1% in total market capitalization to $420.6 billion, while Qatar's bourse witnessed the biggest drop in market capitalization, with a y-o-y drop of 19.4% to $49.8 billion.

Figure 16: GCC Market Capitalization for 2014 and 2015 ($bn)



Source: Bloomberg.

4.2. Country Performances

None of the individual benchmark country indices managed to secure net gains at the end of the year, as market sentiment eroded constantly through the year and the markets witnessed a steady migration of liquidity out of the region. The causes of this were manifold, but were largely centered on the sustained decline in oil prices, an increase in regional geopolitical tensions and a host of other factors including expectations of a prolonged economic slowdown, widespread cutbacks in state spending, a contraction of liquidity in the banking system, and the possibility of a deterioration in asset quality, among others.

Table 18: Index Returns for 2015

	31 December 2014	31 December 2015	% Change
S&P GCC Index	162.24	138.56	-14.60%
S&P Pan-Arab Index	1799.88	1541.04	-14.38%
MSCI World Index	1709.67	1662.79	-2.74%
MSCI EM Index	956.31	794.14	-16.96%
UAE - DFM Index	3774.00	3151.00	-16.51%
UAE - ADSM Index	4528.93	4307.26	-4.89%
Qatar - QE All Share Index	3151.00	2776.78	-11.88%
KSA - Saudi Tadawul Index	8333.30	6911.76	-17.06%
Oman - MSM 30 Index	6343.22	5406.22	-14.77%
Bahrain - BSE Index	1426.57	1215.89	-14.77%
Kuwait - KWSE (Weighted Index)	438.88	381.70	-13.03%

Source: GIC Research, Bloomberg.

The Saudi bourse was the worst affected as the Tadawul index dropped by a net 17.06% for the year. The much anticipated opening of the Saudi bourse to foreign investors in June 2015, failed to enthuse investors, and the lack of adequate foreign participation as well tighter than expected controls on entry, caused the Saudi market to enter a sustained phase of correction that largely stretched till the end of the year, with the exception of a few relief rallies that failed to reverse the trend.

In the UAE, markets faced pressure from a slowdown in the real estate markets in Dubai and Abu Dhabi amid sustained corrections in property prices and weakening property sales. Dubai's DFM index fell by 16.51% for the year, while Abu Dhabi's ADSM index proved to be more resilient as losses were restricted to 4.89% for the year.

The decline in Qatar's QE All Share index by 11.88% for the year was prompted by the sharp correction in oil and gas prices that weighed down on sentiment, though the country's long-term spending plans appeared to be unaffected with continued spending on infrastructure associated with the FIFA World Cup that is to be hosted in the country in 2022.

Bahrain's BSE index closed the year with a net loss of 14.77%, as heightened geopolitical tensions and insipid interest from international and regional investors caused the bourse to be largely relegated to the sidelines with very low trading volumes.

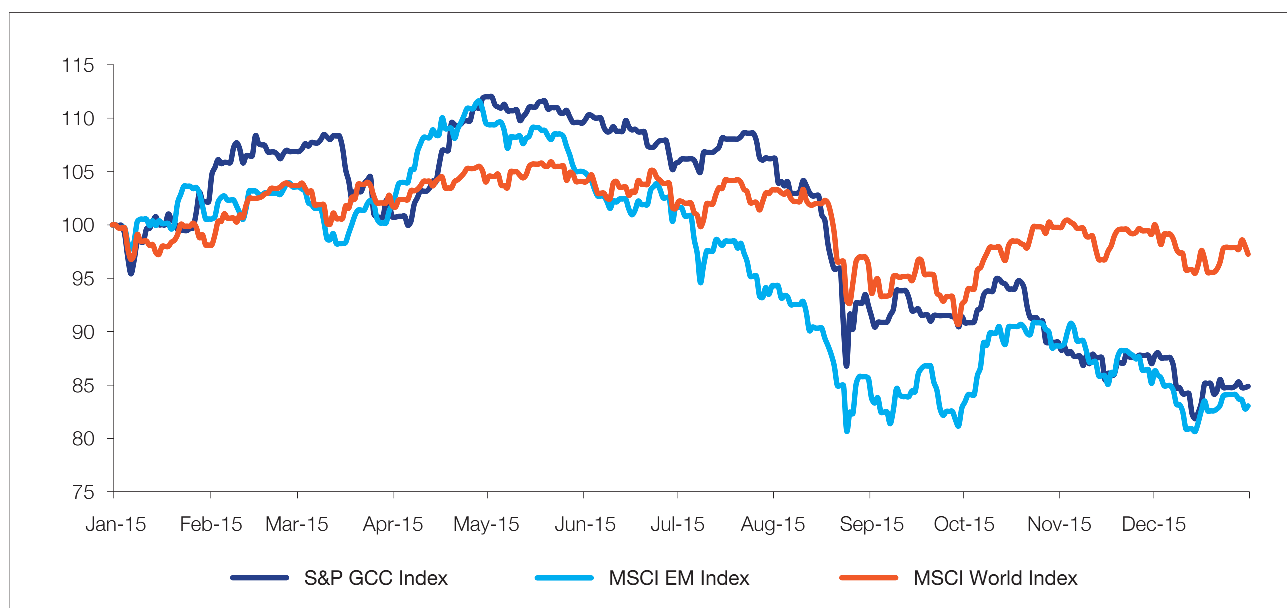
Oman's MSM 30 moved down by 14.77% as well, remaining largely on the fringe of investor interest despite attractive valuation multiples, as the decline in oil prices threaten to cause a prolonged slowdown in public spending.

In Kuwait, the KWSE price index recorded a loss of 14.09%, while losses on the KWSE weighted index amounted to 13.03%, as a weaker outlook for government spending following the correction in oil prices, and the possibility of delays or cancellations in awarded contracts, caused market activity to remain subdued throughout 2015. The year also witnessed the delisting of several small companies from the bourse.

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

The S&P GCC index underperformed the MSCI World index by a large margin, as the global benchmark closed with a net loss of 2.74% for the year, compared to losses of 14.6% on the GCC benchmark. The MSCI EM index ended 2015 with marginally poorer returns, as it registered a net loss of 16.96% for the year.

Figure 17: Relative Performance of S&P GCC Index, 2015

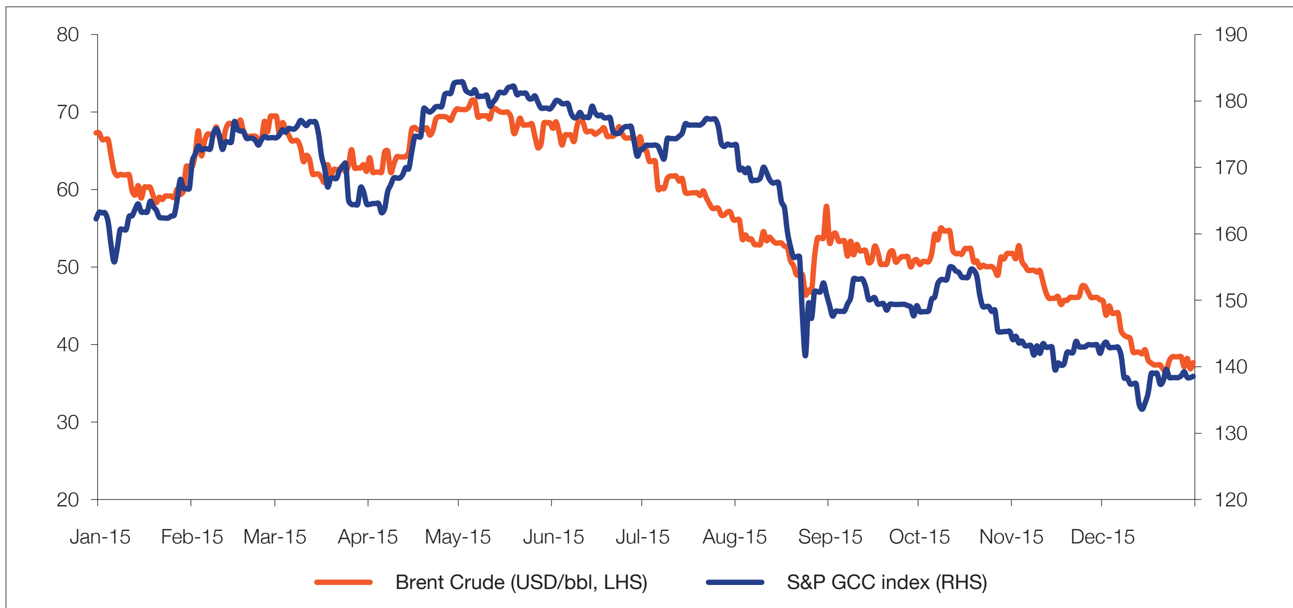


Source: GIC Research, Bloomberg.

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

The GCC markets have exhibited a high degree of correlation with oil prices during the course of 2015, with the GCC composite index moving largely in tandem with the movement in oil prices. The weakness in oil prices has remained a key catalyst for the deterioration in GCC markets during the year.

Figure 18: Relative Performance of S&P GCC Index vs. Brent Oil Prices, 2015

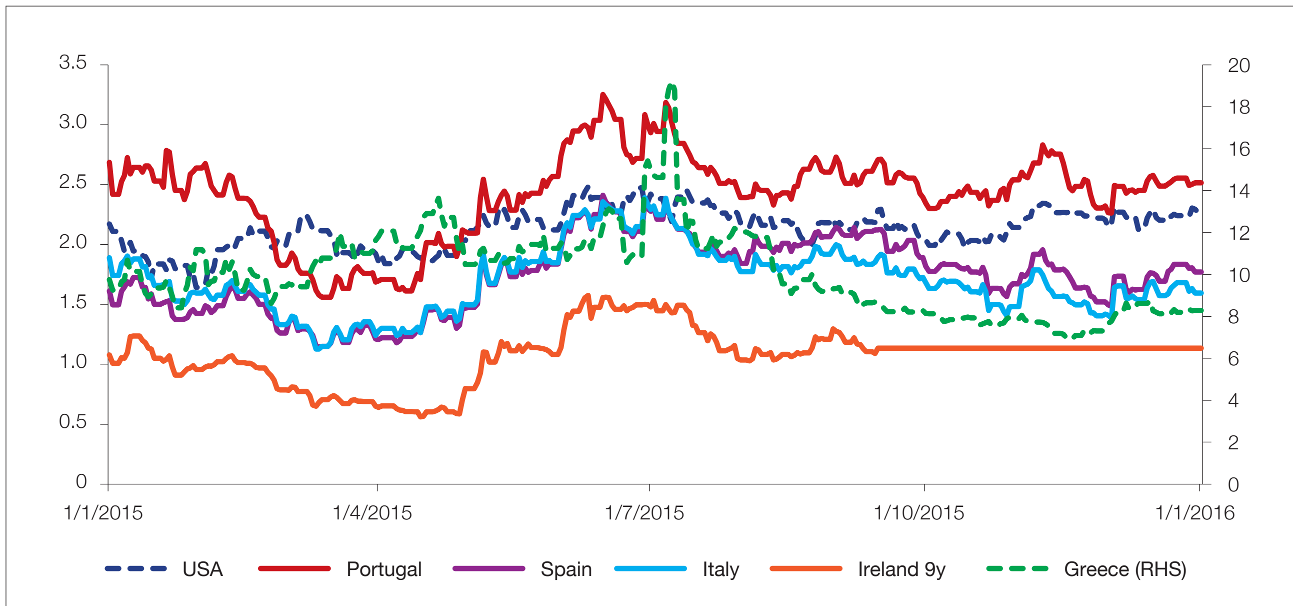


Source: GIC Research, Bloomberg.

4.5. Treasuries

During 2015, most of the European economies witnessed an upwards movement in their 10-year government bond yields in the first half, yet steadied during the second half. Greece, remains with the highest yields in the Euro zone, with levels reaching 18% in mid-2015. Portugal follows, being the second highest amongst comparators, still way below that of Greece. US yields seem to settle midway between comparators, at 2.171% and ending at 2.269%.

Figure 19: Euro Area and US 10-year Government Bond Yields during 2015 (%)



Source: Bloomberg.

Moreover, yields in the Euro area in 2015 fared higher than those during 2014. For example, during 2014 Greece yields went as high as 9.745%; however during 2015 yields spiked to over 18%. This pattern is mirrored across most Euro economies. US average yield in 2014 was 2.5% and 2.13% in 2015.

Table 19: Volatility of Spreads, 2015

	US	Portugal	Greece	Spain	Italy	Ireland
Opening Value (Jan. 1, 2015)	2.171	2.687	9.745	1.611	1.890	1.079
Closing Value (Dec. 31, 2015)	2.269	2.516	8.285	1.771	1.596	1.135
Average	2.130	2.421	10.048	1.737	1.700	1.074
Standard Deviation	0.169	0.357	1.990	0.306	0.276	0.230
Minimum Value	1.641	1.560	6.942	1.145	1.128	0.560
Maximum Value	2.484	3.253	19.226	2.410	2.391	1.575

Source: Bloomberg.

4.6. Credit Default Swaps (CDS)

With improvement in the economic environment, CDS displayed realizable drops during the year in the Euro area. Ireland, however, witnessed a 103% rise during 2015 while Italy led the Euro area drops at 25%, closing the year at 100.77 bps. The GCC region has encountered two major occurrences that drove CDS level in disperse directions; oil price drops and regional political unrest. Qatar and Dubai took the lead in the GCC, dropping by 17.83% and 10.91% y-o-y respectively. Saudi Arabia spiked by 140% due to the fact that it is a major oil producer in the region, and escalating geopolitical tensions in the region.

Volatility across all credit swaps in 2015 was relatively lower than 2014. For instance, Portugal displayed a standard deviation of 22.834 for 2015, compared to 41.53 last year. Volatility in the US has also dropped from 4.29 during 2014 to 1.864 in 2015.

Table 20: CDS Performance, 2015

	Portugal	Ireland	Greece	Spain	Italy	US	Bahrain	Abu Dhabi	Dubai	KSA	Qatar
Opening	202.14	21.88	1,272.88	95.69	136.06	16.31	241.91	63.60	226.90	66.79	82.19
Closing	177.77	44.42	1,177.01	93.58	100.77	21.23	375.54	95.08	202.15	160.80	67.54
Average	173.56	48.94	2610.52	96.79	116.29	19.07	306.14	67.75	200.88	87.69	67.66
Standard Deviation	22.83	12.63	1797.82	9.62	11.83	1.86	30.16	8.55	13.59	35.48	5.89
Minimum Value	116.18	17.61	989.53	73.11	94.27	15.50	241.91	54.41	185.00	55.00	61.28
Maximum Value	243.02	73.66	6191.04	132.02	157.10	22.15	393.40	95.19	270.03	165.00	83.01

Source: Bloomberg.

Financial
Review

Net Income Analysis

Gulf Investment Corporation (GIC) posted consolidated net profit of US$112 million for the year 2015 compared to US$203 million in 2014. This is after impairment provisions of US$40 million (2014: US$66 million) which mainly relates to quoted investments in GCC markets and some holdings in international private equity funds. Net change in revaluation reserves of financial assets available for sale and share of decline in the revaluation reserves of associates totaling to -US$243 million (2014: net decline of -US$31 million) taking the consolidated total comprehensive loss to -US$131 million (2014: income of US$172 million).

Decline in profit was mainly due to the share of loss from one of the major associate company amounting to US$110 million. Except to this loss from one associate company operating in cyclical industry, GIC's core business of project investments performed well considering the global/GCC economic condition and was well supported by the good performance of debt and equity portfolios as well as alternative investments.

Analysis of the contributing components to the net profit confirms good asset quality and the strength of GIC's investment philosophy.

Interest Income

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

Gross interest income for the year US$50 million is 32% higher than previous year. 94% of the interest income is contributed by securities. The gross interest income from securities increased due to increase in average volume by 28% and slightly better rate of return compared to last year. Redeployment of debt portfolio by sales and redemptions proceeds in an ideal mix of GCC bonds, emerging market bonds, high yield bonds and international corporate bonds contributed to enhance the spread considering the current trends in the securities market.

Net Gains from Investments

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

GIC recorded a net gain of US$208 million during 2015 (2014: US$226 million) comprise of realized gains US$154 million on partial sale of one associate company and sale of complete ownership in another, US$52 million (2014: US$85 million) on financial assets available for sale and market gains of US$4 million (2014 : US$31 million) from financial assets at fair value through statement of income.

Dividend Income

Dividend income of US$23 million (2014: US$28 million) comprises of receipts from equity participations, private equity funds, equities and managed funds. Dividends from principal investment portfolio amounted to US$19 million compared to US$24 million in 2014.The balance contribution is from quoted GCC equities portfolio.

Share of Results of Associates

Share of results from associates accounted during the year amounted to loss of -US$41 million compared to prior year income of US$74 million. Majority of the associates maintained previous year performance, but decline in the results of two major projects in chemicals and telecom resulted in the decline in overall portfolio results. Investments in power and water projects recorded above 6% growth in income in the current year.

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

Net Fees, Commission and Other Income

Income for the year amounted to US$7 million (2014: US$13 million) which mainly generated from project development/consultancy.

Other Operating Income

Other operating income represents the income from consolidated subsidiaries amounting to US$16 million compared to US$15 million in previous year (note 20).

Interest Expense

Interest expense decreased by 7 % compared to prior year to reach US$54 million for the year, which can be mainly attributed to maturity of one issues of term finance in 2014 and one in 2015 and sale of a subsidiary during the year. Average funding cost on deposits was also comparatively lower than prior year.

Operating Expenses

Efficiency in operations and higher productivity was achieved with strict control over operating expenses which resulted in a decline of 15% compared to last year to reach US$57 million.

Provision for Impairments/Mark-to-Market Losses

Net charge for the year in impairment/mark-to-market losses totaled -US$40 million, compared to -US$66 million recorded in 2014. Provisions during 2015 relate mainly to exposures in quoted GCC equities and private equity funds. The Corporation continues to adhere to its conservative provisioning policy, based on mark-to-market/fair valuations where-ever possible. A detailed break down is provided in Note 21 to the Financial Statements.

Balance Sheet Analysis

Under the changing global scenario with declining business opportunities, emphasis is placed on risk adjusted return criterion in asset allocation focusing mainly on the GCC region. Initiatives were implemented both, on the assets and liabilities sides maintaining the same asset base at US$5,097 million. Equity at US$2,497 million decreased by US$253 million compared to last year.

The Corporation's strategic focus continues to be on the GCC states and their major trading partners in the industrialized world. Note 23 to the Financial Statements sets out the geographic distribution of the Corporation's credit risk exposure.

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

Financial Assets at Fair Value through Statement of Income

This category includes investments in Debt instruments of US$29 million, Hedge funds US$123 million and other alternative investments of US$285 million. The portfolio is maintained at the same level of last year by reinvesting in similar assets of the proceeds received from the liquidations.

Financial Assets Available for Sale

As at 31 December 2015, financial assets available for sale amounted to US$2,584 million, an increase of 8 % from the prior year. Debt and other interest bearing securities, constituting 75 % of the financial assets available for sale increased by US$275 million or 17% during the year. Investments in GCC and International bonds have increased during the year whereas exposure to Emerging market bonds and Structured debt instruments were reduced. The change in geographic mix is in line with the strategy for achieving sustainable and enhanced risk adjusted return profile.

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

Financial assets available for sale also include investments in Equities and managed funds of US$206 million, Equity participation amounting to US$253 million and International & GCC private equity fund exposures of US$186 million. Investment in Equities and managed funds increased by US$145 million mainly due to the new investments in quoted GCC investments. Decrease in Equity participations is due to decrease in the market value of quoted projects.

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

Investments in private equity funds are carried at fair value. An amount of -US$4 million was charged to income statement for mark-to-market losses during the year.

Details on financial assets available for sale are provided in Note 6 to the financial statements.

Investment in Associates

An associate is a company over which the Group exerts 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 a core activity of GIC. Over the years, the Corporation has become a predominant player and prime mover of such projects in the private sector. The focus has been on niche sectors like metal, petrochemical, power & utilities, financial services and building materials, where a sustainable competitive advantage has been built.

Investment in associates at US$1,123 million decreased by US$273 million or 20%, which is mainly due to the sale of an associate, repayment of a subordinated loan given to an associate, dividend received, equity accounted loss and share of net change in revaluation reserves.

Other Assets

Including property and fixed assets, total other assets amounted to US$470 million at 31 December 2015. Of this US$78 million related to property and other fixed assets and US$195 million relating to Margin money paid on derivative instruments. The remaining US$197 million comprised of accrued income receivable, trade & accounts receivables, positive fair value of derivative instruments, prepaid expenses and other miscellaneous assets. Details are set out in Note 9 to the Financial Statements.

Liquidity and Funding

Total borrowings at US$2,235 million comprises of deposits from banks and other financial institutions of US$919 million, Securities sold under repurchase agreements of US$321 million and term finance US$995 million. Term finance declined by US$428 million compared to previous year end mainly due to the repayment of one tranche of US$298 million during the year and the decline in USD equivalent value of MYR denominated issues.

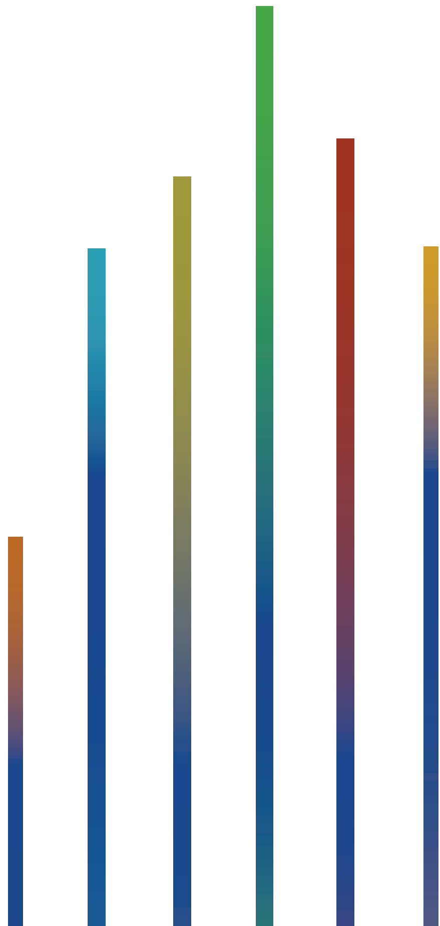
A more detailed discussion on liquidity and funding, the various risks associated with our business activities, and capital strength is included in the Risk Management section that follows.

Other Liabilities

At US$365 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. Increase in other liabilities is mainly due to the increase negative fair value of derivative instruments entered mainly to hedge the currency exposure of term finance issues.

Equity

Equity at US$2,497 million decreased by US$253 million or by 9% due to other comprehensive loss of -US$243 million and dividend payment of US$105 million offset by net profit US$112 million. Decline in equity was also due to the decline in minority interest of one subsidiary by US$17 million which was completely sold during the year (note 16).



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.

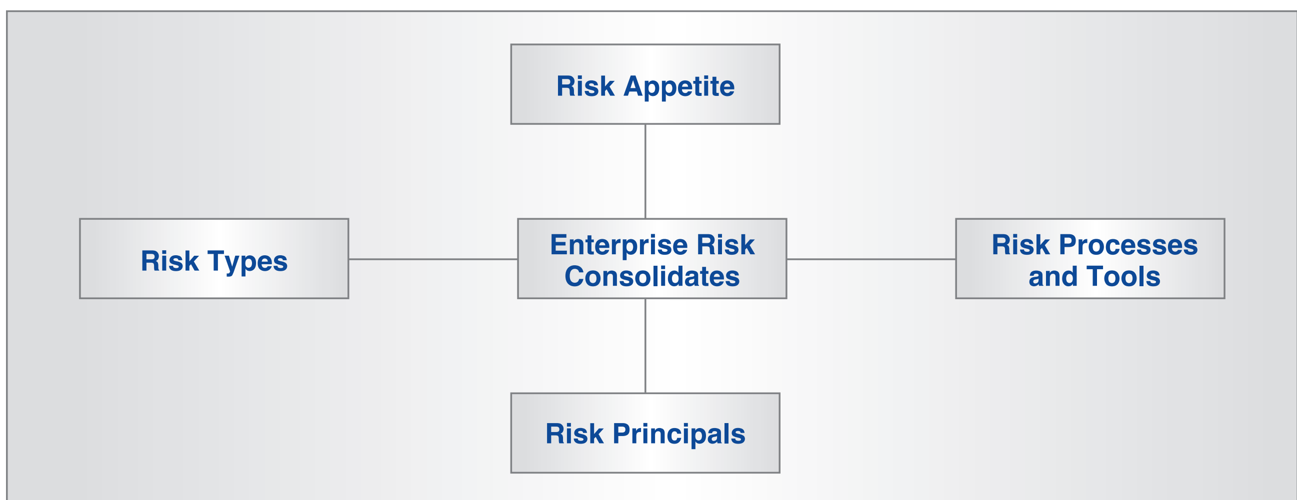
GIC's resilience during 2015, a challenging year in many respects, is testimony to strong business capabilities and a robust enterprise risk framework. Unequivocally, GIC remains a significantly resilient, measurably strong and stable financial institution. Risk management will continue to be an important 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 Financial Control, Internal Audit, Legal and Compliance. This multi-faceted approach enables the effective management of risks by identifying and monitoring them from a variety of perspectives.

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

CREDIT RISK

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

The world credit markets during 2015 were marked by increasing volatilities and aversion to emerging markets debt and high yield debt. As we move into 2016, volatility in the market is heightened as US embarks on a presidential election season and the Eurozone continues to experience weakened economic prospects in spite of initiation of quantitative easing. The impact from fall in global commodity prices and increasing geopolitical risks linger on at varying levels of intensity. GIC with its active portfolio management registered an impressive performance on the credit portfolios. GIC remained 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 2015. This is a reflection of the good quality of the portfolio. Gains of approximately US$ 15.0 million were realized during the year in review within GIC's credit portfolios.

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

The size of the high quality asset backed securities portfolio continued to contract, a result of accelerated prepayments and maturities, with minimal impact on profitability and earnings, while contributing to the overall reduction of credit risk. The Corporation continued to be flexible and ready to adapt rapidly to unforeseen events 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 which forms the largest asset class and constitutes approximately 40% of the balance sheet is monitored against a Credit Value at Risk (Credit VaR) limit, approved by the board. The US$ 230 million VaR limit (99.96% confidence, 1 year), which supplements the existing notional limits for this portfolio, is based on the Creditmetrics methodology and is measured using Monte Carlo simulation techniques.

The table below provides the Credit VaR figures for the DCM Portfolios. On 31st December 2015 the market value of this portfolio was US$ 1,967.3 million. As of 1st Jan 2015, it was US$ 1,689.9 million. The average and year end Credit VaR were up as compared to previous year end. The increase in Credit VaR was in line with the increase in overall exposure under DCM Portfolios.

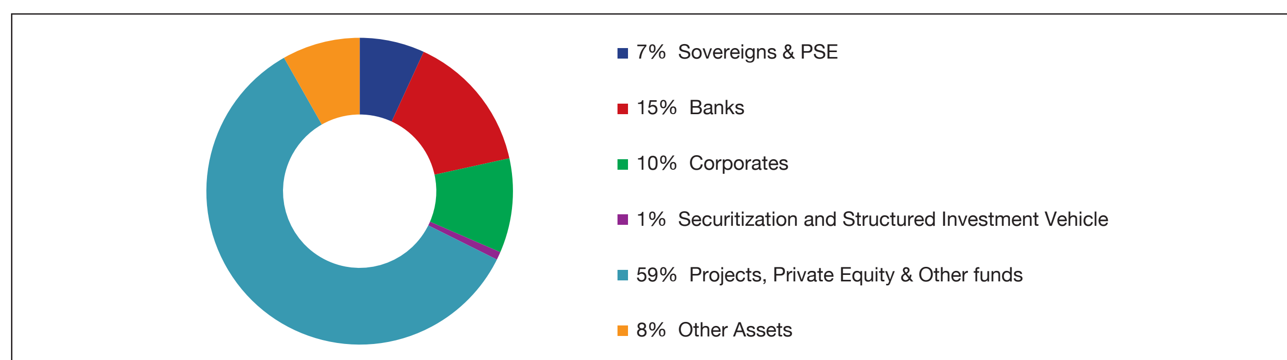
Table 1: 2015 Credit Value at Risk - 99.96% confidence level, 1 year holding period

US$ 000's	Average	Minimum	Maximum	31 Dec 2015
Debt Portfolios	156,374	116,229	175,164	164,738

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

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

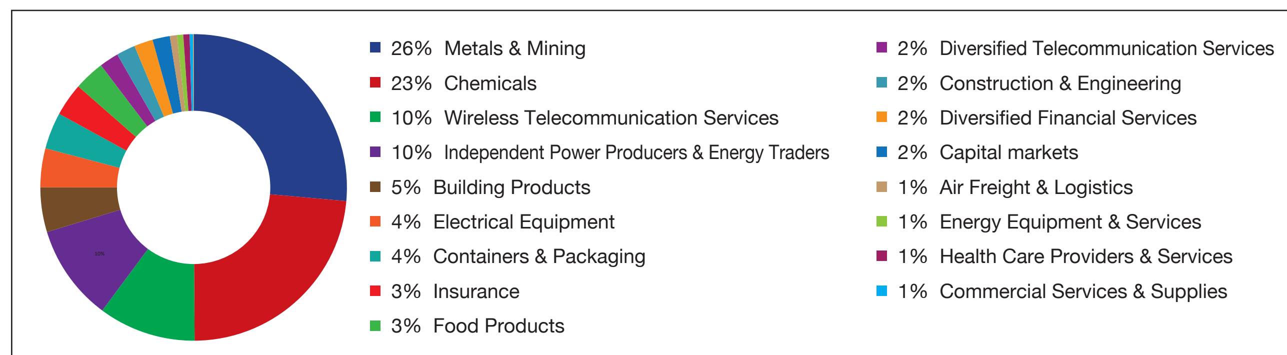
Chart 1: Sources of Credit Risk (Weighted Credit Risk Exposure)



Noteworthy, most of the realignment in the credit risk pie at the end of 2015, compared to the previous year-end, pertained to Banks, Corporates and Projects, Private Equity & other funds. Credit risk weighted exposure for Banks increased from 10% in 2014 to 15% at the 2015 year-end and for Projects, Private Equity & other funds decreased from 63% of total in 2014 to 59% at the 2015 year-end and for Corporates decreased from 15% of total in 2014 to 10% at the 2015 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 risks. Investments are made after rigorous qualitative and quantitative analysis, and where the desired risk-return objectives are met. As highlighted in the graph below, a healthy diversification across industry sectors is maintained within this portfolio. Private Equity and other Equity Funds represent investments made with third party fund managers typically in the United States and Europe who are selected after careful assessment of their records and extensive due diligence.

Chart 2: Principal Investing (Projects) by Industry



Off-balance Sheet Financial Instruments

In the normal course of its business, the Corporation utilizes derivatives and foreign exchange instruments to meet 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 1.3% of total credit risk weighted exposure. This figure represents the mark-to-market or replacement cost of these transactions.

At the year-end 2015, outstanding derivatives held for trading were foreign exchange contracts, 86% of which were short term with a maturity of less than one year. Credit risk amounts arising from these transactions relate to major banks. Off balance sheet transactions also include credit-related contingent items designed to meet the financial requirement of the Corporation's customers. A detailed credit risk analysis of credit-related contingent items, derivatives and foreign exchange products is set in Notes 24 & 25 to the Consolidated Financial Statements.

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

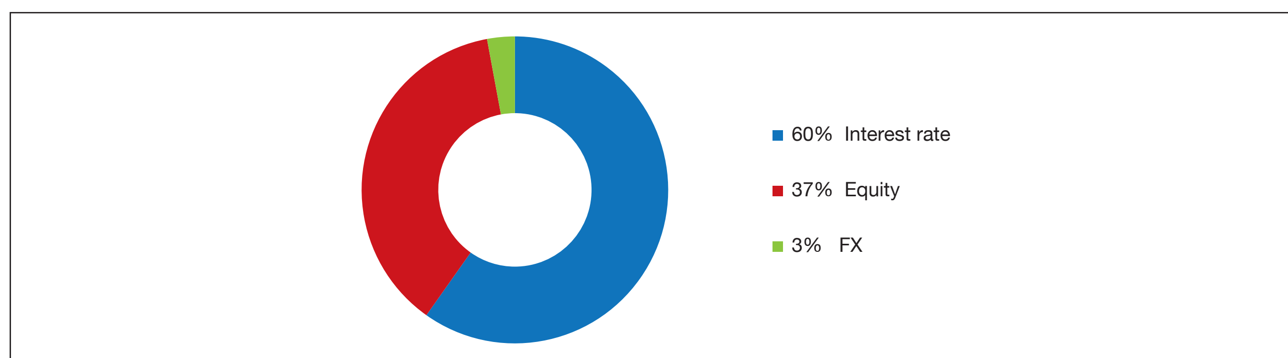
While the mechanism of risk monitoring and control has been fostered further, the risk management function is now more engaged with the business units, having been brought forward within the investment process. In addition to incorporating additional credit information, including Credit Default Swap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

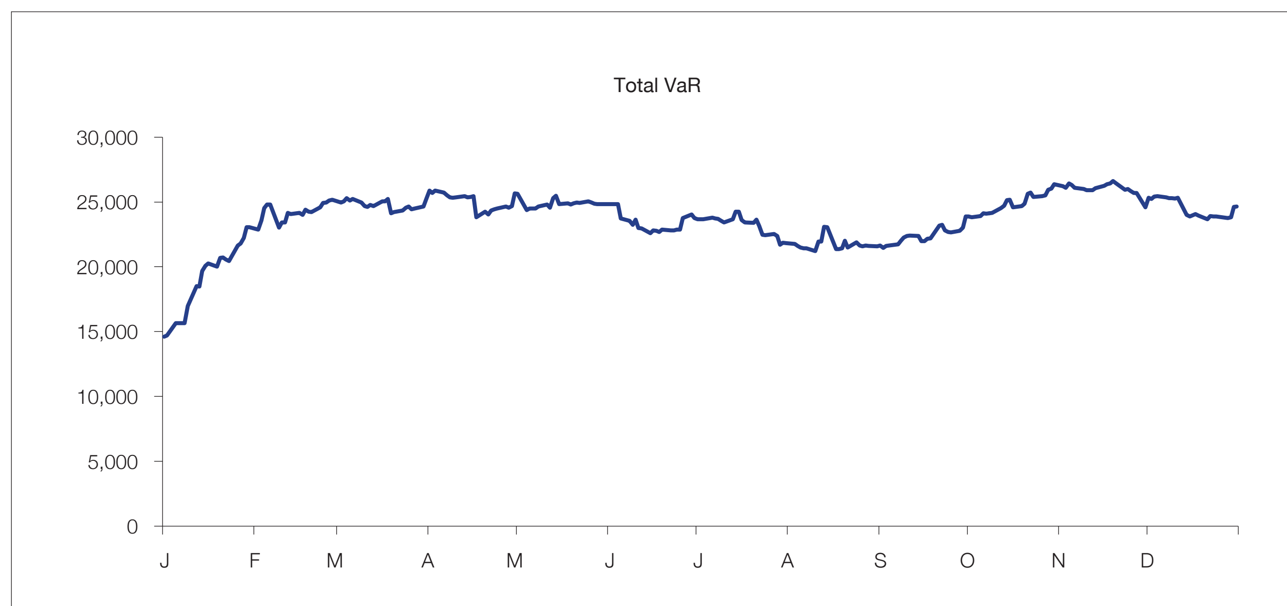
Table 2: Market Value at Risk for Global Markets Group alone - 25 day holding period, 95% confidence level

2015				
US$ 000’s	Average	Minimum	Maximum	31-Dec-15
Interest rate	21,342	13,835	25,345	22,119
Equity	13,306	5,973	17,686	16,335
Foreign Exchange	1,041	47	3,373	266
Total*	23,681	14,612	26,617	24,650
2014				
US$ 000’s	Average	Minimum	Maximum	31-Dec-14
Interest rate	8,591	3,960	13,905	13,835
Equity	8,800	5,558	12,772	5,974
Foreign Exchange	267	113	741	248
Total*	12,397	8,414	14,627	14,612

** Total VaR incorporates benefits of diversification*

On an average basis, VaR pertaining to market risk approximately doubled during 2015, compared to the previous year. The primary driver of this increase was a higher level of interest rate VaR during 2015, mostly attributable to the bond portfolio. The 5 year fixed rate liability issued in 2012 continues to act as a hedge, offsetting some of the interest rate risk at the corporate level. However, as at 31st December 2015, total market risk VaR reached US$24.7 million, almost 69% higher than the prior year end. Total market risk VaR remained within limits as approved by the Risk Management Committee and the Board of Directors. The Corporation will closely monitor the operating environment and seek to take on appropriate market risk at opportune times.

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



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 2015 and 2014. The principal investment and private equity portfolios are both categorized as available-forsale; hence, the 10% sensitivity measure provided in the table below reflects the impact on shareholders equity and not on profits.

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

Asset Categories	10% sensitivity measure	10% sensitivity measure (impact on shareholders equity)	
		31-Dec-15	31-Dec-14
Principal Investments	Underlying asset value	146,641	214,495
Private Equity Funds	Underlying asset value	18,572	20,686

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

Liquidity Risk Management

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

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

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

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

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

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

a) Meeting day-to-day cash outflows;

b) Providing for seasonal fluctuation of sources of funds;

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

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

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

Liquidity Limits

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

The liquidity limits that are regularly monitored include the following:

a) Maximum daily cash outflow limit for major currencies;

b) Maximum cumulative cash outflow which should include likely outflows as a result of draw-down of commitments, etc.; and

c) Net liquid asset ratio - this ratio is calculated by taking a conservative view of marketability of liquid assets, with a discount to cover price volatility and any drop in price in the event of a forced sale. The ratio is the proportion of such liquid assets to volatile liabilities.

The net liquid asset ratio as of 31st December 2015 was 207%. 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 2015, investments in marketable securities tallied at approximately US$ 1.8 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 2015, the Corporation's term financing stood at US$983.3 million.

Further, the Corporation was successful in enhancing the diversity of its depositor base, a reflection of increased market confidence. At year-end 2015 the Corporation's deposit base stood at about US$ 918.8 million, 100% 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 2014 to 2015.

US$ Millions	2015 (US$)	2015 (%)	2014 (US$)	2014 (%)
GCC Deposits	919	19%	754	15%
International Deposits	0	0%	18	0%
Repo Financing	321	6%	0	0%
Term Financing	983	20%	1,397	28%
Shareholder's funds and others	2,735	55%	2,881	57%
Total	4,958	100%	5,050	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, 2015 was 292 contracts, with an estimated VaR of US$0.165 million. This is lower than the levels of the previous year (31st December 2014: 1,104 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 23.1 to financial statements. At December 31st 2015, roughly 53% of total assets were due to mature within 3 months, based on internal assessment of the Corporation's right and ability to liquidate these instruments. Comparatively, on the same basis, approximately 44% of total liabilities were in the same time bucket. The sizable portfolio of high quality marketable securities contributed to the relatively high ratio of liquid assets. The Corporation's GCC retention record shows that short maturity deposits from GCC governments, central banks and other regional financial institutions have been regularly renewed over the past several years. With the success achieved in raising medium term finance, the Corporation was able to optimize the asset liability maturity gap, especially within the medium and long term buckets.

CREDIT RATING

In 2015, both rating agencies (Moody's & Fitch) reaffirmed GIC's credit ratings. GIC's strong financial indicators were acknowledged in the rating reports. As of end 2015, GIC's long term deposits were rated A2 by Moody's and A- by Fitch.

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

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

CAPITAL STRENGTH

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

The Corporation's capital base stood at US$ 2.5 billion at 2015 year end. GIC continues to be one of the best capitalized financial institutions in the region.

Regulatory Capital

The Basel Committee on Banking Supervision has introduced a revised capital adequacy framework that aims to strengthen the quality of capital and increase the regulatory capital requirements to help absorb losses.

While GIC does not fall under the purview of the Basel guidelines, the Corporation's view is that it is prudent to implement the recommendations set forth under the revised accord with the following primary objectives:

a) The Corporation has been subjecting itself to the standards of Basel I (1988), the amendments introduced in 1998 (market risk) and Basel II (2006). As a natural progression, adoption of the modified standards as outlined in the revised capital accord underscores the Corporation's commitment to be in line with international standards;

b) GIC acknowledges the importance of the qualitative and quantitative approaches set out in Basel III that impose rigor and discipline with respect to capital adequacy assessment; and

c) Adopting the Basel III capital accord is viewed to enhance risk culture within the organization and further strengthen GIC's market image, thus, resulting to improvements in external credit ratings assigned by international rating agencies, thereby ensuring continued access to capital markets.

Under the new accord, the Corporation's Total capital ratio at the end of December 2015 was 45.9%. The Tier 1 ratio was the same, since the existing small quantum of Tier 2 capital was reduced to nil after deductions. The continued enhancement in capital adequacy ratios was driven by the strengthening of the core capital base. Moreover, the scaling down of risk exposures also had a positive impact on capital ratios. The standardized approach was used to calculate the capital requirement to cover credit and operational risks. Market risk capital cover calculation, on the other hand, employed the VaR-based approach. Going forward, GIC aims to achieve convergence of regulatory capital with economic capital as it adopts more advanced measurements for capital adequacy. Details of the regulatory capital ratio computations are provided in the Basel III disclosure section of this annual report.

Economic Capital

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

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

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

OPERATIONAL RISK

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

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

KEY AIMS:

The management of Operational Risk has the following key objectives:

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

OVERVIEW:

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

a) Risk and Control Self-Assessment framework;

b) Loss Event framework;

c) Corrective Action Plans framework; and

d) Operational Risk Reporting framework.

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

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

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

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

b) Loss Event Framework

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

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

c) Corrective Action Plans (CAPs) Framework

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

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

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

d) Operational Risk Reporting Framework

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

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

OPERATION RISK WEIGHTED EXPOSURE:

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

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

INSURANCE:

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

BUSINESS CONTINUITY AND DISASTER RECOVERY PLANNING:

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

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

LEGAL RISK MANAGEMENT:

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

INFORMATION SECURITY FRAMEWORK:

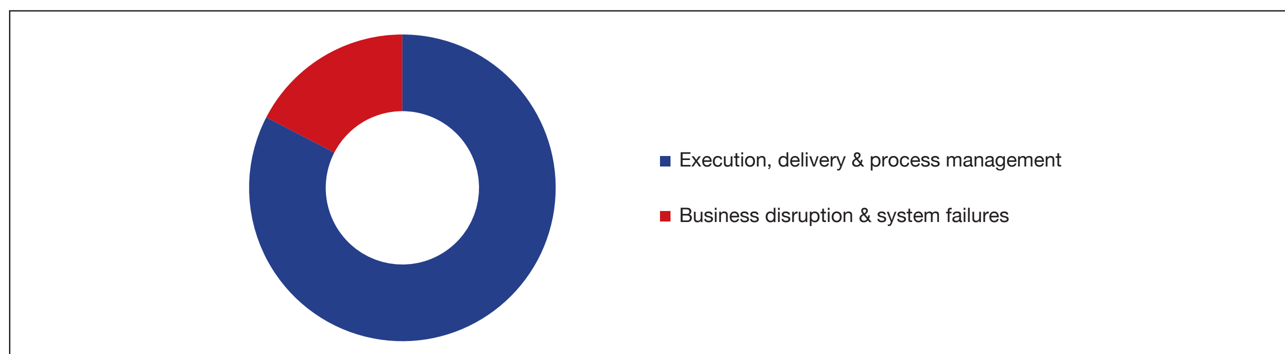
A secure information security framework is in place to identify the responsibilities at every level of information handling, i.e. from data ownership (encoding) to data access. Periodic audits are conducted to ensure compliance with the policies and standards set, by Internal Audit, Information Security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

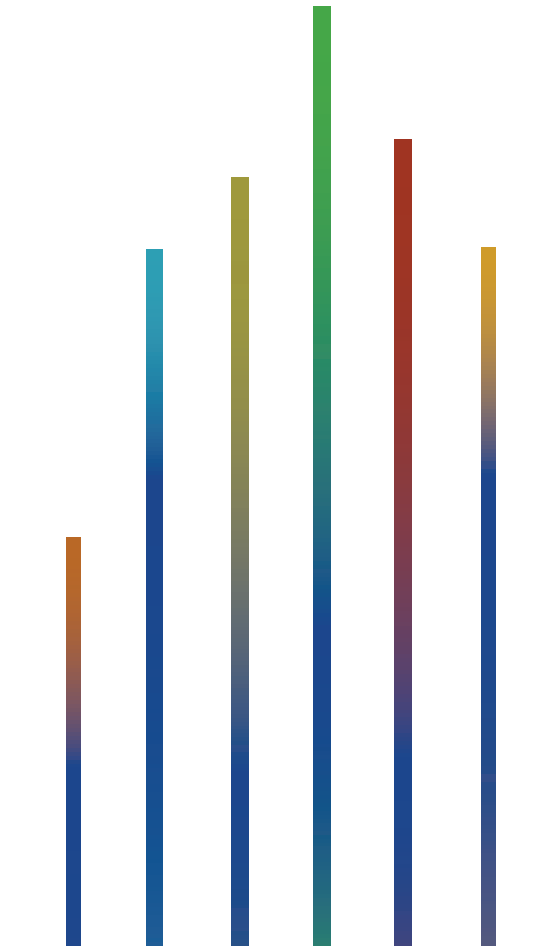
OPERATIONAL LOSS EVENT PROFILE FOR 2015:

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

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

During 2015, the highest frequency of events occurred under the following categories:





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 harmonised 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 helps 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 2015 and December 2014 (under Basel II). 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 portion of significant investments in financial and commercial entities that exceed a certain materiality threshold; and exposures to 'securitization' that fall below a cut-off risk grade are deducted 50% from Tier 1 and 50% from Tier 2 capital, respectively. For 2015, full deduction is made from Tier 1 capital due to negative fair value adjustment. Total eligible regulatory capital was US$ 2,352.7 million by year-end December 2015 compared to US$ 2,313.5 million recorded in December 2014 (under Basel II). 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

	Basel III	**Basel II**
In US$ millions	**31 December 2015**	**31 December 2014**
Paid-up capital	2,100.0	2,100.0
Disclosed reserves	620.1	600.1
Retained earnings	(1.0)	14.6
Less: Goodwill	38.8	60.0
Less: Deductions	69.5	311.4
Less: Adjustment for Fair value reserve	258.1	29.7
Total Tier 1 Capital	2,352.7	2,313.5
General Provision	1.4	0.8
Less: Deductions	1.4	0.8
Total Tier 2 Capital	-	-
Total eligible regulatory capital	2,352.7	2,313.5

	Basel III
In US$ millions	**31 December 2015**
Common Equity Tier 1 (CET1)	2,352.7
Additional Tier 1 (AET 1)	-
Total Tier 1 Capital	2,352.7
Total Tier 2 Capital	-
Total eligible regulatory capital	2,352.7

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 46 of this annual report.

Table 2: Capital Adequacy Ratios

In US$ millions	**Risk-weighted assets**	**Capital requirement**
Credit Risk	3,272.1	261.7
Market Risk	1,247.6	99.8
Operational Risk	607.1	48.6
Total	5,126.8	410.1
Capital Adequacy Ratios		
Total CAR	45.9%	
Common Equity Tier 1 (CET1)	45.9%	
Tier 1 Ratio	45.9%	
Leverage Ratio (Non risk based)	47.0%	

Table 2 details the risk-weighted assets together with their corresponding regulatory capital requirements as at 31 December 2015. 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$ 5,126.8 million, as at 31 December 2015, requires regulatory capital of US$ 410.1 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$ 820.3 million. The reported eligible regulatory capital of US$ 2,352.7 million still provides sufficient cushion to support business expansions.

Table 3: Risk Exposure Break-down

In US$ millions	31 December 2015
Credit Risk (RWA)	
Claims on sovereigns	72.8
Claims on Public Sector Entities	151.6
Claims on Banks	480.9
Claims on Corporates	325.6
Securitization and Structured Investment Vehicle	27.6
Venture Capital and Private Equity	191.6
Investments in Commercial Entities	1,546.5
Investments in Other Funds and Quoted Equities	206.7
Other Assets	268.8
Total	3,272.1
Market Risk (VaR)	
Interest rate risk position	1.2
Foreign exchange risk position	0.5
Equity risk position	20.0
(Total VaR + Stress VaR) x 3	65.1
Specific risk position	34.7
Total capital requirement	99.8
Total RWA (capital requirement x 12.5)	1,247.6
Operational Risk (RWA):	
Operational risk capital charge	48.6
Total RWA (capital charge x 12.5)	607.1

3. Risk Management Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

d) Human Resource Committee which reviews strategic HR issues;

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

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

The objectives and policies for measurement and reporting of the major risk areas, i.e., Credit, Market, Liquidity and Operational, are

detailed in the Risk Management section. The same section includes the approach adopted by the Corporation towards management and mitigation of these risks.

4. Credit Risk Exposure

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

Portfolio Strategy and Planning

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

The Investment Committees

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

Investment Origination and Maintenance

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

Performance Assessment and Reporting

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

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

b) Generated Return On Capital Employed (ROCE);

c) Additional economic value created by individual projects;

d) Exceptions to risk acceptance criteria; and

e) Other policy exceptions.

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

Credit Risk as per Basel 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, S&P and Fitch for this purpose. When more than one counter-party rating is available, Basel III's multiple assessment guidelines are invoked. In order to provide a common platform into which different notations used by the aforementioned rating agencies can be mapped, a scale of uniform Credit Quality Grades (CQG) represented by the numerals 1 to 5 or 6 are used to represent the relevant risk weights of each standard portfolio. Separate scales are prepared for risk-weighting both long and short-term issues.

Table 4: CQG Mapping

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

Table 4 serves as a sample of mapping notations of rating agencies into CQGs for claims on Corporates. At 31 December 2015, rated credit exposures accounted for more than 32% 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 53% of total gross credit exposure. Assets that are rated single 'A' or better comprised 69% of rated gross credit exposure.

Table 5: Credit Exposure (post-credit conversion)

	31 December 2015		
In US$ millions	**Rated**	**Unrated**	**Total**
Claims on Sovereigns	72.8	-	72.8
Claims on Public Sector Entities	151.6	-	151.6
Claims on Banks	480.9	-	480.9
Claims on Corporate	325.6	-	325.6
Securitization and SIVs	27.6	-	27.6
Venture Capital and Private Equity	-	191.6	191.6
Investments in Commercial Entities	-	1,546.5	1,546.5
Other Funds and Quoted Equities	-	206.7	206.7
Other Assets	-	268.8	268.8
Total	1,058.5	2,213.6	3,272.1
In Percent	32.3%	67.7%	100.0%

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

	31 December 2015		
In US$ millions	**Rated**	**Unrated**	**Total**
Claims on Sovereigns	256.5	-	256.5
Claims on Public Sector Entities	343.7	-	343.7
Claims on Banks	1,339.5	-	1,339.5
Claims on Corporate	483.2	-	483.2
Securitization and SIVs	59.8	-	59.8
Venture Capital and Private Equity	-	191.6	191.6
Investments in Commercial Entities	-	1,546.5	1,546.5
Other Funds and Quoted Equities	-	206.7	206.7
Other Assets	-	268.8	268.8
Total	2,482.7	2,213.6	4,696.3
In Percent	52.9%	47.1%	100.0%

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

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

	31 December 2015		
In US$ millions	**Funded**	**Unfunded**	**Total**
Claims on Sovereigns	256.5	-	256.5
Claims on Public Sector Entities	343.7	-	343.7
Claims on Banks	1,250.7	88.8	1,339.5
Claims on Corporate	483.2	-	483.2
Securitization and SIVs	59.8	-	59.8
Venture Capital and Private Equity	155.6	36.0	191.6
Investments in Commercial Entities	1,399.3	147.2	1,546.5
Other Funds and Quoted Equities	206.7	-	206.7
Other Assets	268.8	-	268.8
Total	4,424.3	272.0	4,696.3
In Percent	94.2%	5.8%	100.0%

In terms of facility type (Table 7), US$ 4,424.3 million or approximately 94% is funded. The balance is ascribed to guarantees issued and commitments made by the Corporation, as well as credit exposures on outstanding forward and swap transactions with banks.

Table 8: Gross Credit Exposure by Geographic Distribution

	31 December 2015				
In US$ millions	**GCC**	**Europe**	**Americas**	**Others**	**Total**
Claims on Sovereigns	170.5	4.4	71.8	9.8	256.5
Claims on Public Sector Entities	337.8	-	-	5.9	343.7
Claims on Banks	837.2	228.6	106.4	167.3	1,339.5
Claims on Corporate	255.2	86.0	50.3	91.7	483.2
Securitization and SIVs	-	36.1	23.7	-	59.8
Venture Capital and Private Equity	18.1	25.3	125.2	23.0	191.6
Investments in Commercial Entities	1,526.5	-	20.0	-	1,546.5
Other Funds and Quoted Equities	124.0	48.2	34.5	-	206.7
Other Assets	107.4	74.9	0.8	85.7	268.8
Total	3,376.7	503.5	432.7	383.4	4,696.3
In Percent	71.9%	10.7%	9.2%	8.2%	100.0%

The geographical distribution (Table 8) is based on either the primary purpose of the exposure or the place of incorporation of the debt security issuer, or incorporation of the fund manager. A sizable portion of credit exposure is in the GCC region tallying at US$ 3,376.7 million or 71.9% of the total. Following suit are exposures to Europe and Americas, 10.7% and 9.2% respectively. These exposures are due in great part to investments in global securities and funds with varying investment themes.

Table 9: Gross Credit Exposure by Industry Sector

	31 December 2015					
In US$ millions	**Banks & Financial Institutions**	**Trading & Manufacturing**	**Utilities**	**Government Agencies**	**Others**	**Total**
Claims on Sovereigns	-	-	-	256.5	-	256.5
Claims on Public Sector Entities	90.3	-	220.4	-	33.0	343.7
Claims on Banks	1,339.5	-	-	-	-	1,339.5
Claims on Corporate	-	65.8	185.9	-	231.5	483.2
Securitization and SIVs	59.8	-	-	-	-	59.8
Venture Capital and Private Equity	191.6	-	-	-	-	191.6
Investments in Commercial Entities	112.7	984.8	346.9	-	102.1	1,546.5
Other Funds and Quoted Equities	206.7	-	-	-	-	206.7
Other Assets	163.8	79.6	25.4	-	-	268.8
Total	2,164.4	1,130.2	778.6	256.5	366.6	4,696.3
In Percent	46.1%	24.1%	16.5%	5.5%	7.8%	100.0%

The table on industry distribution (Table 9) of the gross credit exposure reveals a concentration on Trading & Manufacturing sector and Utilities, amounting to 40.6% of total exposure which, is in line with GIC's commitment to support the industrial growth within the GCC region.

Table 10: Credit Exposure by Residual Contractual Maturity

	31 December 2015				
In US$ millions	**Within 3 months.**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Claims on Sovereigns	-	-	152.8	103.7	256.5
Claims on Public Sector Entities	-	30.8	166.4	146.5	343.7
Claims on Banks	457.6	22.9	706.1	152.9	1,339.5
Claims on Corporate	-	35.5	314.4	133.3	483.2
Securitization and SIVs	-	-	-	59.8	59.8
Venture Capital and Private Equity	-	-	-	191.6	191.6
Investments in Commercial Entities	-	-	-	1,546.5	1,546.5
Other Funds and Quoted Equities	-	-	-	206.7	206.7
Other Assets	18.6	88.2	26.1	135.9	268.8
Total	476.2	177.4	1,365.8	2,676.9	4,696.3
In Percent	10.1%	3.8%	29.1%	57.0%	100.0%

The residual maturity of gross credit exposure broken down by standard credit risk exposure is shown in Table 10. Approximately 57% of gross credit exposure falls within the longest time bucket of over five years.

Recognition of Impairment of Assets

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

5. Securitization Activities

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

Table 11: Credit Exposure on Securitization and SIVs

	31 December 2015	
In US$ millions	**Gross Exposure**	**Post-credit Conversion**
CQG 1	37.4	7.5
CQG 2	15.9	8.0
CQG 3	4.2	4.1
CQG 4	2.3	8.0
CQG 5	-	(deduction from capital)
CQG 6	-	
Unrated	-	
Total	59.8	27.6

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

6. Market Risk

This section focuses regulatory capital adequacy computations based on the VaR measurement for the 'Trading' book. More details on VaR and Market Risk monitoring are provided in the Risk Management section of the annual report. The regulatory capital adequacy ratios are computed 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 Risk Metrics Inc. (part of MSCI), and utilizes a parametric computational method based on the variance - covariance concept. In line with the capital accord, the parameters used in determining the VaR are a 10 day holding period and 99% confidence level. The computation utilizes an equally weighted historical data set going back one year. The computation ignores the correlation benefit amongst the three risk types (interest rate, equity and foreign exchange), with Total Market Risk VaR being equal to the arithmetic sum of the three components. The capital charge relating to market risk is determined for all portfolios categorized as trading (the trading book), which includes the following (Ref Notes 5 of 2015 consolidated financial statements):

(US$ million)	**2015**	**2014**
Quoted debt instruments	29	23
Hedge funds	121	85
Other unquoted alternative funds	285	341
	435	449

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 2015

In US$ millions	Interest Rate	Equity	FX	Total
Max	0.5	5.5	0.3	6.3
Min	0.4	4.4	0.1	4.9
Average	0.4	5.2	0.1	5.7
31-Dec-15	0.4	4.9	0.3	5.6
Stress VaR	0.8	14.8	0.4	16.0

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

<table>
<tr><th>Business lines</th><th>Major business segments</th><th>Activity Groups</th></tr>
<tr><td>Principal Investments</td><td>Investment and Equity Participation</td><td>Venture Capital, Greenfield Investments, Mergers and acquisitions, Privatizations, Equity Participation, IPOs, Secondary Private Placements</td></tr>
<tr><td>Debt Capital Markets</td><td>Investments of debt securities</td><td>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</td></tr>
<tr><td>Equity Investments</td><td>Portfolio of investments in equity funds and proprietary funds</td><td>Gulf Equities, Equity Portfolios</td></tr>
<tr><td>Alternative Investments</td><td>Portfolio of investments in an array of different asset classes and managed funds</td><td>Hedge Funds, Real Estate, Managed Funds, MBSs, Private Equity, Global Equity</td></tr>
<tr><td rowspan="4">Treasury</td><td>Sales</td><td rowspan="4">Fixed Income, Equity, Foreign Exchanges, Commodities, Credit, Funding, Own Position Securities, Lending and Repos, Derivatives</td></tr>
<tr><td>Market Making</td></tr>
<tr><td>Proprietary Positions</td></tr>
<tr><td>Advisory Services</td></tr>
<tr><td rowspan="2">Asset Management</td><td>Discretionary Fund Management</td><td>Pooled, Segregated, Retail, Institutional, Closed, Open</td></tr>
<tr><td>Non-Discretionary Fund Management</td><td>Pooled, Segregated, Retail, Institution, Closed, Open</td></tr>
<tr><td>Head-quarters</td><td>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</td><td>Income from Free Capital, Rental Income, Other Income, etc</td></tr>
</table>

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 2015		
In US$ millions	**3 year Average Gross Income**	**Beta Factor**	**Capital Charge**
Principal Investment	141.6	18%	25.5
Debt Capital Market	51.1	18%	9.2
Equities Investments	21.8	18%	3.9
Alternative Investments	54.3	18%	9.8
Treasury	6.2	18%	1.1
Asset management	0.3	12%	0.1
Head-quarters	(5.4)	18%	(1.0)
Total	269.9		48.6
Risk-weighted exposure			607.1

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

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

(1) Risk and Control Self-Assessment Framework;

(2) Loss Event Framework;

(3) Corrective Action Plans Framework; and

(4) Operational Risk Reporting Framework.

8. Equity Risk in the Banking Book

Equity investments in the banking book are classified at the time of acquisition into those acquired for realizing capital gains and to those purchased for strategic investments. The decision where to classify investments is arrived at after considering significant factors that include business and strategic advantages to the Corporation, and the amount of planned investments. All investment decisions require the approval of the Investment Committees, or the Executive Committee, depending on the amount of exposure. Investments acquired with a view to generating income and profits from capital appreciation are reviewed periodically and disposed 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. In accordance with International Financial Reporting Standards, equity positions in the banking book are classified as available for sale securities. These investments are fair valued periodically and revaluation gains/losses are accounted as cumulative changes in fair value in equity. For equity investments quoted in organized financial markets, fair value is determined by reference to quoted bid prices. Fair values of unquoted equity investments are determined by using valuation techniques such as recent arm's length transactions, reference to the market value of a similar investment, an earnings multiple or the expected discounted cash flows, or other appropriate valuation models. Equity investments whose fair value cannot be estimated accurately are carried at cost less impairment, if any. More details on the accounting treatment of equity investments can be found under 'Significant accounting judgements 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 2015 is US$ 645.2 million, net of provision (refer to Table 15 below). Cumulative realized gain from sale or exchange of available for sale securities and projects is approximately US$ 40.9 million, of which a significant portion is from privately held equity holdings. Meanwhile, the total un-realized loss recorded in equity is US$238.1 million.

Table 15: Equity Holdings in Banking Book

	31 December 2015		
In US$ millions	**Publicly Traded**	**Privately Held**	**Total**
Fair Value of Equity Investments	340.6	304.6	645.2
Realized gains recorded in P/L	12.9	28.0	40.9
Unrealized loss recorded in equity	(209.9)	(28.2)	(238.1)
Unrealised loss in Tier 2 Capital	(209.9)	(28.2)	(238.1)

9. Interest Rate Risk in the Banking Book

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

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

The Eurodollar futures contract position value as at December 31, 2015 was 292 contracts, with an estimated VaR of US$0.165 million. This is lower than the levels of the previous year (31st December 2014: 1,104 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)

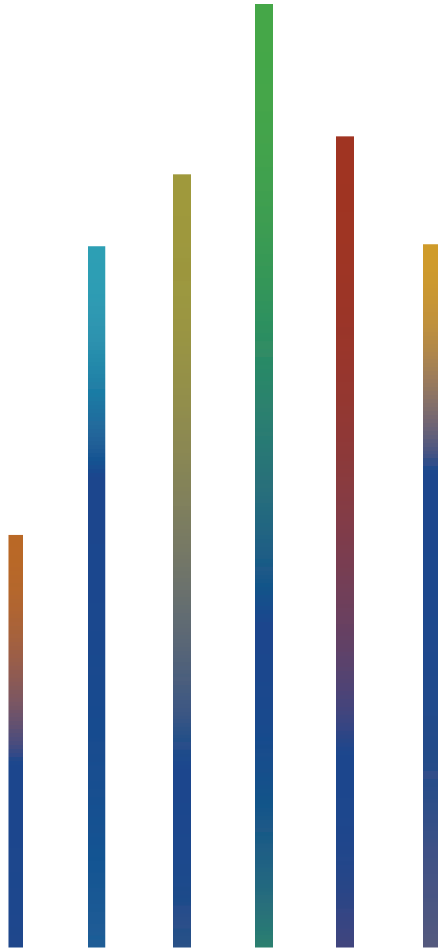
Liquidity Coverage Ratio (LCR)

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 60%, GIC's LCR as of 31 December 2015 was 195%.

Table 16: Liquidity Coverage Ratio

In US$ millions	31 December 2015
Value of stock of High quality liquid assets (HQLA)	1,475.3
Total Net Cash outflow over the next 30 calendar days	756.6
Liquidity Coverage Ratio (LCR)	195%



Consolidated

Financial Statements

31 December 2015

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Independent Auditor's Report on Consolidated Financial Statements

The Shareholders

Gulf Investment Corporation G.S.C.

State of Kuwait

We have audited the accompanying consolidated financial statements of Gulf Investment Corporation G.S.C. ("the Corporation") and subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, consolidated statements of income, other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the financial statements include the information required by the Corporation's Agreement of Incorporation and Articles of Association. In our opinion, proper books of account have been kept by the Corporation, an inventory count was carried out in accordance with recognized procedures and the information given in the Board of Directors' report agrees with the Corporation's books of account. We have not become aware of any contravention, during the year ended 31 December 2015, of law or the Corporation's Agreement of Incorporation and Articles of Association occurred during the financial year that might have had material effect on the Corporation's activities or on its financial position.

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

Kuwait: 3 April 2016

Consolidated Statement of Financial Position

as at 31 December 2015

(All amounts in US$ millions)

	Note	**2015**	2014
Assets			
Cash and cash equivalents		39	63
Securities purchased under resale agreement	3	112	-
Placements with banks	4	334	250
Financial assets at fair value through statement of income	5	435	449
Financial assets available for sale	6	2,584	2,391
Investments in associates	7	1,123	1,396
Investment in associate held for sale	8	-	164
Other assets	9	470	473
Total assets		**5,097**	5,186
Liabilities and equity			
Liabilities			
Deposits from banks and other financial institutions	10	919	772
Securities sold under repurchase agreements	11	321	-
Term finance	12	995	1,423
Other liabilities	13	365	241
Total liabilities		**2,600**	2,436
Equity			
Share capital	14	2,100	2,100
Reserves	14	400	652
Accumulated losses		(9)	(23)
Equity attributable to equity holders of the Corporation		2,491	2,729
Non-controlling interests		6	21
Total equity		**2,497**	2,750
Total liabilities and equity		**5,097**	5,186

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

Abdul Kader Ahmed Askalan
Chairman

Ibrahim Ali AlQadhi
Chief Executive Officer

Consolidated Statement of Income

for the year ended 31 December 2015

(All amounts in US$ millions)

	Note	**2015**	2014
Interest income	15	50	38
Net gains from investments	16	208	226
Dividend income	17	23	28
Share of results of associates	7	(41)	74
Net fee, commission and other income	18	7	13
Total income		**247**	379
Interest expense	19	(54)	(58)
Other operating income	20	16	15
Net operating income		**209**	336
Staff costs		(39)	(50)
Premises costs		(3)	(3)
Other operating expenses		(15)	(14)
Impairment losses	21	(40)	(66)
Profit for the year		**112**	203
Attributable to:			
Equity holders of the Corporation		110	201
Non-controlling interests		2	2
		112	203

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

Consolidated Statement of other Comprehensive Income

for the year ended 31 December 2015

(All amounts in US$ millions)

	Note	**2015**	2014
Profit for the year		112	203
Other comprehensive (loss) / income that may be re-classified to consolidated statement of income in subsequent periods:			
Financial assets available for sale: - Net unrealised losses arising during the year		(218)	(18)
- Transferred to consolidated statement of income on sale	16	(52)	(85)
- Transferred to consolidated statement of income on impairment	21	39	9
Share of other comprehensive (loss) / income of associates		(12)	63
Other comprehensive loss for the year		(243)	(31)
Total comprehensive (loss) / income for the year		**(131)**	172
Attributable to:			
Equity holders of the Corporation		**(133)**	170
Non-controlling interests		**2**	2
		(131)	172

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2015

(All amounts in US$ millions)

		Reserves									
	Share capital	Compulsory reserve	Voluntary reserve	Investment revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
Balance as at 1 January 2014	2,100	363	236	356	(260)	(52)	(184)	2,559	19	2,578
Profit for the year	-	-	-	-	-	-	201	201	2	203
Other comprehensive (loss) / income for the year	-	-	-	(98)	92	(25)	-	(31)	-	(31)
Total comprehensive income for the year	-	-	-	(98)	92	(25)	201	170	2	172
Transfer to compulsory and voluntary reserves (note 14)	-	20	20	-	-	-	(40)	-	-	-
Balance as at 31 December 2014	2,100	383	256	258	(168)	(77)	(23)	2,729	21	2,750
Balance as at 1 January 2015	2,100	383	256	258	(168)	(77)	(23)	2,729	21	2,750
Profit for the year	-	-	-	-	-	-	110	110	2	112
Other comprehensive (loss) / income for the year	-	-	-	(234)	47	(56)	-	(243)	-	(243)
Total comprehensive loss for the year	-	-	-	(234)	47	(56)	110	(133)	2	(131)
Transfer to compulsory reserve (note 14)	-	11	-	-	-	-	(11)	-	-	-
Reversal of transfer to voluntary reserves (note 14)	-	-	(20)	-	-	-	20	-	-	-
Dividend (note 14)	-	-	-	-	-	-	(105)	(105)	-	(105)
Sale of subsidiary (note 20)	-	-	-	-	-	-	-	-	(17)	(17)
Balance as at 31 December 2015	**2,100**	**394**	**236**	**24**	**(121)**	**(133)**	**(9)**	**2,491**	**6**	**2,497**

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2015

(All amounts in US$ millions)

	Note	**2015**	2014
Cash flows from operating activities:			
Profit for the year		112	203
Non-cash and other adjustments to reconcile profit for the year to net cash flows:			
Impairment losses	21	40	66
Realised gain on financial assets available for sale	16	(52)	(85)
Realised loss on sale of subsidiary	16	2	-
Realised gain on sale of associates	16	(154)	(110)
Share of results of associates	7	41	(74)
Amortisation of net discount / premium on debt securities		9	5
		(2)	5
Changes in operating assets and liabilities:			
Placements with banks		(84)	95
Securities purchased under resale agreement		(112)	-
Financial assets at fair value through statement of income		14	257
Financial assets available for sale		(420)	64
Deposits from banks and other financial institutions		147	(337)
Movement in other assets and other liabilities		(115)	(81)
Net cash flows (used in) / from operating activities		**(572)**	3
Cash flows from investing activities:			
Proceeds from sale of a subsidiary		23	-
Dividends from associates		50	29
Proceeds from sale of investment in associates		440	137
Repayment of advances to associate		134	136
Additional contribution to associates		(2)	(157)
Net cash flows from investing activities		**645**	145
Cash flows from financing activities:			
Increase / (decrease) in securities sold under repurchase agreements		321	(55)
Term finance repaid		(313)	(93)
Dividend paid	14	(105)	-
Net cash flows used in financing activities		**(97)**	(148)
Net change in cash and cash equivalents		(24)	-
Cash and cash equivalents at 1 January		63	63
Cash and cash equivalents at 31 December		**39**	63

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

1 Incorporation and activity

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

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

The consolidated financial statements of the Corporation and its subsidiaries (collectively "the Group") for the year ended 31 December 2015 were approved by the Board of Directors on 3 March 2016. 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 Statement of compliance

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

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

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

2.2 Basis of preparation

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

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

Changes in accounting policy and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the following new and amended IFRS effective as of 1 January 2015.

IFRS 8 Operating Segments (Amendment)

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2015 and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.2 Basis of preparation (continued)

IAS 24 Related Party Disclosures (Amendment)

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

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

2.3 Basis of consolidation

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.4 Business combination and goodwill

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

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 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.

2.5 Cash and cash equivalents

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

2.6 Placements with banks

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

2.7 Financial assets

i. Recognition

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

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

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

ii. Classification and measurement

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.7 Financial assets (continued)

ii. Classification and measurement (continued)

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

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

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or

- When the assets and liabilities are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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

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

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

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

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

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

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

iii. Impairment

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.7 Financial assets (continued)

iii. Impairment (continued)

Financial assets carried at amortised cost

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

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

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

Financial assets available for sale

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

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

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

In addition, in accordance with Central Bank of Kuwait instructions, the Group recognises a minimum general provision on all applicable credit facilities (net of certain categories of collateral) that are not subject to specific provision.

iv. Derecognition

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.7 Financial assets (continued)

iv. Derecognition (continued)

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

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

2.8 Financial liabilities

i. Recognition

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

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

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

ii. Classification and measurement

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

Loans and borrowings

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

Accounts payable and accruals

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

Deposits from banks and financial institutions

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

Term finance

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

Financial guarantees

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

iii. Derecognition

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.9 Offsetting

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

2.10 Fair value of financial instruments

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

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

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

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

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

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

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

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

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

An analysis of fair value of financial instruments and further details as to how they are measured are set out in note 27.

2.11 Impairment of non-financial assets

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.12 Repurchase and resale arrangements

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

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 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 method.

2.13 Investment in associates

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

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

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

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

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

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

Associates of the Group are listed in note 31.

2.14 Other provisions

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

2.15 Property, plant and equipment

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.16 Hedge accounting

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

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

A hedging relationship exists where:

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

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

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

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

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

2.17 Recognition of income and expenses

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

Interest income and expense

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.17 Recognition of income and expenses (continued)

Fees and commission income

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

Investment income

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

Dividend income

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

Sale of goods

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

2.18 End of service benefits

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

2.19 Foreign currency

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

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.20 Segment reporting

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

2.21 Standards issued but not yet effective

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

IFRS 9: Financial Instruments

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

IFRS 15: Revenue from Contracts with Customers

IFRS 15 was issued by IASB on 28 May 2014 is effective for periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 - Construction Contracts and IAS 18 - Revenue along with related IFRIC 13, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Corporation is in the process of quantifying the impact of this standard on the Corporation's financial statements, when adopted.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. The Management of the Corporation do not anticipate that the application of these amendments to IAS 1 will have a material impact on the Corporation's financial statements.

2.22 Significant accounting judgements and estimates

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

Judgements

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

Classification of investments

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.22 Significant accounting judgements and estimates (continued)

All other investments are classified as available for sale.

Impairment of equity investments

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

Estimation uncertainty

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

Impairment losses on investment in debt instruments

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

Valuation of unquoted equity investments

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

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

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of securities where this estimation cannot be reliably determined and these are carried at cost as disclosed in note 6. The Group updates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

3 Securities purchased under resale agreement

As at 31 December 2015, the Group has certain securities purchased under resale agreements with Banks and financial institutions. Resale agreements amounting to US$ 112 million (2014: nil) mature within three months from the reporting date.

4 Placements with banks

	2015	2014
Local banks	3	4
Other GCC banks	331	246
	334	250

Placements with banks carry an effective interest rate of 0.37% per annum (2014: 0.19% per annum).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

5 Financial assets at fair value through statement of income

	2015	2014
Quoted debt instruments	29	23
Hedge funds	121	85
Other unquoted alternative funds	285	341
	435	449

6 Financial assets available for sale

	2015	2014
Debt instruments		
International bonds	655	517
GCC and Islamic bonds	1,196	998
Emerging market bonds	26	66
Structured debt instruments	62	83
	1,939	1,664
Equities and managed funds		
Quoted equity investments and funds	206	61
	206	61
Equity participations		
Quoted equity investments	134	331
Unquoted equity investments	119	129
	253	460
Private equity funds		
Managed funds portfolio	172	193
Real estate funds portfolio	14	13
	186	206
Total	**2,584**	2,391

Certain repoable debt instruments available for sale are pledged as security in respect of borrowings under securities sold under repurchase agreements amounting to US$ 340 million (2014: nil).

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

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

Management has performed an analysis of financial assets available for sale and have concluded that the impairment losses of US$ 39 million (2014: US$ 31 million) recognized in the consolidated statement of income are adequate (note 21).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

7 Investments in associates

The carrying amount of investments in associates includes goodwill before provisions for impairment amounting to US$ 72 million (2014: US$ 92 million).

The Group's investments in associates that are listed on a stock exchange have a carrying value of US$ 23 million (2014: US$ 20 million) and a market value of US$ 56 million (2014: US$ 50 million).

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

	2015	2014
Share of assets	3,787	4,548
Share of liabilities	(2,652)	(3,160)
Share of net assets	1,135	1,388
Goodwill	72	92
Impairment losses	(84)	(84)
Carrying amount of investments	**1,123**	1,396
Share of revenue	1,375	1,822
Share of results for the year	(41)	74

List of associates is disclosed in note 31.

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

2015	**Foulath Holding B.S.C (C)**	**The National Titanium Dioxide Co., Ltd. (Cristal)**	**Jeddah Cable Company Ltd.**	**Wataniya Telecom Algerie S.P.A.**	**Gulf Re Holdings Limited**
Assets	2,434	4,239	525	1,479	274
Liabilities	(1,241)	(3,138)	(322)	(970)	(225)
Non-controlling interests	(332)	(18)	-	-	-
Net assets	861	1,083	203	509	49
Revenue	790	1,701	123	1,105	42
Results for the year	18	(556)	5	67	-
Other comprehensive income / (loss) for the year	3	(167)	-	(115)	(1)

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

7 Investments in associates (continued)

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

The movement during the year is as follows:

2015	**Foulath Holding B.S.C (C)**	**The National Titanium Dioxide Co., Ltd. (Cristal)**	**Jeddah Cable Company Ltd.**	**Wataniya Telecom Algerie S.P.A.**	**Gulf Re Holdings Limited**
Opening balance	840	1,745	198	627	180
Shareholders advance	-	61	-	-	-
Dividend/capital repayment	-	-	-	(70)	(130)
Results	18	(556)	5	67	-
Other comprehensive income / (loss)	3	(167)	-	(115)	(1)
Closing balance	861	1,083	203	509	49

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

7 Investments in associates (continued)

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

	2015	2014
Assets	4,221	7,249
Liabilities	(3,137)	(5,872)
Net assets	1,084	1,377
Revenue	1,382	1,774
Results for the year	195	174
Other comprehensive income for the year	212	343

8 Investment in associate held for sale

In 2014, the Corporation entered into a sale purchase agreement with National Industrialization Company (TASNEE) for sale of a 13% holding in National Titanium Dioxide Co. Ltd (Cristal). Pursuant to the agreement, the sale was effected in two tranches, i.e; 5% sold in December 2014 and the remaining 8% disposed off during the quarter ended 31 March 2015.

As at 31 December 2014, the carrying value of the remaining 8% amounting to US$ 164 million was classified as 'investment in associate held for sale'.

9 Other assets

	2015	2014
Accrued interest, fees, commissions and dividends	47	43
Positive fair value of derivative instruments	2	3
Prepayments	14	14
Property, plant and equipment	78	116
Margin money paid on derivative instruments	195	85
Receivable on partial sale of an associate	-	85
Others, including trade receivable of subsidiaries	134	127
	470	473

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for the year ended 31 December 2015

(All amounts in US$ millions)

10 Deposits from banks and other financial institutions

	2015	2014
Deposits from Central Banks	99	110
Deposits from commercial banks	-	58
Deposits from other financial institutions	749	493
Other deposits	71	111
	919	772

At 31 December 2015, deposits from governments of GCC states, Central Banks and other institutions headquartered in the GCC states amounted to US$ 919 million (2014: US$ 754 million).

Deposits from banks and other financial institutions carry an effective interest rate of 0.57% per annum (2014: 0.53% per annum).

11 Securities sold under repurchase agreements

As at 31 December 2015, the Group has outstanding repurchase agreements with third party international investment banks against certain debt instruments available for sale (note 6). Repurchase agreements amounting to US$ 321 million (2014: nil) are due within one year of the reporting date.

12 Term finance

	Interest rate %	**2015**	2014
AED bank loans (Subsidiary loans)	Floating rate ranging from 3% to 7%	11	26
Medium Term Note Issues (EMTN) :			
CHF medium term fixed rate note due in 2015	2.75 % per annum (annual)	-	303
MYR medium term fixed rate note due in 2016	5.25 % per annum (semi annual)	140	171
MYR medium term fixed rate note due in 2016	4.90 % per annum (semi annual)	175	215
USD medium term fixed rate note due in 2017	3.25 % per annum (semi annual)	500	500
MYR medium term fixed rate note due in 2022	5.10 % per annum (semi annual)	40	49
MYR medium term fixed rate note due in 2023	4.52 % per annum (semi annual)	93	115
MYR medium term fixed rate note due in 2027	5.30 % per annum (semi annual)	36	44
		995	1,423

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(All amounts in US$ millions)

13 Other liabilities

	2015	2014
Accrued interest	17	21
Negative fair value of derivative instruments	197	93
Margin money for derivative products	-	1
Others, including trade payable of subsidiaries and accrued Expenses	151	126
	365	241

14 Equity

14.1 The authorised, issued and fully paid capital comprises of 2.1 million shares of US$ 1,000 each (2014: 2.1 million shares of US$ 1,000 each).

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

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

14.4 The general assembly meeting of shareholders held on 5 April 2015 did not approve the transfer of profit to voluntary reserve for the year 2014 and this transfer was subsequently reversed.

14.5 The Annual General Assembly meeting of shareholders held on 3 April 2016 approved the payment of cash dividend from voluntary reserve of US$ 50 per share for the year ended 31 December 2015, amounting to US$ 105 million (2014: US$ 50 per share amounting to US$ 105 million from accumulated losses). The Annual General Assembly meeting of shareholders also approved the transfer of US$ 9 million from voluntary reserve to accumulated losses.

15 Interest income

	2015	2014
Placements with banks	2	1
Financial assets available for sale	47	36
Financial assets at fair value through statement of income	1	1
	50	38

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for the year ended 31 December 2015

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16 Net gains from investments

	2015	2014
Realised gain from financial assets available for sale	52	85
Realised gain from financial assets at fair value through statement of income	1	11
Unrealised gain from financial assets at fair value through statement of income	3	20
Realised loss on sale of subsidiary	(2)	-
Realised gain on sale of associates (net)	154	110
	208	226

In 2014, the Corporation entered into a sale purchase agreement with National Industrialization Company (TASNEE) for sale of a 13% holding in National Titanium Dioxide Co. Ltd (Cristal). Pursuant to the agreement, the sale was effected in 2 tranches. 5% sold in December 2014 and the remaining 8% is disposed off during the quarter ended 31 March 2015. Gain amounting to US$ 133 million is recognized on the 8% sale in the consolidated statement of income during the year.

On 16 March 2015, the Corporation entered into a sale purchase agreement with Jadwa Investment Company and Arab Petroleum Investments Corporation for the sale of 20% holding in Saudi Mechanical Industries Company Limited and recognized a gain of US$ 24 million in the consolidated statement of income.

On 28 October 2015, the Corporation entered into a sale purchase agreement with Industrial Capital Group L.L.C. for the sale of its 58.7% holding in Crown Paper Mill FZC and recognized a loss of US$ 2 million in the consolidated statement of income.

17 Dividend income

	2015	2014
Managed funds portfolio	-	1
Quoted equity investments and funds	4	3
Equity participations available for sale	19	24
	23	28

18 Net fee, commission and other income

	2015	2014
Management, advisory and development fees	6	12
Other income	1	1
	7	13

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

19 Interest expense

	2015	2014
Deposits from banks and other financial institutions	(5)	(5)
Securities sold under repurchase agreements	(1)	-
Term finance	(48)	(53)
	(54)	(58)

20 Other operating income

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

	2015	2014
Sales	196	171
Cost of sales	(150)	(126)
Gross profit	46	45
Other income	1	1
Selling and distribution expenses	(6)	(6)
Administrative expenses	(25)	(25)
	16	15

The net income recognised in other operating income pertaining to the discontinued operation amounts to US$ 3 million (2014: US$ 4 million). (note 16)

21 Impairment losses

	2015	2014
Financial assets available for sale :		
Equity participations	(23)	(22)
Equities and manged funds	(13)	-
Private equity funds	(4)	(9)
Interest bearing securities	1	-
Investment in associates	-	(61)
Other assets	(1)	26
	(**40**)	(66)

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for the year ended 31 December 2015

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21 Impairment losses (continued)

Associates

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

During the year, management determined that there is no objective evidence of impairment in the carrying value of associates. Management computed the recoverable amount of these investments and determined that it is higher than their carrying value. During the previous year, the recoverable amounts was lower than their carrying value by US$ 61 million which has been recognised as impairment losses in the consolidated statement of income.

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

22 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 2015 amounted to US$ 7 million (2014: US$ 8 million).

23 Risk management

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

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

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

23.1 Liquidity risk

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

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

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for the year ended 31 December 2015

(All amounts in US$ millions)

23 Risk management (continued)

23.1 Liquidity risk (continued)

	Within 3 months	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
31 December 2015					
Deposits from banks and other financial institutions	630	293	-	-	923
Securities sold under repurchase agreements	256	66	-	-	322
Term finance	147	204	555	193	1,099
Gross settled derivative instruments:					
- Contractual amount payable	1,129	280	-	226	1,635
- Contractual amount receivable	(1,071)	(205)	-	(169)	(1,445)
Other liabilities	123	122	47	73	365
Total undiscounted financial liabilities	**1,214**	**760**	**602**	**323**	**2,899**
Commitments	-	40	62	-	102
Contingent liabilities	-	20	73	252	345

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

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.

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for the year ended 31 December 2015

(All amounts in US$ millions)

23 Risk management (continued)

23.1 Liquidity risk (continued)

	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
At 31 December 2015					
Assets					
Cash and cash equivalents	39	-	-	-	39
Securities purchased under resale agreement	112	-	-	-	112
Placements with banks	334	-	-	-	334
Financial assets at fair value through statement of income	39	396	-	-	435
Financial assets available for sale	2,119	65	68	332	2,584
Investment in associates	-	-	225	898	1,123
Other assets	78	138	107	147	470
Total assets	**2,721**	**599**	**400**	**1,377**	**5,097**
Deposits from banks and other financial institutions	629	290	-	-	919
Securities sold under repurchase agreements	256	65	-	-	321
Term finance	142	177	507	169	995
Other liabilities	123	122	47	73	365
Total liabilities	**1,150**	**654**	**554**	**242**	**2,600**
Net gap	**1,571**	**(55)**	**(154)**	**1,135**	

23 Risk management (continued)

23.1 Liquidity risk (continued)

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

23.2 Market risk

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

Interest rate risk

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

Foreign exchange risk

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

Equity price risk

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

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

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23 Risk management (continued)

23.2 Market risk (continued)

2015	***Average***	***Minimum***	***Maximum***	***31 December 2015***
Interest rate	21	14	25	22
Equity price	13	6	18	16
Foreign exchange	1	-	3	-
Total*	**24**	**15**	**27**	**25**

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

** Total VaR incorporates benefits of diversification.*

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

Market indices	*Change in equity price*	***Effect on equity***	
		2015	2014
Saudi Stock Exchange	+/-10	**15**	38
Other GCC indices	+/-10	**3**	2

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

Please refer note 26 for distribution of assets and liabilities between the divisions.

23.3 Credit risk

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

As at 31 December 2015 (2014: nil), the Group has not obtained any collateral on any of the financial assets.

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23 Risk management (continued)

23.3 Credit risk (continued)

23.3.1 Maximum exposure to credit risk

The maximum credit exposure of the Group is as follows:

	Maximum exposure	
	2015	2014
Cash and cash equivalents	39	63
Securities purchased under resale agreement	112	-
Placements with banks	334	250
Debt securities at fair value through statement of income	29	23
Debt securities available for sale	1,939	1,664
Other assets	348	298
Credit exposure on assets	**2,801**	2,298
Credit commitments	345	238
Total credit exposure	**3,146**	2,536

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

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The maximum credit exposure to a single counterparty (rated as investment grade) is US$ 75 million (2014: US$ 65 million).

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

	GCC	**Europe**	**America**	**Asia/ Africa**	**Total**
At 31 December 2015					
Cash and cash equivalents	31	8	-	-	39
Securities purchased under resale agreement	37	75	-	-	112
Placements with banks	334	-	-	-	334
Debt securities at fair value through statement of income	-	9	13	7	29
Debt securities available for sale	1,196	357	295	91	1,939
Other assets	139	97	1	111	348
Credit exposure on assets	**1,737**	**546**	**309**	**209**	**2,801**
Credit commitments	334	-	-	11	345
Total credit exposure	**2,071**	**546**	**309**	**220**	**3,146**

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23 Risk management (continued)

23.3 Credit risk (continued)

23.3.1 Maximum exposure to credit risk (continued)

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

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

	Banks & FIs.	**Trading & Mftg.**	**Utilities**	**Govt. agencies**	**Other**	**Total**
At 31 December 2015						
Cash and cash equivalents	39	-	-	-	-	39
Securities purchased under resale agreement	112	-	-	-	-	112
Placements with banks	334	-	-	-	-	334
Debt securities at fair value through statement of income	5	3	-	17	4	29
Debt securities available for sale	1,084	160	359	199	137	1,939
Other assets	212	103	28	2	3	348
Credit exposure on assets	**1,786**	**266**	**387**	**218**	**144**	**2,801**
Credit commitments	-	58	214	73	-	345
Total credit exposure	**1,786**	**324**	**601**	**291**	**144**	**3,146**

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(All amounts in US$ millions)

23 Risk management (continued)

23.3 Credit risk (continued)

23.3.1 Maximum exposure to credit risk (continued)

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

23.3.2 Credit quality of financial assets

In managing its portfolio, the Group utilises external ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as 'Investment grade' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include 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**
	Investment grade	**Unrated**	
At 31 December 2015			
Cash and cash equivalents	39	-	39
Securities purchased under resale agreement	112	-	112
Placements with banks	334	-	334
Debt securities at fair value through income statement	29	-	29
Debt securities available for sale	1,939	-	1,939
Other assets	220	128	348
Credit exposure on assets	**2,673**	**128**	**2,801**
Credit commitments	345	-	345
Total credit exposure	**3,018**	**128**	**3,146**

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23 Risk management (continued)

23.3 Credit risk (continued)

23.3.2 Credit quality of financial assets (continued)

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

24 Commitments and contingent liabilities

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

	Notional principal amount	
	2015	2014
Credit Risk Amounts		
Transaction-related contingent items:		
- Letter of guarantees	**345**	238

Certain letter of guarantees are issued by the Corporation on behalf of its related parties (note 28).

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:

	2015	2014
Undrawn commitments for investments in private equity funds	72	101
Other commitments	30	7
	102	108

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25 Derivatives

Derivatives instruments are utilised by the Group as part of its asset and liability management activity to hedge its own exposure to market, interest rate and currency risk.

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

Hedge accounting

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

As at the reporting date, the notional amount of interest rate swaps and interest rate futures used to hedge interest rate risk amounted to US$ 87 million (2014: US$ 166 million) and its net fair value was a swap loss of US$ 5 million (2014: US$ 9 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$ 673 million (2014: US$ 975 million) and its net fair value was a swap loss of US$ 190 million (2014: US$ 80 million).

For the year ended 31 December 2015, the Group recognised unrealised gain of US$ 4 million (2014: US$ 7 million) and realised loss of nil (2014: US$ 6 million) on hedging instruments. The corresponding unrealised loss and realised gain on the hedged fixed income securities amounted to US$ 4 million (2014: US$ 2 million) and US$ 1 million (2014: US$ 1 million) respectively.

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

	2015			2014		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount
Derivatives held for hedging						
- Interest rate swaps	-	(5)	87	-	(9)	156
- Interest rate futures	-	-	-	-	-	10
- Cross currency swaps	-	(190)	673	2	(80)	975
- Forward foreign exchange contracts	2	(2)	1,635	1	(4)	1,689
Derivatives held for trading						
- Credit default swaps	-	-	13	-	-	-
- Put options	-	-	-	-	-	2
	2	**(197)**	**2,408**	3	(93)	2,832

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25 Derivatives (continued)

Maturity analysis

	Within 1 year	**Year 1 to 5**	**Above 5 years**	**Total**
At 31 December 2015				
Notional amounts				
Interest rate swaps	50	37	-	87
Cross currency swaps	447	-	226	673
Credit default swaps	13	-	-	13
Forward foreign exchange contracts	1,409	-	226	1,635
	1,919	**37**	**452**	**2,408**

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

26 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

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26 Segmental information (continued)

31 December 2015	**Principal Investments**	**Debt Capital Markets**	**Equity and Alternative Investments**	**Treasury**	**Corporate and Other**	**Eliminations**	**Total**
Interest income	9	49	1	38	1	(48)	50
Interest expense	(43)	(12)	(9)	(38)	-	48	(54)
Share of results from associates	(41)	-	-	-	-	-	(41)
Other operating income	194	14	45	-	1		254
Net operating income	119	51	37	-	2	-	209
Other operating expenses	(13)	(2)	(3)	(4)	(35)	-	(57)
Impairment losses	(23)	1	(17)	-	(1)	-	(40)
Profit for the year	83	50	17	(4)	(34)	-	112
Segment assets	1,637	1,988	800	5,592	15	(4,935)	5,097
Segment liabilities	1,818	1,985	823	2,881	28	(4,935)	2,600
Equity							2,497
Total liabilities and equity							5,097
Other information							
Investment in associates	1,123	-	-	-	-	-	1,123

	Principal Investments	Debt Capital Markets	Equity and Alternative Investments	Treasury	Corporate and Other	Eliminations	Total
31 December 2014							
Interest income	2	38	1	24	2	(29)	38
Interest expense	(51)	(6)	(12)	(18)	-	29	(58)
Share of results from associates	74	-	-	-	-	-	74
Other operating income	159	22	101	-	-	-	282
Net operating income	184	54	90	6	2	-	336
Other operating expenses	(13)	(4)	(2)	(4)	(44)	-	(67)
Impairment losses	(57)	-	(9)	-	-	-	(66)
Profit for the year	114	50	79	2	(42)	-	203
Segment assets	2,393	1,714	701	4,752	17	(4,391)	5,186
Segment liabilities	2,312	1,671	551	2,242	51	(4,391)	2,436
Equity							2,750
Total liabilities and equity							5,186
Other information							
Investment in associates	1,396	-	-	-	-	-	1,396

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

27 Fair value information

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

Determination of fair value and fair value hierarchy:

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

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

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

Level 3: valuation techniques for which any significant input is not based on observable market data

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

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Financial assets at fair value through statement of income				
Investment in quoted debt instruments	29	-	-	29
Investment in hedge funds	-	121		121
Investment in other unquoted alternative funds	-	285	-	285
Financial assets available for sale				
Debt instruments	1,877	-	62	1,939
Equities and managed funds	206	-	-	206
Equity participations	134	-	-	134
Private equity funds	-	-	186	186
Other assets - derivative financial instruments				
Forward foreign exchange contracts	-	-	2	2
	2,246	**406**	**250**	**2,902**
Other liabilities - derivative financial instruments				
Interest rate swaps	-	5	-	5
Cross currency swaps	-	-	190	190
Forward foreign exchange Contracts	-	-	2	2
	-	**5**	**192**	**197**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

27 Fair value information (continued)

2014	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through statement of income				
Investment in quoted debt instruments	23	-	-	23
Investment in hedge funds	-	85	-	85
Investment in other unquoted alternative funds	-	341	-	341
Financial assets available for Sale				
Debt instruments	1,581	-	83	1,664
Equities and managed funds	61	-	-	61
Equity participations	331	-	-	331
Private equity funds	-	-	206	206
Other assets - derivative financial instruments				
Forward foreign exchange contracts	-	-	1	1
Cross currency swaps	-	-	2	2
	1,996	426	292	2,714
Liabilities measured at fair Value				
Other liabilities - derivative financial instruments				
Interest rate swaps	-	9	-	9
Cross currency swaps	-	-	80	80
Forward foreign exchange Contracts	-	-	4	4
	-	9	84	93

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

27 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 2015	**At 1 January 2015**	**Gain / (loss) recorded in the consolidated statement of income**	**Gain / (loss) recorded in equity**	**Net purchases, sales, transfers and settlements**	**At 31 December 2015**
Assets measured at fair value					
Financial assets available for sale					
Debt instruments	83	-	4	(25)	62
Private equity funds	206	28	(18)	(30)	186
Other assets - derivative financial instruments					
Forward foreign exchange contracts	1	1	-	-	2
Cross currency swaps	2	(2)	-	-	-
Other liabilities - derivative financial instruments					
Cross currency swaps	80	110	-	-	190
Forward foreign exchange contracts	4	(2)	-	-	2

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

27 Fair value information (continued)

Measurement of Level 3 fair values

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

ii. Private equity funds: The fair values are based on fund statements sent by the funds.

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

28 Related party transactions

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

Significant transactions with associates during the year are as follows:

	2015	2014
Net fee, commission and other income	6	9
Guarantees and commitments	271	164
Receivables from associates	30	20

Compensation of key management personnel

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

	2015	2014
Salaries and short-term employee benefits	12	12
Post-employment and termination benefits	2	3
	14	15

29 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:

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

29 Capital management (continued)

	2015	2014
Interest-bearing deposits, term finance and other borrowings	2,235	2,195
Other liabilities	365	241
Less: Cash and cash equivalents, Securities purchased under resale agreement and placements with banks	(485)	(313)
Net debt	**2,115**	2,123
Equity attributable to equity holders of the Corporation	**2,491**	2,729
Gearing ratio (net debt /equity)	**0.8**	0.8

30 Subsequent event

Subsequent to 31 December 2015, the Corporation has acquired 14% stake in Aviation Lease and Finance Company K.S.C.P. ("ALAFCO"), a company listed at the Kuwait Stock Exchange for US$ 99 million.

31 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**
		2015	**2014**		
Bituminous Products Company Limited (Bitumat)	Saudi Arabia	100	100	31 December 2015	Building material manufacturing
Gulf Paramount for Electrical Services Company WLL	Kuwait	100	100	31 December 2015	Electrical Services
Gulf Electronic Tawasul Company KSCC	Kuwait	86.8	86.8	31 December 2015	Information Technology
GIC Technologies Company W.L.L	Kuwait	80	80	31 December 2015	Technical advisory
Gulf Jyoti International L.L.C	UAE	70	70	31 December 2015	Construction & Engineering
Crown Paper Mill Ltd. FZC	UAE	-	58.7	-	Paper Manufacturing

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

(All amounts in US$ millions)

31 Principal subsidiaries and associates (continued)

Associates	Country of incorporation	% of shareholding		Financial statements reporting date	Principal business activity
		2015	2014		
Gulf Re Holdings Limited	Channel Islands	50.0	50.0	31 December 2015	Re-insurance
Foulath Holding B.S.C (c)	Bahrain	50.0	50.0	31 December 2015	Holding company
Oman Investment Corporation SAOC	Oman	50.0	50.0	30 September 2015	Investing activities
Al Ezzel Power Company B.S.C. (c)	Bahrain	45.0	45.0	31 December 2015	Power & Water Utility project
Bahrain Industrial Pharmaceutical Co. W.L.L	Bahrain	40.0	40.0	31 December 2015	Pharmaceuticals
Orimix Concrete Products L.L.C	UAE	40.0	40.0	30 September 2015	Building Materials
Shuqaiq International Power and Water Company Limited	Saudi Arabia	33.3	33.3	31 December 2015	Power & Water Utility project
SGA Marafiq Holdings	Saudi Arabia	33.3	33.3	31 December 2015	Power & Water Utility project
Technical Supplies & Services Co. Ltd.	UAE	30.7	30.7	30 September 2015	Refrigeration & Cooling Services
Al Dur Holding Company Limited	UAE	25.0	25.0	31 December 2015	Power & Water Utility project
Jeddah Cable Company Ltd.	Saudi Arabia	25.0	25.0	30 November 2015	Manufacturing Cables
Moon Iron and Steel Company SAOC	Oman	25.0	-	-	Iron and steel
Al Shafar Industries LLC (ALUMCO)	UAE	-	24.5	30 September 2015	Building Materials
Interplast Company Limited (L.L.C.)	UAE	23.5	23.5	30 November 2015	Plastic
Celtex Weaving Mills Co. Ltd.	Bahrain	23.0	23.0	31 December 2015	Textiles
Rawabi Emirates (PJSC)	UAE	22.5	22.5	31 October 2015	Dairy Products
Dubai Wellness Centre	UAE	21.7	26.8	30 November 2015	Medical services
Wataniya Telecom Algerie S.P.A.	Algeria	20.0	20.0	31 December 2015	Telecom service provider
Gulf Stone Company SAOG	Oman	20.0	20.0	30 September 2015	Building Materials
Saudi Mechanical Industries Company Limited	Saudi Arabia	-	20.0	-	Manufacturing of Engineering Products
A Saffa Foods SAOG	Oman	20.0	20.0	31 December 2015	Poultry & Dairy Products
The National Titanium Dioxide Co., Ltd. (Cristal)	Saudi Arabia	20.0	20.0	31 December 2015	Production of Titanium Dioxide

Gulf Investment Corporation G.S.C.

Stand-alone Statement of Financial Position

as at 31 December 2015

(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

	2015	2014
Assets		
Cash and cash equivalents	15	26
Securities purchased under resale agreement	112	-
Placements with banks	330	245
Financial assets at fair value through statement of income	435	449
Financial assets available for sale	2,584	2,391
Investments in associates	1,113	1,388
Investment in associate held for sale	-	164
Investment in subsidiaries	101	133
Other assets	268	254
Total Assets	**4,958**	5,050
Liabilities and equity		
Liabilities		
Deposits from banks and other financial institutions	919	772
Securities sold under repurchase agreements	321	-
Term finance	983	1,397
Other liabilities	244	152
Total Liabilities	**2,467**	2,321
Equity		
Share capital	2,100	2,100
Reserves	400	652
Accumulated losses	(9)	(23)
Total equity	**2,491**	2,729
Total liabilities and equity	**4,958**	5,050

Principal Investing

Projects and Equity Participation

As of 31 December 2015

	Name of the Project	Location	Paid up Share Capital -USD Million	GIC Effective holding %	GIC holding type
	Subsidiaries and Associates of GIC				
1	G.I.Corporation for General Trading & Contracting Co. W.L.L	Kuwait	0.82	100.00%	Direct
2	Bituminous Products Company Limited (Bitumat)	Saudi Arabia	15.98	100.00%	Direct
3	InvesTel Holdings W.L.L.	Bahrain	102.56	100.00%	Direct
4	GIC Financial Services Limited	Cayman Islands	0.05	100.00%	Direct
5	Kuwait Bituminous Products for Building Material and Equipment Trading Co. *	Kuwait	0.49	100.00%	Indirect
6	Gulf Paramount for Electrical Services Company W.L.L	Kuwait	4.05	100.00%	Direct
7	Gulf Electronic Tawasul Company KSCC	Kuwait	17.64	86.83%	Direct
8	GIC Technologies Co. (W.L.L)	Kuwait	4.94	80.00%	Direct
9	Gulf Jyoti International L.L.C	UAE	11.73	70.00%	Direct
10	Oman Investment Corporation SAOC	Oman	51.95	50.00%	Direct
11	Gulf Re Holdings Limited ***	Channel Islands	70.00	50.00%	Indirect
12	Foulath Holding B.S.C (c)	Bahrain	566.36	50.00%	Direct
13	Al Ezzel Power Company B.S.C. (c)	Bahrain	55.98	45.00%	Direct
14	Orimix Concrete Products L.L.C. *	UAE	8.17	40.00%	Indirect
15	SGA Marafiq Holdings W.L.L.	Bahrain	0.89	33.33%	Indirect
16	Shuqaiq International Water & Electricity Company Limited	Saudi Arabia	0.80	33.33%	Direct
17	A Saffa Foods Co. SAOG	Oman	31.17	20.01%	Direct
18	The National Titanium Dioxide Co., Ltd. (CRISTAL)	Saudi Arabia	629.35	20.00%	Direct
19	Technical Supplies & Services Co. Ltd.	UAE	27.23	30.67%	Direct
20	The Dubai Wellness Center Limited (L.L.C)	UAE	68.79	21.63%	Direct
21	Jeddah Cable Company Ltd & Energya Group	Saudi Arabia	131.86	25.00%	Direct
22	Al- Dur Holding Company Limited	UAE	0.00	25.00%	Direct
23	Al Dur Power & Water Co. B.S.C. (c)	Bahrain	66.30	25.00%	Indirect
24	Moon Iron and Steel Company S.A.O.C	Oman	2.50	25.00%	Direct
25	Interplast Company Limited - (L.L.C.)	UAE	27.23	23.50%	Direct
26	Celtex Weaving Mills Co. Ltd.	Bahrain	0.00	23.00%	Direct
27	Rawabi Emirates (PJSC)	UAE	59.17	22.54%	Direct

Principal Investing

Projects and Equity Participation

As of 31 December 2015

	Name of the Project	Location	Paid up Share Capital -USD Million	GIC Effective holding %	GIC holding type
28	Gulf Stone Company SAOG *	Oman	9.43	20.00%	Indirect
29	Wataniya Telecom Algerie S.P.A.	Algeria	613.38	20.00%	Indirect
30	Jubail Water & Power Co.	Saudi Arabia	1.33	20.00%	Indirect
31	Shuqaiq Water & Electricity Co.	Saudi Arabia	298.67	20.00%	Indirect
	Equity Participations - GIC ownership less than 20 percent				
1	Moobility Telecom International Holding Ltd.	British Virgin Islands	2.74	17.40%	Direct
2	TMK Gulf International Pipe Industry L.L.C	Oman	68.17	14.20%	Direct
3	Tatweer Infrastructure Company (Q.P.S.C.)	Qatar	168.64	11.64%	Direct
4	Gulf Bridge International Inc.	Virgin Island	345.50	10.00%	Direct
5	Ras Laffan Power Company Limited (Q.S.C.)	Qatar	138.90	10.00%	Direct
6	KGL Logistics Company K.S.C. (Closed)	Kuwait	199.68	9.00%	Direct
7	Securities and Investment Company B.S.C.	Bahrain	113.63	7.70%	Direct
8	National Industrialization Co. (TASNEE) (Saudi Joint Stock Co.)	Saudi Arabia	5,969.43	6.52%	Direct
9	Gulf Aluminium Rolling Mill Co. B.S.C.	Bahrain	102.58	5.90%	Direct
10	United Power Company SAOG	Oman	18.11	2.27%	Direct
11	Arabian Industrial Fibers Company (IBN RUSHD) (Closed Joint Stock Company)	Saudi Arabia	2,266.98	1.95%	Direct
12	Thuraya Satellite Telecommunications Company PJSC	UAE	653.85	1.65%	Direct

*** GIC owns 50% indirectly after the restructuring completed last year JV with Arch Re.

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

Corporate Directory 2015

Senior Management Team

Mr. Ibrahim Ali AlQadhi
Chief Executive Officer

Mr. Shafic Ali
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. Martin Joy
Head of Treasury Div.
Acting Head of Managed Funds Div.

Mr. Raffaele Bertoni
Head of Debt Capital Markets Div.

Principal Investing

Mr. Fadi Twainy
Head of Light Industry Projects Div.

Mr. Meshary M. Al-Judaimi
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
Acting Head of Principal Investment Analytics Div.

Mr. Muthuswamy Chandrasekaran
Advisor to Group Head of Principal Investment

Support Group

Mr. Hani Al-Shakhs
Acting Head of Operations Div.

Mr. Mohamed 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. Malek Al-Ajeel
Advisor to CEO

Mr. Sebastian Vadakumcherry
Head of Risk Management Div.

Mr. Hazem El-Rafie
Head of Finance Div.

Dr. Khaled Bukhamseen
Head of Internal Audit Div.

Dr. Mohamed Elliwa
Head of Legal & Compliance Div.

Dr. Mohammad Al-Omar
Head of Research Div.

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