مؤسسة الخليج للإستثمار
Gulf Investment Corporation

ANNUAL REPORT AND ACCOUNTS 2021

CONTENTS

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	2019	2020	2021
Gross Operating and Other Income	208	96	183
Operating Expenses	52	46	47
Net Profit / (Loss)	131	(35)	130
At year end			
Total Assets	3,534	3,271	3,175
Interest Bearing Securities and Funds	796	794	539
Equities and Managed Funds	429	414	437
Projects and Equity Participations	1,779	1,559	1,697
Deposits	418	418	314
Shareholders' Equity	2,623	2,353	2,594
Selected Ratios (%)			
Profitability			
Return on Paid-up Capital	6.2	-	6.2
Return on Adjusted Shareholders' Equity	4.6	-	4.8
Capital			
BIS Ratios			
- Total	44.2	37.5	41.3
- Tier 1	44.2	37.5	41.3
Shareholders' Equity as a % of Total Assets	74.2	71.9	81.7
Asset Quality			
Marketable Securities as a % of Total Assets	27.2	28.9	22.9
GCC Country Risk as a % of Total Assets	76.5	78.1	77.8
Liquidity			
Liquid Assets Ratio	45.3	48.7	42.8
Productivity			
Operating Income as Multiple of Operating Expenses	4.0	2.1	3.9

BOARD OF DIRECTORS

United Arab Emirates

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

Chairman of the Board

Assistant Undersecretary of Budget and Revenue

Ministry of Finance

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

Advisor at the Ministry of Finance

Kingdom of Bahrain

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

Deputy Chairman of the Board and Chairman of the Executive Committee

Businessman

H.E. Mr. Hesham Abdul Ghaffar Khonji ** ***

Senior Director - Global Asset Management

Mumtalakat Holding Co. B.S.C

Kingdom of Saudi Arabia

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

Chairman of the Audit Committee

Chief Executive Officer Al Rajhi Capital

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

Deputy Chief Executive Officer

Sanabil Investments Company

Sultanate of Oman

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

Chairman of Risk Management Committee

President,

Oman Investment Authority

H.E. Ms. Thuraiya Ahmed Suwaidan Al Balushi ** ****

Manager - Economic Diversification Investments

Oman Investment Authority

State of Qatar

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

Chairman of Remuneration and Human Resources Committee

Minister of State

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

Minister of State

State of Kuwait

H.E. Mr.Waleed A.M.A. Al Roudan * ***

Businessman

* Member of the Executive Committee

** Member of the Audit Committee

*** Member of the Risk Management Committee

**** Member of the Remuneration and Human Resources Committee

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the Annual Report that details Gulf Investment Corporation's (GIC) activities and its financial results for the year ending December 31st 2021. The corporation continued its success despite the global economic and geopolitical challenges, as it posted excellent results by realizing net profits of $130 million in 2021 compared to a net loss of $35 million in 2020.

In the spirit of its key mandate, GIC managed to achieve its strategic objectives in 2021 within a challenging business environment that was characterized by turbulent global markets post COVID pandemic. While the overall health conditions has been improved during the year, the economic repercussions remain, such as supply-chain problems and the risk of inflation, which prompted major central banks to signal their intention to tighten their monetary policies, thereby increasing borrowing costs and interest rates. A trend that would put a downward pressure on future profitability rates.

Moreover, the year witnessed an increase in environmental awareness due to the risks of climate change, which prompted many governments and the private sector to continue their commitment to clean energy sources in the coming years. These policies will in doubt affect the future of traditional sources of energy and hence the economies of the Gulf region. In addition to those challenges, the risks of new variants of COVID and the global geopolitical developments cast a doubt on the speed of global economic recovery. Due to the Corporation's resilience and strength, alongside the grace of God, GIC was able to achieve its 2021 goals and maintain the quality of its assets, its diverse investments and an excellent capital adequacy position.

In line with GIC's objectives to enhance performance in parallel with global markets, and the desire to achieve competitive returns for its shareholder, GIC continued implementing its investment strategy, diversifying its assets, reducing its leverage, and maintaining its sound liquidity positions and cash flow targets. GIC's Direct Investment portfolio still constitutes the largest portion of GIC's investments in line with GIC's commitment to the development of GCC economies. In the meantime, the Global Market assets portfolios continue to play a critical role in GIC's investment strategy to provide adequate diversification of risks and enhance returns. In 2021, GIC reduced its leverage to 1.2 times and total liabilities decreased to $568 million from $905 million in 2020.

GIC's portfolios achieved excellent returns in 2021. Global Markets Group recorded revenues of $78 million, outperforming various performance benchmarks. This result comes on the back of good performance of various portfolios such as Global Equities portfolio and Hedge Funds portfolio. Moreover, Private Investments Group recorded revenues of $108 million due to the performance of GIC's direct investments in many companies in the GCC region and the precautionary provisions provided in 2020.

During the year, GIC continued its path of investing in the economies of the GCC region. Infrastructure sector still represent the largest sector of GIC's Direct Investments. In 2021, GIC continued diversifying its direct investments in the region by increasing its investment in the Education and Digital Economy sectors. Moreover, the year witnessed the evolution of some of GIC's projects in the region such as the inauguration of Ibri II solar independent power project in the Sultanate of Oman, the completion of one of the first phase of the DEWA V solar independent power project in the emirate of Dubai, UAE and Osool Poultry in the Sultanate of Oman. This is in addition to the continuation of the implementation of the Jubail 3A water desalination project in the Kingdom of Saudi Arabia. These achievements come within GIC's strategy of directly investing in vital projects in different sectors in the GCC region. In addition, GIC succeeded in achieving its goal of exiting from various investments, achieving a total exit value of $42.5 million.

GIC has maintained its credit rating in 2021 despite global and regional economic and business challenges and the downgrading of many governments and institutions in the region. Moody's and Fitch rating agencies have both reaffirmed GIC's credit rating and outlook in 2021. The rating agencies contributed their decisions to GIC's strong capital adequacy position, excellent liquidity measures, prudent risk management as well as strong asset quality and adequacy of provisions.

Finally, on behalf of GIC's Board of Directors, I would like to express my appreciation to their Royal Highnesses, Kings and Emirs, rulers of the GCC countries for their continuous support. Special thanks to the State of Kuwait for hosting GIC's headquarters and providing all the necessary requirements for GIC to operate. I would also like to express my sincere appreciation to the Excellences and Ministers of Finance of the GCC countries for their support. I would also like to express my appreciation to the Board of Directors and all the members of executive management, and staff for their commitment and efforts during the year in achieving the Corporation's goals.

Saeed Rashid Al-Yateem

Chairman

CHIEF EXECUTIVE OFFICER'S STATEMENT

Gulf Investment Corporation (GIC) achieved a distinguished performance in 2021 despite economic uncertainties and challenges. GIC recorded a net profit of $130 million by the yearend compared to a net loss of $35 million in 2020. This satisfying performance was due to the exceptional measures taken by GIC during 2020 namely precautionary provisions and interactive risk management. GIC continued implementing its investment strategy, maintained a strong financial position with a high quality of assets, and continued its strategic goal of simulating growth and supporting financial markets in the Gulf Cooperation Council (GCC) economies. GIC was able to achieve the targeted cash flow rates, maintain a strong capital base, and sound liquidity profile.

This exceptional performance comes despite many uncertainties that rattled the global economy due to the coronavirus pandemic and the associated volatility in different markets. In 2021, the improved global health conditions together with various government stimulus measures managed to stabilize global markets compared to 2020. However, uncertainties remained as the risks of new COVID variants, rising inflation expectations and the accompanying increase in interest rates, supply bottlenecks, and volatile oil prices still cast a shadow on investment returns.

In a testament to GIC's strong financial position and quality of assets, and despite the wave of downgrades that ravaged the public and private sectors in the region in the last couple of years, GIC maintained its credit rating from various prominent rating agencies. Moody's reaffirmed GIC's long-term rating at A2 and short-term rating at P1; Fitch reaffirmed GIC's long-term rating at BBB+ and short-term rating at F1; and RAM reaffirmed GIC's rating at AAA. All ratings carry a "Stable" outlook. The agencies stressed that GIC's strategic policy of deleveraging, strong capital adequacy, strong and comfortable liquidity position, high quality of assets, and adequacy of provisions are key factors in maintaining their credit rating of GIC.

GIC continued executing its investment strategy in 2021, which is based on deleveraging, diversifying assets and investments, and comparing performance to benchmarks. The Global Markets Group (GMG) recorded revenues of $78 million, in addition to achieving returns that are higher than performance benchmarks. GMG achieved a return of 6% during the year compared to 3.62% to benchmarks. This sound performance comes as a result of GMG's various portfolios such as the Equities portfolio, which achieved a return on 17.8% and the Hedge Fund portfolio, which achieved a return of 9.8%.

GIC's Principal Investments Group continued its mission of directly investing in the GCC economies despite the many challenges that faced the region in 2021. During the year, GIC invested in Alephya Company, which specializes in investing in schools in the Gulf region. GIC also invested in the Digital Economy sector with an investment in Unifonic, which specializes in technological communication between companies and customers. The year also witnessed some developments in GIC's direct investments in important projects in the region. During the year, Ibri II Solar Independent Power Project was inaugurated in the Sultanate of Oman, in addition to the completion of one phase of the construction phases of DEWA V Solar Independent Power Project in the emirate of Dubai, UAE, the continuation of the implementation of Jubail 3A Water Desalination Project in the Kingdom of Saudi Arabia and Osool Poultry Company in the Sultanate of Oman. These investments stem from GIC's strategy of investing in different sectors in the GCC region.

Based on GIC's strategy of exiting some investments and reducing concentration risks in some portfolios, GIC succeeded in exiting three companies and a partial exit from one company in 2021. GIC succeeded in selling its shares in Sudair Pharmaceuticals Company, National Industrialization Company (Tasnee), and United Power Company. Moreover, GIC sold some of its stake in Perella Weinberg Company. These exits brought revenues of $42.5 million to GIC, brining Principal Investments Group's total revenue to $108 million.

GIC continued its goal of reducing risks and maintaining a strong asset quality. This year, leverage deceased to 1.2 times and GIC paid its matured debt on time with no impact on GIC's liquidity profile. By the end of the year, total liabilities reached $568 million compared to $905 million in 2020, a 37% decrease. This reduction in leverage decreased the cost of financing to $8 million in 2021, down from $20 million in 2020.

To conclude, I would like to thank the governments of the Gulf Cooperation Council countries for their effective and valuable contribution to achieving the goals of GIC. I would also like to express my appreciation and great gratitude to the honorable members of the Board of Directors and the sub-committees for their active contribution to the development of the Corporation and the achievement of its mission. I extend my sincere thanks and gratitude to the staff of the Corporation on their commitment and efforts in achieving GIC's mission, and actively contributing to the economic development of the Gulf Cooperation Council economies and help bring value addition to our shareholders.

Ibrahim Ali AlQadhi

Chief Executive Officer

ECONOMIC
REVIEW

1. Global Growth

After the 3.1% decline in 2020, global GDP rebounded by 5.9% in 2021, its strongest post-recession pace in 80 years, as reopening in many countries helped boost demand. By the end of the year, the level of global output returned in many countries to that at the end of 2019, driven by the prompt and massive policy support and the rapid rollout of vaccines[1].

The recovery in global activity continued through the year, yet it was uneven across countries and regions. Trade in goods reached new highs despite persistent supply bottlenecks. Moreover global financial conditions remained benign; however, portfolio flows to emerging market and developing economies (EMDEs) declined, as many of them experienced mounting inflationary pressures, which triggered monetary tightening in some countries. In the second half of the year, non-energy commodity prices stabilized mostly at multi-year highs[2].

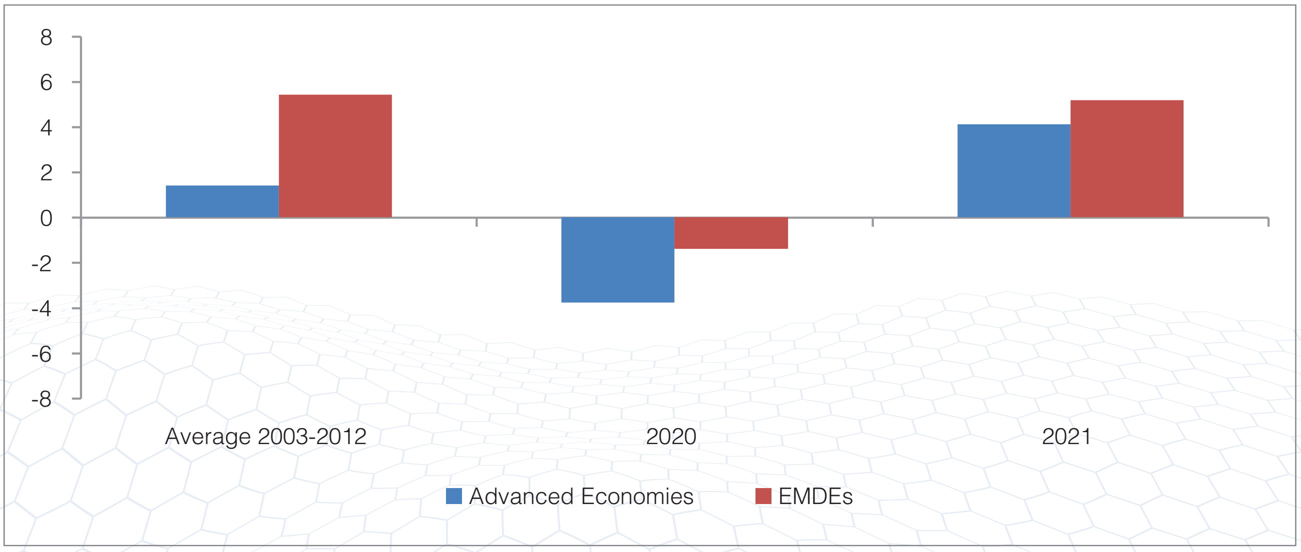
Table 1: Real GDP and Trade Growth

Real GDP growth	Average 2013-2019	2019	2020	2021
World	**3.3**	**2.7**	**-3.4**	**5.6**
OECD	2.2	1.6	-4.7	5.3
United States	2.4	2.2	-3.4	5.6
Euro area	1.9	1.3	-6.5	5.2
Japan	0.8	0.7	-4.6	1.8
Non-OECD	4.3	3.6	-2.2	5.8
China	6.8	6.1	2.3	8.1
India	6.8	4.2	-7.3	9.4
Brazil	-0.3	1.1	-4.4	5.0
World Real Trade Growth	**3.4**	**1.0**	**-8.4**	**9.3**

Source: GIC Research based on OECD Economic Outlook, December 2021. Issue 2.

In advanced economies, growth bounced back to 5% in 2021, following a 4.5% contraction in 2020 as high vaccination rates and large fiscal support helped cushion some of the adverse economic impacts of the pandemic. But growth in most advanced economies slowed unexpectedly in the second half of the year as a result of continued supply bottlenecks and the pandemic resurgence notably in Europe, the UK, and the US[3].

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



Source: GIC Research based on World Bank Report, January 2022.

1. *IMF, World Economic Outlook update, January 2022.*
2. *OECD Economic Outlook, Volume 2020 issue 2, December 2021.*
3. *IMF, WEO, Update, January 2022 & IMF WEO October Issue 2021.*

In the US, activity grew at a softer than expected pace in the second half of 2021, with substantial slowdowns in private consumption and manufacturing production. Activity faced several unanticipated headwinds, including COVID-19 outbreaks, mounting supply shortages, and rising energy prices, as well as a diminishing boost to incomes from pandemic-related fiscal support. In all, US GDP expanded by 5.6% in 2021, after declining by 3.4% in 2020, led by a recovery in private consumption in particular and taking GDP well above its 2019 level[4].

After a remarkable rebound in the second and third quarters of 2021, growth in the Euro area slowed in the fourth quarter partly due to a sharp resurgence of COVID-19, a persistent drag on production from supply bottlenecks in economies heavily exposed to global supply chains, and sharply higher energy prices. Nonetheless, the economy continued to recover in general, mainly in services consumption, with growth at the turn of the year reaching 5.2%, following a 6.4% contraction in 2020[5].

In the UK, GDP rose 7.2% in 2021, following a 9.4% contraction in 2020. Consumption was the main driver of growth as both private and government consumption recovered during the year alongside business investment though investment largely continued to be held back by uncertainty[6].

In Japan, activity remained subdued through 2021, but it picked up toward the end of the year supported by an increase in external demand, accommodative financial conditions, high vaccination rates, and the relaxation of pandemic-control measures. After an estimated 4.5% contraction in 2020, growth expanded by 1.6% in 2021 due to resilient demand from the additional fiscal stimulus legislated in December[7].

In EMDEs, activity expanded 6.5% in 2021, after a 2% contraction in 2020, sustained by a pickup in domestic demand, a robust external demand and resilient remittances. Meanwhile, high commodity prices helped stabilize industrial activity in large commodity exporters. However, the pace of expansion was not sufficient to return output to its 2019 level in many EMDEs, as the recovery was further reduced by weakening policy support, tightening of financing conditions, and moderating external demand[8].

After reaching an estimated 2.3% in 2020, China's GDP expanded by 8.1% in 2021, led by manufacturing and exports while consumer spending remained subdued. During the year, consumer spending and residential investment were restrained due to slower than expected recovery of private consumption, mobility restrictions, and regulatory curbs on the property and financial sectors. Government economic measures, including infrastructure investment, short-term liquidity injections and the cut in reserve requirements, helped prevent a sharper economic slowdown and eased financial pressure[9].

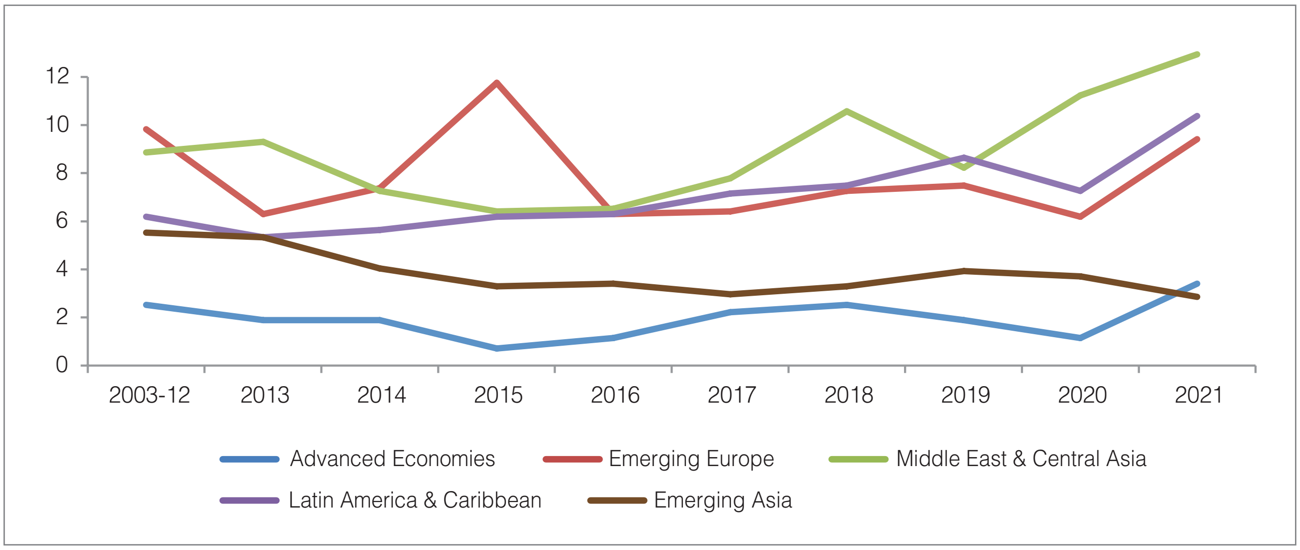
1.1. Inflation

The surge in commodity prices in 2021, led by energy and metals, was driven by a strong recovery in aggregate global demand, easy financial conditions, and fiscal expansions in advanced economies. It also reflected rebounds from the sharp declines during the global recession of 2020 and was further amplified by supply disruptions. Similarly, higher oil prices caused higher inflation, most prominently in Europe. Global inflation continued to rise throughout the second half of 2021, with headline consumer price inflation in advanced economies and EMDEs averaging 3.1% and 5.7% respectively on a 12-month basis in December 2021. Core consumer price inflation, excluding food and energy, also increased globally, partly reflecting rising housing price inflation in some economies[10].

In advanced economies, inflation rose appreciably, albeit with differences across countries. Wages accelerated especially in sectors experiencing persistent labor shortages, notably in the US and Japan. In EMDEs, most countries experienced an uptick in inflation in 2021, with rises in food, energy, and core components. In particular, around a third of EMDEs experienced double-digit food inflation in 2021. While private consumption was constrained by a marked acceleration in inflation, wage pressures remained contained in many EMDEs, largely reflecting ample slack in labor markets. The rise in inflation was broad based, with yearly growth of consumer price inflation in December 2021 ranged between 5.4% in the US, 4.4% in Europe, and 2% in other advanced economies. It reached 2.2% in China and 2.7% in other EMDEs. Regionally, It ranged from 11.7% in the Middle East and Central Asia in 2021; 9.3% in Latin America and the Caribbean; 8.4% in emerging and developing Europe. It fell however, to 2.3% in emerging and developing Asia[11].

4. IMF, WEO, Update, January 2022 & World Bank. "Global Economic Prospects". January 2022.
5. IMF. "World Economic Outlook Update". January 2022 and World Bank. "Global Economic Prospects". January 2022.
6. Bank of England, "Monetary Policy Report", November 2021.
7. Bank of Japan. "Outlook for Economic Activity and Prices", January 2022.
8. World Bank. "Global Economic Prospects". January 2022.
9. World Bank. "Global Economic Prospects". January 2022.
10. IMF. "World Economic Outlook Update", January 2022.
11. IMF. "World Economic outlook". October 2021.

Figure 2: Consumer Prices (annual % change)



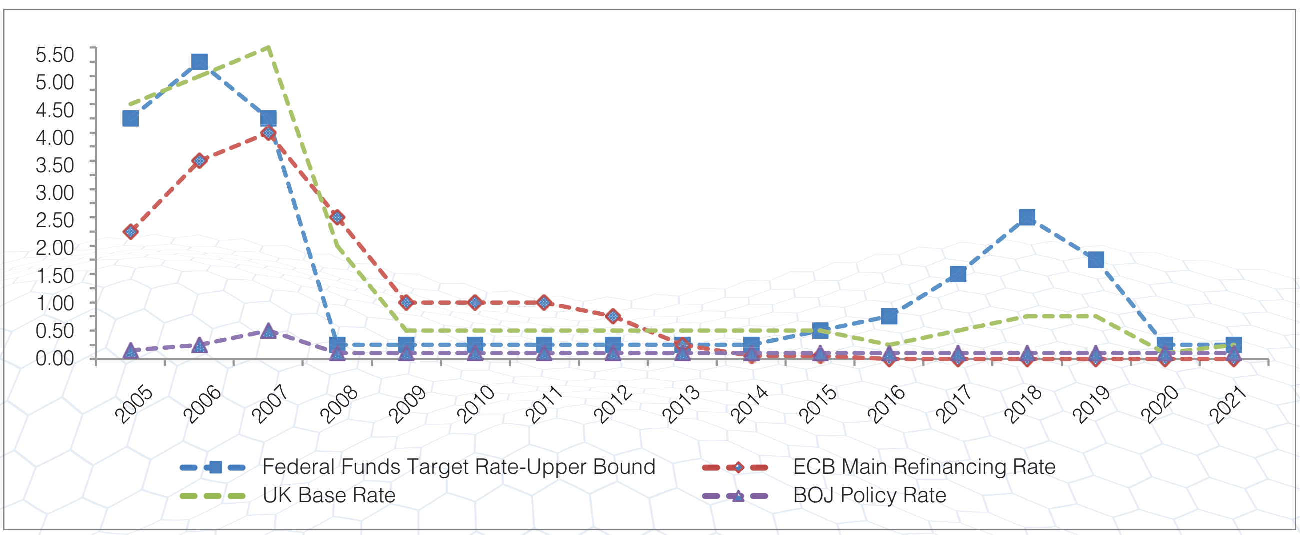
Source: IMF, GIC Research.

1.2 Monetary Policy and Central Banks' Balance Sheets

The increase in inflation in 2021 led various central banks to partially slow down their accommodative monetary policies. In the US, with price and wage pressures broadening, the Federal Reserve decided to accelerate its taper of asset purchases in November and signaled that it will raise rates further in 2022 due to inflation being well above the Fed's target. The ECB, at its December meeting, left its main interest rates unchanged at 0.0% and announced bond purchases would be at a slower pace in Q1:2022 compared to Q4:2021. The Bank of England surprised investors in December when it raised interest rates for the first time in three years, to 0.25% from 0.1%[12].

Total assets of major central banks increased by 8.4% y-o-y, to reach $31 trillion by December 2021, up from $28.6 trillion by December 2020. The Fed's total assets increased by 17.6% to reach $8.7 trillion, while the ECB's total assets increased by 14.1% to reach $9.7 trillion. Meanwhile, the total assets of BOJ decreased by 5.9% to reach $6.4 trillion while the total assets of People's Bank of China increased by 5.1% to reach $6.2 trillion. By the third quarter of 2021, the Fed's total assets as a percent of local currency nominal GDP rose to 35.6% while the ECB's total assets were equivalent to 64.8% of the euro area's nominal GDP. Likewise, the People's Bank of China's total assets accounted for 33.4% of China's nominal GDP by the fourth quarter of 2021. They remained far behind Japan however, with the Bank $6.4 trillion total assets were equivalent to about 134.6% of the country's GDP in the third quarter of 2021[13].

Figure 3: Major Central Banks Benchmark Rates (%)



Source: GIC Research based on Bloomberg.

12. UK House of Common Library, January 28, 2022.
13. Yardeni Research. "Central Banks: Monthly Balance Sheets". January 2022.

While central banks in advanced economies begin to reduce monetary policy accommodation, policy makers across emerging markets started to raise interest rates from their pandemic lows in 2021 to help contain inflation, most notably in Latin America. No fewer than 12 of the 20 biggest developing-nation central banks raised interest rates, tightening by a combined 2,300 basis points. In Brazil, the central bank boosted its rate by 725bps to 9.25%, while the Bank of Russia increased its key rate seven times from a record low of 4.25% to 8.5% and Chilean policy makers increased their benchmark by 350bps to 4%[14].

Table 2: Short-Term Policy Rates (%)

	US	Canada	Euro Area	UK	Japan	China*	India*
Q1:16	0.50	0.50	0.00	0.50	0.10	2.25	5.75
Q2:16	0.50	0.50	0.00	0.50	0.10	2.25	6.00
Q3:16	0.50	0.50	0.00	0.25	0.10	2.25	6.00
Q4:16	0.75	0.50	0.00	0.25	0.10	2.25	5.75
Q1:17	1.00	0.50	0.00	0.25	0.10	2.45	5.75
Q2:17	1.25	0.50	0.00	0.25	0.10	2.45	6.00
Q3:17	1.25	1.00	0.00	0.25	0.10	2.45	5.75
Q4:17	1.50	1.00	0.00	0.50	0.10	2.50	5.75
Q1:18	1.75	1.25	0.00	0.50	0.10	2.55	5.75
Q2:18	2.00	1.25	0.00	0.50	0.10	2.55	6.00
Q3:18	2.25	1.50	0.00	0.75	0.10	2.55	6.25
Q4:18	2.50	1.75	0.00	0.75	0.10	2.55	6.25
Q1:19	2.50	1.75	0.00	0.75	0.10	2.55	6.00
Q2:19	2.50	1.75	0.00	0.75	0.10	2.55	5.50
Q3:19	2.00	1.75	0.00	0.75	0.10	2.55	5.15
Q4:19	1.75	1.75	0.00	0.75	0.10	2.50	4.90
Q1:20	0.25	0.25	0.00	0.10	0.10	2.20	4.00
Q2:20	0.25	0.25	0.00	0.10	0.10	2.20	3.35
Q3:20	0.25	0.25	0.00	0.10	0.10	2.20	3.35
Q4:20	0.25	0.25	0.00	0.10	0.10	2.20	3.35
Q1:21	0.25	0.25	0.00	0.10	0.10	2.20	3.35
Q2:21	0.25	0.25	0.00	0.10	0.10	2.20	3.35
Q3:21	0.25	0.25	0.00	0.10	0.10	2.20	3.35
Q4:21	0.25	0.25	0.00	0.25	0.10	2.20	3.35

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

1.3. Exchange Rates and Capital Flows

1.3.1. Exchange Rates

The US dollar ended the year with a gain of nearly 7%, supported by an improving US economy and persistent inflation. The best performer of the major currencies against the dollar in 2021 was the Canadian dollar, which was around flat for the year, helped by expectations the Bank of Canada will begin tightening its monetary policy as soon as January. The worst performer versus the dollar was the Japanese yen, which was down around 10% in 2021. The euro was down a little more than 7% with the ECB keeping its policy stance unchanged while the Fed accelerated its taper. The worst performer in emerging markets in 2021 was the Turkish lira, which was down around 44% against the dollar, largely due to soaring inflation and the government's unconventional monetary policy[15].

14. Bloomberg Intelligence, January 2022 & IMF. "World Economic Update", January 2022.
15. Reuters, December 31, 2021.

1.3.2. Total Portfolio Flows to Emerging Markets

Emerging market securities attracted around $16.8 billion in December, overall, for 2021, portfolio inflows were $380.6 billion, or $2.2 billion less than 2020. This reflected a broader deterioration in EMDEs risk sentiment as well as uncertainty about prospects for monetary policies of major central banks. Regionally, equity and debt inflows across Latin America came at $111.1 billion followed by EM Asia at $100.9 billion, then EM Europe at $85.7 billion, and Africa-Middle East at $82.9 billion. For December, non-China EM debt suffered an outflow of $9.6 billion, China debt saw an inflow of $10.1 billion. December showed $16.3 billion of equity inflows, mainly explained by the recovery of China equities[16].

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

Year / Total	Emerging Asia	Latin America	Emerging Europe	ME & Africa	Total
Portfolio Debt Flows					
2018	133.13	60.89	30.15	20.06	244.22
2019	154.99	72.76	38.93	34.85	301.54
2020	134.76	78.09	52.13	98.62	363.61
2021	144.03	71.36	35.31	60.80	311.50
Total	**566.92**	**283.10**	**156.52**	**214.33**	**1,220.87**
Portfolio Equity Flows					
2018	29.64	-4.05	-0.86	-5.13	19.59
2019	65.74	1.75	1.25	-8.47	60.26
2020	-55.50	10.99	40.55	23.14	19.19
2021	-43.13	39.76	50.34	22.08	69.05
Total	**-3.26**	**48.45**	**91.28**	**31.62**	**168.09**
Total Portfolio Flows (Equity and Debt)					
2018	162.76	56.84	29.29	14.93	263.81
2019	220.73	74.51	40.17	26.38	361.80
2020	79.26	89.08	92.68	121.77	382.80
2021	100.90	111.12	85.65	82.88	380.55
Total	**563.66**	**331.55**	**247.80**	**245.95**	**1,388.96**

Source: GIC Research based on IIF.

1.4. Global Trade

Global trade rebounded in tandem with global economic activity. After a strong pick-up in the first half of 2021, the volume of global trade in goods and services reached its pre-pandemic level by the end of 2021. The recovery in global trade reflected a rotation of global demand toward highly trade intensive manufacturing, especially durable goods. In addition, the increase in industrial production was mirrored almost one for one by solid trade growth. Significant strains in global supply chains emerged in 2021, which led to record high shipping prices, to reach six times their 2019 levels at their peak in October. Overall, the volume of world trade was 9.3% higher in 2021 than in 2020. In advanced economies and EMDEs, the volume of trade expanded 8.3% and 11.1% respectively in 2021 following a 9% and 6.7% decline respectively in 2020[17].

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16. IIF. "Capital Flows Tracker". January 2022.
17. IMF. "World Economic Outlook" Update, January 2022.

Table 4: Geographical structure of World Trade Growth (Average of export and import volumes)

A. Trade growth (% changes from the previous period)						
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
Total OECD	2.8	5.1	3.7	2.1	-9.4	7.9
Total non-OECD	1.8	7.0	4.8	0.2	-6.9	11.5
China	4.0	9.2	4.9	1.0	0.5	12.7
Brazil	-5.1	6.3	5.2	-0.6	-6.5	14.5
India	2.0	9.4	12.7	0.7	-13.3	20.4
Russia	0.3	9.9	4.3	1.9	-7.6	7.3
Other oil producers	-2.5	0.5	-1.5	-0.6	-13.7	3.1
World	**2.4**	**5.8**	**4.1**	**1.4**	**-8.4**	**9.3**
B. Contributions to world trade growth (%)						
Total OECD	1.7	3.2	2.3	1.3	-5.8	4.9
Total non-OECD	0.7	2.6	1.8	0.1	-2.6	4.4
China	0.4	1.0	0.5	0.1	0.1	1.5
Brazil	-0.1	0.1	0.1	0.0	-0.1	0.2
India	0.0	0.2	0.3	0.0	-0.3	0.5
Russia	0.0	0.2	0.1	0.0	-0.1	0.1
Other oil producers	-0.1	0.0	-0.1	0.0	-0.7	0.1
World	**2.4**	**5.8**	**4.1**	**1.4**	**-8.4**	**9.3**

Source: GIC Research based on OECD, Economic Outlook, December 2021.

Volume of exports in advanced economies expanded 8% in 2021, after 9.4% decline in 2020, and above its long-term average of 2.6%. Likewise, the volume of exports in EMDEs expanded 11.6% in 2021, following a 5.2% contraction in 2020. Also, the volume of imports grew by 9% in advanced economies, following a 9% contraction in 2020 and it grew by 12.1% in EMDEs, following 8% contraction in 2020[18].

Table 5: World Volume of Trade (goods and services)

Annual % change	**Average 2013-22**		**2020**		**2021**	
	EXP	**IMP**	**EXP**	**IMP**	**EXP**	**IMP**
Advanced Economies	2.6	3.0	-9.4	-9.0	8.0	9.0
EM & Developing Economies	3.5	3.2	-5.2	-8.0	11.6	12.1
World Trade Volume	**3.0**		**-8.2**		**9.7**	

Source: IMF, GIC Research.

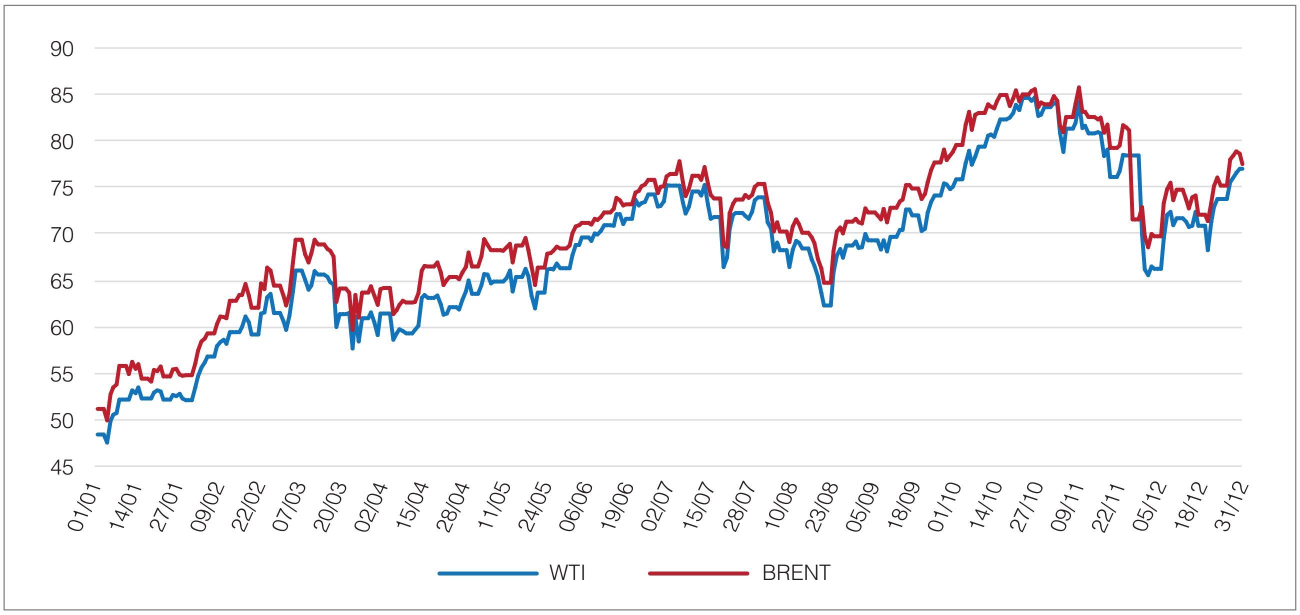
18. *IMF. "World Economic Outlook" Update, January 2022 & IMF October 2021 issue.*

2. OIL DYNAMICS

Crude oil prices increased significantly in 2021 on the back of global economic recovery that resulted in higher oil demand while higher COVID-19 vaccination rates and lightening pandemic-related restrictions added more support to the recovery process amid tight crude oil supply and falling inventories.

The average price of Brent crude oil started the year at $51.22/b and reached a year high of $85.7/b by early November while WTI started the year at $48.52/b and reached $84.65/b by late October, the highest for the year. Since then, crude prices have eased to end the year around $77/b.

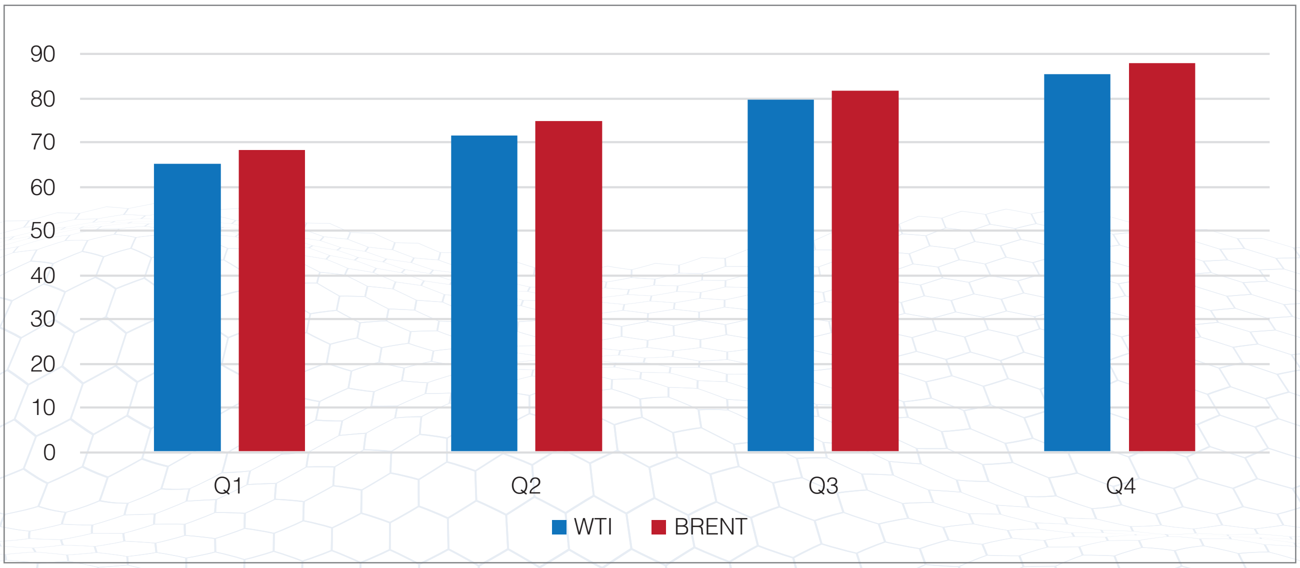
Figure 4: WTI and BRENT Daily Prices in 2021 ($/b)



Source: Bloomberg, GIC Research.

During the first quarter, oil prices continued their gains that evoked in Q4:20, backed by additional production cuts from OPEC and its allies (OPEC+), as well as sever winter storms in the US, and intensified geopolitical tensions. By the end of the first quarter, oil prices averaged $60.66/b for BRENT compared with $50.72/b in the first quarter of 2020 while WTI averaged $57.86/b in the first quarter of 2021 versus $46.19/b in the first quarter 2020.

Figure 5: WTI and BRENT Average Quarterly Prices in 2021 ($/b)



Source: Bloomberg, GIC Research.

Oil prices rose further in the second quarter on the back of positive market sentiment and brighter outlook for global economic growth outlook. Compared to Q2:20, crude average prices rose from $27.5/b for BRENT and $23.4/b for WTI to $66.4/b and $63.5/b for BRENT and WTI respectively. During May, OPEC+ started to ease its production cuts imposed in 2020 in the time where several Asian countries were facing another wave of COVID-19, notably India. However, prices remained solid in Q3:21, driven by tighter oil supply outlook and strong recovery in the US, China, and across Europe. By the start of June, oil gained around 40% for the year with OPEC+ announcing a scheduled production hike following the previous increase in May. By the end of the second quarter, oil prices registered their best half-year performance since 2009[19].

With the start of the third quarter, oil prices rose by 50% for the year, backed by higher vaccination rate and robust economic recovery in the US, China, and Europe. Nonetheless, prices were impacted by the spread of the delta variant and re-imposed mobility restrictions inflated concerns about oil demand in many counties, especially in Asia. In addition, price gains were capped as the Federal Reserve revealed its intention to start tapering in the remaining months of 2021. Towards the end of the quarter, prices started to gain momentum due to high gas prices and as oil demand outdo global supply. Brent averaged $72.54/b in Q3:21, up from $42.34/b in Q3:20 while WTI averaged $70.67/b, up from $40.44/b in Q3:20.

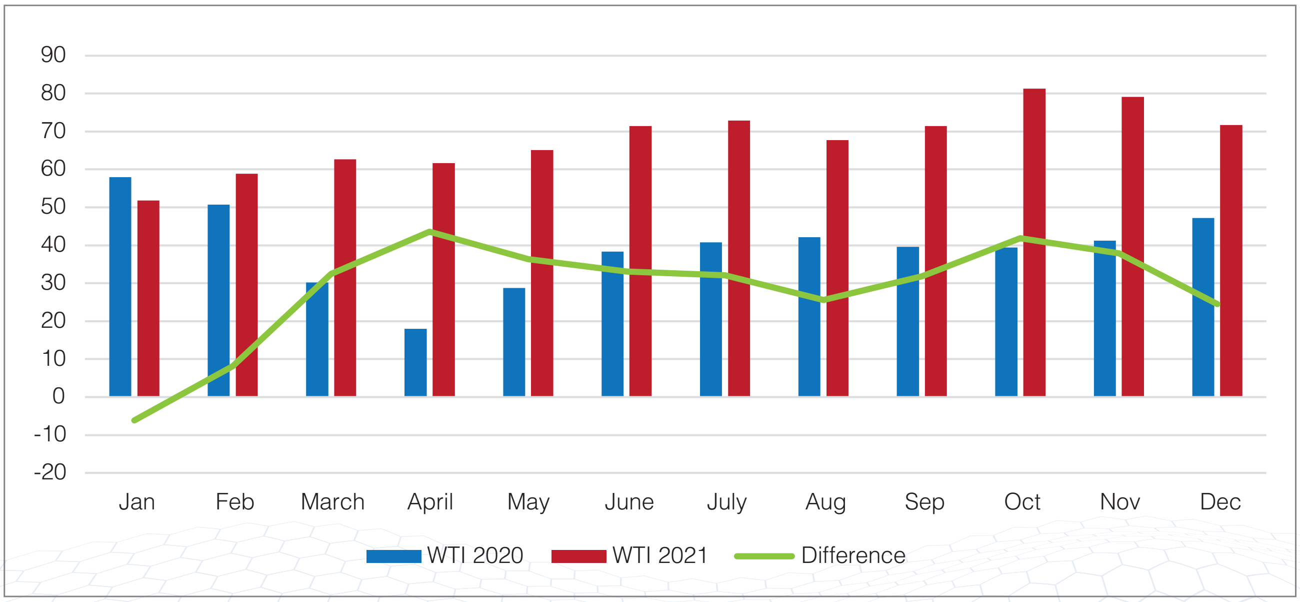
A robust recovery in oil demand that led to tighter market provided the necessary support for crude prices in the final quarter of the year to reach a seven-year high that forced the US to coordinate efforts with other major oil importers to release oil from their reserves to tame prices[20].

As a result, the announcement of reserve release in addition to omicron outbreak and mobility restrictions in many countries forced prices to drop by almost 20% in November. Brent averaged $78.13/b in the last quarter of 2021, compared to $43.63/b in Q4:20 while WTI averaged $75.92/b versus $41.88/b in Q4:20.

In addition, WTI averaged $68/b for the year versus $39.52/b in 2020. It averaged $62/b in the first half of the year and $74/b in the second half, compared to $37.28/b in the first half of 2020 and $41.74/b in the second half of 2020.

This came slightly lower than BRENT, which averaged $70.42/b in 2021 versus $42.37/b in 2020. BRENT averaged $64.62/b in the first half of 2021 and $76.12/b in the second half, compared to $41.16/b in the first half of 2020 and $43.57/b in the second half of the year.

Figure 6: WTI Average Monthly Prices in 2020 and 2021 ($/b)

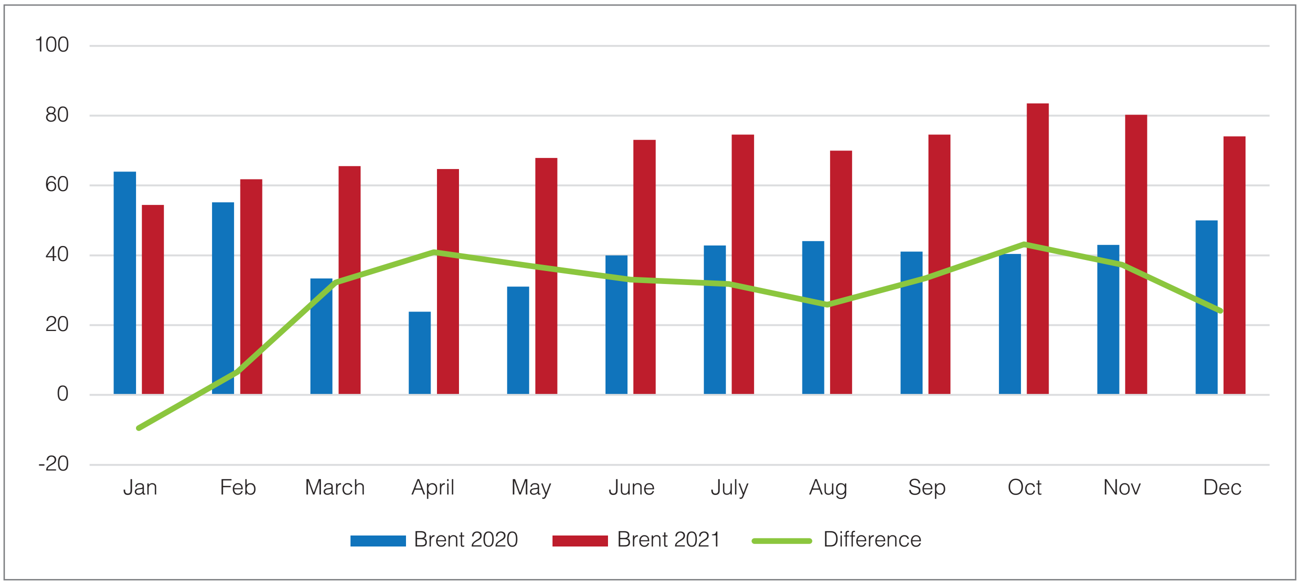


Source: Bloomberg, GIC Research.

19. Bloomberg. "Oil Rallies Above $75 With OPEC+ Output Deal Left in Limbo". July 1, 2021.

20. Reuters. "EXCLUSIVE U.S. asks Japan, China, others to consider tapping oil reserves –sources". November 18, 2021.

Figure 7: Brent Average Monthly Prices in 2020 and 2021 ($/b)



Source: Bloomberg, GIC Research.

When compared to the first half of the year, WTI gained 19.4% in the second half of 2021 while BRENT gained around 17.8%. Meanwhile, the average volatility coefficients for WTI dropped massively from 344% in 2020 to 34.31% in 2021 while it dropped for BRENT from 76.5% in 2020 to 33.76% in 2021.

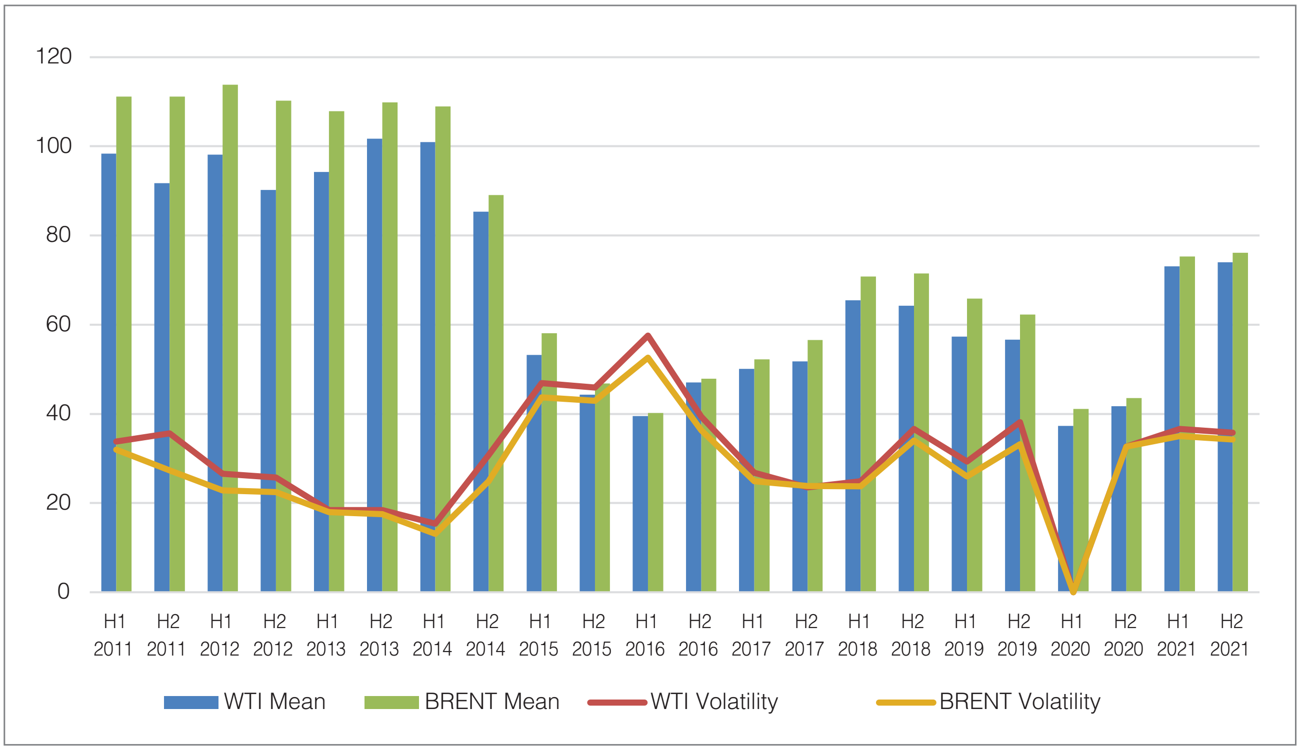
Table 6: WTI and Brent Mean and Volatility ($/b)

	WTI		BRENT	
	Mean	**Volatility (%)**	**Mean**	**Volatility (%)**
H1 2011	98.37	33.83	111.14	31.95
H2 2011	91.73	35.66	111.18	27.33
H1 2012	98.14	26.60	113.80	22.88
H2 2012	90.19	25.75	110.26	22.50
H1 2013	94.23	18.41	107.84	17.99
H2 2013	101.73	18.44	109.82	17.51
H1 2014	100.91	15.40	108.90	13.09
H2 2014	85.36	30.75	89.08	24.93
H1 2015	53.23	46.93	58.11	43.67
H2 2015	44.34	45.90	46.82	42.93
H1 2016	39.48	57.58	40.23	52.64
H2 2016	47.02	39.39	47.92	36.30
H1 2017	50.06	26.81	52.20	24.92
H2 2017	51.77	23.55	56.60	23.84
H1 2018	65.44	24.91	70.79	23.77
H2 2018	64.28	36.59	71.46	34.05
H1 2019	57.36	29.35	65.88	25.97
H2 2019	56.66	38.11	62.27	33.21
H1 2020	37.28	486.84*	41.15	103.59*
H2 2020	41.74	32.68	43.57	32.68
H1 2021	73.11	36.66	75.28	35.02
H2 2021	73.97	35.8	76.12	34.26

** According to EIA data, the year 2020 witnessed the highest difference in oil prices on daily bases when compared to other years since 1987.*

Source: Bloomberg, GIC Research.

Figure 8: WTI and BRENT Mean and Volatility ($/b, %)



Source: Bloomberg, GIC Research.

2.1. Oil Fundamentals and Prices

During the year, oil price movements were influenced by several major factors such as the outbreak of coronavirus variants, economic recovery outlook, oil market tightening and supply disruptions, as well as geopolitical tensions.

The overall global crude oil production increased by 1.6% to 95.5 mb/d, up from 93.9 mb/d in 2020. OPEC's crude oil production averaged 31.59 mb/d during the year, up by 6 mb/d from 25.6 mb/d in 2020[21].

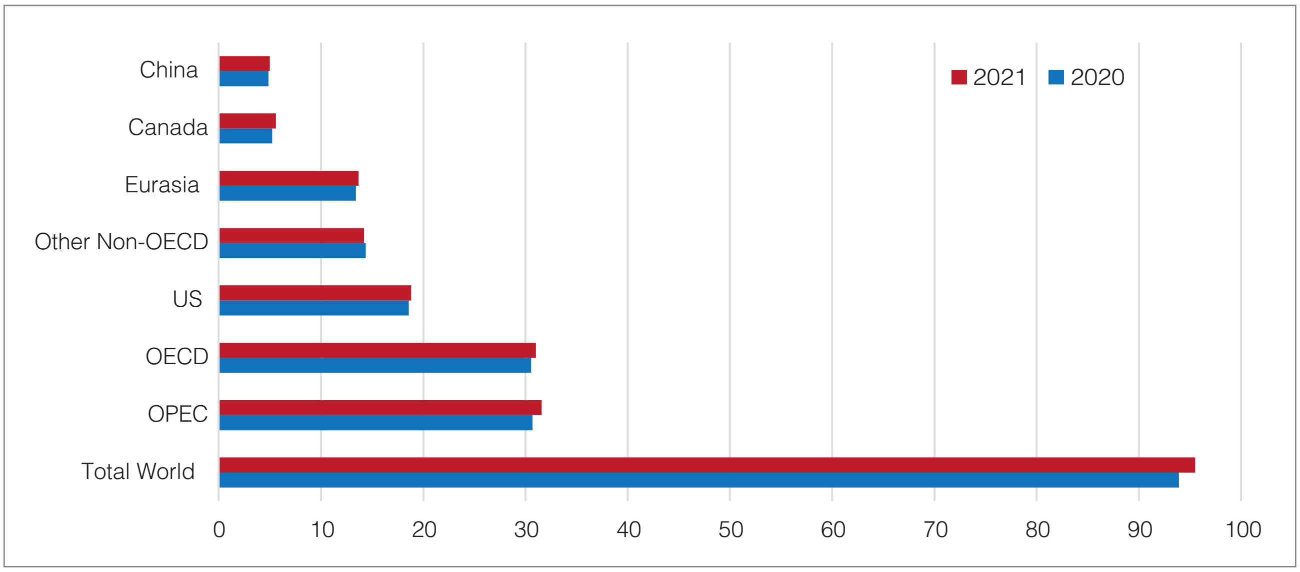
Table 7: International Petroleum Production (mb/d, 2021)

	Q1	Q2	Q3	Q4	2021
OECD	30.08	30.75	31.12	32.13	**31.02**
US	17.62	19.05	18.93	19.66	**18.815**
Canada	5.62	5.37	5.55	5.78	**5.58**
OPEC	30.36	30.76	32.19	33.05	**31.59**
Eurasia	13.38	13.61	13.58	14.23	**13.7**
China	4.99	5.03	5.01	4.97	**5.0**
Other Non-OECD	13.86	14.46	14.71	13.77	**14.2**
Total World	92.66	94.61	96.62	98.15	**95.51**

Source: EIA. "Short-Term Energy Outlook". January 2022.

21. *EIA. "Short-Term Energy Outlook". January 2022.*

Figure 9: International Petroleum Production: 2021 vs. 2020 (mb/d)



Source: EIA. "Short-Term Energy Outlook". January 2022, GIC Research.

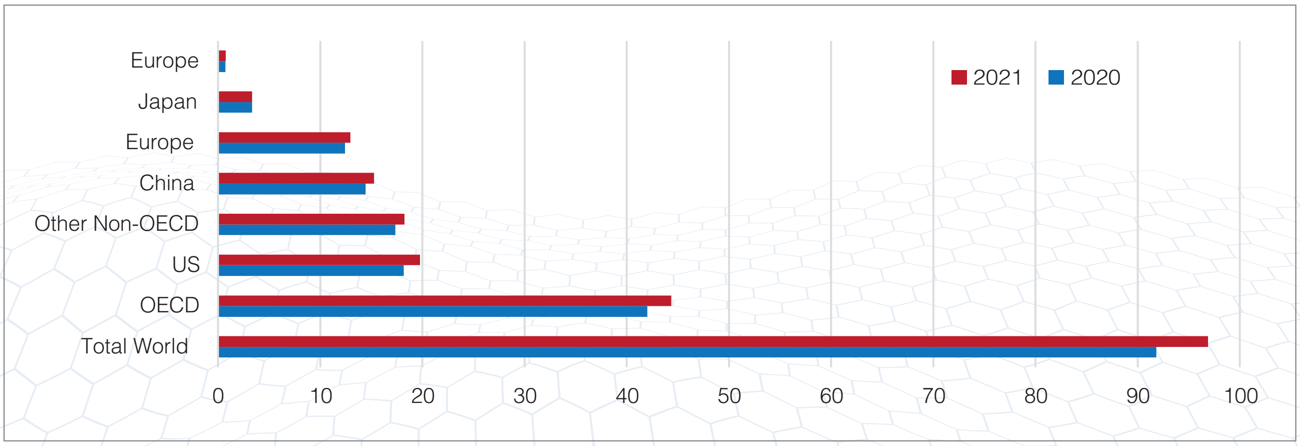
EIA estimate that global inventories fell by an average of 1.4 mb/d in 2021 compared with inventory growth of 2.1 mb/d in 2020. Meanwhile, global consumption averaged 96.9 mb/d in 2021, up by 5.0 mb/d from 2020.

Table 8: International Petroleum Consumption (mb/d, 2021)

	Q1	Q2	Q3	Q4	2021
OECD	42.25	43.94	45.61	45.66	**44.37**
US	18.45	20.03	20.21	20.3	**19.75**
Europe	11.91	12.61	13.83	13.45	**12.95**
Japan	3.73	3.08	3.18	3.33	**3.33**
Other Non-OECD	17.53	18.11	18.7	18.67	**18.25**
China	15.26	15.46	14.98	15.33	**15.26**
Total World	94.03	96.13	98.1	99.27	**96.88**

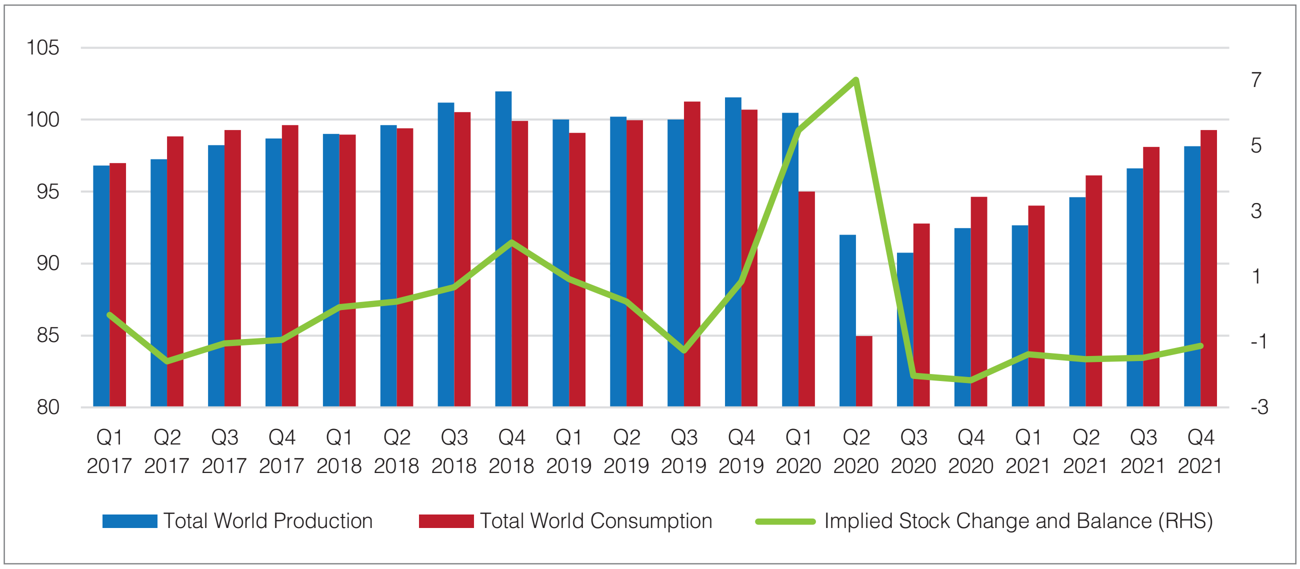
Source: EIA. "Short-Term Energy Outlook". January 2022.

Figure 10: International Petroleum Consumption: 2021 vs. 2020 (mb/d)



Source: EIA. "Short-Term Energy Outlook". January 2022, GIC Research.

Figure 11: World Liquid Fuels Production and Consumption Balance (mb/d)

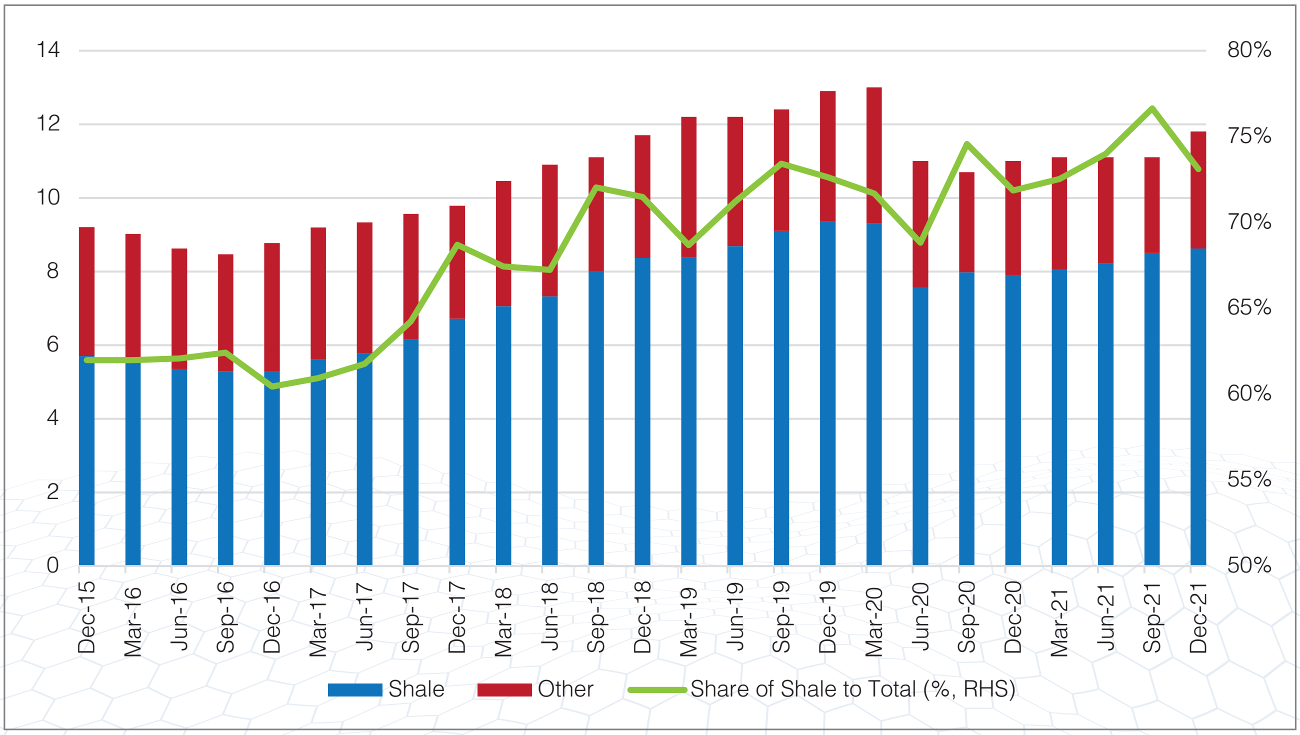


Source: EIA. "Short Term Energy Outlook". January 2022, and GIC Research.

2.2. US Crude Oil Production

US crude oil production averaged 11.2 mb/d in 2021, slightly down from 11.5 mb/d in 2020. Despite the fact that shale production ticked higher on average from 8.2 mb/d in 2020 to 8.3 mb/d in 2021, yet the production from other oil sources dropped on average from 3.2 mb/d in 2020 to 2.9 mb/d in 2021. On anuual basis, US shale oil production rose from 7.9 mb/d in December 2020 to 8.6 mb/d in December 2021.

Figure 12: US Crude Oil Production: Share of Shale Oil to Total Oil Production (mb/d)



Source: EIA, Bloomberg, and GIC Research.

3. GCC Economies Review

GCC's real GDP bounced back in 2021 after a sluggish performance in 2020 weighed down by the COVID-19 pandemic. All six economies have managed to grow by more than 1.5%, compared to a minimum decline of 3% during the previous year. Qatar has outperformed the region with 3.36% growth and the other members have followed closely behind with growth rates ranging between 2%-3%. Kuwait was the only exception, falling behind its peers with a growth of 1.76%; however, compared to the magnitude of the contraction of 2020, Kuwait has achieved the largest improvement across the region on annual basis.

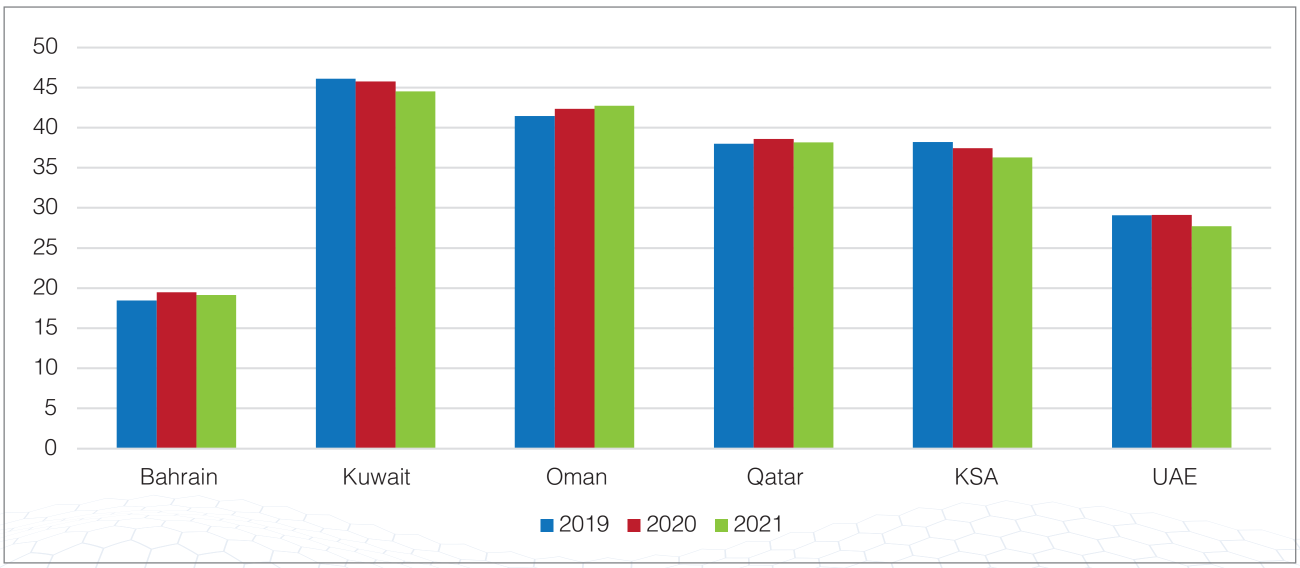
Table 9: Real GDP Growth (% change)

	2018	2019	2020	2021
Bahrain	2.14	2.14	-5.08	2.82
Kuwait	2.62	-0.35	-8.51	1.76
Oman	0.92	-0.83	-3.09	2.74
Qatar	1.23	0.77	-3.65	3.36
Saudi Arabia	2.43	0.24	-4.11	2.77
UAE	1.19	3.41	-6.13	2.35

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

Meanwhile, the average contribution of hydrocarbons to real GDP remained close to its levels in the past couple of years. Kuwait remains the most dependent member on hydrocarbons, as it accounts for approximately 45% of its real GDP. On the other hand, Bahrain remains to be the least hydrocarbons-dependent with 19% contribution to real GDP. Noteworthy, all six countries have slightly lowered their dependence on hydrocarbons during the year 2021, except for Oman, which slightly increased the hydrocarbon contribution to GDP in comparison to previous years.

Figure 13: Hydrocarbon's Contribution to Real GDP in GCC (%)



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

Non-hydrocarbon real GDP also improved during the year achieving an average growth of 3.87% with all six economies logging positive y-o-y changes. Saudi Arabia has outperformed the region from this angle with a jump of 5%. Kuwait has achieved the second largest increase in the region for 2021 accounting for 4.47%, after a decline of 7.79% in 2020. Although Oman's performance fell behind its peers, it is still a fair improvement logging more than 2% increase.

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

	2018	2019	2020	2021
Bahrain	2.90	2.13	-6.15	3.22
Kuwait	3.16	-0.56	-7.79	4.47
Oman	-0.04	-1.55	-4.64	2.08
Qatar	2.25	2.45	-4.62	4.10
Saudi Arabia	2.25	3.23	-2.19	5.04
UAE	0.68	3.76	-6.17	4.31

Source: IIF. Respective Country's Database.

Moreover, the size of fiscal deficit as a share of GDP has shrank. Qatar and Kuwait were the only member countries reporting a surplus in 2021. Qatar has outperformed the region bouncing from -2.11% to a positive 5.88% fiscal balance in just one year whilst other governments were still struggling to stabilize their economies in the middle of a pandemic. The UAE fiscal balance was as minimal as -0.05% as a share of GDP and Oman's was less than -1%. Bahrain pared the highest deficit compared to its peers which accounted for -4.64%; however, the government has managed to narrow the deficit by more than 63% compared to its size in the previous year.

Table 11: GCC Overall Fiscal Balance (% GDP)

	2018	2019	2020	2021
Bahrain	-6.30	-4.70	-12.79	-4.64
Kuwait	4.61	2.06	-3.25	0.66
Oman	-8.64	-8.94	-15.31	-0.95
Qatar	2.26	0.99	-2.11	5.88
Saudi Arabia	-5.89	-4.46	-12.18	-1.41
UAE	1.90	0.59	-7.29	-0.05

Source: IIF. GCC's Database.

From another angle, Bahrain's breakeven price remained the highest in the area at $88.20/b. Qatar managed to hold its breakeven price as low as $43.11/b, even lower than its level before the pandemic. Saudi Arabia has also lowered its breakeven price to $76.25/b. Kuwait was the only country having its fiscal breakeven price increase; however, the increase was kept minimal and accounting for only $1.23/b.

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

	2018	2019	2020	2021[f]
Bahrain	94.27	80.57	100.38	88.20
Kuwait	53.57	54.98	68.08	69.31
Oman	96.67	85.08	95.80	72.27
Qatar	49.16	50.02	46.22	43.11
Saudi Arabia	88.56	81.87	77.90	76.25
UAE	64.17	61.73	68.24	64.60

f: IMF Forecast.

Source: IMF. "Regional Economic Outlook: Trade-Offs Today for Transformation Tomorrow" April 2021.

3.1. Inflation

Inflation rates varied among the GCC members ranging around an average of 1.45%, compared to -0.37% in the previous year. Interestingly, only UAE encountered a negative growth in consumer prices in 2021, continuing the same direction of the previous year. Saudi Arabia witnessed the highest growth in consumer prices accounting for 3.09%, followed closely by Kuwait with 2.95% increase.

Table 13: Average Consumer Prices (annual % Change)

	2018	2019	2020	2021
Bahrain	2.09	1.01	-2.32	2.00
Kuwait	0.56	1.09	2.10	2.95
Oman	0.88	0.13	-0.90	1.61
Qatar	0.11	-0.89	-2.58	1.11
Saudi Arabia	2.45	-2.09	3.44	3.09
UAE	1.97	3.07	-1.93	-2.08

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

3.2. GCC Trade

GCC's hydrocarbon exports bounced back amid growing oil prices and following pandemic-related restrictions. The amount of hydrocarbons exported from Bahrain and Qatar jumped by 68% and 67%, respectively, while all other members have increased their hydrocarbon exports by at least 50%. The sum of all hydrocarbon exports from the region as a whole jumped from $267bn to $422bn.

Similarly, non-hydrocarbon exports have also increased significantly. In fact, both of Bahrain and UAE have managed to export more non-hydrocarbons than hydrocarbons. The UAE's nonhydrocarbon exports accounted for 81% of its total exports, leaning further towards more economic diversification and less dependence on oil.

GCC's imports also grew noticeably. Oman logged the highest increase in imports y-o-y, followed by Kuwait, Bahrain and the UAE. On the other hand, the increase was comparably modest in Saudi Arabia and Qatar. Total imports of the region grew from $419bn to $498bn.

Table 14: GCC's Trade ($ bn)

	2018	2019	2020	2021
Hydrocarbon Exports				
Bahrain	11	10	6	10
Kuwait	66	59	36	57
Oman	27	26	18	27
Qatar	75	65	45	75
KSA	232	201	120	190
UAE	66	65	42	63
Non-Hydrocarbon Exports				
Bahrain	7	8	8	11
Kuwait	6	6	4	6
Oman	14	12	12	17
Qatar	9	8	7	10
KSA	62	60	54	71
UAE	255	249	231	265
Total Imports				
Bahrain	19	17	14	17
Kuwait	31	29	25	31
Oman	24	20	19	24
Qatar	33	31	24	27
KSA	126	140	126	142
UAE	235	233	211	256

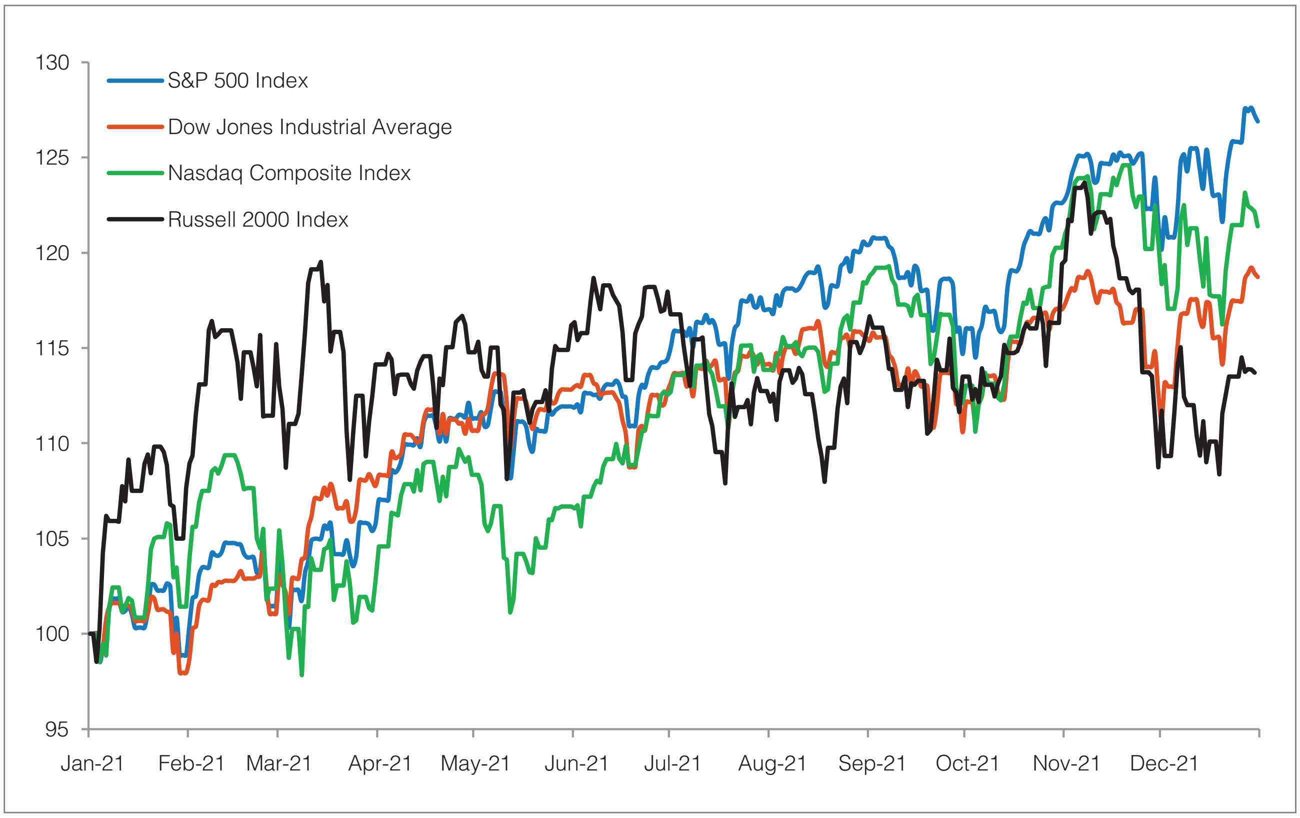
Source: IIF. Respective Country's Database.

4. Equity Markets Review

4.1. Global Equity Markets Overview

Risky assets dominated financial markets during most of 2021, driven by improving sentiment from the broadening economic restart that helped Europe and other major economies to catch up with the US, which in turn marked new all-time highs during multiple occasions spread across most of the year. Though markets ceded some ground in September, owing to worries about inflation, Fed tapering and a potential slowdown in economic growth, most markets marked a swift recovery during the fourth quarter, with major US indices marking new all-time highs again at the final lap.

Figure 14: Rebased performance of US indices, 2021

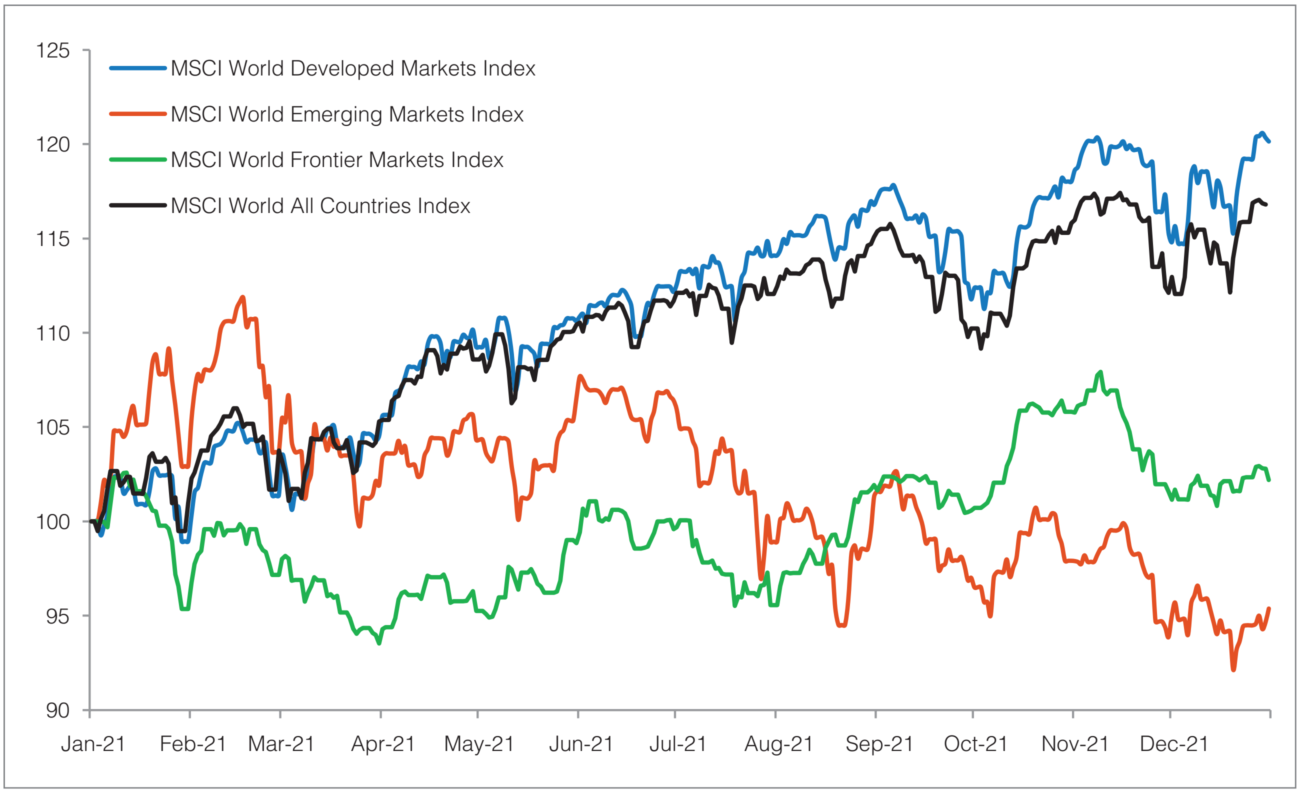


Source: Bloomberg, GIC Research.

The year started on a positive note, and global equities posted robust advances during the first quarter, supported by the roll-out of COVID-19 vaccines and news of further US fiscal stimulus, with several equity benchmarks marking new record highs during the quarter. Across most geographies, we saw the small-cap and value segments of the markets outperforming and faring well relative to their peers. This momentum continued through most of the second quarter as well, though growth stocks took the lead over value stocks during the quarter.

However, risk assets came under pressure in the third quarter, as a number of challenges bunched together. The record rally in cyclicals, Fed tapering timeline, global supply chain disruptions, persistent inflation and flattening economic growth, triggered a sell off following solid gains during the first half. Amid missed economic data expectations and a stalling earnings upgrade cycle, global analyst net revisions edged down and sustained profit booking led to the first major pullback this year.

Figure 15: Rebased performance of global equity benchmarks, 2021



Source: Bloomberg, GIC Research.

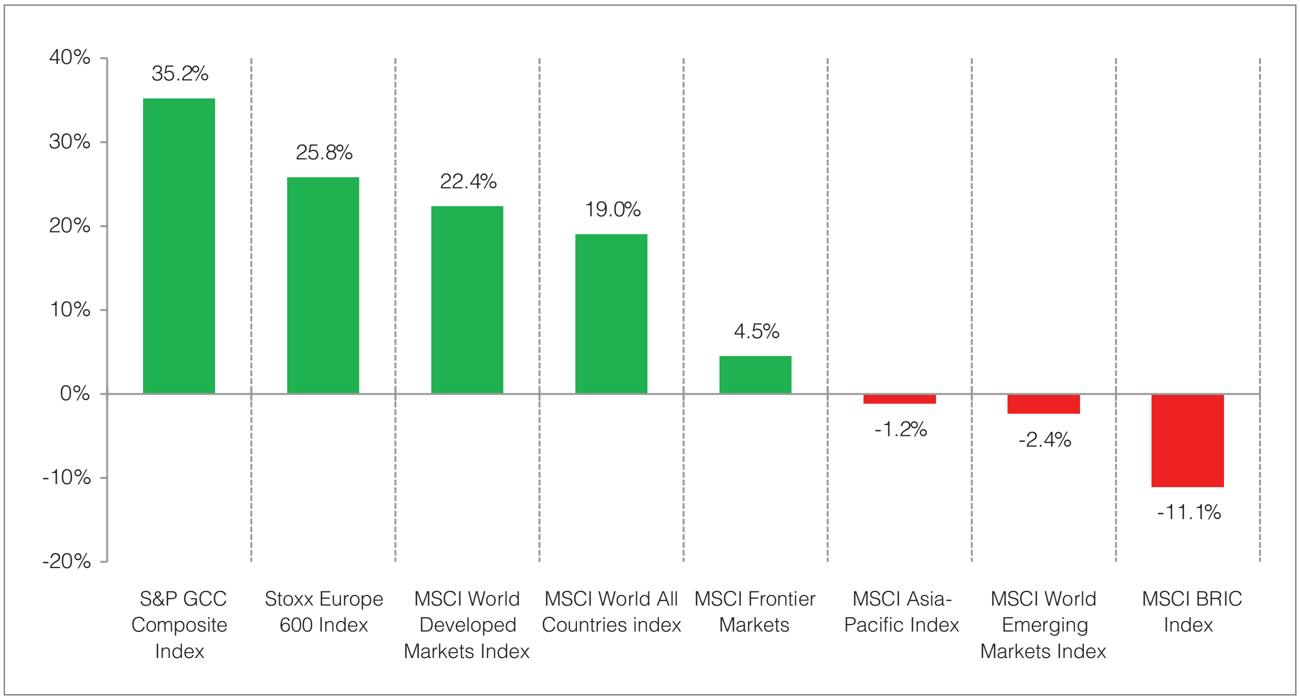
Emerging markets have faced continued weakness since the end of the first quarter, during which they briefly outperformed developed markets, but faced rising pressure at the start of the second half of the year, largely driven by China, which dragged down emerging Asia markets and in turn the broader emerging markets group. China witnessed unexpected regulatory tightening, with the government unveiling its latest restrictions against the technology giants, which in turn triggered a sell-off in property and banking stocks.

The end of the third quarter triggered investor sentiment towards another positive phase, and the markets recovered as investors priced in the impact of the tapering timeline and remained assuaged that the rate hike timeline would remain largely undisturbed. Most indices in the US marched to new highs, with the passing of the ambitious $1.2trn infrastructure package being well received by the market. Easing of travel restrictions and improving flow of people and goods across borders fueled the optimism. Investors also remained confident that monetary policy will remain accommodative in several advanced economies, especially in the Euro area and Japan, as many central banks continue to provide additional monetary stimulus. Fiscal policy was also expected to remain expansionary in advanced economies via public investment in health, digital and low carbon infrastructure and changes in the tax environment.

4.2. GCC Equity Markets Overview

GCC equity markets had a generally good run during 2021, ending the year as one of the best-performing equity blocks in the world. The S&P GCC composite index added a net 35.2% for the year, to beat most other relative benchmarks and regional groupings, and mark the best annual return for the GCC benchmark since 2008. Despite elevated levels of volatility, the GCC equity markets were supported by strength in oil prices and improving macro-economic fundamentals across the region.

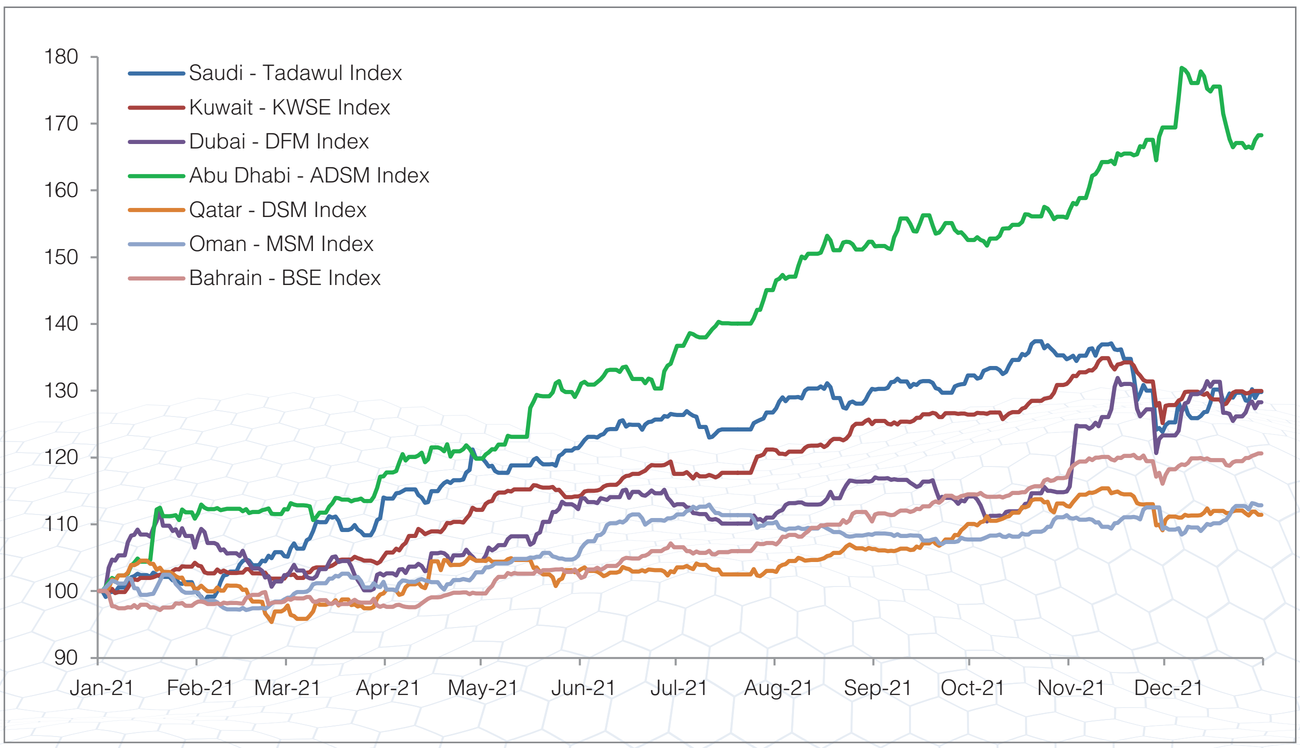
Figure 16: Performance of major global equity benchmarks, 2021



Source: Bloomberg, GIC Research.

Most GCC markets benefitted from strong fund flows, both regional and international, tracking the success of some large-tickets public offerings driven by government directives to enhance market breadth and depth. The improving macro-economic environment, stronger corporate earnings, shrinking fiscal deficits, rebound in real estate activity and the resumption of large-ticket contract awards, helped to boost investor sentiment.

Figure 17: Rebased performance of GCC market indices, 2021



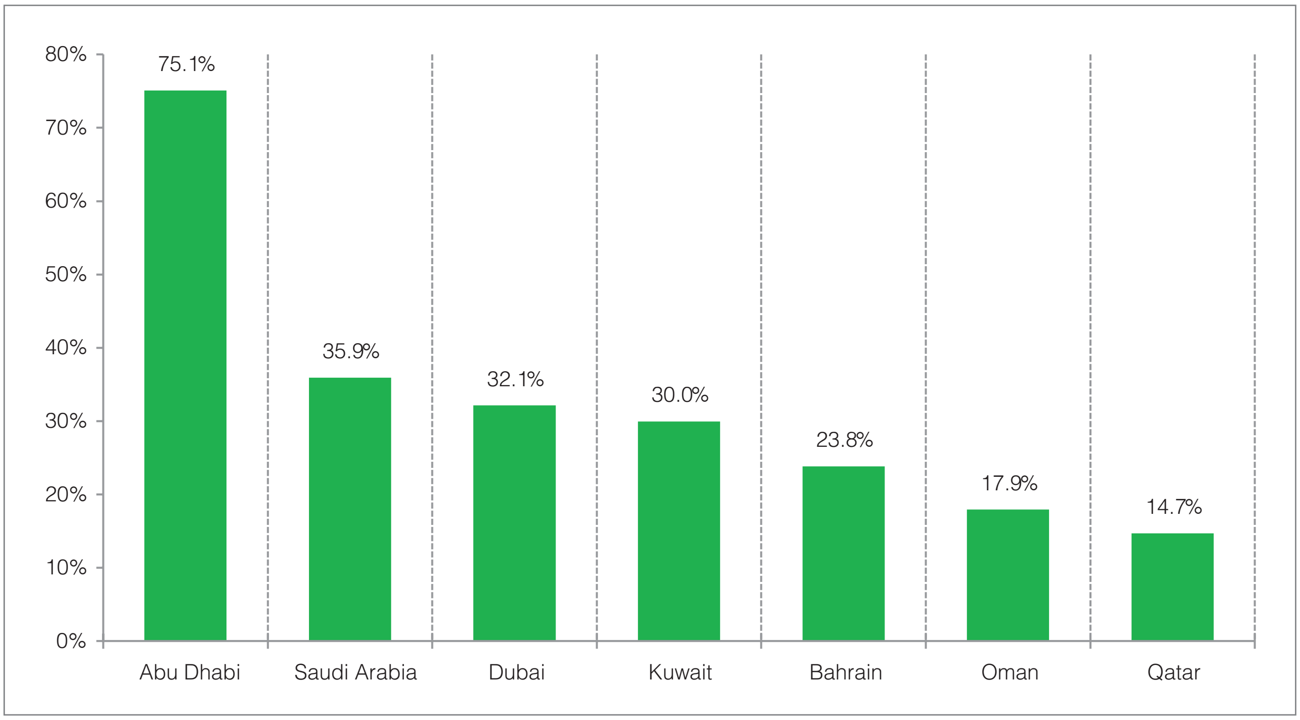
Source: Bloomberg, GIC Research.

Primary market activity rose during 2021, with 20 new IPOs helping to raise a cumulative $7.5bn for the year, rising from much lower levels in the previous year. The offerings were largely dominated by the UAE and Saudi Arabia, with the latter accounting for 15 out of the 20 IPOs for the year, including the much delayed unbundling of the Saudi Tadawul Group, the company that manages the Saudi bourse.

4.3. Country Performances

All the GCC equity benchmarks registered gains for the year, while Abu Dhabi emerged as the best-performing market, with the 75.1% net gain on the ADSM index placing it not only at the top of the GCC table, but among the best-performing equity indices in the world during 2021. Saudi Arabia's Tadawul index closed the year as the second-best performing benchmark, albeit lagging the leader by a large margin, with a net gain of 35.9%. The DFM index in Dubai and the KWSE index in Kuwait followed with gains of 32.1% and 30.0% respectively. Bahrain, Oman and Qatar rounded up the table with robust gains on their respective benchmarks.

Figure 18: Performance of individual GCC equity benchmarks, 2021

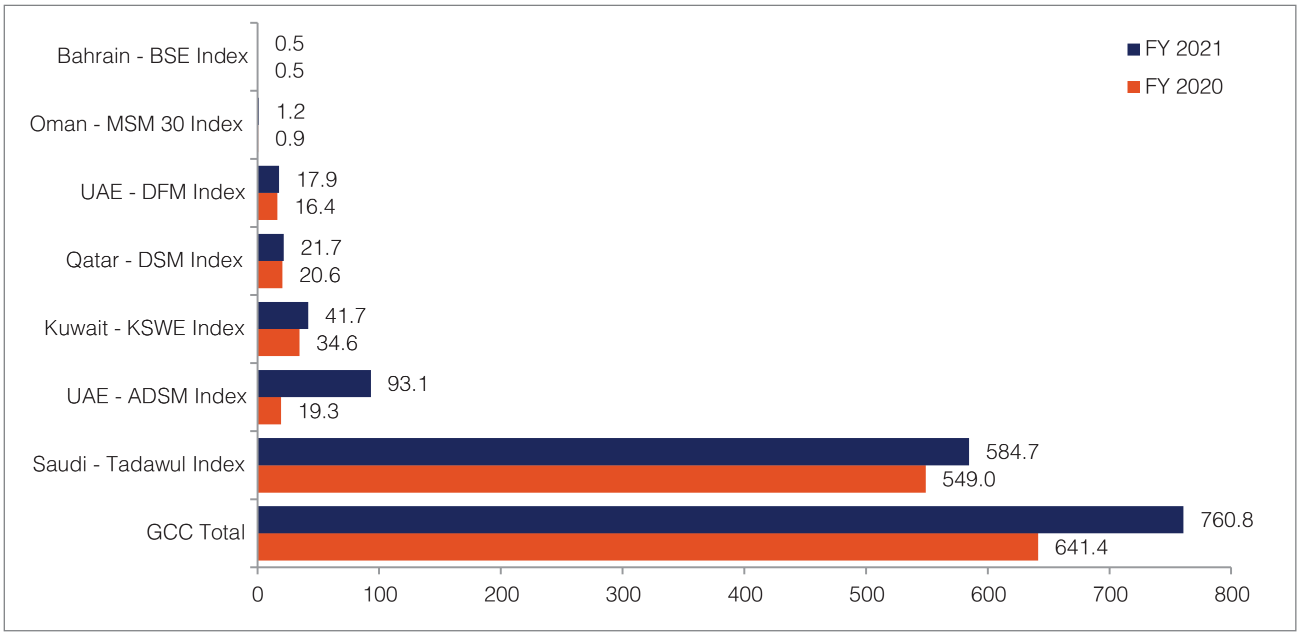


Source: Bloomberg, GIC Research.

4.4. GCC Trading activity

The Abu Dhabi bourse witnessed a sharp rise in trading activity, driven by the spate of new issuances and the sizeable rerating of several listed stocks on the bourse, and lifted by strong regional and foreign flows into the market. The cumulative traded value on the bourse for the year, rose almost four-fold to $93.1bn. Meanwhile, trading activity in Oman rose by 31% to $1.18bn and that in Kuwait grew 20% Y-o-Y to $41.73bn. Qatar and Dubai reported relatively modest increase in activity during the year, with the bourses registering growth of 6% and 9% respectively. In monetary terms, the largest increase was registered in Saudi Arabia, where the value of trading activity for the year rose by 7% to $584.73bn. This contributed to a 19% increase in total trading activity for all the GCC bourses combined during FY 2021 to $760.84bn, rising from $641.36bn in FY 2020. Bahrain reported the only decline in trading activity among its GCC peers, as total activity shrunk by 6% during the year to $0.49bn.

Figure 19: Trading activity on individual GCC indices for 2020 and 2021 ($bn)



Source: Bloomberg, GIC Research.

4.5. GCC Markets Volatility

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

Table 15: Volatility of indices across the GCC markets, 2021

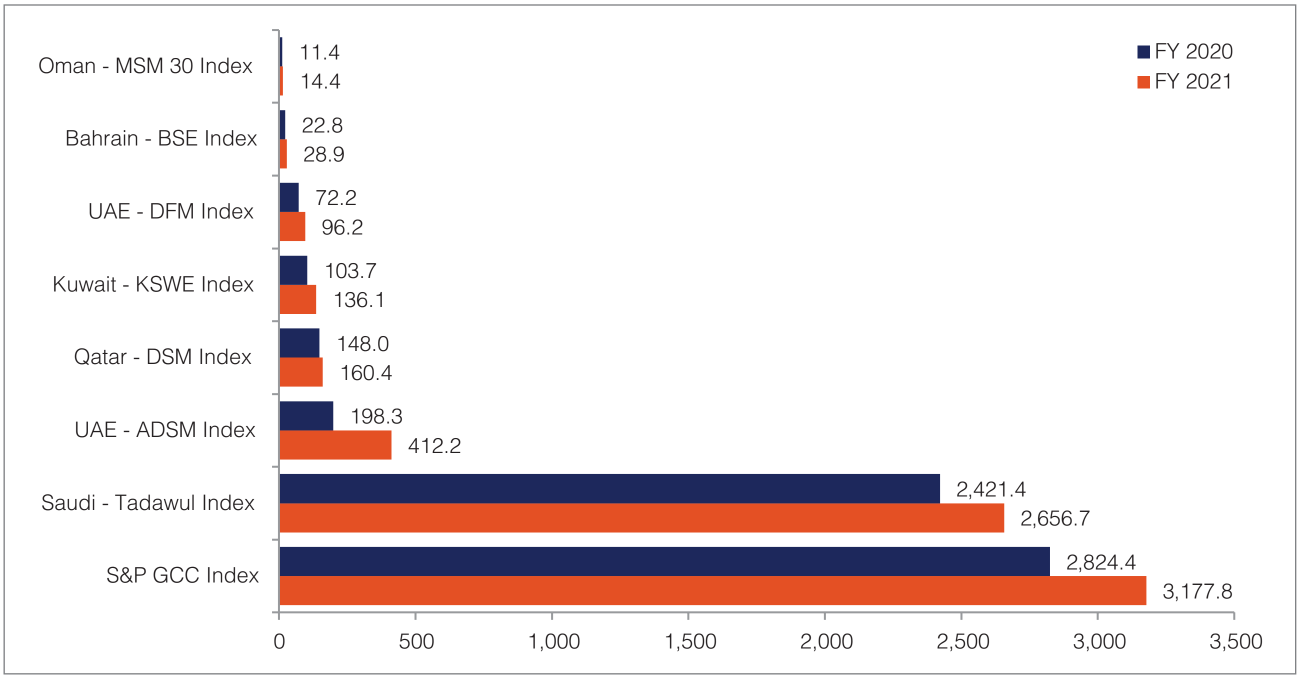
	Year Opening	Year Closing	Year High	Year Low	Index Volatility
S&P GCC composite index	201.12	271.9	283.11	200.3	9.3%
UAE - DFM index	2491.97	3195.91	3287.21	2495.51	14.7%
UAE - ADSM index	5045.32	8488.36	8999.32	5079.1	12.0%
Saudi - Tadawul index	8689.53	11281.71	11939.58	8542.55	11.7%
Qatar - DSM index	3199.41	3698.05	12040.68	9952.86	9.2%
Kuwait - KSWE index	6675.86	8676.31	9005.64	6656.15	7.3%
Oman - MSM 30 index	3658.77	4129.54	4141.09	3554.14	7.2%
Bahrain - BSE index	1489.78	1797.25	1797.25	1447.55	6.4%

Source: Bloomberg, GIC Research.

4.6. GCC Market Capitalization

The total market capitalization of the S&P GCC composite index rose by 13% during FY 2021, closing the year at $3.17trn, driven largely by expansion in the Saudi and UAE markets. The market capitalization of the ADSM index in Abu Dhabi registered the largest growth, as it more than doubled to $412bn with a Y-o-Y growth of 108%, while the market capitalization of the neighboring DFM index grew by 33% to $96.17bn. Meanwhile the Saudi bourse expanded by 10% in relative terms to $2.65trn, continuing to maintain its dominant position in terms of market size. The market capitalization of Qatar QE index registered the smallest growth in the GCC region, growing by only 8% to $160.41bn, while continuing to remain the third largest bourse in the GCC in terms of market capitalization.

Figure 20: GCC Market Capitalization for 2020 and 2021 ($bn)

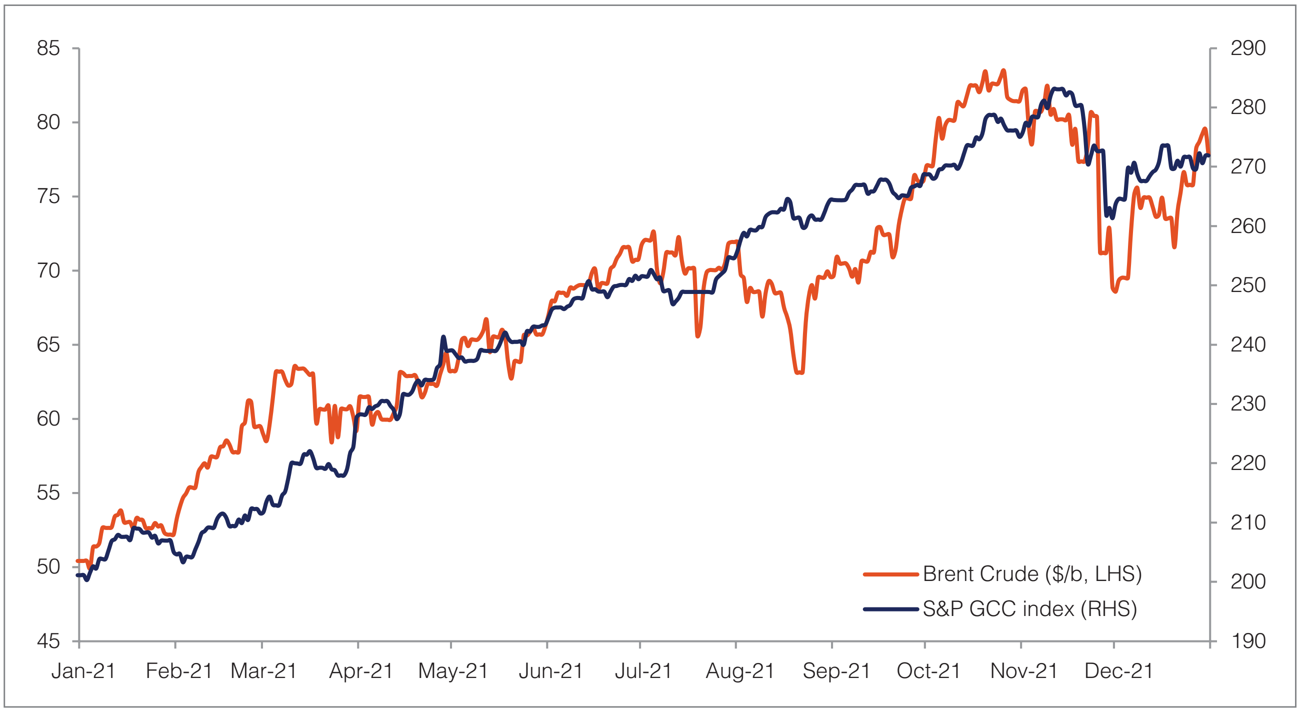


Source: Bloomberg, GIC Research.

4.7. Relative Performance of market indices to Oil Prices

The correlation between the GCC equity markets and oil prices remained very strong through most of 2021, though there appeared to be a brief decoupling at the beginning of the second half of the year, when oil prices receded briefly but the momentum on the S&P GCC composite did not wane. The firming of oil prices and the resultant improvement in macro-economic fundamentals continued to buoy investor sentiment, and during the last quarter of the year, the correlation firmed up as oil prices witnessed a strong and sustained rally during the final months of the year.

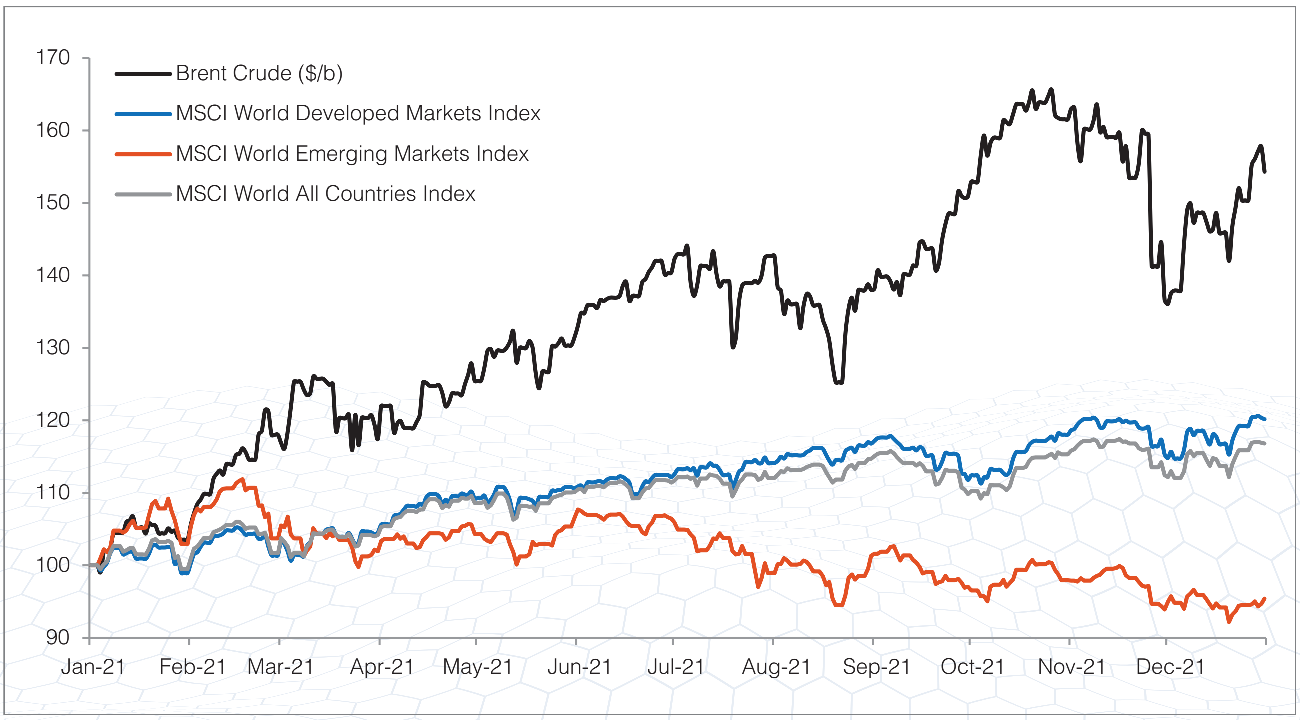
Figure 21: S&P GCC Composite Index relative to Oil Prices, 2021



Source: Bloomberg, GIC Research.

Not only the GCC markets, oil prices had a strong impact on global equity markets as well, as seen from the strong correlation between Brent crude and the MSCI world all countries and the MSCI world developed markets indices. Developed markets reacted positively to the rise in oil prices, despite its corollary effect on inflation. However, the reaction from emerging markets was the opposite as seen from the negative correlation between movement in Brent crude and the MSCI world emerging markets index.

Figure 22: Major equity benchmarks relative to BRENT Crude Oil Prices, 2021



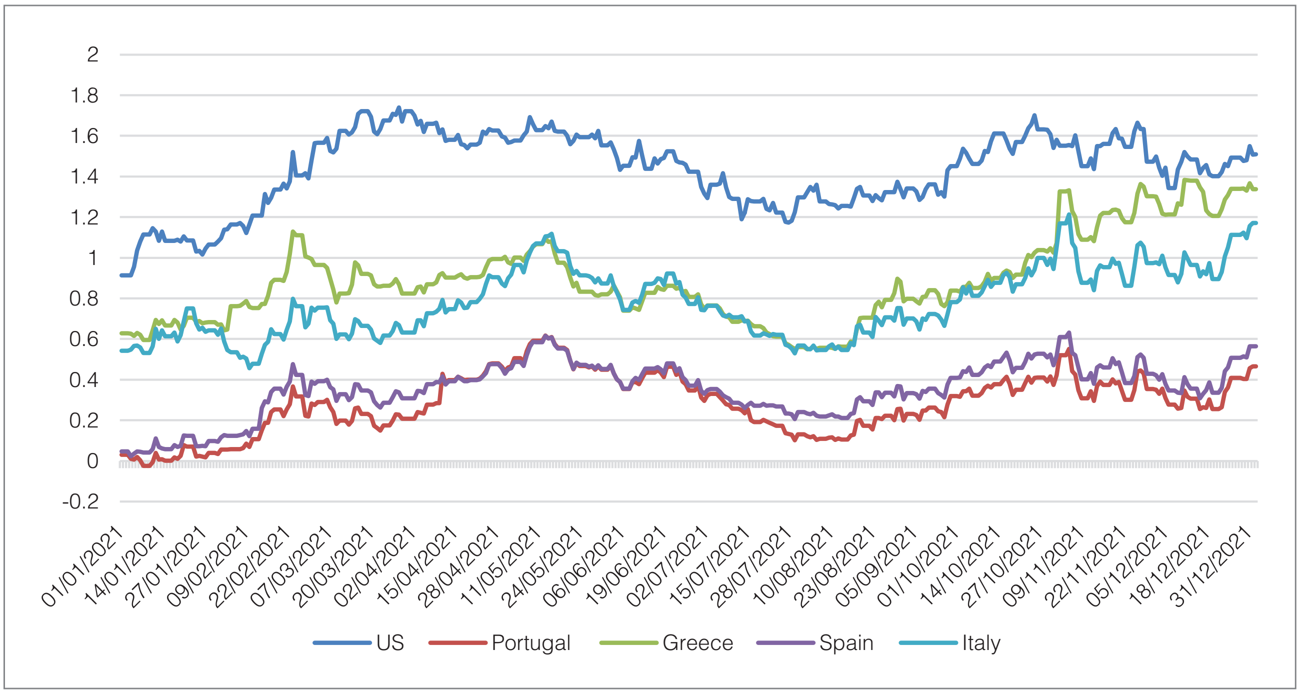
Source: Bloomberg, GIC Research.

5. Selected Measures

5.1. Treasuries

During 2021, US spreads opened the year at 0.913% and closed at 1.51%. During the first quarter, increases have taken place, closing the quarter at 1.74%, however, drops were witnessed during the following quarters. European economies, on the other hand, witnessed noteworthy increases in their 10-year government bond yields during 2021. For instance, Greece remains with the highest yields in the Euro zone, opening the year at 0.628% and closing at 1.380%. Italy follows starting the year at 0.543%, and reached 1.172% by year-end.

Figure 23: Euro Area and US 10-year Government Bond Yields, 2021



Source: Bloomberg, February 2022.

Table 16: Volatility of Spreads, 2021

	US	Portugal	Greece	Spain	Italy
Opening Value	0.913	0.030	0.628	0.047	0.543
Closing Value	1.510	0.465	1.338	0.565	1.172
Average	1.433	0.287	0.892	0.355	0.781
Standard Deviation	0.185	0.146	0.214	0.134	0.168
Low	0.913	-0.024	0.550	0.023	0.456
High	1.740	0.618	1.383	0.631	1.213

Source: Bloomberg, February 2022.

Table 17: Government Bond Yields (%, 2021)

	US	Portugal	Greece	Spain	Italy
Q1	1.740	0.227	0.869	0.337	0.668
Q2	1.468	0.390	0.833	0.412	0.819
Q3	1.487	0.355	0.877	0.459	0.858
Q4	1.510	0.465	1.338	0.565	1.172

Source: Bloomberg, February 2022.

5.2. Credit Default Swaps (CDS)

With an increasingly vague prospective and instability down the line, the changes in CDS spreads have varied from one economy to another. In the EU, for instance, Portugal, Ireland, and Spain saw a decline in their CDS value cutting around 6bps, 2bps and 9bps, respectively. Whereas countries such as Greece and Italy exhibited an increase of 10bps and 15bps, respectively, signaling a comparably higher financial risk.

The US, on the other hand, managed to bring down its CDS value from 14.17bps to 12.99bps. More interestingly, US CDS hit the 17.21bps mark and dipped to 9.21bps during that same year.

In the GCC region, Bahrain continued to have the highest CDS value in 2021 where it increased from 238.93bps to 293.83bps and averaged to 244bps during the year. Abu Dhabi also saw an increase, though to a less extent, opening at 37.99bps and closing at 43.59bps. Conversely, Dubai managed to lower its CDS value from 112.06bps to 94.06bps while ranging around an average of 95.97bps.

Table 18: CDS Performance (2021)

	Portugal	Ireland	Greece	Spain	Italy	US	Bahrain	Abu Dhabi	Dubai
Opening	37.41	16.75	101.41	43.08	76.305	14.17	238.93	37.99	112.06
Closing	31.32	14.46	111.99	34.24	91.43	12.99	293.83	43.59	94.06
Average	30.40	15.24	83.08	33.26	82.34	11.62	244.00	43.11	95.97
Low	26.15	13.26	68.26	28.21	71.87	9.21	190.63	37.99	85.90
High	38.39	17.33	123.49	43.08	93.14	17.21	315.24	51.60	115.29

Source: Bloomberg, February 2022.

5.3 GCC Monetary Policy

Changes in the growth rate of credit to private sector have varied among the countries of GCC. Kuwait had logged the highest growth in credit accounting for 14.2%, followed by KSA, Qatar and Oman. On the other hand, the UAE witnessed a decline in credit given to private sector by 2.6%.

Table 19: Private Sector Credit Growth (%)

	2017	2018	2019	2020	2021
Bahrain	2.5	9.9	2.1	6.8	4.3
Kuwait	2.8	3.9	4.4	3.6	14.2
Oman	6.8	6.0	2.7	2.4	8.1
Qatar	6.4	13.0	19.5	8.3	9.3
KSA	-1.0	2.7	7.6	14.8	10.5
UAE	5.8	0.7	4.0	0.6	-2.6

Source: IIF.

During 2021, central banks have maintained their ultra-easy monetary policies. In the UAE, for instance, the end of period policy rate was brought down from 2.5% in 2020 to 1.3% in 2021.

Table 20: Policy Rate (EOP, %)

	2017	2018	2019	2020	2021
Bahrain	1.8	2.8	2.3	1.0	1.0
Kuwait	2.8	3.0	2.8	1.5	1.5
Oman	1.9	2.9	2.2	0.5	0.5
Qatar	2.2	2.25	2.0	2.5	N.A
KSA	1.5	2.5	1.8	0.5	0.5
UAE	1.5	2.3	3.3	2.5	1.3

Source: IIF and Qatar Central Bank.

Money supply growth rate was quite similar in all countries of the region, except for the UAE. While the growth rate ranged between 9.3% and 10.7%, the UAE saw the least growth accounting for only 4.6% falling way below the region's average.

Table 21: M2 (% change)

	2017	2018	2019	2020	2021
Bahrain	4.2	0.8	8.3	3.5	10.7
Kuwait	3.8	3.9	-1.2	2.7	10.1
Oman*	4.2	8.3	2.0	8.9	10.6
Qatar*	21.3	-6.5	2.5	3.8	9.3
KSA	0.1	2.6	7.0	8.2	9.6
UAE*	3.3	4.1	2.5	8.0	4.6

Source: IIF.

FINANCIAL REVIEW

Net Income Analysis

Gulf Investment Corporation (GIC) posted net operating income of US$183 million, compared to US$96 million in 2020. The incline in operating income compared to the previous year is mainly due to the higher share of results from associates companies which increased by US$47 million compared to prior year. This is due to the improvement in the performance of associate companies operating in the metals and utilities sectors. In addition, GIC recognised a realised gain of US$15 million as a result of the sale of an associate company, as well as receiving fees and commissions of US$17 million during the year.

Impairment losses of US$6 million (2020: US$85 million) have been provided which mainly relates to other assets of a subsidiary. Thus, GIC posted consolidated net profit of US$130 million for the year 2021 compared to a net loss of US$35 million in 2020. Other comprehensive income for the year is US$111 million (2020: loss of US$130 million) taking the consolidated total comprehensive income to US$241 million (2020: total comprehensive loss of US$165 million).

Interest Income

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

Gross interest income for the year US$24 million is US$6 million down from previous year. 92% of the interest income is contributed by debt securities. The gross interest income decreased due to the decline in average volume of GCC bonds compared to last year.

Net Gain from Investments

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

GIC recorded net gain of US$61 million during 2021 (2020: US$40 million) comprise of realised gain on financial assets at fair value through income statement of US$23 million (2020: US$32 million) and unrealised gain of US$19 million (2020: US$8 million) from financial assets at fair value through statement of income. In 2021, GIC recorded a realised gain on sale of an associate company amounting to US$15 million and a net gain on reclassification of investment in an associate to financial asset at fair value through other comprehensive income amounting to US$4 million.

Dividend Income

Dividend income of US$11 million (2020: US$10 million) comprises of receipts from equity participations, equities and managed funds. Dividends from principal investment portfolio amounted to US$8 million. The remaining balance contribution is from quoted GCC equities portfolio US$3 million.

Share of Results of Associates

Share of results of associates during the year amounted to profit of US72 million compared to prior year profit of US$25 million. The major factor contributing the incline in share of results in comparison to previous year was the higher results of major associates within Metal sector, as well as the continuous good performance of associates in power & water sectors.

Fees and other income

Fees and other income for the year amounted to US$21 million (2020: US$4 million) includes receipt of US$17 million (2020: nil) of fees and commissions and receipt of US$2 million (2020: US$4 million) from fully written off investment. In 2021, GIC reported a gain of US$2 million represent the change in fair value of contingent consideration on acquisition of an associate.

Other Operating Income

Other operating income represents the income from consolidated subsidiaries amounting to US$2 million (2020: US$7 million) (note 17).

Interest Expense

Interest expense decreased by 60% compared to prior year to reach US$8 million for the year, which mainly attributed to the decrease in liabilities as a result of repayment of term finance amounting to US$209 million during 2021.

Operating Expenses

Efficiency in operations and higher productivity was achieved with strict control over operating expenses which resulted in maintaining the level of operating expenses at US$47 million (2020: US$46 million).

Impairment losses

Net charge for the year in impairment losses totaled US$6 million, compared to US$85 million recorded in 2020. Impairment losses for the year 2021 mainly relates to other assets of a subsidiary of US$6 million. While the impairment losses for the year 2020 mainly relates to investment in associates of US$75 million, impairment losses related to other assets of US$8 million and net provision for Expected Credit Losses on other assets of US$2 million.

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

Balance Sheet Analysis

GIC is committing to an investment policy targeting lower leverage and rebalanced investment portfolios to achieve higher returns at reduced level of risk. Initiatives were implemented both, on the assets and liabilities sides reducing the assets by US$96 million to reach US$3,175 million. Equity at US$2,594 million increased by US$241 million compared to last year.

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

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

Financial Assets at Fair Value through Statement of Income

As at 31 December 2021, financial assets at fair value through statement of income amounted to US$1,107 million, decreased by US$252 million from the prior year balance. Debt and other interest bearing securities, represent 49% of the financial assets at fair value through statement of income, was decreased by US$255 million compared to last year balance.

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

Financial assets at fair value through statement of income also include investments in equities and managed funds of US$437 million, equity participation amounting to US$64 million and international & GCC private equity fund exposures of US$67 million. Investment in equities and managed funds increased by US$23 million by increasing emerging and global quoted equity investments by US$38 million, while exposure in hedge and other alternative funds was reduced by US$15 million. Decrease in equity participations is mainly due to sale of some projects of US$10 million and fair value loss on unquoted investment of US$8 million.

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

Financial assets at fair value through other comprehensive income

As at 31 December 2021, financial assets at fair value through other comprehensive income amounted to US$249 million increased by US$122 million from the prior year balance due to fair value gain of US$73 million on investment in The National Titanium Dioxide Company Limited ("Cristal"). During 2021, the investment in Shuqaiq International Water and Electricity Company Limited is reclassified from investment in associate upon loss of significant influence amounting to US$49 million.

Investment in Associates

An associate is a company over which the Group has significant influence. The Corporation's investments in associates are accounted for using the equity method of accounting. Under the equity method, investment in associate is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Corporation's share of net assets of the investee company.

Principal investments in viable business ventures in the GCC region is the core activity of GIC. The focus has been on niche sectors like Metal, Chemical, Power & Utilities, Financial services and Building materials, where a sustainable competitive advantage has been built.

Investment in associates at US$1,384 million increased by US$32 million which is mainly due to the share of results of associates amounted to US$72 million. Other changes are related to investment in new associate companies, additional contributions to the existing companies, dividend received and share of net change in revaluation reserves of associates.

Other Assets

Other assets amounted to US$93 million at 31 December 2021. Of this US$19 million related to property and other fixed assets and US$35 million relating to Margin money paid on derivative instruments. The remaining amount comprised of accrued income receivable, trade & accounts receivables, positive fair value of derivative instruments, prepaid expenses and other miscellaneous assets net of expected credit loss on applicable assets. Details are set out in Note 7 to the Financial Statements.

Liquidity and Funding

Total borrowings at US$488 million comprise of deposits from central banks and other financial institutions of US$314 million and term finance US$174 million. Term finance decreased by US$218 million compared to previous year end mainly due to the maturity of US$209 million and US$9 million of foreign exchange movement.

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

Other Liabilities

At US$93 million other liabilities comprise of trade payables of subsidiaries, accrued interest, accrued expenses, margin money for derivative products and negative fair value of derivative instruments.

Equity

Equity at US$2,594 million increased by US$241 million due to net profit US$130 million and other comprehensive income of US$111 million.

RISK MANAGEMENT

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

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

GIC's resilience during 2021, 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.

As the world was recovering from COVID-19 pandemic in 2021, markets reacted positively to vaccine rollouts and the decline in hospitalization and death rates. However, the threat of new variants remain a significant risk to this day. The Risk Management Division at GIC monitored such events during 2021 and made sure that all appropriate risk mitigants and controls were available to the decision makers before making any market moves. Moreover, Risk Management Division made sure that all contingency plans were in place in case of government lockdowns that might interrupt GIC's operations.

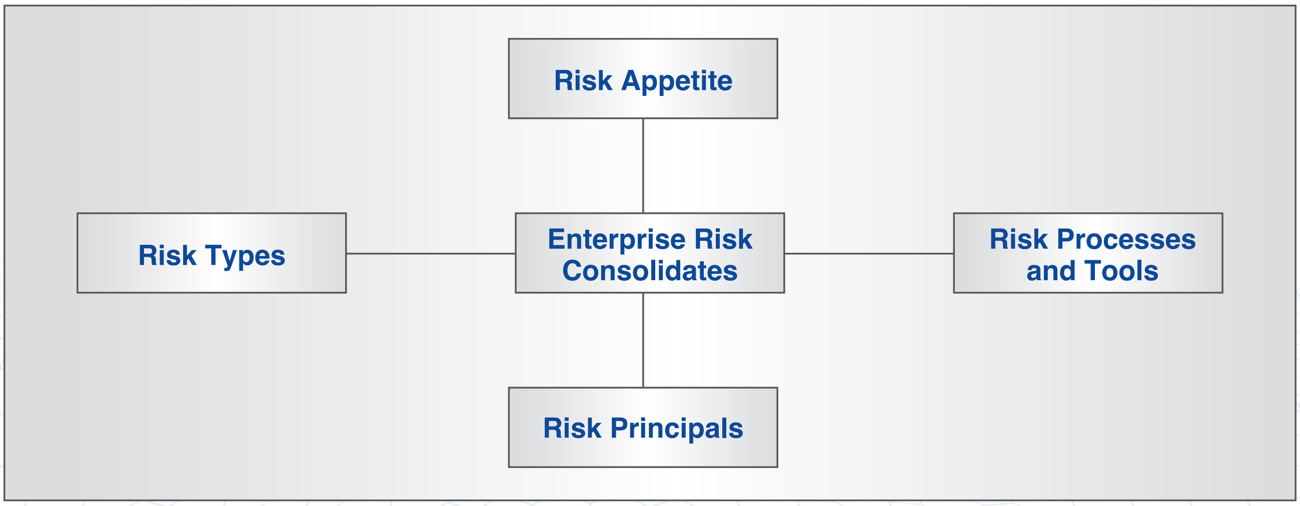
Looking forward to 2022, certain challenges might increase uncertainty during the year. Inflation expectations, volatile commodity prices, swings in equity markets and the threat of new COVID-19 variants might bring pressure to GIC's earnings. The Risk Management Division at GIC will keep monitoring all risk limits according to the risk appetites of GIC's and make sure that they are communicated effectively with all business units to manage those risks.

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

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

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

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



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

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

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

a) Identifying and measuring the various risks generated,

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

c) Optimizing in relation to the return.

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

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

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

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

CREDIT RISK

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

The world credit markets during 2021 witnessed a phase of recovery on the back of unprecedented monetary and fiscal support. The global economy was able to recover, albeit unevenly across sectors and regions. Concerns over the implications of seizing the support were equally clear as the prolonged continuation of it. Namely, inflation and its impact on the path towards recovery started taking center stage by the end of the year. As we move into 2022, volatility in the market is expected to remain high as uncertainty over the potential reversal of support is coupled with inflation concerns. The net effect on markets remains unclear, drawing market participants to a defensive posture. The theme of rising debt burdens across sovereigns and corporates and increased focus on digitalization continues amid a rapidly evolving world and markets. 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 2021. This is a reflection of the good quality of the portfolio.

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

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

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

The Debt Capital Markets (DCM) portfolio constitutes approximately 17% of the balance sheet is monitored against a Credit Value at Risk (Credit VaR) limit, approved by the board. The US$ 175 million VaR limit (99.96% confidence, 1 year), which supplements the existing notional limits for this portfolio, is based on the Creditmetrics methodology and is measured using Monte Carlo Simulation techniques.

The table below provides the Credit VaR figures for the DCM Portfolios. On 31st December 2021 the market value of this portfolio was US$ 539 million, the average Credit VaR and the year-end Credit VaR is higher compared to previous year, the year witnessed a declining trend. Specifically, the maximum point was in February while the year-end marked the minimum. This trend reflects strategic repositioning under DCM and GIC overall.

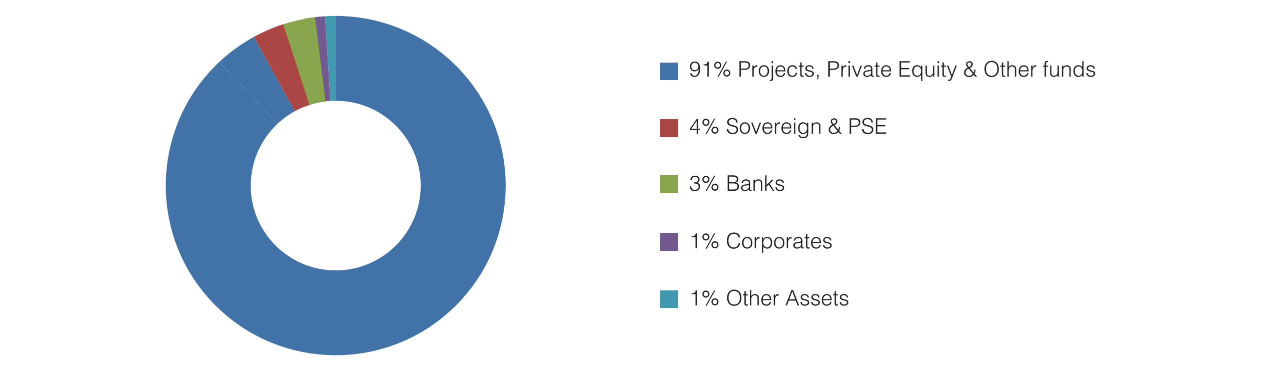
Table 1: 2021 Credit Value at Risk - 99.96% confidence level, 1 year holding period

US$ 000's	Average	Minimum	Maximum	31 Dec 2021
Debt Portfolios	123,787	97,680	159,200	97,693

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

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

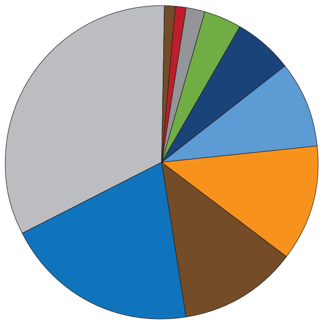
Chart 1: Sources of Credit Risk (Weighted Credit Risk Exposure)



Despite the overall increase in credit risk weighted exposure, Corporates and Sovereigns witnessed a notable reduction of 72% and 23% respectively compared to the previous year end. On the other hand, PSEs and Projects, Private Equity & other funds increased by 21% and 10% respectively. Exposure to Banks grew by a modest 5%. Overall, Projects, Private Equity & other funds, and debt securities of banks, sovereign & PSE remain the key components of credit risk exposure.

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

Chart 2: Principal Investing (Projects) by Industry



Off-balance Sheet Financial Instruments

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

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

At the year-end 2021, there were no outstanding derivatives held for trading. Off balance sheet transactions also include credit related contingent items designed to meet the financial requirement of the Corporation. A detailed credit risk analysis of credit- related contingent items, derivatives and foreign exchange products is set in Notes 20, 21 & 22 to the Consolidated Financial Statements.

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

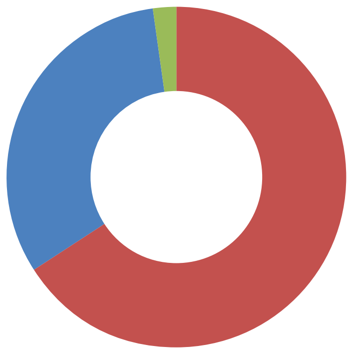
While the mechanism of risk monitoring and control has been fostered further, the risk management function is now more engaged with the business units, having been brought forward within the investment process. In addition to incorporating additional credit information, including Credit Default Swap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

MARKET RISK

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

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

Chart 3: Market Risk Constituents - Overall



Market risk is measured, monitored and managed, both on a notional basis, and using a Market Value- at-Risk (Market VaR) concept. A blend of quantitative statistical methods combined with expert judgments and experienced talent is used to effectively manage market risk. A system of limits and guidelines restrain the risk taking activity with regard to individual transactions, net positions, volumes, maturities, concentrations, maximum allowable losses and other parameters. It ensures that risks are within the acceptable levels in terms of notional amounts. The VaR based system provides a more dynamic measure of market risk, capturing in a timely manner the impact of changes in the business environment on the value of the portfolio of financial instruments.

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

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

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

2021				
US$ 000's	**Average**	**Minimum**	**Maximum**	**31-Dec-21**
Interest rate	10,074	7,325	17,127	8,655
Equity	20,509	14,089	28,964	14,089
Foreign Exchange	496	72	1,104	296
Total*	20,691	15,625	25,581	15,625
2020				
US$ 000's	**Average**	**Minimum**	**Maximum**	**31-Dec-20**
Interest rate	20,036	13,535	26,331	14,722
Equity	20,381	10,730	25,432	25,363
Foreign Exchange	897	71	1,603	822
Total*	21,758	15,415	26,245	22,410

** Total VaR incorporates benefits of diversification*

On an average basis, VaR pertaining to market risk is lower as compared to the previous year. As at 31st December 2021, total market risk VaR reached US$ 15.6 million. Total market risk VaR remained within limits as approved by the Risk Management Committee and the Board of Directors. The Corporation will closely monitor the operating environment and seek to take on appropriate market risk at opportune times.

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

It should be noted that certain portfolios and positions are not included in the Market VaR analysis, where VaR is not the most suitable measure of risk. These include the principal project investments in the GCC and the portfolio of International private equity funds. The market risk relating to these investments are measured in terms of a 10% sensitivity measure an estimated decline in asset values. The fair values of the underlying positions may be sensitive to changes in a number of factors, Including but not limited to: the financial performance of the companies, projected timing and amount of future cash flows, discount rates, trends within sectors and underlying business models. The table below provides the sensitivity measure for 2021 and 2020. The principal investment and private equity portfolio are categorized as financial assets at fair value through statement of income, investments in subsidiaries and associates.

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

Asset Categories	10% sensitivity measure	10% sensitivity measure	
		31-Dec-21	31-Dec-20
Principal Investments	Underlying asset value	172,274	158,721
Private Equity Funds	Underlying asset value	6,742	7,092

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

Liquidity Risk Management

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

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

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

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

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

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

a) Meeting day-to-day cash outflows;

b) Providing for seasonal fluctuation of sources of funds;

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

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

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

Liquidity Limits

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

The liquidity limits that are regularly monitored include the following:

a) Maximum dally cash outflow limit for major currencies;

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

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

The net liquid asset ratio as of 31st December 2021 was 407%. 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 2021, investments in marketable securities tallied at approximately US$ 1 billion, and are primarily made up of investment grade securities.

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

Market Access for Liquidity

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

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

A diversity of funding sources, currencies, and maturities are used in order to gain a broad access to the investor base. The proactive steps GIC undertook during the previous years, particularly in terms of raising medium term financing, enabled the Corporation to secure a sound asset-liability maturity profile. As of 31 December 2021, the Corporation's term financing stood at US$ 174 million.

Further, the Corporation was successful in enhancing the diversity of its depositor base, a reflection of increased market confidence. At year-end 2021 the Corporation's deposit base stood at about US$314 million, 75% 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 2020 to 2021.

US$ Millions	2021 (US$)	2021 (%)	2020 (US$)	2020 (%)
GCC Deposits	234	7.5%	418	13%
International Deposits	80	2.5%		0%
Repo Financing		0%		0%
Term Financing	174	6%	392	12%
Shareholder's funds and others	2,498	84%	2,461	75%
Total	2,986	100%	3,271	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, 2021 was 992 contracts, with an estimated VaR of US$ 138,750. Even though the number of contracts has decreased compared to the year before, the estimated VaR is higher than the levels of the previous year (31st December 2020: 2,323 contracts, estimated VaR US$ 106,400). This is excluding the impact of the fixed rate EMTN Issuance.

Maturity profile of assets and liabilities

A detailed breakdown of the maturity profile by individual asset and liability category is provided in Note 21.1 to financial statements. At December 31st 2021, roughly 34% of total assets within 3-months, based on internal assessment of the Corporation's right and ability to liquidate these instruments. Comparatively, on the same basis, approximately 37% of total liabilities were in the same bucket. The sizable portfolio of high quality marketable securities contributed to the relatively high ratio of liquid assets. The Corporation' s GCC retention record shows that short maturity deposits from GCC governments, central banks and other regional financial Institutions have been regularly renewed over the past several years. With the success achieved in raising medium term finance, the Corporation was able to optimize the asset liability maturity gap, especially within the medium and long term buckets.

CREDIT RATING

GIC's strong financial indicators were acknowledged in the rating reports, by all the credit rating agencies. As of end 2021, GIC's long term deposits were rated A2 by Moody's and BBB+ by Fitch.

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

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

CAPITAL STRENGTH

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

The Corporation's capital base stood at US$ 2,563.5 billion at 2021 year end. GIC continues to be one of the best capitalized financial Institutions in the region.

OPERATIONAL RISK

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

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

KEY AIMS:

The management of Operational Risk has the following key objectives:

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

OVERVIEW:

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

a) Risk and Control Self-Assessment framework;

b) Loss Event framework;

c) Corrective Action Plans framework; and

d) Operational Risk Reporting framework.

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

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

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

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

b) Loss Event Framework

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

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

c) Corrective Action Plans (CAPs) Framework

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

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

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

d) Operational Risk Reporting Framework

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

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

OPERATION RISK WEIGHTED EXPOSURE:

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

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

INSURANCE:

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

BUSINESS CONTINUITY AND DISASTER RECOVERY PLANNING:

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

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

LEGAL RISK MANAGEMENT:

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

INFORMATION SECURITY FRAMEWORK:

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

COVID-19 PANDEMIC IMPACT:

During the current and on-going pandemic, GIC did not suffer any operational risk events related to the Covid-19 pandemic. GIC quickly and efficiently implemented remote access to all key responsible staff, during the various lockdowns in Kuwait during 2021. The remote access to applications was a component within the Business Continuity strategy and all three key disaster recovery sites were available to GIC. There were no failures in the day-to-day business processes in capturing transactions, confirmations or settlements.

Additional policies and procedures were updated to incorporate advice from various agencies including the Kuwait Ministry of Health's recommendations to ensure the full health and safety of staff the surrounding environments.

OPERATIONAL LOSS EVENT PROFILE FOR 2021:

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

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

During 2021, all events occurred under the stage 1 loss event categories: “Execution, delivery and process management” category.

BASEL III DISCLOSURE

Basel III Rationale:

Aligning banking risk management with Capital Requirements

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

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

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

The Architecture of Basel III- Capital and Liquidity

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

The Three Pillars Defined

Pillar 1 · Minimum Capital Requirements

Pillar 1 sets out minimum regulatory capital requirements -meaning the amount of capital banks must hold against risks. Greater focus under the new accord is on quality and level of capital, capital loss absorption at the point of non-viability, capital conservation buffer and countercyclical buffer. The new framework provides for higher risk coverage for certain complex securitizations, significantly higher capital for trading and derivatives activities, substantial strengthening of the counterparty credit risk framework and risk coverage for bank exposure to central counterparties. A key measure introduced under the new accord is a non-risk based leverage ratio to serve as a backstop to the risk-based capital requirement and to help contain system wide buildup of leverage. The new accord provides for a continuum of approaches from basic to advanced methodologies for the measurement of both credit and operational risks. It provides a flexible structure in which banks, subject to supervisory review, will adopt approaches that best fit their level of sophistication and their risk profile. The framework also deliberately builds in rewards for stronger and more accurate risk measurement.

Pillar 2 ·Risk Management and Supervision

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

Pillar 3 · Market Discipline

Pillar 3 aims to bolster market discipline through enhanced disclosure by banks. It sets out disclosure requirements and recommendations.

In several areas, including the way a bank calculates its capital adequacy and its risks assessment methods. The intended result is enhanced transparency and comparability with other banks.

Gulf Investment Corporation G.S.C. (GIC or 'the Corporation') ·

Market Disclosure

The following sections set out the Corporation's disclosure details prepared in line with the new accord's requirements via its publication dated December 2010- Basel III: A global regulatory framework for more resilient banks and banking systems and revisions to the same and Liquidity coverage ratio disclosure standards dated January 2014 and revisions to the same.

1. Capital Structure

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

Table 1 presents the Corporation's regulatory capital resources for the years ending December 2021 and December 2020. Basel III permits recognition of general provision (albeit subject to a maximum of 1.25% of credit risk weighted assets) as part of Tier 2 capital. Meanwhile, the exposures to 'securitization' that fall below a cut-off risk grade are deducted 50% from Tier 1 and 50% from Tier 2 capital, respectively. For 2021, full deduction is made from Tier 1 capital due to negative fair value adjustment. Total eligible regulatory capital was US$ 2,563.5 million by year-end December 2021 compared to US$ 2,320.6 million recorded in December 2020. The Corporation has adopted a conservative policy for the treatment of net fair value reserve, wherein, if negative - the total amount is deducted from eligible capital, and if positive - only 45% of fair value reserve is included within eligible capital.

Table 1: Regulatory Capital Resources

In US$ millions	**31 December 2021**	**31 December 2020**
Paid-up capital	2,100.0	2,100.0
Disclosed reserves	561.4	561.4
Retained earnings	109.7	(20.8)
Less: Goodwill	30.4	30.4
Less: Deductions	0.97	1.6
Less: Adjustment for Fair value reserve	176.3	288.0
Total Tier 1 Capital	2,563.5	2,320.6
Total Tier 2 Capital	-	-
Total eligible regulatory capital	2,563.5	2,320.6
In US$ millions	**31 December 2021**	**31 December 2020**
Common Equity Tier 1 (CET1)	2,563.5	2,320.6
Additional Tier 1 (AET 1)	-	-
Total Tier 1 Capital	2,563.5	2,320.6
Total Tier 2 Capital	-	-
Total eligible regulatory capital	2,563.5	2,320.6

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 49 of this annual report.

Table 2: Capital Adequacy Ratios

In US$ millions	Risk-weighted assets	Capital requirement
Credit Risk	4,765.5	381.2
Market Risk	1,078.9	86.3
Operational Risk	357.2	28.6
Total	6,201.6	496.1
Capital Adequacy Ratios		
Total CAR	41.3%	
Common Equity Tier 1 (CET1)	41.3%	
Tier 1 Ratio	41.3%	
Leverage Ratio (Non risk based)	15.4%	

Table 2 details the risk-weighted assets together with their corresponding regulatory capital requirements as at 31 December 2021. 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$ 6,201 million, as at 31 December 2021, requires regulatory capital of US$ 496.1 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$ 992.25 million. The reported eligible regulatory capital of US$ 2,563.5 million still provides sufficient cushion to support business expansions.

Table 3: Risk Exposure Break-down

In US$ millions	**31 December 2021**
Credit Risk (RWA)	
Claims on sovereigns	132.8
Claims on Public Sector Entities	39.7
Claims on Banks	122.9
Claims on Corporates	50.2
Securitization and Structured Investment Vehicle	1.5
Venture Capital and Private Equity	78.4
Investments in Commercial Entities	4,083.8
Investments in Other Funds and Quoted Equities	194.7
Other Assets	61.6
Total	4,765.5
Market Risk (VaR)	
Interest rate risk position	0.0
Foreign exchange risk position	0.0
Equity risk position	22.35
(Total VaR +Stress VaR) x 3	66.9
Specific risk position	19.4
Total capital requirement	86.3
Total RWA (capital requirement x 12.5)	1,078.9
Operational Risk (RWA):	
Operational risk capital charge	28.6
Total RWA (capital charge x 12.5)	357.2

3. Risk Management Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

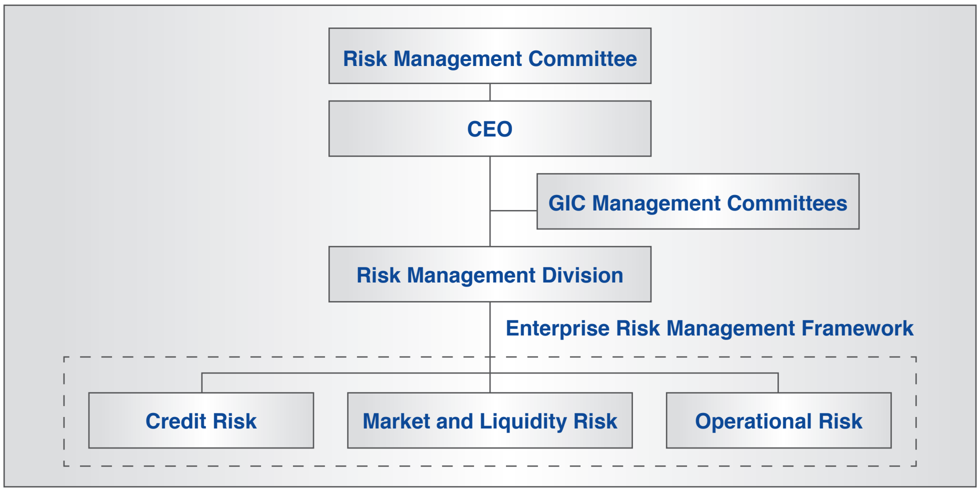
a) Evaluate and analyze the enterprise wide risk profile by developing risk monitoring techniques;

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

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

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

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



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

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

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

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

d) Human Resource Committee which reviews strategic HR issues;

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

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

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

4. Credit Risk Exposure

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

Portfolio Strategy and Planning

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

The Investment Committees

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

Investment Origination and Maintenance

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

Performance Assessment and Reporting

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

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

b) Generated Return on Capital Employed (ROCE);

c) Additional economic value created by individual projects;

d) Exceptions to risk acceptance criteria; and

e) Other policy exceptions.

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

Credit Risk as per Basel III Standardized Approach

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

Table 4: CQG Mapping

Corporates Credit Quality Grades	Moody's	Fitch
1	Aaa	AAA
	Aa1	AA+
	Aa2	AA
	Aa3	AA-
2	A1	A+
	A2	A
	A3	A-
3	Baa1	BBB+
	Baa2	BBB
	Baa3	888-
4	Ba1	BB+
	Ba2	BB
	Ba3	88-
5	81	B+
	82	B
	83	8-
6	Caa1	CCC+
	Caa2	CCC
	Caa3	CCC-
	Ca	cc
	c	c
		D

Table 4: serves as a sample of mapping notations of rating agencies into COGs for claims on Corporates. At 31 December 2021, rated credit exposures accounted for about 6.2% 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 15.7% of total gross credit exposure. Assets that are rated single A or better comprised 70.8% of rated gross credit exposure.

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

Table 5: Credit Exposure (post-credit conversion)

	31 December 2021		
In US$ millions	**Rated**	**Unrated**	**Total**
Claims on Sovereigns	111.3	21.5	132.8
Claims on Public Sector Entities	31.8	7.8	39.7
Claims on Banks	122.9	0	122.9
Claims on Corporate	27.6	22.6	50.2
Securitization and SIVs	1.5	-	1.5
Venture Capital and Private Equity	-	78.4	78.4
Investments in Commercial Entities	-	4,083.8	4,083.8
Other Funds and Quoted Equities	-	194.7	194.7
Other Assets	-	61.6	61.6
Total	295.1	4,470.3	4,765.5
In Percent	6%	94%	100.0%

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

	31 December 2021		
In US$ millions	**Rated**	**Unrated**	**Total**
Claims on Sovereigns	320.6	21.5	342.1
Claims on Public Sector Entities	74.8	7.8	82.6
Claims on Banks	405.8	0	405.9
Claims on Corporate	27.6	22.6	50.1
Securitization and SIVs	7.8	-	7.8
Venture Capital and Private Equity	-	78.4	78.4
Investments in Commercial Entities	-	4,083.8	4,083.8
Other Funds and Quoted Equities	-	194.7	194.7
Other Assets	-	61.6	61.6
Total	836.7	4,470.4	5,307.1
In Percent	16%	84%	100.0%

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

	31 December 2021		
In US$ millions	**Funded**	**Unfunded**	**Total**
Claims on Sovereigns	342.1	-	342.1
Claims on Public Sector Entities	82.6	-	82.6
Claims on Banks	390.6	15.3	405.9
Claims on Corporate	50.2	-	50.2
Securitization and SIVs	7.8	-	7.8
Venture Capital and Private Equity	67.4	11	78.4
Investments in Commercial Entities	3,910.3	173.5	4,083.8
Other Funds and Quoted Equities	194.7	-	194.7
Other Assets	61.6	-	61.6
Total	5,107.3	199.8	5,307.1
In Percent	96%	4%	100.0%

In terms of facility type (Table 7), US$ 5,107.3 million or approximately 96% 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 2021				
In US$ millions	**GCC**	**Europe**	**Americas**	**Others**	**Total**
Claims on Sovereigns	247.1	-	95	-	342.1
Claims on Public Sector Entities	82.6	-	-	-	82.6
Claims on Banks	369.8	0.4	0.2	35.4	405.9
Claims on Corporate	22.6	5.1	22.4	-	50.2
Securitization and SIVs	-	6.4	1.5	-	7.8
Venture Capital and Private Equity	12.5	23.2	31.3	11.3	78.4
Investments in Commercial Entities	4,073.8	-	10	-	4,083.8
Other Funds and Quoted Equities	0	-	25.4	169.2	194.6
Other Assets	10.1	0	3.8	47.6	61.6
Total	4,818.6	35.2	189.7	263.5	5,307.1
In Percent	90.8%	0.6%	3.6%	5%	100.0%

The geographical distribution (Table 8) is based on either the primary purpose of the exposure or the place of incorporation of the debt security Issuer, or incorporation of the fund manager. A Sizable portion of credit exposure is in the GCC region tallying at US$4,818.6 million or 91.0% of the total. Following suit are exposures to Americas at 3.6%. 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 2021					
In US$ millions	**Banks & Financial Institutions**	**Trading & Manufacturing**	**Energy & Utilities**	**Government Agencies**	**Others**	**Total**
Claims on Sovereigns	56.5	-	10.8	274.8	-	342.1
Claims on Public Sector Entities	-	-	74.8	-	7.8	82.6
Claims on Banks	405.9	-	-	-	-	405.9
Claims on Corporate	-	-	15.1	-	35.1	50.2
Securitization and SIV	7.8	-	-	-	-	7.8
Venture Capital and Private Equity	78.4	-	-	-	-	78.4
Investments in Commercial Entities	77.1	3,004.2	644.9	-	357.7	4,083.8
Other Funds and Quoted Equities	194.7	-	-	-	-	194.7
Other Assets	34.9	15.6	1.9	2.6	9.1	61.6
Total	855.2	3,019.9	747.5	274.8	409.7	5,307.1
In Percent	16.1%	56.9%	14.1%	5.2%	7.72%	100.0%

The table on industry distribution (Table 9) of the gross credit exposure reveals a concentration on Trading & Manufacturing sector and Energy & Utilities, amounting to 71% of total exposure which, is in line with GIC's commitment to support the industrial growth within the GCC region.

The residual maturity of gross credit exposure broken down by standard credit risk exposure is shown in Table 10. Approximately 88% of gross credit exposure falls within the longest time bucket of over five years.

Table 10: Credit Exposure by Residual Contractual Maturity

	31 December 2021				
In US$ millions	**Within3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Claims on Sovereigns	-	-	146.6	195.5	342.1
Claims on Public Sector Entities	-	-	27.5	55.1	82.6
Claims on Banks	349.6	-	56.3	-	405.9
Claims on Corporate	-	-	43.9	6.3	50.2
Securitization and SIVs	-	-		7.8	7.8
Venture Capital and Private Equity	-	-	-	78.4	78.4
Investments in Commercial Entities	-	-	-	4,083.8	4,083.8
Other Funds and Quoted Equities	-	-	-	194.7	194.7
Other Assets	-	7.7	1.7	52.2	61.6
Total	349.6	7.7	275.9	4,673.8	5,307.1
In Percent	6.6%	0.15%	5.2%	88%	100.0%

Recognition of Impairment of Assets

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

5. Securitization Activities

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

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

Table 11: Credit Exposure on Securitization and SIVs

	31 December 2021	
In US$ millions	**Gross Exposure**	**Post-credit Conversion**
COG 1	6.4	1.3
COG2	0.5	0.3
COG3	-	-
COG4	-	-
COGS	-	
COG 6	0.5	
Unrated	0.4	(deduction from capital)
Total	7.8	1.5

6. Market Risk

This section focuses regulatory capital adequacy computations based on the VaR measurement for the Trading' book. More details on VaR and Market Risk monitoring are provided in the Risk Management section of the annual report. The regulatory capital adequacy ratios are computed under Basel III. GIC follows the Internal Models Approach (IMA) to quantify the capital charge associated with market risk within the trading portfolio.

The Corporation uses the 'Risk Manager' system, developed by MSCI Risk Metrics, and utilizes a parametric computational method based on the variance- covariance concept. In line with the capital accord, the parameters used in determining the VaR are a 10 day holding period and 99% confidence level. The computation utilizes an equally weighted historical data set going back one year. The computation ignores the correlation benefit amongst the three risk types (Interest rate. equity and foreign exchange), with Total Market Risk VaR being equal to the arithmetic sum of the three components. The capital charge relating to market risk is determined for all portfolios categorized as trading (the trading book), which includes the following (Ref Notes 4 of 2021 consolidated financial statements):

(US$ million)	**2021**	**2020**
Quoted debt instruments	-	-
Hedge and Other unquoted alternative funds	242	257
	242	257

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 2021

In US$ millions	Interest Rate	Equity	FX	Total
Max	0.0	18.7	0.0	18.7
Min	0.0	14.1	0.0	14.1
Average	0.0	17.4	0.0	17.4
31-Dec-21	0.0	14.1	0.0	14.1
Stress VaR	0.0	14.5	0.0	14.5

7. Operational Risk

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

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

Table 13: Business Lines for Operational Risk

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

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

Table 14: Operational Risk Capital Charge

	31 December 2021		
In US$ millions	**3 year Average Gross Income**	**Beta Factor**	**Capital Charge**
Principal Investment	51	18%	9.2
Debt Capital Market	44.3	18%	8.0
Equities Investments	11.4	18%	2.0
Alternative Investments	38.7	18%	7.0
Treasury	6.1	18%	1.1
Head-quarters	7.4	18%	1.3
Total	158.9		28.6
Risk-weighted exposure			357.2

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

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

(1) Risk and Control Self-Assessment Framework;

(2) Loss Event Framework;

(3) Corrective Action Plans Framework; and

(4) Operational Risk Reporting Framework.

8. Equity Risk in the Banking Book

Equity investments in the banking book are classified at the time of acquisition into those acquired for realizing capital gain and to those purchased for strategic investments. The decision where to classify investments has arrived at after considering significant factors that include business and strategic advantages to the Corporation, and the amount of planned investments. All investment decisions require the approval of the Investment Committees, or the Executive Committee, depending on the amount of exposure. Investments acquired with a view to generating income and profits from capital appreciation are reviewed periodically and disposed of at opportune Instances. Meanwhile, the strategic investment portfolios are reviewed based on the industry, market and economic developments, and the Corporation decides whether to liquidate or further consolidate its holdings in these investments. Accounting treatment of equity investments can be found under ‘Significant accounting judgments and estimates’ in the notes to the consolidated financial statements.

Publicly traded Investments represent quoted equities traded in the local and international stock exchanges. Privately held investments represent investments in unquoted entities and projects. The total value of equity Investments in the banking book at the end of December 2021 is US$ 63.7 million, net of provision (refer to Table 15 below). The total un-realized gain recorded in equity is US$ 4 million.

Table 15: Equity Holdings in Banking Book

	31 December 2021		
In US$ millions	**Publicly Traded**	**Privately Held**	**Total**
Fair Value of Equity Investments	0	63.7	63.7
Unrealized (loss)/gain recorded in equity	0	4	4
Unrealized (loss)/gain in Tier 2 Capital	0	4	4

9. Interest Rate Risk in the Banking Book

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

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

The Eurodollar futures contract position value as at December 31, 2021 was 992 contracts, with an estimated VaR of US$ 0.1 million. Despite the significant decrease in number of contracts, there was no material change in the VaR figure, indicating a consistent approach in utilizing these contracts (31st December 2020: 2,323 contracts, estimated VaR US$ 0.1 million). This is excluding the impact of the fixed rate EMTN issuance.

10. Funding Liquidity Assessment

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

Liquidity Coverage Ratio (LCR)

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

Against a prescribed minimum of 100%, GIC's LCR as of 31 December 2021 was 253%.

Table 16: Liquidity Coverage Ratio

In US$ millions	31 December 2021
Value of stock of High quality liquid assets (HQLA)	719.9
Total Net Cash outflow over the next 30 calendar days	285.0
Liquidity Coverage Ratio (LCR)	253%

Net Stable Funding Ratio (NSFR)

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

Table 17: Net stable Funding Ratio

In US$ millions	31 December 2021
Total Available Stable Funding (ASF)	2,757.7
Total Required Stable Funding (RSF)	1,616.6
Net Stable Funding Ratio (NSFR)	170.5%

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State of Kuwait

Opinion

We have audited the consolidated financial statements of Gulf Investment Corporation G.S.C. ("the Corporation") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

Report on Other Legal Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Corporation's Agreement of Incorporation and Articles of Association. In our opinion, proper books of account have been kept by the Corporation and an inventory count was carried out in accordance with recognised procedures and the accounting information given in the Board of Directors' report agrees with the books of accounts of the Corporation. We have not become aware of any violations of the provisions of the Corporation's Agreement of Incorporation and Articles of Association during the year ended 31 December 2021 that might have had a material effect on the business of the Corporation or on its consolidated financial position.

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

Kuwait: 20 April 2022

Consolidated Statement of Financial Position

as at 31 December 2021

(All amounts in US$ millions)

	Note	2021	2020
Assets			
Cash and cash equivalents		**52**	9
Placements with banks	3	**290**	334
Financial assets at fair value through statement of income	4	**1,107**	1,359
Financial assets at fair value through other comprehensive income	5	**249**	127
Investments in associates	6	**1,384**	1,352
Other assets	7	**93**	90
Total assets		**3,175**	3,271
Liabilities and equity			
Liabilities			
Deposits from banks and other financial institutions	8	**314**	418
Term finance	9	**174**	392
Other liabilities	10	**93**	108
Total liabilities		**581**	918
Equity			
Share capital	11	**2,100**	2,100
Revaluation reserves		**(176)**	(287)
Other reserves	11	**574**	561
Retained earnings / (accumulated losses)		**96**	(21)
Total equity		**2,594**	2,353
Total liabilities and equity		**3,175**	3,271

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

Saeed Rashid Al-Yateem
Chairman

Ibrahim Ali AlQadhi
Chief Executive Officer

Consolidated Statement of Income

for the year ended 31 December 2021

(All amounts in US$ millions)

	Note	2021	2020
Interest income	12	**24**	30
Net gain from investments	13	**61**	40
Dividend income	14	**11**	10
Share of results of associates	6	**72**	25
Fees and other income	15	**21**	4
Total income		**189**	109
Interest expense	16	**(8)**	(20)
Other operating income	17	**2**	7
Net operating income		**183**	96
Staff costs		**(36)**	(33)
Premises costs		**(1)**	(2)
Other operating expenses		**(10)**	(11)
Impairment losses	18	**(6)**	(85)
Profit / (loss) for the year		**130**	(35)

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

Consolidated Statement of other Comprehensive Income

for the year ended 31 December 2021

(All amounts in US$ millions)

	2021	2020
Profit / (loss) for the year	**130**	(35)
Other comprehensive income / (loss) that may be reclassified to consolidated statement of income in subsequent periods		
- Share of other comprehensive income / (loss) of associates	**16**	(33)
- Reclassification of cash flow hedge reserve on loss of significant influence	**22**	-
Other comprehensive income / (loss) that will not be reclassified to consolidated statement of income in subsequent periods		
Fair value changes on financial assets at fair value through other comprehensive income	**73**	(97)
Other comprehensive income / (loss) for the year	**111**	(130)
Total comprehensive income / (loss) for the year	**241**	(165)

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2021

(All amounts in US$ millions)

		Revaluation reserves			Other reserves			
	Share capital	Investment revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Compulsory reserve	Voluntary reserve	Retained earnings / (accumulated losses)	Total equity
Balance at 1 January 2020	2,100	-	(94)	(63)	436	125	119	2,623
Loss for the year	-	-	-	-	-	-	(35)	(35)
Other comprehensive loss for the year	-	(97)	(21)	(12)	-	-	-	(130)
Total comprehensive loss for the year	-	(97)	(21)	(12)	-	-	(35)	(165)
Dividend (note 11)	-	-	-	-	-	-	(105)	(105)
Balance at 31 December 2020	2,100	(97)	(115)	(75)	436	125	(21)	2,353
Balance at 1 January 2021	**2,100**	**(97)**	**(115)**	**(75)**	**436**	**125**	**(21)**	**2,353**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**130**	**130**
Other comprehensive income / (loss) for the year	**-**	**73**	**44**	**(6)**	**-**	**-**	**-**	**111**
Total comprehensive income / (loss) for the year	**-**	**73**	**44**	**(6)**	**-**	**-**	**130**	**241**
Transfer to reserves (note 11)	**-**	**-**	**-**	**-**	**13**	**-**	**(13)**	**-**
Balance at 31 December 2021	**2,100**	**(24)**	**(71)**	**(81)**	**449**	**125**	**96**	**2,594**

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2021

(All amounts in US$ millions)

	Note	2021	2020
Cash flows from operating activities:			
Profit / (loss) for the year		**130**	(35)
Adjustments for:			
Impairment losses	18	**6**	85
Realised gain on sale of an associate	13	**(15)**	-
Unrealised gain from financial assets at fair value through statement of income	13	**(19)**	(8)
Net gain on reclassification of investment	13	**(4)**	-
Share of results of associates	6	**(72)**	(25)
		26	17
Changes in operating assets and liabilities:			
Placements with banks		**44**	(43)
Financial assets at fair value through statement of income		**271**	62
Deposits from banks and other financial institutions		**(104)**	-
Movement in other assets and other liabilities		**(33)**	45
Net cash flows generated from operating activities		**204**	81
Cash flows from investing activities:			
Proceeds from sale of an associate		**31**	-
Dividends from associates		**28**	24
Additional investments in associates		**(11)**	(13)
Net cash flows from investing activities		**48**	11
Cash flows from financing activities:			
Term finance repaid		**(209)**	-
Dividend paid	11	**-**	(105)
Net cash flows used in financing activities		**(209)**	(105)
Net change in cash and cash equivalents		**43**	(13)
Cash and cash equivalents at 1 January		**9**	22
Cash and cash equivalents at 31 December		**52**	9

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

(All amounts in US$ millions)

1 Incorporation and activities

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

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

The consolidated financial statements of the Corporation and its subsidiaries (collectively "the Group") for the year ended 31 December 2021 were approved by the Board of Directors of the Corporation on 17 March 2022. The Annual General Assembly of shareholders has the power to amend these consolidated financial statements after issuance.

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

2 Significant accounting policies

2.1 Basis of accounting

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

Changes to significant accounting policies are described in note 2.4.

2.2 Basis of preparation

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

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

2.3 Summary of significant accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual audited consolidated financial statements of the Group for the year ended 31 December 2020.

2.4 Changes in accounting policies

A number of amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2021 as below, but they do not have a material effect on the Group's consolidated financial statements:

- COVID-19-Related Rent Concessions (Amendment to IFRS 16); and

- Interest Rate Benchmark Reform-Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.5 Basis of consolidation

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

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

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

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

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

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

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

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

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

2.6 Business combination and goodwill

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

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

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.6 Business combination and goodwill (continued)

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

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

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

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

2.7 Financial instruments

i) Financial assets

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

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

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

Financial assets carried at amortised cost

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

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

Business model assessment

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.7 Financial instruments (continued)

The SPPI test

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

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

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

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

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

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

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

Financial assets carried at FVOCI

a) Equity instruments

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

b) Debt instruments

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

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

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

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

Financial assets carried at FVTPL

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.7 Financial instruments (continued)

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

Reclassification of financial assets

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

Derecognition of financial assets

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

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

Impairment of financial assets

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

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Lifetime ECL - credit impaired

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

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.7 Financial instruments (continued)

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

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

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

ii) Financial liabilities

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

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

Deposits from banks and financial institutions

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

Term finance

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

Derecognition of financial liabilities

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

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

2.8 Offsetting

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

2.9 Fair value of financial instruments

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

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.9 Fair value of financial instruments (continued)

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

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

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

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

2.10 Impairment of non-financial assets

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

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

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

2.11 Investments in associates

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

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

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

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

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for the year ended 31 December 2021

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.11 Investment in associates (continued)

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

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

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

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

Associates of the Group are listed in note 27.

2.12 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.

2.13 Property, plant and equipment

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

2.14 Derivative financial instruments and hedge accounting

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

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

Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.14 Derivative financial instruments and hedge accounting (continued)

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

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

2.15 Recognition of income and expenses

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

Interest income and expense

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

Fees and commission income

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

Net gains from investments

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

Dividend income

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

2.16 Employees end of service benefits

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

2.17 Foreign currency

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.17 Foreign currency (continued)

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

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

2.18 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.

2.19 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted, however, the Group has not early adopted any new or amended standards in preparing these financial statements:

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Annual Improvements to IFRS Standards 2018-2020;
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Reference to the Conceptual Framework (Amendments to IFRS 3);
- Classification of liabilities as current or non-current (Amendments to IAS 1);
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12).

The new standards and amendments are not expected to have a material impact on the financial statements of the Group in the period of initial application.

2.20 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.20 Significant accounting judgements and estimates (continued)

Classification of financial assets

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

Fair value measurement

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

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

Estimation uncertainty

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

Impairment of investment in associates

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

Valuation of unquoted equity investments

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

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

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

3 Placements with banks

	2021	2020
Local banks	**60**	-
Other GCC and International banks	**230**	334
	290	334

Placements with banks carry an effective average interest rate of 0.54% per annum (2020: 1.27% per annum).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

(All amounts in US$ millions)

4 Financial assets at fair value through statement of income

	2021	2020
Debt instruments		
International bonds	**123**	254
GCC and Islamic bonds	**408**	531
Structured debt instruments	**8**	9
	539	794
Equities and managed funds		
Quoted equity investments	**195**	157
Hedge and other unquoted alternative funds	**242**	257
	437	414
Equity participations		
Quoted equity investments	**-**	2
Unquoted equity investments	**64**	78
	64	80
Private equity funds		
Managed funds portfolio	**59**	63
Real estate funds portfolio	**8**	8
	67	71
	1,107	1,359

The debt instruments carry effective interest rate ranging from 0.13% to 7.63% (2020: 0.25% to 6.75%).

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

5 Financial assets at fair value through other comprehensive income

	2021	2020
Equity participation		
Unquoted equity investment	**249**	127

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

(All amounts in US$ millions)

6 Investments in associates

The Group's investments in associates that are listed on a stock exchange have a carrying value of US$ 110 million (2020: US$ 141 million) and a market value of US$ 130 million (2020: US$ 132 million).

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

	2021	2020
Share of assets	**4,281**	4,134
Share of liabilities	**(2,808)**	(2,693)
Share of net assets	**1,473**	1,441
Goodwill	**67**	67
Accumulated impairment losses	**(156)**	(156)
Carrying amount	**1,384**	1,352
Share of revenue	**2,563**	1,672
Share of results for the year	**72**	25

Associates of the Group are set out in note 27.

During the year, the Group discontinued the equity method of accounting with respect to its investment in Shuqaiq International Water and Electricity Company Limited upon loss of significant influence and reclassified the investment to financial asset at fair value though other comprehensive income. The net gain arising from this reclassification amounted to US$ 4 million, which is included under net gain on investments (note 13).

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

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

2020	Foulath Holding B.S.C. (C)	Tristar Holding Limited	Wataniya Telecom Algerie S.P.A.	Aviation Lease and Finance Company K.S.C.P.
Assets	2,343	965	1,088	4,630
Liabilities	(1,075)	(555)	(540)	(3,642)
Non-controlling interests	(208)	(6)	-	-
Net assets	1,060	404	548	988
Revenue	1,363	453	619	367
Results for the year	14	25	-	(67)
Other comprehensive (loss) / income for the year	(3)	(1)	(61)	1

Notes to the Consolidated Financial Statements

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(All amounts in US$ millions)

6 Investments in associates (continued)

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

	2021	2020
Assets	**7,576**	7,014
Liabilities	**(5,562)**	(4,931)
Net assets	**2,014**	2,083
Revenue	**624**	691
Results for the year	**54**	57
Other comprehensive income / (loss) for the year	**25**	(72)

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

The management has estimated the recoverable amount of the Group's investments in associates through determining the value-in-use and as a result, no impairment loss (2020: US$ 75 million) has been recorded in the consolidated statement of income (note 18).

7 Other assets

	2021	2020
Others, including trade receivable of subsidiaries	**39**	39
Less: expected credit losses	**(10)**	(10)
	29	29
Accrued interest, fees, commissions and dividends	**8**	12
Positive fair value of derivative financial instruments	**-**	4
Prepayments	**2**	2
Property, plant and equipment	**19**	20
Margin money paid on derivative financial instruments	**35**	23
	93	90

8 Deposits from banks and other financial institutions

	2021	2020
Deposits from GCC central banks	**30**	30
Deposits from other GCC financial institutions	**204**	288
Deposits from other international financial institutions	**80**	100
	314	418

At 31 December 2021, deposits from central banks and other financial institutions headquartered in the GCC states amounted to US$ 234 million (2020: US$ 318 million).

Deposits from central banks and other financial institutions carry an effective average interest rate of 0.45% per annum (2020: 1.23% per annum).

Notes to the Consolidated Financial Statements

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9 Term finance

	Interest rate %	2021	2020
USD medium term deposits maturing in 2021	6 months LIBOR plus 180 bps	-	100
Medium Term Note Issues (EMTN)			
MYR medium term fixed rate note due in 2021	5.10 % per annum (semi-annual)	-	112
MYR medium term fixed rate note due in 2022	5.10 % per annum (semi-annual)	41	42
MYR medium term fixed rate note due in 2023	4.52 % per annum (semi-annual)	96	99
MYR medium term fixed rate note due in 2027	5.30 % per annum (semi-annual)	37	39
		174	392

10 Other liabilities

	2021	2020
Accrued interest	3	7
Negative fair value of derivative financial instruments	52	48
Others, including trade payable of subsidiaries and accrued expenses	38	53
	93	108

11 Equity

11.1 The authorised, issued and fully paid capital comprises of 2.1 million shares of US$ 1,000 each (2020: 2.1 million shares of US$ 1,000 each).

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

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

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

As set out in note 29, the Board of Directors have recommended not to transfer the 10% of the profit for the current year to the voluntary reserve.

11.4 The Annual General Assembly of the shareholders, held on 6 April 2020, approved the payment of cash dividend of US$ 50 per share amounting to US$ 105 million for the year ended 31 December 2019.

Notes to the Consolidated Financial Statements

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(All amounts in US$ millions)

12 Interest income

	2021	2020
Placements with banks	**2**	5
Financial assets at fair value through statement of income	**22**	25
	24	30

13 Net gain from investments

	2021	2020
Realised gain on sale of an associate	**15**	-
Realised gain from financial assets at fair value through statement of income	**23**	32
Unrealised gain from financial assets at fair value through statement of income	**19**	8
Net gain on reclassification of investment (note 6)	**4**	-
	61	40

14 Dividend income

	2021	2020
Equities and managed funds	**3**	2
Equity participations	**8**	8
	11	10

15 Fees and other income

	2021	2020
Fees and commission	**17**	-
Change in fair value of contingent consideration	**2**	-
Other income	**2**	4
	21	4

16 Interest expense

	2021	2020
Deposits from banks and other financial institutions	**(2)**	(6)
Term finance	**(6)**	(14)
	(8)	(20)

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

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17 Other operating income

	2021	2020
Sales	**41**	42
Cost of sales	**(35)**	(37)
Gross profit	**6**	5
Other income	**-**	6
Selling and distribution expenses	**(2)**	(2)
Administrative expenses	**(2)**	(2)
	2	7

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

18 Impairment losses

	2021	2020
Other assets	**(6)**	(8)
Investment in associates	**-**	(75)
Expected credit losses for other assets	**-**	(2)
	(6)	(85)

19 Retirement and other terminal benefits

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

The Corporation also pays contributions to government defined contribution pension plan for certain employees in accordance with the legal requirements in Kuwait, as well as, contribution in line with the labour law in the countries where its subsidiaries operate.

The total cost of retirement and other end of service benefits included in staff expenses for the year ended 31 December 2021 amounted to US$ 7 million (2020: US$ 7 million).

20 Commitments and contingent liabilities

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

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(All amounts in US$ millions)

20 Commitments and contingent liabilities (continued)

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

	2021	2020
Credit Risk Amounts		
Transaction-related contingent items:		
Letter of guarantees	**347**	403

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

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

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

	2021	2020
Undrawn commitments for investments in private equity funds	**22**	57
Undrawn commitments for investments in associates	**-**	18
Other commitments	**2**	2
	24	77

21 Risk management

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

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

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

21.1 Liquidity risk

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

The liquidity profile of financial liabilities reflects the projected cash flows, based on contractual repayment obligations which include future interest payments over the life of these financial liabilities. The liquidity profile of undiscounted financial liabilities at 31 December 2021 and 2020 was as follows:

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(All amounts in US$ millions)

21 Risk management (continued)

21.1 Liquidity risk (continued)

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

31 December 2020	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Deposits from banks and other financial institutions	278	140	-	-	418
Term finance	214	8	156	42	420
Gross settled derivative instruments:					
- Contractual amount payable	401	22	177	49	649
- Contractual amount receivable	(403)	(22)	(142)	(39)	(606)
Other liabilities	37	5	45	21	108
Total undiscounted financial liabilities	527	153	236	73	989
Commitments	-	20	57	-	77
Contingent liabilities	180	17	92	114	403

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

	Within 3 months	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
At 31 December 2021						
Assets						
Cash and cash equivalents	**52**	**-**	**-**	**-**	**-**	**52**
Placements with banks	**290**	**-**	**-**	**-**	**-**	**290**
Financial assets at fair value through statement of income	**726**	**256**	**18**	**107**	**-**	**1,107**
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**249**	**-**	**249**
Investment in associates	**-**	**-**	**-**		**1,384**	**1,384**
Other assets	**19**	**16**	**32**	**7**	**19**	**93**
Total assets	**1,087**	**272**	**50**	**363**	**1,403**	**3,175**
Liabilities						
Deposits from banks and other financial institutions	**212**	**102**	**-**	**-**	**-**	**314**
Term finance	**-**	**41**	**96**	**37**	**-**	**174**
Other liabilities	**6**	**31**	**37**	**19**	**-**	**93**
Total liabilities	**218**	**174**	**133**	**56**	**-**	**581**
Net gap	**869**	**98**	**(83)**	**307**	**1,403**	

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for the year ended 31 December 2021

(All amounts in US$ millions)

21 Risk management (continued)

21.1 Liquidity risk (continued)

	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
At 31 December 2020						
Assets						
Cash and cash equivalents	9	-	-	-	-	9
Placements with banks	334	-	-	-	-	334
Financial assets at fair value through statement of income	945	273	26	115	-	1,359
Financial asset at fair value through other comprehensive income	-	-	-	127	-	127
Investment in associates	-	-	-		1,352	1,352
Other assets	19	12	38	1	20	90
Total assets	1,307	285	64	243	1,372	3,271
Liabilities						
Deposits from banks and other financial institutions	278	140	-	-	-	418
Term finance	212	-	142	38	-	392
Other liabilities	37	5	45	21	-	108
Total liabilities	527	145	187	59	-	918
Net gap	780	140	(123)	184	1,372	

21.2 Market risk

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

Interest rate risk

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

Foreign exchange risk

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

Equity price risk

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

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

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

Notes to the Consolidated Financial Statements

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21 Risk management (continued)

21.2 Market risk (continued)

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

2020	*Average*	*Minimum*	*Maximum*	*31 December 2020*
Interest rate	20	14	26	15
Equity price	20	11	25	25
Foreign exchange	1	-	2	1
Total*	22	15	26	22

** Total VaR incorporates benefits of diversification.*

21.3 Credit risk

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

As at 31 December 2021 and 2020, the Group has not obtained any collateral on any of the financial assets.

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

	2021	2020
ECL on other assets	**-**	2

21.3.1 Maximum exposure to credit risk

The maximum credit exposure of the Group is as follows:

	2021	2020
Cash and cash equivalents	**52**	9
Placements with banks	**290**	334
Debt securities at fair value through statement of income	**539**	794
Other assets	**74**	70
	955	1,207
Credit commitments	**347**	403
Total credit exposure	**1,302**	1,610

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

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for the year ended 31 December 2021

(All amounts in US$ millions)

21 Risk management (continued)

21.3 Credit risk (continued)

21.3.1 Maximum exposure to credit risk (continued)

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The maximum credit exposure to a single counterparty is US$ 95 million (2020: US$ 116 million).

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

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

	GCC	Europe	America	Asia / Africa	Total
At 31 December 2020					
Cash and cash equivalents	8	1	-	-	9
Placements with banks	334	-	-	-	334
Debt securities at fair value through statement of income	531	12	246	5	794
Other assets	39	3	-	28	70
	912	16	246	33	1,207
Credit commitments	403	-	-	-	403
Total credit exposure	1,315	16	246	33	1,610

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

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

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21 Risk management (continued)

21.3 Credit risk (continued)

21.3.1 Maximum exposure to credit risk (continued)

	Banks & FIs	Trading & Mftg	Energy & Utilities	Govt. agencies	Other	Total
At 31 December 2020						
Cash and cash equivalents	9	-	-	-	-	9
Placements with banks	334	-	-	-	-	334
Debt securities at fair value through statement of income	275	-	112	384	23	794
Other assets	33	14	2	3	18	70
Credit exposure on assets	651	14	114	387	41	1,207
Credit commitments	-	-	403	-	-	403
Total credit exposure	651	14	517	387	41	1,610

21.3.2 Credit quality of financial assets

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

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

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

	Neither past due nor impaired		Total
At 31 December 2020	Investment grade	Unrated	
Cash and cash equivalents	9	-	9
Placements with banks	334	-	334
Debt securities at fair value through statement of income	794	-	794
Other assets	37	33	70
Credit exposure on assets	1,174	33	1,207
Credit commitments	403	-	403
Total credit exposure	1,577	33	1,610

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(All amounts in US$ millions)

21 Risk management (continued)

21.3 Credit risk (continued)

21.3.2 Credit quality of financial assets (continued)

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

2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	**52**	**-**	**-**	**52**
Placements with banks	**290**	**-**	**-**	**290**
Other assets	**65**	**9**	**-**	**74**
Total	**407**	**9**	**-**	**416**

2020	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	9	-	-	9
Placements with banks	334	-	-	334
Other assets	48	22	-	70
Total	391	22	-	413

22 Derivative financial instruments

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

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

Cross currency swaps are used to hedge non US$ term finance issued in fixed rate coupon. As at the reporting date, the notional amount of cross currency swaps amounted to US$ 226 million (2020: US$ 333 million) and its net fair value was a swap loss of US$ 52 million (2020: US$ 44 million).

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

	2021			2020		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount
Derivatives held for hedging						
- Cross currency swaps	**-**	**(52)**	**226**	2	(46)	333
- Forward foreign exchange contracts	**-**	**-**	**465**	-	(2)	649
	-	**(52)**	**691**	2	(48)	982

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22 Derivative financial instruments (continued)

Maturity analysis

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

	Within 1 year	Year 1 to 5	Above 5 years	Total
At 31 December 2020				
Notional amounts				
Cross currency swaps	108	176	49	333
Forward foreign exchange contracts	424	176	49	649
	532	352	98	982

23 Segmental information

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

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

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

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

The Treasury division manages the Group's liquidity, short-term interest rate and foreign exchange activities using a variety of on and off-balance sheet treasury applications. The division trades in spot and forward foreign exchange and options, cash money markets, floating rate notes, interest rate swaps and other derivatives. Interest is charged / credited to business segments based on rates which approximate the marginal cost of funds on external borrowings while considering the equity as free capital.

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

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23 Segmental information (continued)

31 December 2021	**Principal Investments**	**Debt Capital Markets**	**Equity and Alternative Investments**	**Treasury**	**Corporate and Other**	**Eliminations**	**Total**
Interest income	**2**	**22**	**1**	**13**	**-**	**(14)**	**24**
Interest expense	**(10)**	**(3)**	**(1)**	**(8)**	**-**	**14**	**(8)**
Share of results from associates	**72**	**-**	**-**	**-**	**-**	**-**	**72**
Other operating income / (loss)	**42**	**(19)**	**72**	**-**	**-**	**-**	**95**
Net operating income	**106**	**-**	**72**	**5**	**-**	**-**	**183**
Other operating expenses	**(9)**	**(2)**	**(2)**	**(3)**	**(31)**	**-**	**(47)**
Impairment losses	**(6)**	**-**	**-**	**-**	**-**	**-**	**(6)**
Profit / (loss) for the year	**91**	**(2)**	**70**	**2**	**(31)**	**-**	**130**
Segment assets	**1,744**	**543**	**515**	**2,846**	**4**	**(2,477)**	**3,175**
Segment liabilities	**1,521**	**526**	**443**	**543**	**25**	**(2,477)**	**581**
Equity							**2,594**
Total liabilities and equity							**3,175**
Investment in associates	**1,384**	**-**	**-**	**-**	**-**	**-**	**1,384**

31 December 2020	Principal Investments	Debt Capital Markets	Equity and Alternative Investments	Treasury	Corporate and Other	Eliminations	Total
Interest income	5	26	1	27	-	(29)	30
Interest expense	(16)	(9)	(4)	(20)	-	29	(20)
Share of results from associates	25	-	-	-	-	-	25
Other operating (loss) / income	(7)	37	29	1	1	-	61
Net operating income	7	54	26	8	1	-	96
Other operating expenses	(10)	(2)	(2)	(3)	(29)	-	(46)
Impairment losses	(84)	-	-	(1)	-	-	(85)
(Loss) / profit for the year	(87)	52	24	4	(28)	-	(35)
Segment assets	1,615	799	486	3,428	4	(3,061)	3,271
Segment liabilities	1,868	768	463	866	14	(3,061)	918
Equity							2,353
Total liabilities and equity							3,271
Investment in associates	1,352	-	-	-	-	-	1,352

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24 Fair value information

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

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

Determination of fair value and fair value hierarchy:

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

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

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

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

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

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

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24 Fair value information (continued)

2020	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through statement of income				
Debt instruments	662	123	9	794
Hedge funds & other alternative funds	-	257	-	257
Equities	157	-	-	157
Equity participations	2	-	78	80
Private equity funds	-	-	71	71
Financial asset at fair value through other comprehensive income				
Equity participation	-	-	127	127
Other assets- fair value of derivative financial instruments				
Cross currency swaps	-	-	4	4
	821	380	289	1,490
Other liabilities - fair value of derivative financial instruments				
Cross currency swaps	-	-	46	46
Forward foreign exchange Contracts	-	-	2	2
	-	-	48	48

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

	At 1 January 2021	**(Loss) / gain recorded in the consolidated statement of income**	**Gain recorded in equity**	**Net purchases, sales, transfers and settlements**	**At 31 December 2021**
Assets measured at fair value					
Financial assets at fair value through statement of income					
Debt instruments	**9**	**-**	**-**	**(1)**	**8**
Equity participations	**78**	**(8)**	**-**	**(6)**	**64**
Private equity funds	**71**	**14**	**-**	**(18)**	**67**
Financial assets at fair value through other comprehensive income					
Equity participation	**127**	**-**	**73**	**49**	**249**
Other assets – fair value of derivative financial instruments					
Cross currency swaps	**4**	**(4)**	**-**	**-**	**-**
Forward foreign exchange contracts	**-**	**-**	**-**	**-**	**-**
	289	**2**	**73**	**24**	**388**
Other liabilities – fair value of derivative financial instruments					
Cross currency swaps	**46**	**6**	**-**	**-**	**52**
Forward foreign exchange contracts	**2**	**(2)**	**-**	**-**	**-**
	48	**4**	**-**	**-**	**52**

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24 Fair value information (continued)

	At 1 January 2020	(Loss) / gain recorded in the consolidated statement of income	Loss recorded in equity	Net purchases, sales, transfers and settlements	At 31 December 2020
Assets measured at fair value					
Financial assets at fair value through statement of income					
Debt instruments	11	-	-	(2)	9
Equity participations	103	(19)	-	(6)	78
Private equity funds	77	1	-	(7)	71
Financial asset at fair value through other comprehensive income					
Equity participation	224	-	(97)	-	127
Other assets - fair value of derivative financial instruments					
Cross currency swaps	2	2	-	-	4
Forward foreign exchange contracts	1	(1)	-	-	-
	418	(17)	(97)	(15)	289
Other liabilities - fair value of derivative financial instruments					
Cross currency swaps	49	(3)	-	-	46
Forward foreign exchange contracts	-	2	-	-	2
	49	(1)	-	-	48

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

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

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

Significant unobservable inputs	**Range**	**Sensitivity of the input to fair value**
Discount rates used for determining the present value of future cash flows	6.1% to 21% (2020: 5.6% to 14%)	A 5% (2020: 5%) increase (decrease) in the discount rate would decrease (increase) the fair value by US$ 3 million (2020: US$ 3 million)

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

Measurement of other financial instruments under Level 3

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

25 Related party transactions

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

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25 Related party transactions (continued)

Outstanding balances with associates during the year are as follows:

	2021	2020
Letter of guarantees	**347**	403
Commitments	**2**	20
Receivables from associates	**10**	15
Payable to an associate	**-**	24

Compensation of key management personnel

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

	2021	2020
Salaries and short-term employee benefits	**8**	9
Post-employment benefits	**2**	2
	10	11

26 Capital management

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

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

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

	2021	2020
Interest-bearing deposits, term finance and other borrowings	**488**	810
Other liabilities	**93**	108
Less: Cash and cash equivalents and placements with banks	**(342)**	(343)
Net debt	**239**	575
Equity attributable to equity holders of the Corporation	**2,594**	2,353
Gearing ratio (net debt / equity)	**0.1**	0.2

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27 Principal subsidiaries and associates

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

Subsidiaries	Country of incorporation	% of shareholding		Financial statements reporting date	Principal business activity
		2021	2020		
Bituminous Products Company Limited (Bitumat)	Saudi Arabia	**100**	100	31 December 2021	Building material manufacturing

Associates	Country of incorporation	% of shareholding		Financial statements reporting date	Principal business activity
		2021	2020		
Gulf Re Holdings Limited	Channel Islands	**50.0**	50.0	31 December 2021	Re-insurance
Foulath Holding B.S.C (c)	Bahrain	**50.0**	50.0	31 December 2021	Holding company
Al Ezzel Power Company B.S.C. (c)	Bahrain	**45.0**	45.0	31 December 2021	Power & Water Utility project
Water Consortium Holding Co.	Saudi Arabia	**40.1**	40.1	31 December 2021	Power & Water Utility project
Shams Ad-Dhahira Generating Company SAOC	Oman	**40.0**	40.0	31 December 2021	Power & Water Utility project
Solar V Holding Co Ltd.	UAE	**40.0**	40.0	31 December 2021	Power & Water Utility project
Sudair Pharmaceutical Company Ltd.	Saudi Arabia	**-**	35.0	31 December 2021	Pharmaceutical
Horizon (ED) Investment Ltd.	Cayman Islands	**35.0**	35.0	31 August 2021	Education
Shuqaiq International Water and Electricity Company Limited	Saudi Arabia	**-**	33.3	31 December 2021	Power & Water Utility project
SGA Mafariq Holdings W.L.L.	Bahrain	**33.3**	33.3	31 December 2021	Power & Water Utility project
Technical Supplies & Services Co. Ltd.	UAE	**30.7**	30.7	31 December 2021	Refrigeration & Cooling Services
Osool Poultry Company S.A.O.C	Oman	**26.7**	26.7	31 December 2021	Poultry & Dairy Products
Al Dur Holding Company Limited	UAE	**25.0**	25.0	31 December 2021	Power & Water Utility project
Jeddah Cables Company Ltd.	Saudi Arabia	**25.0**	25.0	31 December 2021	Manufacturing Cables
Moon Iron and Steel Company SAOC	Oman	**25.0**	25.0	31 December 2021	Iron and steel
Bahrain LNG Ltd.	Bahrain	**24.0**	24.0	31 December 2021	Oil and Gas
Interplast Company Ltd.	UAE	**23.5**	23.5	31 December 2021	Plastic
Rawabi Emirates (PJSC)	UAE	**22.5**	22.5	31 December 2021	Dairy Products
The Dubai Wellness Center Ltd.	UAE	**21.6**	21.6	31 December 2021	Medical services
Wataniya Telecom Algerie S.P.A.	Algeria	**20.0**	20.0	31 December 2021	Telecom service provider
Gulf Stone Company SAOG	Oman	**20.0**	20.0	31 December 2021	Building Materials
A'Saffa Foods Company SAOG	Oman	**20.0**	20.0	31 December 2021	Poultry & Dairy Products
Tristar Holdings Ltd.	UAE	**19.6**	19.6	31 December 2021	Logistics
Aviation Leasing and Finance Company KSC.	Kuwait	**14.0**	14.0	30 September 2021	Aviation Leasing

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(All amounts in US$ millions)

28 Impact of COVID-19

The coronavirus (COVID-19) pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. In response, governments and banks have launched economic support and relief measures (including payment reliefs) to minimise the impact on individuals and corporates. In the light of rapidly escalating situation, the Group has considered whether any adjustments and changes in judgments, estimates and risk management are required to be considered and reported in the consolidated financial statements.

In applying the Group's accounting policies and the key sources of estimation uncertainty, the management has considered the impact of current market events and conditions while determining the judgments and estimates recorded in the consolidated financial statements for the year ended 31 December 2021. Due to the economic disruption caused by the COVID-19 resulting in higher uncertainty on the economic outlook globally, the management has revised the discount rates being used in estimating the recoverable amount of the Group's investments in associates to reflect the impact of deteriorated market conditions in these estimates. Further, the management has also challenged the projected future cash flows for viability in the current market environment.

The prevailing market conditions remain volatile and the amounts recorded in the consolidated financial statements remain sensitive to market fluctuations. The impact of such uncertain economic environment is judgmental, and the Group will continue to re-assess its position and the related impact on regular basis.

29 Subsequent events

The Board of Directors meeting held on 17 March 2022, proposed cash dividend of US$ 50 per share amounting to US$ 105 million for the year ended 31 December 2021. The proposed dividend is subject to approval of the shareholders in their Annual General Assembly. The Board of Directors further recommended not to transfer the 10% of the profit for the year ended 31 December 2021 to the voluntary reserve.

Gulf Investment Corporation G.S.C.

Stand-alone Statement of Financial Position

as at 31 December 2021

(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.

	2021	2020
Assets		
Cash and cash equivalents	46	5
Placements with banks	288	332
Financial assets at fair value through statement of income	1,107	1,359
Financial asset at fair value through other comprehensive income	249	127
Investments in associates	1,380	1,347
Investment in subsidiaries	31	34
Other assets	61	54
Total assets	**3,162**	3,258
Liabilities and equity		
Liabilities		
Deposits from banks and other financial institutions	314	418
Term finance	174	392
Other liabilities	80	95
Total liabilities	**568**	905
Equity		
Share capital	2,100	2,100
Revaluation reserves	(176)	(287)
Other reserves	574	561
Retained earnings / (accumulated losses)	96	(21)
Total equity	**2,594**	2,353
Total liabilities and equity	**3,162**	3,258

Principal Investing

Major Projects and Equity Participations

As of 31 December 2021

	Name of the Project	Location	GIC Effective holding %	GIC holding type
	Subsidiaries and Associates of GIC			
1	Bituminous Products Company Ltd. (Bitumat)	Saudi Arabia	100.00%	Direct
2	Foulath Holding B.S.C (c)	Bahrain	50.00%	Direct
3	Al Ezzel Power Company B.S.C. (c)	Bahrain	45.00%	Direct
4	Jazlah Water Desalination Company J.S.C.	Saudi Arabia	40.00%	Indirect
5	Shams Ad-Dhahira Generating Company SAOC	Oman	40.00%	Direct
6	Horizon (ED) Investment Ltd.	Cayman Islands	35.00%	Direct
7	Technical Supplies & Services Co. Ltd.	UAE	30.67%	Direct
8	Osool Poultry SAOC	Oman	26.68%	Direct
9	Jeddah Cables Company Ltd.	Saudi Arabia	25.00%	Direct
10	Al Dur Power & Water Co. B.S.C. (c)	Bahrain	25.00%	Indirect
11	Moon Iron and Steel Company SAOC	Oman	25.00%	Direct
12	Bahrain LNG Ltd.	Bahrain	24.00%	Direct
13	Interplast Company Ltd.	UAE	23.50%	Direct
14	Rawabi Emirates PJSC	UAE	22.54%	Direct
15	The Dubai Wellness Center Ltd.	UAE	21.63%	Direct
16	A'Saffa Foods Company SAOG	Oman	20.01%	Direct
17	Gulf Stone Company SAOG *	Oman	20.00%	Indirect
18	Wataniya Telecom Algerie S.P.A.	Algeria	20.00%	Indirect
19	Jubail Water & Power Company J.S.C.	Saudi Arabia	20.00%	Indirect
20	Tristar Holdings Ltd.	UAE	19.61%	Direct
21	Shuaa Energy 3 P.S.C.	UAE	16.00%	Indirect
22	Aviation Lease & Finance Company K.S.C. (p) (ALAFCO)	Kuwait	14.00%	Direct

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

	Name of the Project	Location	GIC Effective holding %	GIC holding type
	Equity Participations			
1	The National Titanium Dioxide Company Ltd. (CRISTAL)	Saudi Arabia	20.00%	Direct
2	Shuqaiq Water & Electricity Company J.S.C.	Saudi Arabia	20.00%	Indirect
3	Moobility Telecom International Holding Ltd.	British Virgin Islands	17.13%	Direct
4	TMK Gulf International Pipe Industry Ltd.	Oman	14.20%	Direct
5	Ras Laffan Power Company Limited Q.S.C.	Qatar	10.00%	Direct

Corporate Directory 2021

Senior Management Team

Mr. Ibrahim Ali AlQadhi
Chief Executive Officer

Mr. Meshary Al-Judaimi
Group Head of Principal Investment

Mr. Talal Al-Tawari
Group Head of Global Markets

Mr. Hani Al-Shakhs
Group Head of Support

Global Markets Group

Mr. Osama Al-Musallam
Head of Treasury Div.

Mr. Raffaele Bertoni
Head of Debt Capital Markets Div.

Hani Alawadhi
Head of Managed Funds Div.
Acting Head of GCC Equities Div.

Principal Investment Group

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

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

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

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

Mr. Fadi Twainy
Head of Light Industry Projects Div.

Support Group

Mr. Talal Al-Zamami
Head of Operations Div.

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

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

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

Corporate Office

Dr. Mohammad Al-Omar
Head of Research Div.

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

Dr. Yaqoub Ahmad Alabdullah
Head of Risk Management Div.

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

Mr. Hazem El-Rafie
Head of Finance Div.

Ms. Maryam AlKooheji
Secretary to the BOD

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