مؤسسة الخليج للإستثمار
Gulf Investment Corporation
Annual Report and Accounts 2008

Financial Highlights

(US$ million)	2006	2007	2008
For the year			
Gross Operating and Other Income	662	551	10
Operating Expenses	56	52	48
Net Profit / (Loss)	600	253	<996>
At year end			
Total Assets	8,113	9,175	7,211
Interest Bearing Securities and Funds	4,746	5,187	3,331
Equities and Managed Funds	1,154	1,387	1,103
Projects and Equity Participations	1,077	1,060	1,091
Deposits	2,132	2,804	2,896
Shareholder's Equity	1,911	1,958	662
Selected Ratios (%)			
Profitability			
Return on Paid-up Capital	80.0	25.8	-
Return on Adjusted Shareholders' Equity	42.9	14.9	-
Capital			
BIS Ratios			
– Total	25.1	18.6	8.65
– Tier 1	23.9	18.6	8.65
Shareholders' Equity as a % of Total Assets	23.6	21.3	9.2
Asset Quality			
Marketable Securites as a % of Total Assets	53.2	57.0	48.2
GCC and OECD Country Risk as a % of Total Assets	98.3	100.0	100.0
Liquidity			
Liquid Assets Ratio	80.4	82.0	79.3
Productivity			
Operating Income as Multiple of Operating Expenses	9.8	8.6	-

Contents

Mission Statement	1
Board of Directors	2
Chairman's Statement	3
CEO's Review	5
Economic Review	9
Financial Review	15
Risk Management	21
Basel 2 Disclosure	33
Consolidated Financial Statements	49
Direct Investments	86
Investment Products	87
Corporate Directory	88
Contact Details	89

Mission Statement

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

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

Board of Directors

United Arab Emirates

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

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

State of Kuwait

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

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

Kingdom of Bahrain

H.E. Dr. Zakaria Ahmed Hejres *
Chairman of the Executive Committee
Deputy CEO
Economic Development Board Bahrain

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

Kingdom of Saudi Arabia

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

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

Sultanate of Oman

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

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

State of Qatar

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

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

Senior Management Team

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

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

Mr. Riccardo Ricciardi
Deputy General Manager &
Head of Global Markets Group

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

Chairman's Statement

To the shareholders of Gulf Investment Corporation:
It is my pleasure to present on behalf of the board of directors of Gulf Investment Corporation, the annual report on the corporation’s activities and its financial results for the year ended 31 December 2008.

GIC was established in 1984 with US$ 540 million paid-up capital. GIC enjoyed remarkable track record of achievements and high performance, in spite of all political and economic challenges and wars that affected the region.

Over the last 25 years and since its incorporation, GIC had accumulated profits over US$ 2.9 billion. Its net worth witnessed gradual growth, and reached US$ 1.9 billion as at end of 2007, in addition to cumulative cash dividends of more than US$ 1.7 billion. That was a result of rigorous application of our prudent investment strategy that positioned GIC among the most reputable investment institutions within the GCC region.

During the fourth quarter of 2008, the financial crises had strengthened, and markets suffered from lack of liquidity and severe decline in prices across all asset classes, which forced some big financial institutions do declare bankruptcy.

GIC board of directors reacted quickly and passed a resolution to call in the unpaid capital of US$ 1.1 billion from shareholders and also took a decision to revisit its business model, reduce its exposure to international investments and focus on the GCC investments especially the direct investment.

Despite the well diversified portfolio and its good quality of assets, GIC was affected by that global turmoil due to the decline in market values of these assets.

Net results from operation before provisions for the year reported a loss of US$ 38 million. Provision of US$ 483 million was provided against the losses in interest bearing securities and funds.

Due to the significant decline in market prices of some assets, and according to IFRS, GIC ought to provide Marked-To-Market losses of US$ 475 million. Hence, net loss reported for the year was US$ 996 million, and total assets declined to US$ 7.2 billion from US$ 9.1 billion a year earlier.

Liquidity problem was mitigated by the quick support of shareholders who placed sizable deposits with the corporation in addition to payment of called capital by some of the shareholders the corporation managed to issue medium-term notes of US$ 288 million in Malaysia, despite the change of market sentiments.

GIC had developed extensive expertise in the area of projects and enhanced its role towards promoting economic and social development of the GCC. Within its projects, GIC had deployed investments over US$ 430 million in different sectors. GIC developed Gulf Re, the largest reinsurance company in the GCC, Al Dour power project in Kingdom of Bahrain, which is its third mega power project after Marafiq and Shuqaiq in Saudi Arabia. We still see values and potentials in the GCC region and we will exert our efforts to evaluate those opportunities.

I took over as chairman of directors in 2008. On behalf of the board of directors, I would like to express my gratitude to my predecessor, H.E. Dr. Yousef Al-Ebraheem. I would also like to express my appreciation to all members of executive, audit, and risk management committees, as well as to the management and staff for their effort during 2008.

Mr. Faisal Ali Al-Mansouri
Chairman

CEO's Review

It has been Gulf Investment Corporation's endeavor to promote private enterprise and support economic growth in the GCC region and since and its inception in 1984, GIC has contributed significantly to the regional economies in several ways.

The corporation played a lead role in pioneering the concept of institutional private equity in the region, with principal investments in projects covering a range of sectors, including metals, power & utilities, chemicals, telecommunications, and manufacturing. GIC has also played a lead role in the development of the region's capital markets, introducing international best practices. In achieving all these objectives, GIC has always strived to operate as a 'world class' organization, dedicated to maximizing shareholder value through earning competitive rates of return.

2008 was an extremely challenging year for businesses in general, and especially so for the global financial sector. The year was marked by economic slow down, increased market volatility, multiple credit events, severe lack of liquidity, and significant government intervention. Like most institutions active in the financial markets, GIC suffered significant losses during 2008.

For the 2008 financial year, GIC posted a gross operating profit of US$ 9 million, materially lower than the US$ 448 million recorded in 2007. In the context of the systemic turmoil, given the corporation's commercial return objectives, these losses were in line with that of other market participants. In addition to this, the corporation made provisions of US$ 958 million, relating to both, mark to market decline in asset values and impaired assets. Aggregating operating expenses as well, the net loss for 2008 was US$ 996 million.

Of the US$ 958 million total provisions, approximately half, or US$ 475 million, were taken against mark-to-market decline in valuations, once again maintaining conservatism and prudence. Mark-to-market valuations were significantly lower due to both a deterioration and dislocation within international markets. Liquidity and transaction levels were far lower than normal. In the corporation's view, a large part of such market write downs are likely to return to realistic levels with the stabilization of global markets.

This was GIC's first ever loss in its 25 year history. Valuations were significantly lower across most asset classes and within almost all geographies. To an extent, diversification, a basic risk mitigation strategy, was rendered ineffective in an environment where correlations converged, to a greater degree than historical trends and even stressed scenarios.

Despite the distressed operating environment, revenues from the principal investment activity, the corporation's core business, continued to be healthy and only marginally lower than the previous year. Given that such project investments are pivotal to GIC's future strategy, this commendable performance is quite comforting. It is also worth mentioning that the corporation was successful in reducing its overall cost base, a reflection of increased efficiencies and flexibility.

Over the years, GIC has emerged as a leading player and promoter of mega projects in the GCC, combining its financial engineering skills with knowledge of the region and established network. During 2008, the projects team developed Gulf Re, a specialist regional reinsurance company, to be based in Dubai's International Financial Centre, with a total capitalization of $400 Million, of which GIC owns 50%.

Another achievement in 2008 was the winning, by the GIC – GDF SUEZ consortium, the right to develop Al Dur power & utilities plant in the Kingdom of Bahrain, of which GIC owns 50%, once again reinforcing GIC's role in supporting private sector participation in the development of the GCC economies.

GIC's pre-eminent regional position and international reach was once again reaffirmed with the successful issue of the 1 billion Malaysian Ringgit medium term note in the

first quarter of 2008. The issue, which was in two tranches of - 5 years and 15 years, enabled the corporation secure longer term funding, while achieving geographic diversification as well.

Another key positive was that, as expected, shareholders did not hesitate to step in and support the corporation during the difficult times. The shareholders, through a Board resolution passed in October 2008, decided to call the US$ 1.1 billion unpaid portion of authorized capital. With the additional capital injection, GIC's capital position will continue to be strong.

Going forward, although GIC has already begun to realign its balance sheet structure to bring leverage to that of previous years , focus on the GCC region will continue as before. Specifically, the corporation will continue to grow its principal investment business in the GCC region, leveraging its core strengths and established premier position. Although, the contagion effect of the world financial turmoil impacted the GCC economies in terms of liquidity and asset valuations, we believe the GCC economies are supported by strong business fundamentals and sustained investor confidence.

I am confident that with the continuous support of our shareholders, represented in our Board of Directors, and the dedication of our staff, we will come out of the crisis stronger. In this context, I would like to extend my thanks to our shareholders' governments and the board of directors and its committees for their support and guidance. I also would like to express my appreciation of the effort and commitment given by the staff.

Finally, I would like to express my gratitude and appreciation to all our business partners and counter parties for continuing to place their trust in GIC.
I sincerely hope that we can further strengthen our business relationships.

Mr. Hisham Abdulrazzaq Al-Razzuqi
CEO and General Manager

Economic Review

The financial crisis that started in 2007 with the fall out of the "Sub prime Mortgage" Market turned into a full blown recession in 2008 which affected rather violently all regions in the world and any sector of the economic system.

The financial sector was at the same time "the cause" and "the victim" of the crisis with many major global financial institutions finding themselves in need of Government intervention to survive the downturn caused by the collapse of the credit environment they built actively over the past 10 years. Not too surprisingly financial markets had one of their poorest performances in almost a century with sharp price declines affecting all asset classes.

In the GCC GDP growth remained strong, in particular in the first half of 2008, however financial markets were inevitably affected especially in the last quarter in line with the global equity and credit market worldwide. It is very hard to identify how long the current recession is going to last and how deep the output decline might be. However it has to be noted how emerging economies have performed relatively better than the more developed ones. Indeed, less debt and real growth based on fundamentally sound principle are playing a role in supporting activity in this part of the world.

The GCC in particular will benefit as well. Its substantial long term investment programs, launched thanks to strong financial surpluses accumulated during the years of high oil prices will support the local economies.

This crisis has an impact on the future crude oil production, reducing the potential in many countries with high production costs and high capital needs to sustain extraction. As and when economic activity resumes, the resulting pick up in oil demand will be met by lower supply which, in turn, will be supportive of oil prices and clearly beneficial to the GCC economies.

When the world economy will begin to stabilize it is plausible to see stronger economic activity in our Region.

WORLD ECONOMIES AND MARKETS

The year ended with a recession hitting the global economy which is estimated to decelerate from a 3.4% in 2008 to 0.5% in 2009[1]. In particular emerging economies are estimated to see a fall in their growth from 6.3% in 2008 to 3.3% in 2009.

The crisis started initially by the collapse of the US sub-prime mortgage lending market with the failure of two US mortgage finance firms. Money market mutual funds experienced large deposit withdrawals and banks started to tighten their credit supply. This Liquidity squeeze in turn marked financial panic and sparked a run on the banks. Systemic risks threatened to spread out across the US and Europe with increased market uncertainty following the collapse of Lehman Brothers into bankruptcy and the near collapse of giant investment banks. By the year-end, world financial institutions realized $1 trillion worth of losses.

By 4Q08, the world witnessed a second wave of bear markets since 2000 where stock indices had fallen by more than 30% in the year-end. Table I shows Global Equity Indices for the year where all markets were negative.

Table I: Global Equity Indices for 2008 (in local currencies)

Index	31 Dec. 07	31 Dec. 08	% Change	High 2008	Low 2008
North America					
DJIA	13,264.82	8,776.39	-33.84%	13,058.20 2 May	7,552.29 20 Nov
S&P 500	1,468.36	903.25	-38.49%	1,447.16 3 Jan	752.44 20 Nov
NASDAQ Composite	2,652.28	1,577.03	-40.54%	2,609.63 2 Jan	1,316.12 20 Nov
Russell 2000	766.03	499.45	-34.80%	763.27 5 June	385.31 20 Nov
DJ Wilshire 5000	54.01	33.90	-37.23%	53.26 2 Jan	27.79 20 Nov
DJ Wilshire Global Total Market	3,101.60	1,735.59	-44.04%	3,102.04 1 June	1,452.88 20 Nov
Europe					
FTSE 100	6,456.90	4,434.17	-31.33%	6,479.40 3 Jan	3,780.96 21 Nov
Xetra Dax	8,067.32*	4,810.20^	-40.37%	7,949.11 2 Jan	4,127.41 21 Nov
CAC 40	5,614.08	3,217.97	-42.68%	5,550.36 2 Jan	2,881.26 21 Nov
Asia					
Nikkei 225	15,307.78*	8,859.56^	-42.12%	14,691.41 4 Jan	7,162.90 27 Oct
Hang Seng	27,812.65	14,387.48	-48.27%	27,615.85 9 Jan	11,015.84 27 Oct

^ Year-end as of 30th December 2007.
* Year-end as of 28th December 2007.

Source: Bloomberg

[1] IMF, World Economic Outlook, January 2009.

By the end of 2008, Treasury yields had fallen by a greater magnitude and the yield on 10-Year Treasuries was 2.21% compared to a 4.03% in 2007. The corporate bond index of Merrill Lynch shows that the high yield index has fallen by 27.1% at year-end compared to a 1.56% return in 2007. The total return on US 10-Year Treasuries was 24.8% in 2008 compared with 10.1% in 2007.

During the first half of the year, commodity and particularly oil prices have sky rocketed as a result of escalating global demand while supply falls short of demand. However, the second half of the year had seen a drop in global commodity prices and oil prices moderated below its July peak of $146 to reach a year low $34 a barrel. As a result, commodity index had fallen by 29.6% at year-end.

Oil Markets

Crude oil prices increase, on average, with large magnitude of more than 30% in 2008. However, after scoring record prices in July 2008 above $140 a barrel, oil prices finished the year sliding. On 31 December 2008, WTI was $44.6, Brent was $41.7 and OPEC basket was $35.6.

1. THE GCC ECONOMIES

GCC nominal GDP has grown by 29.7% in 2008, but expected to decline in 2009.

Table II: GCC Real GDP Growth for 2005 - 2008
(Annual % change)

	Actual			Estimate
	2005	2006	2007	2008
Bahrain	7.9	6.5	6.0	5.3
Kuwait	11.4	6.3	4.6	4.5
Oman	6.0	6.8	6.4	6.9
Qatar	9.2	15.0	15.9	13.5
Saudi Arabia	5.6	3.0	3.5	4.1
United Arab Emirates	8.2	9.4	7.4	5.8

Source: IIF, GCC Report, December 2008.

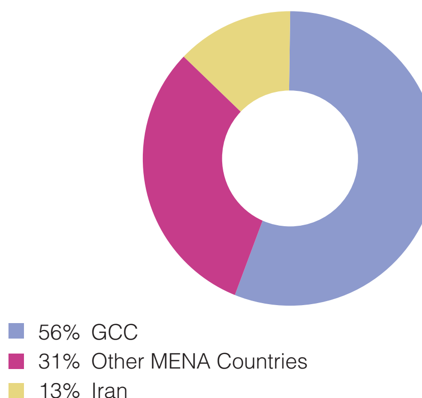
The fiscal and monetary expansion as well as the further rise in oil revenues from $421bn in 2007 to $699.4bn in 2008 generated fiscal and current account surpluses for GCC countries as a whole. By the year-end, oil prices have moderated below its July peak of $146 to reach a year low $34 a barrel. However, falling oil prices are not likely to impact the region as global demand for energy continues to grow while all GCC budgets assume oil prices at $50 p/b or less.

2. SECTOR DEVELOPMENT

Sector development process in the MENA region continued to focus on oil, gas and power generation sectors which are likely to capture $395bn of investments during the period 2007-11. Gas and oil sectors are estimated to capture $182bn (46%) and $152bn (39%) respectively while the power generation sectors get $61bn (15%). Saudi Arabia and Qatar will continue to be the biggest MENA investors with $85bn and $58bn respectively while GCC countries will account for $222bn and other MENA countries will account for $123bn (See Chart 1).

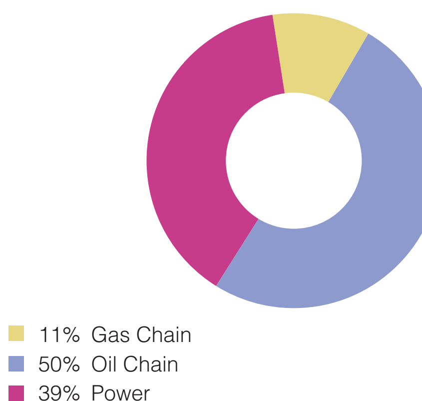
Chart 2 shows the gas supply chain including the gas-based petrochemical and fertilizer links which account for $112bn, the oil supply chain including the oil-based refinery petrochemical link which account for $86bn and the power generation sector which account for the remaining $24bn. This in turn will increase power capacity by 21.7gw from 64.7mw in 2006 to 86.3mw in 2011.

Chart 1: Energy Investments Requirements



56% GCC
31% Other MENA Countries
13% Iran

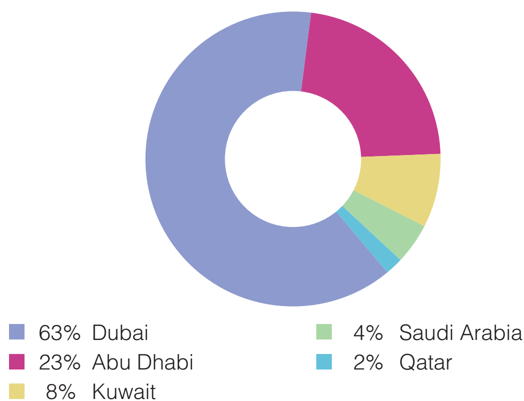
Chart 2: Energy Investments by Sector



11% Gas Chain
50% Oil Chain
39% Power

With respect to real estate sector, many key projects have been delayed or put on hold with much of these projects based in the UAE particularly in Dubai. It is estimated that the real estate sector will see market corrections either through merger among regional developers as was the case with Nakheel's merger with Istithmar by the end of 2007. Amlak and Tamweel of the UAE announced their intention to merge while another tie up between two real estate companies is possible. Also, the DIFC launched a local property investment arm which is seen by the market as a government backed agency to buy back assets in the event of a price collapse.

Chart 3: Concentration of the GCC Property Market



63% Dubai	4% Saudi Arabia
23% Abu Dhabi	2% Qatar
8% Kuwait	

Financial Services and the Banking Sector

With respect to financial markets development, GCC countries continued to have a high rate of growth reaching 64.5% of Arab banks' total assets. Most of these assets are Sharia'a compliant in response to the growing demand for Islamic modes of finance which is estimated to be in excess of $1 trillion by 2010[2]. In 2008, the Gulf region is estimated to capture 40% of the world total assets of Islamic banks worth $520bn.

Standard & Poor's (S&P) raised its Banking Industry Country Risk Assessment (BICRA) on Saudi Arabia, Qatar, Oman and Bahrain in its August report. These ratings reflect an improved industry risk profile and imply that GCC banking and financial sectors were resilient in the face of the undergoing world financial crisis that hit most of the USA and Europe primarily as a result of the US subprime mortgage crisis. In this regard, GCC governments have taken decisive measures to help their local banks, such as, providing liquidity, assuring extensive guarantees for banks deposits and reducing bank reserve requirements as in Saudi Arabia to encourage lending. The UAE injected $6.8bn as part of a rescue package worth $13.8bn, Qatar Investment Authority launched a $5.3bn plan to purchase bank shares, Saudi Arabia has made $40bn available to help banks if needed[3].

During the year, GCC region witnessed the launch of two new banks namely the Bahrain-based First Energy Bank with an initial paid-up capital of $1bn and a joint bank between the UAE and Libya with paid-up capital of $400mn. The two countries agreed also to establish a $3bn joint fund to invest in services and projects. Also, Mubadala and General Electric (USA) initiated to establish a jointly owned global commercial financial services business headquartered in Abu Dhabi with $8bn allocated to the venture over three years.

In Dubai, GIC and Arch Capital created the first GCC based re-insurance company with a capital of 400 Million US$.

[2] Gulf News Quarterly Financial, Review 3, August 2007.
[3] MEES, 27 October 2008.

GCC STOCK MARKETS

Overview

Chart 4: Change in Market Capitalization (USD million)

MSCI World	34,091,872	19,688,012	-42.3%
MSCI GCC	753,220	361,804	-52.0%
MSCI EM	7,851,916	3,606,949	-54.1%
Saudi - Tadawul Index	502,240	245,984	-51.0%
Dubai - DFM Index	113,105	36,544	-67.7%
Abu Dhabi - ADSM Index	110,697	68,018	-38.6%
Qatar - DSM 20 Index	70,552	54,613	-22.6%
Kuwait - KWSE Index	203,042	115,478	-43.1%
Bahrain - BSE Index	26,989	18,757	-30.5%
Oman - MSM 30 Index	17,951	11,318	-37.0%

Source: GIC Research, Bloomberg Data

The destabilisation of the global financial system during 2008, along with a sharp fall in oil prices, took a heavy toll on the GCC bourses, wiping off about US$ 500 billion (47%) from the cumulative market capitalization of the local market indices for the GCC countries.

Though the particular fundamentals that pressured the Western markets were not prevalent in the region, the GCC bourses under-performed their global counterparts by a sizeable margin. While this could be partly attributed to the oil shock of 2008, the excessive valuations of regional stocks, compounded by the lack of visibility in future earnings growth, also acted as catalysts to the equity markets decline.

Tightening of credit in the inter-bank markets led to a decline in liquidity in the Banking system and caused credit growth to slowdown significantly. This, alongside deterioration in asset quality, points to testing times ahead for the sector in general.

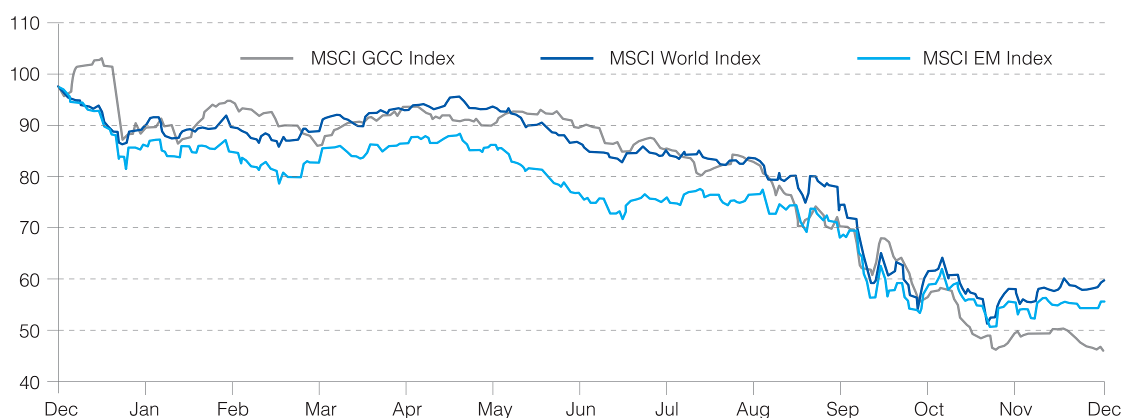
Meanwhile, the contraction in the credit system led to an unravelling of the highly-leveraged, and largely speculative, real-estate market in the region.

Valuations

During 2008, a significant rationalization of multiples took place across all markets, both Regional and Global. While stock prices retreated substantially during the year, earnings growth in the GCC remained relatively stable during the first three quarters, thus leading to a sharp correction in valuation multiples.

However, following the deterioration in GCC corporate earnings during the fourth quarter of 2008, the valuation multiples have readjusted upwards, and the aggregate PE for the MSCI GCC Index is currently more in line with that of the MSCI World.

Chart 5: Relative Performance of GCC vs. World Indices



Source: GIC Research, Bloomberg Data

Financial Review

Our Financial Goal:
To focus on core areas of growth for achieving consistently sustainable superior financial performance while maintaining strong financial condition.

Our Financial Performance Objective:
Returning to profitability by e-engineering business model under the challenging global scenario.

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

Net Income Analysis

Gulf Investment Corporation (GIC) posted net consolidated operating loss of US$ 38 million for the year 2008. This is before provision for impairment losses of US$ 958 million. 50% of the provision for impairment losses constitutes mark-to-market (M-T-M) losses.

Excluding provisions for market related temporary losses of US$ 475 million, net loss for the year was US$ 521 million. Expected recovery in the coming year is likely to recoup the market losses in excess of the provisions made. 32% of the M-T-M loss was from a single project investment paying cash dividend. Remaining M-T-M loss was from equities available for sale (28%), private equity funds (10%) and interest bearing securities including structured investments (30%). It is worth mentioning that most of the above investments did not suffer from the quality of its underlying assets but the main problem was the lack of liquidity internationally coupled with negative sentiments.

While GIC posted superior results from projects, succeeded in reducing the operating cost and lowering the interest expense, significant impairment provisions and M-T-M losses arising due to global disturbances in financial markets marked the year 2008 as an exception in GIC's history since existence.

Analysis of the contributing components confirms the strength of GIC's investment philosophy under challenging situations.

Interest and similar Income

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

Gross interest and similar income declined by 18% to US$ 251 million during 2008.

Investment and Fee Income

Investment and fee income for the year amounted to US$ 7 million compared to prior year income of US$ 461 million. Record performance posted by equities and managed funds (mainly alternative strategies portfolio) in the year 2007 almost took a u-turn producing negative variance of US$ 340 million year-on-year basis. Also gains from private equity funds in 2008 amounted to 27% of the prior year related income. Superior performance of projects in the current year could only marginally cover the above and lower fees and commission income.

A detailed breakdown of Investment and Fee income is available in note 17 to the Financial Statements. The key constituents are discussed below.

Net loss on interest bearing securities and funds amounted to US$ 29 million compared to gain of US$ 3 million in 2007. Loss for the year comprises of decline in Net Asset Value (NAV) of Trading funds (US$ 22 million) and realized loss on International Corporate Bonds portfolio (US$ 7 million). 87% of the loss in trading funds was due to decline in the market value of a credit fund. Dividends received from Trading funds amounting to US$ 3 million are included under "Dividend Income".

Net gains of US$ 24 million were realized from partial liquidation of a quoted project and sale of investment in three projects. Pre-determined strategic exit points, restructuring of the portfolio coupled with market opportunities translated into timely profit realization

Net gains from liquidation of few investments in private equity funds amounted to US$ 23 million compared to US$ 86 million in 2007. In addition, dividends received during the year are included under "Dividend Income".

Projects and equity participations posted earnings of US$ 108 million, a multifold increase compared to prior year income of US$ 25 million. This represents mainly GIC's share of profits from unconsolidated subsidiaries and associated companies. Excellent performance for the current year was mainly due to record performance of one of the Group's main projects. Additionally, dividend income of US$ 11million was earned and is included within the "Dividend Income" category. Financial results of new ventures indicate the activity as planned towards the completion of conceived projects, which are expected to make significant contribution in the coming years. Further, GIC's exposure in mega projects in power, utilities, re-insurance and other sectors is expected to provide the direction for future growth.

Dividend income of US$ 23 million comprising of receipts from private equity funds, project investments, managed portfolios and funds increased by 5% over the previous year. Dividends from GCC Strategic Equity portfolio and

Bonds portfolio were up by 30% and 63% respectively compared to prior year. Overall increase in dividends was partially offset by lower dividends from Global Equity portfolio.

Fees and commissions income of US$ 16 million for the year was lower by US$ 25 million compared to prior year. Prior year income included one-time receipt of project development fees of US$ 18 million for two utility projects. Fee income is generated by management of funds, financial advisory and providing custodial and administrative services to the funds managed by third parties. Due to global decline in security prices, management and performance fees for the current year was approx. 21% lower compared to prior year.

Operating Expenses

Operating expenses at US$ 48 million were lower by US$ 4 million or 8% compared to prior year. Year-on-year saving was recorded mainly in staff expenses, which was mostly offset by increase in premises and other operating expenses.

Provision for Impairments/Mark-to-Market Losses

Net charge for the year in impairment/mark-to-market losses was US$ 958 million, higher by US$ 712 million charged in 2007, which was primarily due to impairment in the value of structured credits, SIVs and mark-to-market losses on available for sale securities and projects. Provisions include impairment/mark-to-market losses related to SIVs (US$ 209 million), structured credits (US$ 216 million), other interest bearing securities (US$ 181 million), equities and managed funds – available for sale (US$ 157 million). Besides securities related provisions, charge also includes net provisions for private equity funds (US$ 49 million), projects and equity participations (US$ 148 million) and placements with non-bank financial institutions (US$ 1 million). As per the instructions of Central Bank of Kuwait the minimum general provision in excess of 1% on cash facilities and 0.5% on non-cash facilities amounting to US$ 3 million, maintained in a separate account was reversed to income. A detailed break down is provided in note 20 to the Financial Statements.

Balance Sheet Analysis

Under the changing uncertain global scenario with declining business opportunities, emphasis is placed on risk adjusted return criterion in asset allocation, restructuring and deleveraging of assets to reduce the risk and preserve the capital while extracting reasonable returns in the overall exercise. In accordance with this change in the policy total assets declined by 21% to reach US$ 7,211 million at the end of year 2008. Major asset categories declined during the year except small increase in loans and projects and significant increase in placements. Increase in placements is a result of foresight of maintaining sufficient liquidity to meet any eventuality of uncertainty.

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

The following sections provide details on the key asset categories.

Interest Bearing Securities and Funds

As at 31 December 2008, interest bearing securities and funds made up 46% of GIC's consolidated balance sheet assets. The portfolio witnessed a net decline of 36% during the year. This was mainly due to significant provisions for impairment/mark-to-market losses, redemptions and maturities partly offset by new purchases. Investments in trading funds, at US$ 156 million, which are interest rate related form less than 5% of this portfolio. Investment in trading funds declined by 21% mainly due to drop in market prices.

Interest bearing securities totaled US$ 3,175 million at 31 December 2008 as against US$ 4,990 million at end of 2007. The interest bearing securities portfolio includes securities available for sale of US$ 3,136 million and securities held to maturity of US$ 39 million. The portfolio is mainly made up of plain floating rate notes or fixed rate securities swapped into floating rate using interest rate swaps and structured notes.

Approximately 95% of the portfolio is comprised of rated, GCC Government and investment grade securities. A credit risk analysis of the investment securities portfolio

is provided in the risk management section of this report, and other details, including rating profile, are contained in note 5 to the Financial Statements.

Provisions for impairment/mark-to-market losses charged to income amounted to USD$ 606 million (2007: US$ 240 million).

Loans

This category includes loans and advances of US$ 110 million at the year-end comprising of project related short-term equity bridge loans. Existing commercial loan was allowed to run-off, which is in line with the strategic decision to discontinue this business except loans to projects.

Total loan loss provisions including loan guarantees amounted to US$ 4 million at 31 December 2008. Counterparty specific provisions amounted to US$ 1 million while general provisions were US$ 3 million. Note 7 to the Financial Statements provide details related to provisions. The specific provisions are made against loans, guarantees and related exposures to project investments. Specific provisions for loans are made to the full extent of the estimated potential loss while general provisions are maintained to cover possible future losses which as yet have not been specifically identified.

Equities and Managed Funds

Equities and managed funds totaled US$ 1,103 million at 31 December 2008 as against US$ 1,387 million at end of 2007 indicating a net decline of 20% during 2008. Equities and managed funds include available for sale securities of US$ 166 million and equities and managed funds classified as trading and 'fair value through income statement' of US$ 318 million and US$ 619 million respectively. A decline of almost 44% was witnessed in equities and managed funds available for sale, which was largely attributable to fall in market prices, partially offset by net new investments. The bulk of the remaining portfolio of equities and managed funds broadly classified as trading comprises of investments in a range of alternative asset strategies, managed by a diverse pool of external managers. The portfolio of alternative asset investments is continuously monitored and restructured to fit GIC's risk-return profile. The Alternative Strategies Fund (ASF) is managed by GIC in association with internationally reputed managers. An impairment/mark-to-market loss provision of US$ 157 million was charged to income during the year (2007: US$ 5 million). An index linked swap was taken to partially hedge against any likely decline in market value of hedge funds.

Placements and Other Liquid Assets

Placements amounted to US$ 1,030 million at 2008 year end, up by 65% over the previous year. These include placements with non-banking financial institutions amounting to US$ 41 million, on which a provision of US$ 1 million was made as per the regulation of Central Bank of Kuwait. Reciprocity is a key feature of our placement policy. Note 23.1 to the Financial Statements provides the contractual maturity profile of placements. All placements mature within one year. 42% of the placements were in GCC countries followed by 40% in Europe and remaining 18% in North America. Other liquid assets at the balance sheet date included US$ 34 million cash and bank balances.

Private Equity Funds

Private Equity funds amounted to US$ 260 million at December 31, 2008, lower by 15% compared to the prior year, which was mainly due to decline in market value offset by net new investments. The portfolio is 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 unleveraged acquisitions, privatizations, recapitalization, rapidly growing companies, expansion financings, turnaround situations, and other special equity situations.

Investments in private equity funds are carried at fair value. An amount of US$ 49 million was charged to income for mark-to-market losses during the year (2007: nil). Details on private equity funds are provided in note 8 and note 15 to the financial statements.

Investment in Projects and Equity Participations

Investments in projects and equity participations amounted to US$ 1,091 million at the end of 2008, compared to US$ 1,060 million at the end of 2007. This category includes a mix of consolidated investments in subsidiaries and equity stakes mostly in GCC companies.

Net provisions for impairment losses amounted to of US$ 198 million at the year-end (2007: US$ 60 million). This includes net charge of US$ 148 million for the current year comprising of mark-to-market loss of US$ 150 million related to a quoted investment and reversal of provision no longer required on a turned-around project. Of the prior year provisions, an amount of US$ 10 million was utilized on liquidation of the related investments. Detailed analysis of the portfolio and provisions is contained in note 9 to the financial statements. A list of the Corporation's direct investments is also given on page 86.

Property and Other Assets

Including property and fixed assets, total other assets amounted to US$ 252 million at 31 December 2008. Of this US$ 26 million related to property and other fixed assets. The remaining US$ 226 million comprised of accrued interest and fees receivable, employees' end of service benefit asset, accounts receivable, prepaid expenses and other miscellaneous assets. Details are set out in note 10 to the Financial Statements.

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

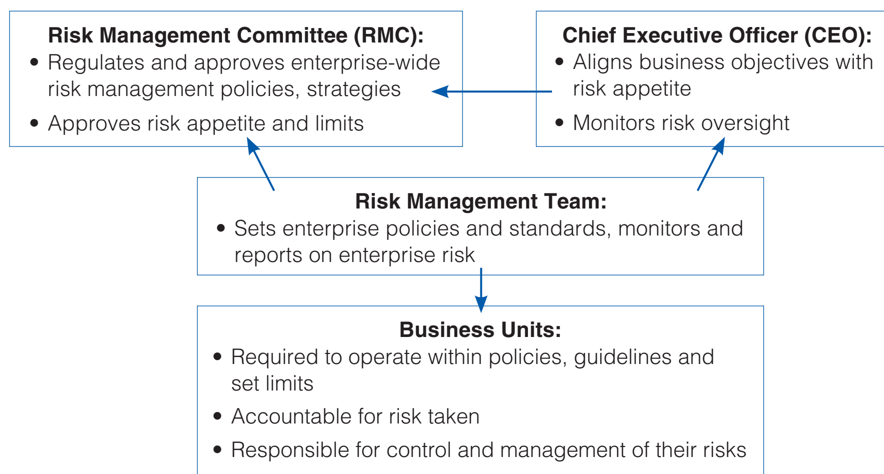
Risk Management

The financial goal of the Corporation is to consistently earn competitive returns while maintaining risks within acceptable levels. 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. 2008 was marked by economic slow down, increased market volatility, multiple credit events, severe lack of liquidity, and large scale intervention by governments.

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

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

An independent Risk Management Division formalizes the Enterprise Risk Management Framework. The framework encompasses all facets of prudent risk management via strong enterprise-wide policies, procedures and limits. With these tools Risk Management is able to identify strategic opportunities and reduce uncertainty from both operational and strategic perspectives. It also enhances GIC's ability to manage risks, evaluate performance and allocate capital.



The Enterprise Risk Management framework identifies and defines a broad universe of risk to which GIC's business and operations are exposed. These risks are: Credit, Market, Funding and liquidity, and Operational risks.

Management of these risks through investment in knowledge and systems has been a priority at GIC. A combination of competent and experienced staff, quantitative-based analytical tools, and ongoing investment in technology are the key resources used to manage risks effectively. The qualitative and quantitative techniques utilized to optimize the risk return profile incorporates information from the past, trends in the present business environment and expectations of the future.

Risk management begins with the Risk Management Committee, comprising of members from the Board of Directors and senior management, defining the Corporation's risk appetite. 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.

Risk Management acts as a critical link between the management and the risk taking divisions – assisting the management in defining / quantifying its risk appetite and then effectively communicating to the risk takers, ensuring that the risk taking activity is within that management's acceptable levels.

Within the Corporation, the responsibility for 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 a perspective of internal control, the process of risk management is facilitated through a set of independent functions in addition to the Risk Management Division. These units that report directly to senior management, include Financial Control, Internal Audit and Compliance. This multi-faceted approach aids in the effective management of risks by identifying and monitoring them from a variety of perspectives.

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

CREDIT RISK

Credit risk is the possibility of loss arising from the failure of an obligor to completely fulfill its contractual obligations.

The magnitude, numbers and impact of credit events that unfolded during 2008 were unprecedented. The severe contagion effect of this crisis, changed the way credit risk has to be managed – from anticipating credit events to managing them. Although, conventional risk management tools, including mathematical and statistical models, were useful, the need of the day was flexibility - being capable and ready to adapt rapidly to unforeseen events.

Like most financial institutions active in the global markets, GIC suffered significant credit losses during 2008. In the context of the systemic turmoil, given the Corporation's commercial return objectives, and that it sought to take credit risk to achieve part of these returns, these losses were in line with that of other market participants.

Quantitative Impact

The numerical impact of multiple credit events on GIC's investments can be categorized as follows:

(i) ***Write-Offs*** - where the Corporation does not expect material recovery; and

(ii) ***Write-downs*** - the highly depressed market valuations which are likely to revert with the return of market normalcy.

Despite the severity and range of adverse valuations, the Corporation continued its prudent and conservative approach, marking-to-market all holdings wherever possible, and made provisions equal to the sum of both 'write-offs' and 'write-downs'. That is, irrespective of whether recovery was expected or not, a prudent assessment of value decline was booked as a loss.The total amount of such provisions for 2008 amounted to US$ 958 million. Additional information on the Corporation's provisioning philosophy, including numerical analysis, is discussed in the financial review section and note 20 of the financial statements.

During the year, of the approximately US$ 483 million in 'write-offs' attributable to credit losses, a significant 87% rose from exposures to structured finance. These included Structured Investment Vehicles (SIVs), Collateralized Debt Obligations (CDOs) and other securitization transactions. GIC wrote off its entire existing exposure to investments in the equity tranches of SIVs. The remaining exposure to asset backed structures is considerably lower than previous year.

In addition to 'write-offs', the Corporation also had to make material 'write-downs' on several of its credit assets, the majority of which were debt securities. Mark-to-market valuations were significantly lower due to both a deterioration and dislocation within the global credit markets. Liquidity and transaction levels were far lower than normal. With the potential stabilization of the international financial markets, these 'write-downs' are likely to return to realistic levels.

Valuations were significantly lower across most asset classes and within almost all geographies. To an extent, diversification, a basic risk mitigation strategy, was rendered ineffective in an environment where correlations converged, bucking historical trends and even stressed scenarios. On aggregate, approximately US$ 475 million in 'write-downs' were registered during 2008. Approximately, half of this total decline pertained to holdings within listed companies in the GCC region, including strategic project investments. We believe these valuations are considerably below their true intrinsic value, and are likely to appreciate with the return of normal market conditions. Just below a third of the total 'write-downs' emanated from the portfolio of debt securities, which included both corporate debt and structured or asset backed debt securities. The bulk of which were within the portfolio structured products and asset backed securities, which were impacted by the market turmoil. Corporate debt holdings were also adversely impacted by the dislocation and lack of liquidity in the capital markets. The balance of the 'write-downs' were related to investments in international equity portfolios.

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

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

Table 1: 2008 Credit Value at Risk - 99.96% confidence level, 1 year holding period

US$ 000's	Average	Minimum	Maximum	31 Dec 2008
Debt Portfolios	211,365	158,340	240,780	186,650

The Debt Capital Markets portfolio, which forms the largest asset class and constitutes approximately 46% of the balance sheet is monitored against a credit VaR limit, approved by the board. The US$ 275 million VaR limit (99.96% confidence, 1 year), which supplements the existing notional limits for this portfolio, is based on Creditmetrics methodology and is measured using Monte Carlo simulation techniques.

The table above provides the Credit Value-at-Risk (Credit VaR) figures for the Debt Capital Markets Portfolios. The market value of this portfolio at 31st December 2008 was US$ 3,331 million.

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

An activity-wise break down of the principal sources of credit risk is illustrated in Chart 1. 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 2 disclosure section.

Most of the realignment in the credit risk pie chart at the end of 2008, compared to the previous year-end, pertained to securitizations & structured products. Credit risk weighted exposure for this portfolio decreased from 17% of total in 2007 to just 7% at the 2008 year-end. The two key components of total credit risk exposure were projects & private equity investments, and debt securities of banks & corporates.

The projects activity focuses on the GCC countries, a region whose dynamics we comprehend well and where we have a better understanding of the inherent risks. Investments are made after rigorous qualitative and quantitative analysis, and where the desired risk-return objectives are met. As is highlighted in Chart 2, a healthy diversification across industry sectors is maintained within this portfolio. Private Equity and other Equity Funds represent investments made with third party fund managers typically in the United States and Europe who are chosen after consideration of their track records and extensive due diligence.

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

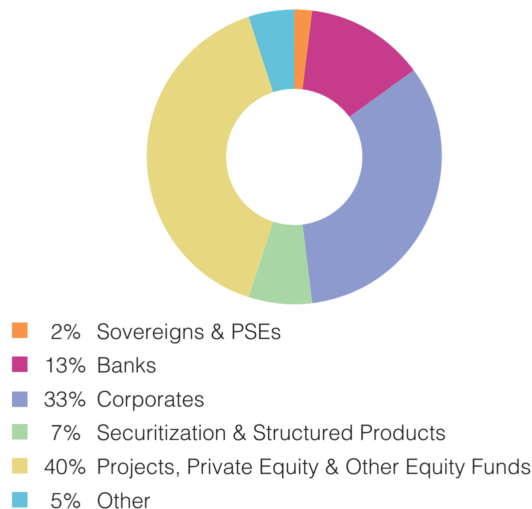
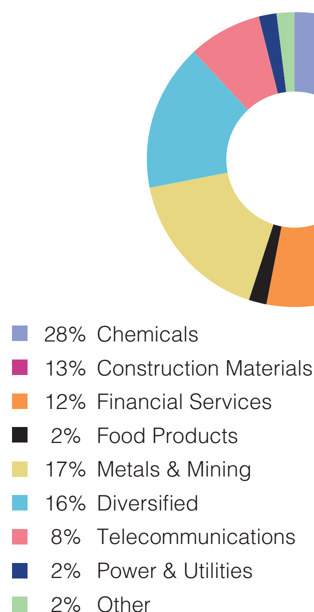


Chart 2: Principal Investing (Projects) by Industry



Off-balance Sheet Financial Instruments

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

For derivative and foreign exchange transactions, procedures similar to on balance sheet products are used for measuring and monitoring credit risk. At the year end 2008, there were only trading foreign exchange contracts outstanding, 76% of which were short term with a maturity of less than one year. Credit risk amounts arising from these transactions relate to major banks. This amount represents the mark-to-market or replacement cost of these transactions. Off balance sheet transactions also include credit-related contingent items designed to meet the financial requirement of the Corporation's customers. The aggregate credit risk weighted exposure to off balance sheet products amounted to about 12% of total credit risk weighted exposure. A detailed credit risk analysis of credit-related contingent items, derivatives and foreign exchange products is set in notes 24 & 25 to the financial statements.

Going Forward

The global credit markets continue to be volatile and reflect heightened uncertainty. The next 12 to 18 months will be a challenging period and the Corporation has taken several proactive steps to mitigate perceived risks. These include plans to scale down the balance sheet size and decrease leverage, strengthen the capital base, and enhance credit risk monitoring, reporting and control.

The mechanism of risk monitoring and control has been further honed, in line with the increased turbulence and uncertainty within the markets. In addition to incorporating additional credit information, including CDS prices, equity prices and market implied ratings within the credit analyses framework, the monitoring and reporting frequency has also been increased.

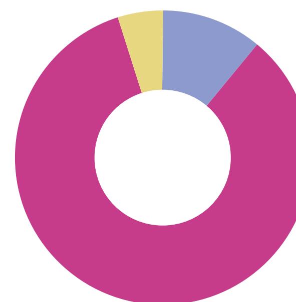
Although, the core credit strategy will be to scale down overall credit exposure, the Corporation will seek to identify opportunities that have risen from market dislocations and take advantage of pricing anomalies. The Corporation is well positioned to identify and exploit such opportunities, especially within the regional credit markets.

MARKET RISK

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

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

Chart 3: Market Risk Constituents – Overall



- 11% Interest Rate Risk
- 84% Equity Risk
- 5% Foreign Exchange Risk

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

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

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

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

2008				
US$ 000's	**Average**	**Minimum**	**Maximum**	**31-Dec-08**
Interest rate	4,553	2,248	9,411	8,502
Equity	36,174	30,806	46,598	43,687
Foreign Exchange	2,193	1,301	4,014	2,755
Total*	**37,008**	**31,830**	**47,618**	**44,808**
2007				
US$ 000's	**Average**	**Minimum**	**Maximum**	**31-Dec-07**
Interest rate	2,692	1,592	5,014	4,688
Equity	26,315	21,961	34,545	30,886
Foreign Exchange	1,221	466	2,784	1,722
Total*	**26,413**	**21,926**	**34,375**	**31,231**

* Total VaR incorporates benefits of diversification

In the fiscal year 2008, the average total Market VaR was approximately 40% higher than the average for the previous year. Although, the increase was significant, the total Market VaR remained within limits as approved by the Risk Management Committee and the Board of Directors. VaR increases were observed across all risk factors during the year, with equity risk being the dominant contributor. Unprecedented market volatility at the end of the year was a major contributing factor to the increase in VaR. In general, most asset classes across almost all markets were affected by recent events.

During the fourth quarter, as a result of increased market volatilities, the Market VaR for alternative investment strategies increased significantly. The Interest rate VaR increased in comparison to the previous year, but remained at relatively modest levels, despite market fluctuations. This was primarily a benefit of the continued strategy of minimizing interest rate risk through effective hedging.

Certain portfolios and positions are not included in the Market VaR, since VaR is not the most appropriate measure of risk for such portfolios. These include the principal project investments in the GCC and the portfolio of international private equity funds. The market risk relating to these investments are measured in terms of a 10% sensitivity measure – an estimated decline in asset values. The fair values of the underlying positions may be sensitive to changes in a number of factors, including but not limited to: the financial performance of the companies, projected timing and amount of future cash flows, discount rates, trends within sectors and underlying business models. The table overleaf provides the sensitivity measure for 2008 and 2007. The principal investment and private equity portfolios are both categorized as available-for-sale; hence, the 10% sensitivity measure provided in the table below reflects the impact on shareholders equity and not on profits.

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

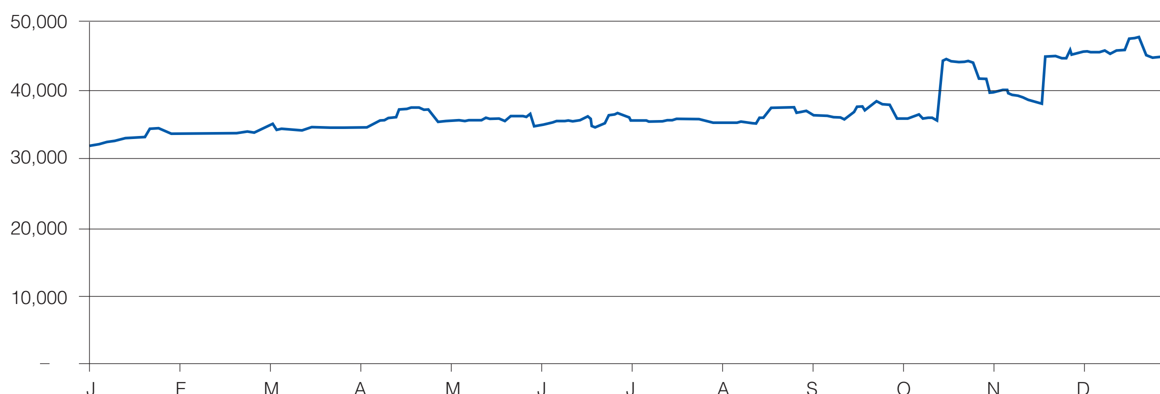


Table 3: Sensitivity Measure for assets not included in market VaR (US$ 000s)

Asset Categories	10% sensitivity measure	10% sensitivity measure (impact on shareholders' equity)	
		31 Dec 2008	31 Dec 2007
Principal Investments	Underlying asset value	112,325	107,779
Private Equity Funds	Underlying asset value	25,953	30,507

Scenario analysis is an essential component of the market risk management framework. The assumption of normality on which the statistical models are based may become invalid due to the occurrence of certain events. Future scenarios that result in a breakdown of the historical behavior and relationships between risk constituents are projected, and potential loss amounts are determined. Most of these scenarios are derived from macroeconomic events of the past, modified with the expectations for the future. The 2009 plan is to create and implement new scenario sets to reflect recent market fall-outs.

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

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

a) meeting day-to-day cash outflows;

b) providing for seasonal fluctuation of sources of funds;

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

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

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

Liquidity Limits

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

a) maximum daily cash outflow limit for major currencies;

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

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

The net liquid asset ratio as of 31st December 2008 was 119%. The following criteria were considered in determining the ratio:

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

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

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

The Corporation's investment portfolio is managed so that holdings of un-pledged, marketable securities that comprised the strategic reserve are equivalent to approximately 50% of the projected maximum 30 day cumulative cash outflow. The end of December 2008, investments in marketable securities tallied at approximately US$ 3 billion, and are primarily made up of investment grade securities.

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

Market Access for Liquidity

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

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

A diversity of funding sources, currencies, and maturities are used to gain a broad access to the investor base. At year-end 2008 the Corporation's deposit base stood at about US$ 2,896 million, of which approximately 92% are due to GCC deposits. GCC deposits had proven to be a stable source of funds over the years. Additional short term funding is acquired through the use of repurchase agreements secured by a portfolio of high-grade securities. Such form of funding accounted for close to 18% of total funding at year-end 2008.

During the turbulent events of 2008 GIC increased its placements to ensure there are no liquidity squeezes that would force GIC to sell assets at the depressed prices.

The table below provides the breakdown of the Corporation's funding source for the comparative years 2007 to 2008.

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. The procedures include:

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

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

c) specific guidelines for the management of liquidity crisis.

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

Interest Rate Gapping Risk

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

Table 4: Funding sources

US$ Millions	2008 (US$)	2008 (%)	2007 (US$)	2007 (%)
GCC Deposits	2,678	37%	2,326	25%
International Deposits	218	3%	478	5%
Repo Financing	1,270	18%	2,372	26%
Term Financing	2,071	29%	1,820	20%
Shareholder's funds & Others	974	14%	2,179	24%
Total	**7,211**	**100.00%**	**9,175**	**100.00%**

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 (or negative) gaps within a given time bucket could be covered by selling (or 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.

Extreme volatility of Eurodollar contracts contributed to the increase in Interest Rates Gap VaR. The number of notional contracts remained fairly stable through the year and under the limit established by the Risk Management Committee.

Maturity profile of assets and liabilities

A detailed breakdown of the maturity profile by individual asset and liability category is provided in note 23 to financial statements. At December 31st 2008, approximately 67% of total assets were due to mature within 3 months, based on internal assessment of the Corporation's right and ability to liquidate these instruments. Comparatively, on the same basis, approximately 60% of total liabilities were in the same time bucket. The sizable portfolio of high quality marketable securities contributed to the relatively high ratio of liquid assets. The Corporation's GCC retention record shows that short maturity deposits from GCC governments, central banks and other regional financial institutions have been regularly renewed over the past several years.

CREDIT RATING

As of the date of writing this report, GIC's long term deposits were rated BBB+ by Standard & Poor's, Baa2 by Moody's and A by Fitch. GIC continues to be rated AAA by Rating Agency Malaysia (RAM). GIC is among a select few financial institutions in the region to maintain such ratings by the major international agencies. The superior ratings reflect, among other strengths, the Corporation's consistently strong track record, ownership and effective management.

	Moody's	Standard & Poor's	Fitch
Long-term Deposits	Baa2	BBB+	A
Short-term Deposits	P2	A2	F1
Bank Financial Strength (BFSR)	D	-	

(Ratings are as of 31st March 2009)

We believe that the Corporation's rating is indicative of a sound business operation and future business potential.

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.

Regulatory Capital

The Basel Committee on Banking Supervision has introduced a revised capital adequacy framework that promotes the adoption of stronger risk management practices, and more risk-sensitive capital requirements that are conceptually sound and at the same time pay due regard to particular features of the present supervisory and accounting systems in individual member countries.

The Central Bank of Kuwait (CBK) had issued a directive for banks in Kuwait to implement the revised accord beginning December 2005. While GIC does not fall under the purview of the CBK, the corporation finds it prudent to implement the recommendations set forth under the revised accord with the following primary objectives:

a) the Corporation has been subjecting itself to the standards of Basel 1 (1988) and the amendments introduced in 1998 (market risk). As a natural progression, adoption of the modified standards as outlined in the revised capital accord underscores the Corporation's commitment to be in line with international standards;

b) GIC acknowledges the importance of the qualitative and quantitative approaches set out in Basel 2 that impose rigor and discipline with respect to capital adequacy assessment; and

c) adopting the Basel 2 capital accord is viewed to enhance risk culture within the organization and further strengthen GIC's market image, thus, resulting to improvements in external credit ratings assigned by international rating agencies, thereby ensuring continued access to capital markets.

Under the new accord, the corporation's Total capital ratio at the end of December 2008 was 8.65 %. The Tier 1 ratio was the same, since the existing small quantum of Tier 2 capital was reduced to nil after deductions. The structured standardized approach was used to calculate the capital requirement to cover credit and operational risks. Market risk capital cover calculation, on the other hand, employed the VaR-based approach. Going forward, GIC aims to achieve convergence of regulatory capital with economic capital as it adopts more advanced measurements for capital adequacy. Details of the regulatory capital ratio computations are provided in the Basel 2 disclosure section of this annual report.

Economic Capital

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

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

OPERATIONAL RISK

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

This definition includes disaster recovery planning as another element of operational risk management.It is for this reason that the corporation finds it prudent to include the same consideration – namely, unexpected significant and unusual one-time events, such as disaster events – in its framework for operational risk management.

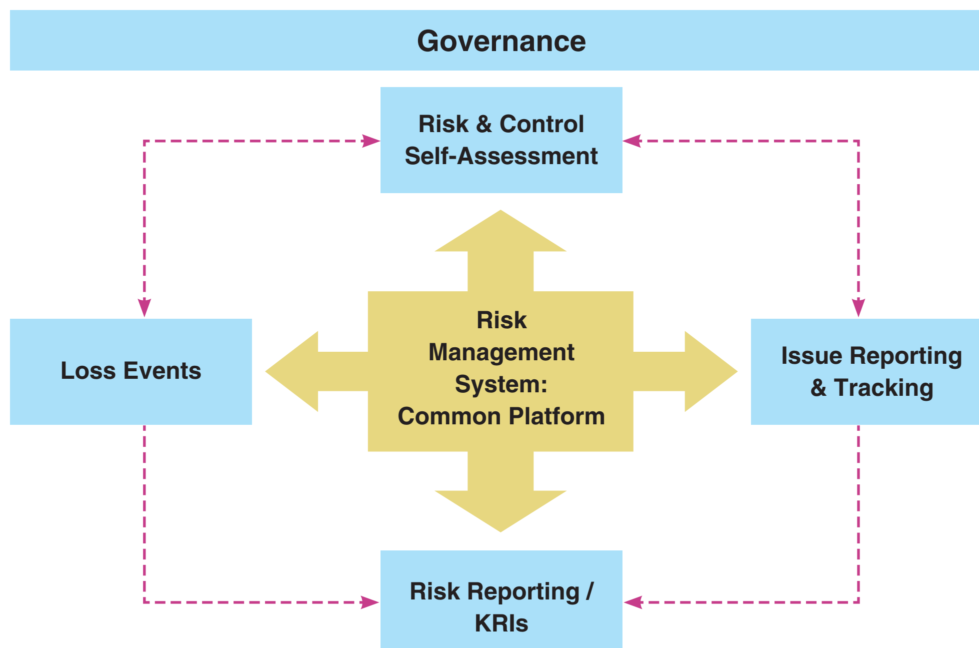
GIC already has a strong internal control culture and a good information system that assist in the timely identification and resolution of material operational risks. There are existing policies and procedures that address operational risk issues relating to procedures and systems controls. Among these controls are:

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

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

(1) Risk and Control Self-Assessment Framework;
(2) Loss Event Framework;
(3) Corrective Action Plans Framework; and
(4) Operational Risk Reporting Framework.

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



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

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

Risk monitoring/control - Loss Event Framework

The main objective of the procedures is to ensure all reported loss events are reviewed and reported to the Risk Management and to allow attestation in the Operational Risk reporting cycle. The proper measurement of operational risk and the associated regulatory and economic capital relies on accurate and timely loss events data.

Risk monitoring/control - Corrective Action Plans Framework

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

Operational Risk Reporting Framework

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

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

Basel 2 Disclosure

Basel 2 Rationale:
Aligning risk management with Capital Requirements

As Basel 2 continues to further evolve, the Basel Committee moves closer to its goal of aligning banking risk and its management with capital requirements. The primary objective of the new accord is to improve safety and soundness in the financial system by placing increased emphasis on the internal controls and risk management processes and models, the supervisory review process, and market discipline.

Basel 2 encourages the ongoing improvements in risk assessments and mitigation. Thus, over time, it presents the opportunity to gain competitive advantage by allocating capital to business activities that demonstrate a strong risk-return ratio. Developing a better understanding of the risk/reward trade-off for capital supporting specific business or products is one of the most important business benefits to derive from compliance to the new accord.

The Architecture of Basel 2 – The Three Pillars

With Basel 2, the Basel Committee abandons Basel 1's 'one-size-fits all' method of calculating minimum regulatory capital requirements and introduced a three-pillar concept that seeks to align regulatory requirements with economic principles of risk management. At the same time, by putting operational risk management on every bank's agenda, Basel 2 encourages a new focus on its management and sound and comprehensive corporate governance practices.

The Three Pillars Defined

Pillar 1 – Minimum Capital Requirements
Pillar 1 sets out minimum regulatory capital requirements – meaning the amount of capital banks must hold against risks. The new framework provides a continuum of approaches from basic to advanced methodologies for the measurement of both credit and operational risks. It provides a flexible structure in which banks, subject to supervisory review, will adopt approaches that best fit their level of sophistication and their risk profile. The framework also deliberately builds in rewards for stronger and more accurate risk measurement.

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

Pillar 3 – Market Discipline
Pillar 3 aims to bolster market discipline through enhanced disclosure by banks. It sets out disclosure requirements and recommendations in several areas, including the way a bank calculates its capital adequacy and its risks assessment methods. The intended result is enhanced transparency and comparability with other banks.

Gulf Investment Corporation G.S.C. (GIC or 'the Corporation') – Market Disclosure
The following sections set out the corporation's disclosure details prepared in line with the new accord's requirements vide its publication dated June 2006– A Revised Framework for International Convergence of Capital Measurement and Capital Standard.

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 2008 and December 2007. The definition of regulatory capital under the two accords remains unchanged. However, Basel 2 permits recognition of general provision (albeit subject to a maximum of 1.25% of credit risk weighted assets) as part of Tier 2 capital. Meanwhile, the portion of significant investments in financial and commercial entities that exceed a certain materiality threshold; and exposures to 'Securitization' that fall below a cut-off risk grade are deducted 50% from Tier 1 and 50% from Tier 2 capital, respectively. For 2008, deduction from Tier 2 capital was limited to the quantum of Tier 2 capital, with a proportionately higher deduction being applied to Tier 1. Total eligible regulatory capital was US$ 622.4 million by year-end December 2008 compared to US$ 1,557.4 million recorded in December 2007. The decline was primarily due to deductions in capital pertaining to negative fair value reserve. As a conservative measure,the net fair value reserve, which was negative for the year under review, was fully deducted from eligible capital. The Corporation has adopted a conservative policy for the treatment of such net fair value reserve, wherein, if negative - the total amount is deducted from eligible capital, and if positive - only 45% of fair value reserve is included within eligible capital.

Table 1: Eligible Regulatory Capital

In US$ millions	31 December 2008	31 December 2007
Paid-up capital	1,550.0	1,000.0
Disclosed reserves	454.0	453.3
Retained earnings	(756.8)	301.1
Less: Goodwill	37.0	38.6
Less: Deductions	3.2	158.4
Less: Adjustments for negative Fair Value reserve	584.6	-
Total Tier 1 Capital	**622.4**	**1,557.4**
Fair value reserve	-	91.4
General Provision	3.4	2.9
Less: Deductions	3.4	94.3
Total Tier 2 Capital	-	-
Total eligible regulatory capital	**622.4**	**1,557.4**

2. CAPITAL ADEQUACY MANAGEMENT

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

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

The Annual dividend payout, meanwhile, is prudently determined and proposed by the Board of Directors, endeavoring to meet shareholder expectations while ensuring adequate retention of capital to support organic growth.

Finally, the corporation targets a credit risk rating of single 'A' or better. This would allow easy access to capital from the market at competitive pricing in the event additional funding needs to be appropriated. GIC is among a select few financial institutions in the region to maintain high ratings by all three major international agencies. Details of the corporation's ratings are provided on page 30 of this annual report.

Table 2: Capital Adequacy Ratios

In US$ millions	Risk-weighted assets	Capital requirement
Credit Risk	3,789.0	303.1
Market Risk	2,666.7	213.3
Operational Risk	739.8	59.2
Total	**7,195.5**	**575.6**
Capital Adequacy Ratios		
Total CAR	8.65%	
Tier 1 Ratio	8.65%	

Table 2 details the risk-weighted assets together with their corresponding regulatory capital requirements as at 31 Dec 2008. Total capital adequacy ratio and Tier 1 capital ratio are like wise calculated. The numbers were generated by applying the 'Standardized' approach for credit and operational risks, while the 'Internal Model' approach was utilized to yield market risk positions. Total risk-weighted exposures of US$ 7,195.5 million, as at end of Dec 2008, requires regulatory capital of US$ 575.6 million to meet the minimum Basel 2 CAR of 8%.

Table 3: Risk Exposure Break-down

In US$ millions	31 December 2008
Credit Risk (RWA)	
Claims on sovereigns	5.1
Claims on Public Sector Entities	55.1
Claims on Banks	489.5
Claims on Corporates	1,235.7
Securitization and Structured Investment Vehicle	286.0
Venture Capital and Private Equity	259.6
Investments in Commercial Entities	1,086.2
Investments in Other Funds and Quoted Equities	166.1
Other Assets	205.7
Total	**3,789.0**
Market Risk (VaR)	
Interest rate risk position	5.8
Foreign exchange risk position	2.9
Equity risk position	36.2
Total VaR x 3	134.6
Specific risk position	78.8
Total capital requirement	213.3
Total RWA (capital requirement x 12.5)	**2,666.7**
Operational Risk (RWA):	
Operational risk capital charge	59.2
Total RWA (capital charge x 12.5)	739.8

3. RISK MANAGEMENT STRUCTURE

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

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

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

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

The Executive Committee (Execom) of the Board, senior management, risk officers, and line managers contribute to effective enterprise-wide risk management. The Execom 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.

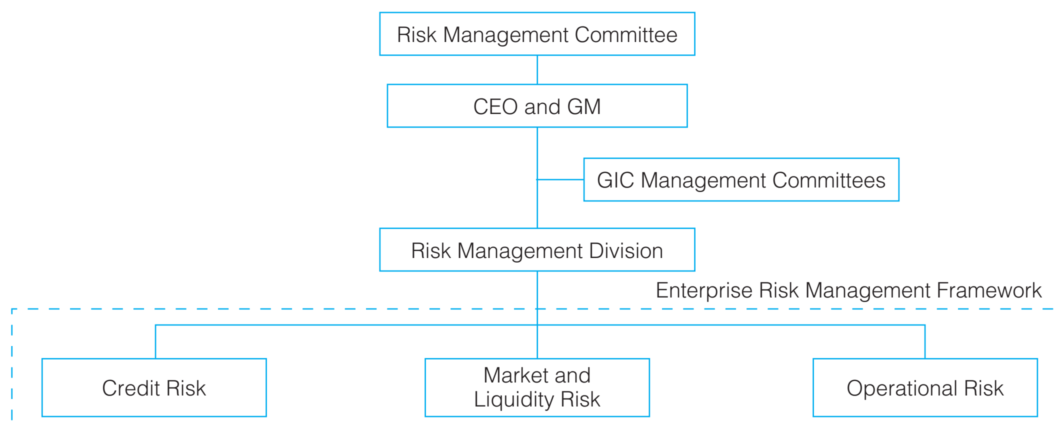
Risk officers have the responsibility for monitoring progress and for assisting line managers in reporting relevant risk information and the line managers are directly responsible for all business risk generated in their respective domains. The effective relationship between these parties significantly 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. RMD ensures that risk exposures remain within tolerable levels relative to the corporation's capital and financial position. The division reports directly to the Chief Executive Officer & General Manager, and is manned by dedicated risk specialists in all disciplines to address the pertinent business risks exposure of the Corporation. Its main responsibilities are to:

a) Evaluate and analyze the enterprise wide risk profile by developing risk monitoring techniques;
b) set up and develop criteria for defining the Corporation's risk threshold in terms of various risks;
c) develop and establish tools for the measurement of the Corporation's various risk types; and
d) recommend appropriate strategies/actions for mitigating risk and ensuring a sound risk asset structure for the Corporation.

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

Chart 1: GIC Risk Management Division Structure



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

a) Management Committee covers mainly general management issues including performance review vis-à-vis budget, and assessment of status quo against strategic business plan.
b) GMG Investment Committee translates investment strategy directions into asset allocation guidelines, recommends investment proposals, and reviews investment portfolios. The committee also functions as a surrogate Asset-Liability Committee.
c) PI Investment Committee evaluates proposals for investments and divestiture of assets and ensures compliance to investment criteria as well as investment procedures at each phase of the investment process.
d) GM Product Management Committee identifies product development opportunities, recommends product launches, and monitors performance of same. Product performance and operational issues are resolved in this committee.
e) Systems Steering Committee provides the forum to discuss functions. The committee likewise reviews the IT architecture and its condition to meet current and future business requirements.
f) Audit Committee provides assurance on the adequacy of internal controls and accuracy of reports and reporting.
g) Human Resources Committee, as it relates to risk, covers the staffing levels and succession planning, as well as review of performance and bonus determination.

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

4. CREDIT RISK EXPOSURE

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

Portfolio Strategy and Planning

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

The Investment Committees

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

Investment Origination and Maintenance

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

Performance Assessment and Reporting

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

a) Portfolio concentrations by obligor, industry, risk rating, maturity, asset class, as well as other dimensions.
b) Generated return on risk capital employed (RORAC)
c) Additional economic value created by individual projects.
d) Exceptions to risk acceptance criteria; and
e) Other policy exceptions.

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

Credit Risk as per Basel 2 Standardized Approach

Under the credit risk 'Standardized' approach, credit exposures are categorized to standard portfolios that are subject to a distinctive risk-weighting scale based on standard characteristics of the nature of borrower as well as the external credit assessments of international rating agencies where available. GIC uses the credit ratings assigned by Moody's, S&P and Fitch for this purpose. When more than one counter-party rating is available, Basel 2's multiple assessment guidelines are invoked. In order to provide a common platform into which different notations used by the aforementioned rating agencies can be mapped, a scale of uniform Credit Quality Grades (CQG) represented by the numerals 1 to 5 or 6 are used to represent the relevant risk weights of each standard portfolio. Separate scales are prepared for risk-weighting both long-and short-term issues.

Table 4 serves as a sample of mapping notations of rating agencies into CQGs for claims on Corporates. At December 31, 2008, rated credit exposures accounted for more than 42% of total credit exposures. Note that the numbers are after applying the equivalent risk-weights (credit conversion) as provided under the Basel 2 accord. Meanwhile, gross credit exposure to rated assets was recorded at approximately 67% of total gross credit exposure. Assets that are rated single 'A' or better comprised 60% of rated gross credit exposure.

Table 4: CQG Mapping

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

Table 5: Credit Exposure (post-credit conversion)

In US$ millions	31 Dec 2008		
	Rated	Unrated	Total
Claims on Sovereigns	5.1	-	5.1
Claims on Public Sector Entities	55.1	-	55.1
Claims on Banks	489.5	-	489.5
Claims on Corporate	784.8	450.9	1,235.7
Securitization and SIVs	279.4	6.6	286.0
Venture Capital and Private Equity	-	259.6	259.6
Investments in Commercial Entities	-	1,086.2	1,086.2
Other Funds and Quoted Equities	-	166.1	166.1
Other Assets	-	205.7	205.7
Total	**1,613.9**	**2,175.1**	**3,789.0**
In Percent	42.6%	57.4%	100.0%

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

In US$ millions	31 Dec 2008		
	Rated	Unrated	Total
Claims on Sovereigns	194.5	-	194.5
Claims on Public Sector Entities	122.9	-	122.9
Claims on Banks	1,056.1	-	1,056.1
Claims on Corporate	1,333.9	450.9	1,784.8
Securitization and SIVs	871.6	6.6	878.2
Venture Capital and Private Equity	-	259.6	259.6
Investments in Commercial Entities	-	1,086.2	1,086.2
Other Funds and Quoted Equities	-	166.1	166.1
Other Assets	833.2	205.7	1,038.9
Total	**4,412.3**	**2,175.1**	**6,587.4**
In Percent	67.0%	33.0%	100.0%

Table 7: Gross Credit Exposure before CRM

In US$ millions	31 Dec 2008		
	Funded	Unfunded	Total
Claims on Sovereigns	194.5	-	194.5
Claims on Public Sector Entities	122.9	-	122.9
Claims on Banks	1,039.8	16.3	1,056.1
Claims on Corporate	1,335.4	449.4	1,784.8
Securitization and SIVs	878.2	-	878.2
Venture Capital and Private Equity	259.6	-	259.6
Investments in Commercial Entities	1,086.2	-	1,086.2
Other Funds and Quoted Equities	166.1	-	166.1
Other Assets	1,038.9	-	1,038.9
Total	**6,121.7**	**465.7**	**6,587.4**
In Percent	92.9%	7.1%	100.0%

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

In terms of facility type (Table 7), US$ 6,121.7 million or approximately 93% is funded. The balance is ascribed to guarantees issued and commitments made by the Corporation, as well as credit exposures on outstanding forward and swap transactions with banks.

Table 8: Gross Credit Exposure by Geographic Distribution

In US$ millions	31 Dec 2008				
	GCC	Europe	North America	Asia	Total
Claims on Sovereigns	194.5	-	-	-	194.5
Claims on Public Sector Entities	122.9	-	-	-	122.9
Claims on Banks	542.0	213.6	300.5	-	1,056.1
Claims on Corporate	288.0	626.4	840.8	29.6	1,784.8
Securitization and SIVs	-	310.0	561.1	7.2	878.2
Venture Capital and Private Equity	26.9	78.8	150.6	3.3	259.6
Investments in Commercial Entities	965.0	-	121.2	-	1,086.2
Other Funds and Quoted Equities	166.1	-	-	-	166.1
Other Assets	485.6	450.0	77.0	26.3	1,038.9
Total	**2,791.1**	**1,678.8**	**2,051.1**	**66.5**	**6,587.4**
In Percent	42.4%	25.5%	31.1%	1.0%	100.0%

Table 9: Gross Credit Exposure by Industry Sector

In US$ millions	31 Dec 2008					
	Banks & FIs	Trading & Mftg.	Utilities	Govt. Agencies	Other	Total
Claims on Sovereigns	-	-	-	194.5	-	194.5
Claims on Public Sector Entities	-	-	-	122.9	-	122.9
Claims on Banks	1,056.1	-	-	-	-	1,056.1
Claims on Corporate	805.8	332.0	436.3	-	210.7	1,784.8
Securitization and SIVs	878.2	-	-	-	-	878.2
Venture Capital and Private Equity	259.6	-	-	-	-	259.6
Investments in Commercial Entities	65.6	663.2	255.9	-	101.5	1,086.2
Other Funds and Quoted Equities	166.1	-	-	-	-	166.1
Other Assets	977.9	51.0	4.0	6.0	-	1,038.9
Total	**4,209.3**	**1,046.2**	**696.2**	**323.5**	**312.2**	**6,587.4**
In Percent	63.9%	15.9%	10.6%	4.9%	4.7%	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 fund manager. A sizable portion of credit exposure is in the GCC region tallying at US$ 2,791.1 million, or 42.4% of the total. Following suit are exposures to North America and Europe, 31.1% and 25.5% respectively. These exposures are due in great part to investments in global securities and funds with varying investment themes.

The industry distribution (Table 9) of the gross credit exposure reveals a concentration on banks and financial institutions, amounting to 63.9% of total exposure. Again, this is traced to the Corporation's debt securities and fund investments as it diversifies its asset from purely equity holdings. Meanwhile, inline with GCC's commitment to support the industrial growth within the GCC region, equity investments in commercial entities are focused in the trading and manufacturing sectors.

Table 10: Credit Exposure by Residual Contractual Maturity

In US$ millions	31 Dec 2008				
	Within 3 months.	3 months to 1 year	1 to 5 years	Over 5 years	Total
Claims on Sovereigns	-	174.5	20.1	-	194.5
Claims on Public Sector Entities	-	17.8	30.0	75.2	122.9
Claims on Banks	320.0	154.0	540.8	41.3	1,056.1
Claims on Corporate	15.9	63.9	1,499.3	205.7	1,784.8
Securitization and SIVs	56.7	69.6	588.1	163.8	878.2
Venture Capital and Private Equity	-	2.0	34.0	223.6	259.6
Investments in Commercial Entities	-	-	-	1,086.2	1,086.2
Other Funds and Quoted Equities	-	-	-	166.1	166.1
Other Assets	833.2	-	-	205.7	1,038.9
Total	**1,225.8**	**481.7**	**2,712.3**	**2,167.6**	**6,587.4**
In Percent	18.6%	7.3%	41.2%	32.9%	100.0%

The residual maturity of gross credit exposure broken down by standard credit risk exposure is shown in Table 10. Approximately 33% of gross credit exposure falls within the longest time bucket of over five years.

Recognition of Impairment of Assets

The Corporation assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. Investments are treated as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires considerable judgment. In addition, the Corporation evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for projects and unquoted equities. The Corporation reviews its problem loans and advances, and investment in debt instruments at each reporting date to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. An insignificant amount of impaired assets stemming from project loans 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 2 capital adequacy guidelines. As such, the external credit assessments provided by either Moody's or S&P are considered when determining credit risk weights for securitization exposures.

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

6. MARKET RISK

This section focuses regulatory capital adequacy computations based on the VaR measurement for the 'Trading' book. More details on VaR and Market Risk monitoring are provided in the Risk Management section of the annual report. The regulatory capital adequacy ratios are computed incorporating capital charges for market risk, as per the 1996 Basel Committee amendment to the Capital Accord. GIC follows the Internal Models Approach (IMA) to quantify the capital charge associated with market risk within the trading portfolio.

The Corporation uses the 'RiskManager' system, developed by Risk Metrics Group, and utilizes a parametric computational method based on the variance – covariance

Table 11: Credit Exposure on Securitization and SIVs

	31 Dec 2008	
In US$ millions	**Gross Exposure**	**Post-credit Conversion**
CQG 1	700.8	700.8
CQG 2	338.4	338.4
CQG 3	26.8	26.8
CQG 4	5.7	5.7
CQG 5	-	-
CQG 6	-	-
Unrated	6.6	(deduction from capital)
Total	**1,078.2**	**1,071.6**

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 6 of 2008 financial statements):

(US$ million)	**2008**	2007
Trading securities	318	431
Available for sale securities	166	295
Alternative equity investments carried at fair value through income statement	619	661
	1,103	**1,387**

Policies relating to recognition, classification, fair value measurement and gain/loss computation are detailed in note 2.7 of 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).

Table 12: Trading Book VaR (US$ 000's) – 10 day holding period, 99% confidence level. For the last 60 business days in 2008

In US$ millions	Interest Rate	Equity	FX	Total
Max	6.3	38.3	6.2	46.0
Min	1.2	24.6	2.3	28.5
Average	2.6	34.2	2.8	39.4
31-Dec-08	5.8	36.2	2.9	44.9

During the back-testing process in 2008, most of the instances where actual losses exceeded VaR estimates pertained to credit events, similar to the Lehman credit default in the third quarter of the year. During this period we were closely monitoring our risk exposures.

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} 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

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

7. OPERATIONAL RISK

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

The Corporation currently adopts the' Standardized' approach in the estimation of regulatory capital to support potential operational risk exposure. Looking forward to 2009 GIC will be compliant with the Advanced Measurement Approach

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

Table 13: Business Lines for Operational Risk

Business Lines	Major Business Segments	Activity Groups
Principal Investments	Investment and Equity Participation	Venture Capital, Greenfield Investments, Mergers and acquisitions, Privatizations, Equity Participation, IPOs, Secondary Private Placements
Debt Capital Markets	Investments of debt securities	International Corporate Securities, Sovereign Debts,GCC Issues/Bonds, Convertible Bonds, Islamic Bonds, ABSs,FRNs
Equity Investments	Portfolio of investments in equity funds and proprietary funds	Gulf Equities, Equity Portfolios
Alternative Investments	Portfolio of investments in an array of different asset classes and managed funds	Hedge Funds, SIVs, Real Estate, Structured Finance, Islamic Funds, Managed Funds, MBSs,Private Equity, Credit Funds
Treasury	Sales	Fixed Income, Equity, Foreign Exchanges, Commodities, Credit, Funding, Own Position Securities, Lending and Repos, Derivatives
	Market Making	
	Proprietary Positions	
Corporate Finance	Merchant Banking	Mergers and Acquisitions, Underwriting, Privatizations, Research, Debt (Government, High Yield), Syndications, IPO, Secondary Private Placements
	Advisory Services	
Asset Management	Discretionary Fund Management	Pooled, Segregated, Retail, Institutional, Closed, Open
	Non-Discretionary Fund Management	Pooled, Segregated, Retail, Institution, Closed, Open
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

Table 14: Operational Risk Capital Charge

In US$ millions	31 Dec 2008		
	3 yr Average Gross Income	Beta Factor	Capital Charge
Principal Investment	171.4	18%	30.9
Debt Capital Market	22.9	18%	4.1
Equities Investments	12.9	18%	2.3
Alternative Investments	7.2	18%	1.3
Treasury	10.4	18%	1.9
Asset management	21.5	12%	2.6
Corporate Finance	6.8	18%	1.2
Head-quarters	82.8	18%	14.9
Total	**335.9**		**59.2**
Risk-weighted exposure			739.8

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, above.

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

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

(1) Risk and Control Self-Assessment Framework;

(2) Loss Event Framework;

(3) Corrective Action Plans Framework; and

(4) Operational Risk Reporting Framework.

8. EQUITY RISK IN THE BANKING BOOK

Equity investments in the banking book are classified at the time of acquisition into those acquired for realizing capital gains and to those purchased for strategic investments. The decision where to classify investments is arrived at after considering significant factors that include business and strategic advantages to the Corporation, and the amount of planned investments. All investment decisions require the approval of the Investment Committees, or the Executive Committee, depending on the amount of exposure. Investments acquired with a view to generating income and profits from capital appreciation are reviewed periodically and disposed off at opportune instances. Meanwhile, the strategic investment portfolios are reviewed based on the industry, market and economic developments, and the Corporation decides whether to liquidate or further consolidate its holdings in these investments. In accordance with International Financial Reporting Standards, equity positions in the banking book are classified as available for sale securities. These investments are fair valued periodically and revaluation gains/losses are accounted as cumulative changes in fair value in equity. For equity investments quoted in organized financial markets, Fair value is determined by reference to quoted bid prices. Fair values of unquoted equity investments are determined by reference to the market value of a similar investment, or the expected discounted cash flows, or other appropriate valuation models. Equity investments whose fair value cannot be estimated accurately are carried at cost less impairment, if any. More details on the accounting treatment of equity investments can be found under' Significant Accounting Policies' in the financial statements section.

Publicly traded investments represent quoted equities traded in the local and international stock exchanges. Privately held investments represent investments in unquoted entities and projects. The total value of equity investments in the banking book at the end of December 2008 is US$ 705.4 million, net of provision (refer to Table 15 below). Cumulative realized gain from sale or

Table 15: Equity Holdings in Banking Book

In US$ millions	31 Dec 2008		
	Publicly Traded	**Privately Held**	**Total**
Fair Value of Equity Investments	314.4	391.0	705.4
Realized gains recorded in P/L	90.0	25.0	115.1
Unrealized (loss) / gain recorded in Equity	(105.7)	5.8	(99.9)
Unrealized (loss) / gain adjusted in Tier 1 Capital	(105.7)	5.8	(99.9)

exchange of available for sale securities and projects is approximately US$ 115.1 million, of which a significant portion is from publicly traded equity holdings. Meanwhile, the total un-realized loss recognized in equity is US$ 99.9 million, which is adjusted in Tier 1 capital for capital adequacy calculation purposes.

9. INTEREST RATE RISK IN THE BANKING BOOK

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

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

The Eurodollar futures contract position value as at December 31, 2008 is calculated at 1,623 contracts, with an estimated VaR of US$ 2.9 million. The 31st December 2008 VaR was significantly higher that normal, due to the spike in the volatilities during the last quarter of the year.

Consolidated Financial Statements

Contents

Independent Auditors' Report 50

Consolidated Balance Sheet 51

Consolidated Income Statement 52

Consolidated Statement of Changes in Equity 53

Consolidated Cash Flow Statement 54

Notes to the Consolidated Financial Statements 55

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

We have audited the accompanying consolidated financial statements of Gulf Investment Corporation G.S.C. (the 'Corporation') and Subsidiaries (collectively "the Group") which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

The Corporation's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on other legal and regulatory requirements

Furthermore, in our opinion proper books of account have been kept by the Corporation and the consolidated financial statements, together with the contents of the report of the board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Corporation's articles and memorandum of association, and that to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the Corporation's articles and memorandum of association have occurred during the year ended 31 December 2008 that might have had a material effect on the business of the Group's or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2008.

Waleed A. Al Osaimi
License No. 68 A of Ernst & Young
21 May 2009
Kuwait

Consolidated Balance Sheet
as at 31 December 2008

(US$ million)	**Notes**	**2008**	2007
Assets			
Cash and cash equivalents		34	19
Placements	3	1,030	623
Securities purchased under resale agreements	4	-	186
Interest bearing securities and funds	5, 15	3,331	5,187
Equities and managed funds	6, 15	1,103	1,387
Loans	7	110	40
Private equity funds	8, 15	260	305
Investment in projects and equity participations	9, 15	1,091	1,060
Other assets	10	252	368
Total assets		**7,211**	**9,175**
Liabilities and equity			
Liabilities			
Deposits	11	2,896	2,804
Securities sold under repurchase agreements	4	1,270	2,372
Term finance	12	2,071	1,820
Other liabilities	13	312	221
Total liabilities		**6,549**	**7,217**
Equity			
Share capital		1,550	1,000
Reserves		(132)	657
Accumulated loss/retained earnings		(756)	301
Total equity	14	**662**	**1,958**
Total liabilities and equity		**7,211**	**9,175**

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

Faisal Ali Al-Mansouri
Chairman

Hisham Abdulrazzaq Al-Razzuqi
Chief Executive Officer

Consolidated Income Statement

for the year ended 31 December 2008

(US$ million)	Notes	2008	2007
Interest and similar income	16	251	308
Investment and fee income	17	7	461
Total income		258	769
Interest and similar expenses	18	(264)	(333)
Other operating income	19	15	12
Gross operating income		**9**	**448**
Income from recovery of debt		1	103
Provision for impairment losses	20	(958)	(246)
Staff cost		(27)	(39)
Premises cost		(2)	(1)
Other operating expense		(19)	(12)
Net (loss) profit for the year		**(996)**	**253**

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

(US$ million)	Share capital	Reserves: Compulsary reserve	Reserves: Voluntary reserve	Reserves: Investment revaluation reserve	Retained earnings	Total
Balance as at 1 January 2007	750	267	137	173	584	1,911
Net gains on disposal of available for sale investments transferred to consolidated income statement	-	-	-	(233)	-	(233)
Transfer of associates' revaluation gain to consolidated income statement on disposal	-	-	-	(10)	-	(10)
Impairment loss transferred to consolidated income statement	-	-	-	106	-	106
Change in fair value of available for sale investments	-	-	-	145	-	145
Share of investment revaluation reserves of associated companies	-	-	-	22	-	22
Total income for the year recognised directly in equity	-	-	-	30	-	30
Net profit for the year	-	-	-	-	253	253
Total income for the year	-	-	-	30	253	283
Transfer to share capital (note 14)	250	-	-	-	(250)	-
Transfer to compulsory reserve	-	25	-	-	(25)	-
Transfer to voluntary reserve	-	-	25	-	(25)	-
Dividend for 2006 (note 22)	-	-	-	-	(236)	(236)
Balance as at 31 December 2007	**1,000**	**292**	**162**	**203**	**301**	**1,958**
Balance as at 1 January 2008	1,000	292	162	203	301	1,958
Net gain on disposal of available for sale investments transferred to consolidated income statement	-	-	-	(61)	-	(61)
Impairment loss transferred to consolidated income statement	-	-	-	754	-	754
Change in fair value of available for sale investments	-	-	-	(1,344)	-	(1,344)
Share of investment revaluation reserves of associated companies	-	-	-	(138)	-	(138)
Total expenses for the year recognised directly in equity	-	-	-	(789)	-	(789)
Net loss for the year	-	-	-	-	(996)	(996)
Total income and expense for the year	-	-	-	(789)	(996)	(1,785)
Receipt of called up capital (note 14)	550	-	-	-	-	550
Dividend for 2007 (note 22)	-	-	-	-	(61)	(61)
Balance as at 31 December 2008	**1,550**	**292**	**162**	**(586)**	**(756)**	**662**

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

Consolidated Cash Flow Statement

for the year ended 31 December 2008

(US$ million)	Notes	2008	2007
Cash flows from operating activities:			
Net (loss) profit for the year		(996)	253
Adjustments for:			
Income from recovery of debt		(1)	(103)
Provision for impairment losses	20	958	246
Net gain on sale of investment securities - available for sale		(22)	(88)
Net gain on sale of investment in projects and equity participations	17	(24)	(90)
Income from projects and equity participations	17	(108)	(31)
Amortisation of net discount/ premium on interest bearing securities and funds		(3)	4
Dividend income	17	(23)	(22)
Depreciation		4	4
		(215)	173
Changes in operating assets and liabilities:			
Decrease (increase) in trading securities and investments carried at fair value through income statement		196	(61)
(Increase) decrease in placements		(408)	26
Net increase in deposits		124	775
Increase in loans		(71)	(23)
Decrease (increase) in other assets and other liabilities (net)		116	(54)
Net cash (outflows) inflows from operating activities		**(258)**	**836**
Cash flows from investing activities:			
Decrease (increase) in securities purchased under resale agreements	4	186	(172)
Proceeds from sale and maturity of investment securities		1,212	1,273
Purchase of investment securities		(328)	(2,238)
Increase in investment in private equity funds		(38)	(3)
Proceeds from sale of investment in projects and equity participations		35	309
Purchase of investment in projects and equity participations		(452)	(92)
Purchase of property and other fixed assets		(3)	(3)
Dividend income received	17	23	22
Net cash inflows (outflows) from investing activities		**635**	**(904)**
Cash flows from financing activities:			
(Decrease) increase in repurchase agreements	4	(1,102)	536
Increase (decrease) in term finance	12	251	(222)
Increase in share capital		550	-
Dividend paid	22	(61)	(236)
Net cash (outflows) inflows from financing activities		**(362)**	**78**
Increase in cash and cash equivalents		15	10
Cash and cash equivalents at beginning of year		19	9
Cash and cash equivalents at end of year		**34**	**19**

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

1 INCORPORATION AND ACTIVITY

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

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

The consolidated financial statements of the Corporation and its subsidiaries (collectively "the Group") for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the directors on 21 May 2009. The General Assembly of Shareholders has the power to amend these consolidated financial statements after issuance.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the regulations of the government of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets. In addition, the consolidated financial statements have been prepared in accordance with the requirements of the Kuwait Commercial Companies Law of 1960, as amended, Ministerial Order No.18 of 1990 and the Corporation's memorandum and articles of association.

2.2 Basis of presentation

The consolidated financial statements are prepared on a fair value basis for trading securities, financial assets at fair value through income statement, available for sale assets, derivative financial instruments and financial assets forming part of effective fair value hedging relationships, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

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

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

2.3 Applicable IASB Standards and Interpretations issued but not adopted

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

IFRS 8: Operating segments (applicable for annual reporting periods beginning on or after 1 January 2009)
Under the requirements of the standard, the Group would be required to disclose information used by management internally for the purpose of evaluating the performance of operating segments and allocating resources to those segments.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Revised IAS 1 – Presentation of Financial Statements (applicable for annual reporting periods beginning on or after 1 January 2009)
The revised standard introduces changes to the presentation of financial statements and does not affect the recognition, measurement or disclosure of specific transactions. The standard will not affect the financial position or results of the Group but will introduce some changes to the presentation of the financial position, changes in equity and financial results of the Group. The changes are not expected to be of any significance to the current level of disclosure in the Group consolidated financial statements.

Revised IFRS 3 – Business Combinations and consequential amendments to IAS 27 – Consolidated and Separate Financial Statements (applicable for business combinations for which the acquisition date is on or after the beginning of the reporting period be on or after 1 July 2009)
The main changes to the standard that affects the Group's current policies is that acquisition related costs are expensed in the consolidated income statement in the periods in which the costs are incurred and the services received, except for costs related to the issue of debt (recognised as part of the effective interest rate) and the cost of issue of equity (recognised directly in equity). Currently the Group recognises acquisition costs as part of the purchase consideration. Also changes in ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity and will have no impact on goodwill nor will it give rise to a gain or loss.

2.4 Basis of consolidation

The consolidated financial statements of subsidiaries and associates are prepared using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated in full.

Subsidiaries

Subsidiaries are all entities over which the Corporation has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are not consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Corporation. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Corporation's share of the identifiable net assets acquired is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference (negative goodwill) is recognised directly in the statement of income. The results of subsidiaries acquired or disposed during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries (continued)

The subsidiaries of the Corporation are as follows:

Name of company	Principal business activity	Country of incorporation	***Effective equity interest as at*** **31 December 2008**	31 December 2007
Bituminous Products Company Limited (Bitumat)	Building material manufacturing	Saudi Arabia	**100%**	100%
G.I. Corporation General Trading and Contracting Company W.L.L.	Holding company	Kuwait	**100%**	100%
Gulf Denim Limited	Textile manufacturing	UAE	**100%**	100%
Investel Holdings W.L.L.	Holding company	Bahrain	**100%**	100%
Gulf Paramount for Electrical Services Company W.L.L.	Electrical manufacturing	Kuwait	**92.8%**	92.8%
GIC Technology Partnership Co.	Holding company	Kuwait	**80%**	80%
Gulf Jyoti International	Electrical manufacturing	UAE	**70%**	70%
Crown Paper Mills Ltd FZC	Paper manufacturing	UAE	**51%**	51%
GIC Financial Services Ltd	Holding company	Cayman Islands	**100%**	100%
GIC Investment Holding Ltd	Holding company	Cayman Islands	**100%**	100%

Except for Bitumat, the subsidiaries are not material to the consolidated financial statements of the Group. Accordingly, subsidiaries other than Bitumat are not consolidated and are included under 'Investment in Projects and Equity Participations' (See note 9).

2.5 Cash and cash equivalents
Cash and cash equivalents comprise of cash in hand, balances with Central Banks and deposits with banks with maturities of less than seven days.

2.6 Placements
Placements with banks and other financial institutions are stated at amortised cost less any amounts written off and provision for impairment.

2.7 Financial Instruments

(i) Recognition

Regular-way purchases and sales of financial assets at fair value through income statement, trading securities, held to maturity and available for sale are recognised on trade date, the date on which the Group commits to purchase and sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Classification

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Classification (continued)

Investments carried at fair value through income statement includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through income statement. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are classified as held for trading unless they are designated as effective hedging instrument. Group designates an investment as carried at fair value through income statement as per the documented strategy of the Group.

Held for trading securities are those that the Group principally holds for the purpose of short-term profit taking.

Held to maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

Loans and receivables are financial assets created by the Group providing money to a debtor other than those created with the intention of short-term profit taking and quoted in an active market.

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

Derivatives include interest rate swaps, futures, cross currency swaps, forward exchange contracts and options on interest rates and foreign currencies.

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

(iii) Measurement

Financial instruments are measured initially at their fair value plus in the case of financial assets not at fair value through income statement, any directly attributable incremental costs of acquisition.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liability when their fair value is negative. Changes in fair value of derivatives held for trading are recognised in the consolidated income statement.

After initial recognition investments at fair value through income statement are remeasured at fair value with all changes in fair value recognised in the consolidated income statement. Transaction costs associated with the acquisition of investments at fair value through income statement are expensed as incurred.

Subsequent to initial recognition all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. Changes in fair value of available for sale investments are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time, the cumulative gain or loss previously reported in equity is included in the consolidated income statement. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as ‘investment and fee income’ when the right of the payment has been established.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial Instruments (continued)

(iii) Measurement (continued)

All loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument. The amortisation is included in 'interest income'. Gain or losses are recognised in the consolidated income statement when the loans and receivable are derecognised or impaired, as well as through amortisation process.

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

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price (bid price for assets) at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available then the fair value of the instrument is estimated using other valuation techniques as discussed in note 2.21.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

(v) Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

(vi) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(vii) Derecognition

A financial asset (in whole or in part) is derecognised either (a) when the rights to the cash flow have expired, (b) when the Group has transferred substantially all the risks and rewards of ownership, or (c) when it has neither transferred nor retained substantially all the risks and rewards of the assets but has transferred control over the asset or a proportion of the asset.

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

(viii) Impairment

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A financial asset or a group of financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events occurred after the initial recognition of the asset (an incurred 'loss event') and that loss even has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably measured. If there is objective evidence that an impairment loss has been incurred, the loss amount is accounted for as follows:

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial Instruments (continued)

(viii) Impairment (continued)

(a) for assets carried at amortised cost, impairment loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in the consolidated income statement. Subsequent decrease in impairment loss due to an event occurring after the impairment was recognised is credited to the consolidated income statement.

(b) for equity investments available for sale, impairment represents a significant or prolonged decline in the fair value of the investment below its cost. The difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement. Increases in fair value of equity instruments after impairment are recognised directly in equity.

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

In addition, in accordance with Central Bank of Kuwait instructions, the Group makes a minimum general provision on all applicable credit facilities (net of certain categories of collateral) that are not subject to specific provision. No other general provisions are made.

In March 2007, the Central Bank of Kuwait issued a circular amending the basis of making general provisions on facilities changing the minimum rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral. In November 2008 Central Bank of Kuwait instructed all investment companies that the general provision in excess of 1% for cash facilities and 0.5% on non cash facilities should be recognised as income in the consolidated income statement and the corresponding amount to be transferred to voluntary reserve and is not available for distribution (note 20).

2.8 Repurchase and resale arrangements

The Group enters into purchases / sales of securities under agreements to resell / repurchase substantially identical securities at a specified date in the future at a fixed price. The amounts paid are recognised as securities purchased under resale agreements. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

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

2.9 Investment in projects and equity participations

Investment in enterprises in which the Group has significant influence over the financial and operating policies and which are neither a subsidiary nor a joint venture ("associates") are accounted for using the equity method.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Investment in projects and equity participations (continued)

Under the equity method, the investment in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. Losses in excess of the cost of the associates are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The Group's share of the results of operations of associates is recognised in the consolidated income statement. Where there has been a change recognised directly in the equity of associates, the Group recognises its share of changes and discloses this, when applicable in the statement of changes in equity. Provision is made for any impairment losses and recognised in the consolidated income statement (note 2.21).

Other investments in projects and equity participations are classified as investments available for sale. Provision is made for any impairment losses on an individual investment basis and is recognised as set out in note 2.7.

2.10 Other provisions

Other provisions are recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

2.11 Property and other fixed assets

Property and other fixed assets are carried at cost less accumulated depreciation and impairment losses. An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of assets is the greater of their net selling price and value in use. Depreciation is computed on a straight-line basis over the estimated useful life of each asset category as follows:

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

2.12 Deposits

Deposits are carried at cost, less amounts repaid.

2.13 Term finance

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

2.14 Financial guarantees

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Fiduciary activities
Assets managed for third parties or held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

2.16 Hedge accounting
The Group makes use of derivative instruments to manage exposure to interest rate and foreign currency.

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

Where there is a hedging relationship between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value. The treatment of any resultant gains and losses is set out below.

Where a derivative financial instrument hedges the exposure to changes in the fair value of a recognised asset or liability or firm commitment (including the foreign currency risk), the change in fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item. Gains or losses on remeasurement of both the hedging instrument and the hedged item are recognised in the consolidated income statement.

Where a derivative financial instrument hedges the exposure to variability in the cash flows of recognised assets or liabilities or forecast transactions, the effective part of any gain or loss on remeasurement of the hedging instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised in the consolidated income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or is revoked by the Group. For hedged instrument recorded at amortised cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining life of the original hedge. If the hedged instrument is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

Any gain or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to consolidated income statement.

2.17 Recognition of income and expenses
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and expenses
Interest income and expense is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. Interest income includes the amortisation of any discount or premium or other difference between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Recognition of income and expenses (continued)

Fee income

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

Investment income

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

Dividend income

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

Sale of goods

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

2.18 End of service benefits

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

2.19 Foreign currency

The consolidated financial statements are presented in US Dollars which is the Group's functional currency.

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

Non monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Translation gains or losses on non monetary items are included in equity as part of the fair value adjustment on securities available for sale, unless part of an effective hedging strategy. Any goodwill arising on the acquisition of a foreign operation is translated at the closing rate of exchange at the balance sheet date. Translation differences on non-monetary items at fair value through income statement are recognised in the consolidated income statement within the fair value net gain or loss.

For investments in projects and investments equity accounted, the assets and liabilities are translated into the presentation currency of the Group at the exchange rate ruling the balance sheet date and their income statements are translated at rates approximating average exchange rates for the year. The exchange differences arising on translation are taken directly to a separate component of equity. On disposal, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Segment reporting

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

2.21 Significant accounting judgements and estimates

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

Classification of investments

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

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

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

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

All other investments are classified as available for sale.

Impairment of investments

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

Estimation uncertainty

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

Impairment losses on loans and receivables and investment in debt instruments

The Group reviews its problem loans and receivables and investment in debt instruments at each reporting date to assess whether a provision for impairment should be recorded in the consolidated income statement. 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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Significant accounting judgements and estimates (continued)

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

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

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of securities where this estimation cannot be reliably determined and these are carried at cost as disclosed in note 9. The Group updates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

3 PLACEMENTS

As at 31 December 2008 the Group has placements with non-banking financial institutions amounting to US$ 41 million (2007: US$ Nil) shown net of provisions amounting to US$ 1 million (2007: US$ Nil).

4 SECURITIES PURCHASED/SOLD UNDER RESALE/REPURCHASE AGREEMENTS

(US$ million)	**2008**	2007
Reverse repurchase agreements		
Banks	-	26
Others	-	160
	-	**186**

(US$ million)	**2008**	2007
Repurchase agreements		
Banks	752	1,463
Others	518	909
	1,270	**2,372**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

5 INTEREST BEARING SECURITIES AND FUNDS

(US$ million)	**2008**	2007
Debt and other interest bearing instruments available for sale		
AAA/Aaa rated debt securities	566	999
GCC Government securities	263	364
Debt securities of other investment grade issuers	2,071	2,532
Structured notes	80	248
Other debt securities	156	300
	3,136	**4,443**
Debt and other interest bearing instruments held to maturity		
AAA/Aaa rated debt securities	3	140
GCC Government securities	-	145
Debt securities of other investment grade issuers	36	53
Structured investment vehicles	-	209
	39	**547**
Trading funds		
Money market enhanced liquidity funds	4	4
Bond funds	123	145
Credit funds	29	48
	156	**197**
Total	**3,331**	**5,187**

During the year an impairment loss of US$ 209 million (2007: US$139 million) has been recognised in the consolidated income statement on structured investment vehicles held to maturity.

Also during the year an impairment loss amounting to US$ 397 million (2007: US$101 million) has been recognised in the consolidated income statement on debt and other interest bearing instruments designated as available for sale.

6 EQUITIES AND MANAGED FUNDS

Equities and managed funds are classified as follows:

(US$ million)	**2008**	2007
Trading securities	318	431
Available for sale securities	166	295
Alternative equity investments carried at fair value through income statement	619	661
	1,103	**1,387**

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

Available for sale securities comprise investments in funds that invest in equity securities, real estate securities and subordinated notes.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

6 EQUITIES AND MANAGED FUNDS (continued)

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

During the year an impairment loss amounting to US$ 157 million (2007: US$ 5 million) has been recognised in the consolidated income statement on available for sale securities.

7 LOANS

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

a) Provision for loan losses

(US$ million)	**2008**	2007
Balance at beginning of the year	1	1
Transfer to general provision	-	(1)
Net charge for the year	1	1
Balance at end of the year	**2**	**1**

b) Provision for loan guarantees

(US$ million)	**2008**	2007
Balance at beginning of the year	4	4
Transfer to general provision	-	(2)
Amounts utilised	(1)	-
Net (write back) charge for the year	(1)	2
Balance at end of the year	**2**	**4**

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

8 PRIVATE EQUITY FUNDS

(US$ million)	**2008**	2007
Private equity funds	309	305
Provision for impairment losses	(49)	-
	260	**305**

The following is a summary of movements in the balance of impairment provision of private equity funds.

(US$ million)	**2008**	2007
Balance at beginning of the year	-	38
Net charge (reversal) for the year	49	(38)
Balance at end of the year	**49**	**-**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

9 INVESTMENT IN PROJECTS AND EQUITY PARTICIPATIONS

(US$ million)	2008	2007
Project investments equity accounted	806	476
Other project investments and equity participations	483	644
	1,289	1,120
Provision for impairment losses	(198)	(60)
	1,091	**1,060**

Provision for impairment relates to project investments equity accounted of US$ 3 million (2007: US$ 6 million) and impairment of other project investments and equity participations of US$ 195 million (2007: US$ 54 million).

a) Project investments equity accounted

The following table illustrates the summarised financial information of the Group's investments in projects equity accounted:

(US$ million)	2008	2007
Share of assets	3,345	1,451
Share of liabilities	(2,539)	(975)
Share of net assets	806	476
Provision for impairment losses	(3)	(6)
Carrying amount of investment	**803**	**470**
Share of profit for the year	**108**	**25**

There are no material investments in project investments equity accounted listed on any public exchange.

b) Other project investments and equity participations

(US$ million)	2008	2007
Listed investments	303	466
Unlisted investments	180	178
	483	**644**
Impairment provision	(195)	(54)
	288	**590**

During the year an impairment loss amounting to US$ 150 million (2007: US$ nil) has been recognised in the consolidated income statement on listed available for sale investment due to significant decline in market value.

Unlisted investments are carried at cost less impairment losses amounting to US$ 45 million (2007: US$ 54 million), since the fair value of these investments cannot be measured reliably. In respect of these investments management has performed an assessment of the underlying investments and have concluded that the impairment losses recognised is adequate. The Corporation's strategy is to hold these securities for a foreseeable future.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

9 INVESTMENT IN PROJECTS AND EQUITY PARTICIPATIONS (continued)

c) Provision for impairment in investments in projects and equity participations

The movement in provision for impairment is as follows:

(US$ million)	2008	2007
Balance at beginning of the year	60	60
Amounts utilised	(10)	-
Net charge for the year	148	-
Balance at end of the year	**198**	**60**

10 OTHER ASSETS

(US$ million)	2008	2007
Accrued interest, fees and commissions	73	212
Derivative instruments	-	1
Employees' end of service benefit asset	49	43
Prepayments	1	1
Property, plant and equipment	26	26
Other, including accounts receivable	103	85
	252	**368**

11 DEPOSITS

(US$ million)	2008	2007
Deposits from Central Banks	473	528
Deposits from other banks	396	1,124
Deposits from Islamic institutions	18	347
Other deposits	2,009	805
	2,896	**2,804**

At 31 December 2008 deposits from GCC Country Governments, Central Banks and other institutions headquartered in the GCC States amounted to US$ 2,678 million (2007: US$ 2,326 million).

12 TERM FINANCE

(US$ million)	Effective interest rate % 2008	2008	2007
US Dollar floating rate term loan due in 2010	6 months $ LIBOR + 35 bps	200	200
Medium Term Note Issues (EMTN):			
GIC US Dollar floating rate note due in 2009	3 months $ LIBOR + 55 bps	500	500
GIC US Dollar floating rate note due in 2010	3 months $ LIBOR + 45 bps	500	500
GIC Euro floating rate note due in 2011	3 months € LIBOR + 30 bps	559	589
GIC HK Dollar floating rate note due in 2011	3 months HIBOR + 35 bps	19	19
GIC MYR medium term fixed rate note due in 2013	3.98 % per annum (semi annual)	173	-
GIC MYR medium term fixed rate note due in 2023	4.52 % per annum (semi annual)	116	-
Saudi Riyal floating rate term loan due in 2010	SIBOR + 150 bps	4	12
		2,071	**1,820**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

13 OTHER LIABILITIES

(US$ million)	2008	2007
Accrued interest	79	108
Derivative instruments	141	11
Employees' end of service benefits	53	48
Other provisions	2	6
Other, including accounts payable and accrued expenses	37	48
	312	**221**

14 EQUITY

14.1 The authorised and issued capital comprises of 2.1 million shares of US$ 1,000 each (2007: 2.1 million shares of US$ 1,000 each). On 23 October 2008 the board of directors approved to call the unpaid portion of the authorised and issued capital of US$ 1,100 million (31 December 2007: US$ 250 million). As at 31 December 2008 certain shareholders contributions in respect of the called up capital were outstanding. These amounts are expected to be received in 2009.

(US$ million)	2008	2007
Authorised and issued share capital	**2,100**	**2,100**
Fully paid up	1,050	-
Partly paid up	500	1,000
	1,550	**1,000**

14.2 In accordance with the Kuwait Commercial Companies' Law and the Corporation's Articles of Association, 10 percent of the net profit for the year is required to be transferred to the non-distributable compulsory reserve until the reserve reaches a minimum of 50 percent of share capital. Due to the losses incurred, no transfer has been made to the compulsory reserve at 31 December 2008.

14.3 In accordance with the Corporation's Articles of Association, 10 percent of the net profit for the year is required to be transferred to the voluntary reserve. The transfer to this reserve can be discontinued by a resolution adopted in the general assembly meeting of the shareholders. As per the instruction of Central Bank of Kuwait dated 20 November 2008 the minimum general provision in excess of 1% on cash facilities and 0.5% on non cash facilities amounting to US$ 3 million has been recognised in the consolidated income statement. Due to the losses incurred, no transfer has been made to the voluntary reserve at 31 December 2008.

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

15 FINANCIAL INVESTMENTS

The table below shows the financial investments of the Group as per IAS 39 Financial Instruments: Recognition and Measurement categorisation:

(US$ million)	Held to maturity	Available for sale	Fair value through income statement	Held for trading	Total
31 December 2008					
Interest bearing securities and funds	39	3,136	-	156	3,331
Equities and managed funds	-	166	619	318	1,103
Private equity funds	-	260	-	-	260
Investments in projects and equity participations	-	288	-	-	288
	39	**3,850**	**619**	**474**	**4,982**

(US$ million)	Held to maturity	Available for sale	Fair value through income statement	Held for trading	Total
31 December 2007					
Interest bearing securities and funds	547	4,443	-	197	5,187
Equities and managed funds	-	295	661	431	1,387
Private equity funds	-	305	-	-	305
Investments in projects and equity participations	-	590	-	-	590
	547	**5,633**	**661**	**628**	**7,469**

16 INTEREST AND SIMILAR INCOME

(US$ million)	2008	2007
Placements	35	56
Interest bearing securities and funds	210	250
Loans	3	2
Others	3	-
	251	**308**

17 INVESTMENT AND FEE INCOME

(US$ million)	2008	2007
Net (loss) gain on interest bearing securities and funds (see note17.1 below)	(29)	3
Net (loss) gain on equities and managed funds (see note 17.2 below)	(157)	183
Net gain on sale of investment in projects and equity participations (available for sale)	24	68
Income from private equity funds investments available for sale	23	86
Income from projects and equity participations (see note 9.a)	108	25
Income from investment in project held for sale	-	28
(Loss) profit on foreign exchange	(2)	4
Dividend income from investments available for sale	23	22
Fees and commissions income (see 17.3 below)	16	41
Sundry income	1	1
	7	**461**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

17 INVESTMENT AND FEE INCOME (continued)

Income from projects and equity participations include profit of US$ 131million (2007: US$ 34 million) relating to associates and loss of US$ 23 million (2007: loss of US$ 9 million) relating to unconsolidated subsidiaries.

Included in net gain on sale of investment in projects and equity participations is US$ 17 million (2007: US$ 59 million) of realised gain on available for sale investments.

17.1 Net (loss) gain on interest bearing securities and funds

(US$ million)	2008	2007
Realised (loss)gain on available for sale investments	(7)	14
Realised loss on investments held to maturity	-	(21)
Net (loss)gain from instruments held for trading	(22)	10
	(29)	**3**

17.2 Net gain (loss) on equities and managed funds

(US$ million)	2008	2007
Realised gain on available for sale investments	28	74
Net (loss)gain on investments carried at fair value through income statement-designated	(164)	64
Net (loss)gain from instruments held for trading	(21)	45
	(157)	**183**

17.3 Fees and commissions income

(US$ million)	2008	2007
Fees from managed funds	8	10
Asset management fees	7	9
Other fees and commissions	1	22
	16	**41**

18 INTEREST AND SIMILAR EXPENSES

(US$ million)	2008	2007
Deposits	102	132
Securities sold under repurchase agreements	74	93
Term finance	88	108
	264	**333**

Included in interest expense is US$ 124 million (2007: US$ 76 million) relating to interest incurred on liabilities to fund non interest bearing assets.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

19 OTHER OPERATING INCOME

Other operating income represents the net income from manufacturing business as broken down below

(US$ million)	2008	2007
Sales	67	46
Cost of sales	(48)	(30)
Gross profit	19	16
Selling and distribution expenses	(3)	(2)
Administrative expenses	(1)	(2)
	15	**12**

20 PROVISIONS FOR IMPAIRMENT LOSSES

(US$ million)	2008	2007
Placements with non-bank financial institutions(note 3)	(1)	-
Private equity funds (note 8)	(49)	-
Loans and loan guarantees (note 7)	-	(3)
Interest bearing securities and funds – held to maturity (note 5)	(209)	(139)
Interest bearing securities and funds – available for sale (note 5)	(397)	(101)
Equities and managed funds – available for sale (note 6)	(157)	(5)
Projects and equity participation (note 9.c)	(148)	-
Accounts receivable (other assets)	-	2
CBK provision write back	3	-
	(958)	**(246)**

As per the instruction of Central Bank of Kuwait dated 20 November 2008 the minimum general provision in excess of 1% on cash facilities and 0.5% on non cash facilities amounting to US$ 3 million has been recognised in the consolidated income statement (note 14.3).

21 RETIREMENT AND OTHER TERMINAL BENEFITS

The Group has defined voluntary contribution and end of service indemnity plans which cover all its employees. Contribution to the voluntary plan is based on a percentage of pensionable salary and consists of contribution by employees and a matched contribution up to a certain limit by the Group. Contribution to the end of service indemnity plan is based on a percentage of pensionable salary and number of years of service by the employees. The amounts to be paid as the end of service benefits are determined by reference to the amounts of the contributions and investment earnings thereon. The Group also pays contributions to Government defined contribution pension plan for certain employees in accordance with the legal requirements in Kuwait.

The total cost of retirement and other end of service benefits included in staff expenses for the year ended 31 December 2008 amounted to US$ 6.8 million (2007: US$ 6 million).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

22 DIVIDEND

The board of directors of the Corporation have proposed the non-distribution of dividends to the Corporation's shareholders. This proposal is subject to the approval of the ordinary general assembly of the shareholders of the Corporation.

On 26 March 2008, the shareholders at the annual general meeting approved cash dividend at 6.08% of the paid up capital as at 31 December 2007 amounting to US$ 61 million (2007:US$ 236 million).

23 RISK MANAGEMENT

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

23.1 Liquidity risk

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

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

31 December 2008

(US$ million)	**Within 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Deposits	2,594	311	-	-	2,905
Securities sold under repurchase agreements	1,262	14	-	-	1,276
Term finance	16	558	1,522	156	2,252
Derivative instruments					
- Contractual amount payable	984	148	238	123	1,493
- Contractual amount receivable	(958)	(151)	(227)	(116)	(1,452)
Other liabilities	103	43	72	45	263
Total undiscounted financial liabilities	**4,001**	**923**	**1,605**	**208**	**6,737**
Commitments	-	179	-	-	179
Contingent liabilities	-	366	-	-	366

31 December 2007

(US$ million)	**Within 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Deposits	2,582	239	-	-	2,821
Securities sold under repurchase agreements	1,938	451	-	-	2,389
Term finance	25	76	1,979	-	2,080
Derivative instruments				-	
- Contractual amount payable	1,199	134	-	-	1,333
- Contractual amount receivable	(1,191)	(131)	-	-	(1,322)
Other liabilities	69	77	3	14	163
Total undiscounted financial liabilities	**4,622**	**846**	**1,982**	**14**	**7,464**
Commitments	-	492	-	-	492
Contingent liabilities	-	270	-	-	270

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

23 RISK MANAGEMENT (continued)

23.1 Liquidity risk (continued)

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

(US$ million)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2008					
Assets					
Cash and cash equivalents	27	7	-	-	34
Placements	1,030	-	-	-	1,030
Interest bearing securities and funds	2,365	966	-	-	3,331
Equities and managed funds	1,072	31	-	-	1,103
Loans	110	-	-	-	110
Private equity funds	-	2	34	224	260
Investments in projects and equity participations	153	-	-	938	1,091
Other assets	83	51	1	117	252
Total assets	**4,840**	**1,057**	**35**	**1,279**	**7,211**
Liabilities					
Deposits	2,589	307	-	-	2,896
Securities sold under repurchase agreements	1,256	14	-	-	1,270
Term finance	-	500	1,455	116	2,071
Other liabilities	105	70	70	67	312
Total liabilities	**3,950**	**891**	**1,525**	**183**	**6549**
Net gap	**890**	**166**	**(1,490)**	**1,096**	**-**

(US$ million)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2007					
Assets					
Cash and cash equivalents	9	10	-	-	19
Placements	502	121	-	-	623
Securities purchased under resale agreements	186	-	-	-	186
Interest bearing securities and funds	4,592	173	222	200	5,187
Equities and managed funds	1,355	10	-	22	1,387
Loans	34	6	-	-	40
Private equity funds	3	1	18	283	305
Investments in projects and equity participations	466	-	-	594	1,060
Other assets	213	90	2	63	368
Total assets	**7,360**	**411**	**242**	**1,162**	**9,175**
Liabilities					
Deposits	2,570	234	-	-	2,804
Securities sold under repurchase agreements	1,930	442	-	-	2,372
Term finance	-	-	1,820	-	1,820
Other liabilities	78	81	3	59	221
Total liabilities	**4,578**	**757**	**1,823**	**59**	**7,217**
Net gap	**2,782**	**(346)**	**(1,581)**	**1,103**	**-**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

23 RISK MANAGEMENT (continued)

23.2 Market risk

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

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

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

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

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

23.3 Credit risk

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

Credit risk in respect of derivative financial instruments is limited to those with positive fair values, which are included under other assets. As a result the maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts included in the consolidated balance sheet plus commitments to customers disclosed in note 25.

As at 31 December 2008, the Group has not obtained any collateral on any of the financial assets.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

23 RISK MANAGEMENT (continued)

23.3.1 Maximum exposure to credit risk

The maximum credit exposure of the Group before taking into account collateral held or any credit enhancement is as follows:

(US$ million)	31 December 2008 Maximum exposure	31 December 2007 Maximum exposure
Cash and cash equivalents	34	19
Placements	1,030	623
Securities purchased under resale agreements	-	186
Interest bearing securities and funds	3,331	5,187
Loans	110	40
Other assets	235	350
Credit exposure on assets	**4,740**	**6,405**
Credit commitments	369	537
Total credit exposure	**5,109**	**6,942**

The net exposure after taking into account collateral and other credit enhancement is US$ 5,109 million (2007: US$ 6,756 million)

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The maximum credit exposure to a single counterparty (rated as investment grade) is US$ 108 million (2007: US$ 160 million).

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

(US$ million)	GCC	Europe	North America	Asia	Total
At 31 December 2008					
Cash and cash equivalents	10	22	2	-	34
Placements	429	418	183	-	1,030
Interest bearing securities and funds	860	1,166	1,268	37	3,331
Loans	110	-	-	-	110
Other assets	122	35	77	1	235
Credit exposure on assets	**1,531**	**1,641**	**1,530**	**38**	**4,740**
Credit commitments	369	-	-	-	**369**
Total credit exposure	**1,900**	**1,641**	**1,530**	**38**	**5,109**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

23 RISK MANAGEMENT (continued)

23.3.1 Maximum exposure to credit risk (continued)

(US$ million)	GCC	Europe	North America	Asia	Total
At 31 December 2007					
Cash and cash equivalents	15	2	1	1	19
Placements	611	12	-	-	623
Securities purchased under resale agreements	-	186	-	-	186
Interest bearing securities and funds	1,123	1,930	2,014	120	5,187
Loans	40	-	-	-	40
Other assets	147	57	144	2	350
Credit exposure on assets	**1,936**	**2,187**	**2,159**	**123**	**6,405**
Credit commitments	537	-	-	-	537
Total credit exposure	**2,473**	**2,187**	**2,159**	**123**	**6,942**

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

(US$ million)	**Bank & FIs.**	**Trading & Mftg.**	**Utilities**	**Govt. & Agencies**	**Other**	**Total**
At 31 December 2008						
Cash and cash equivalents	34	-	-	-	-	34
Placements	1,030	-	-	-	-	1,030
Interest bearing securities and funds	2,640	172	210	293	16	3,331
Loans	-	36	74	-	-	110
Other assets	170	51	4	4	6	235
Credit exposure on assets	**3,874**	**259**	**288**	**297**	**22**	**4,740**
Credit commitments	-	126	243	-	-	**369**
Total credit exposure	**3,874**	**385**	**531**	**297**	**22**	**5,109**

(US$ million)	Bank & FIs.	Trading & Mftg.	Utilities	Govt. & Agencies	Other	Total
At 31 December 2007						
Cash and cash equivalents	19	-	-	-	-	19
Placements	623	-	-	-	-	623
Securities purchased under resale agreements	186	-	-	-	-	186
Interest bearing securities and funds	3,812	508	231	619	17	5,187
Loans	-	5	35	-	-	40
Other assets	228	103	-	9	10	350
Credit exposure on assets	**4,868**	**616**	**266**	**628**	**27**	**6,405**
Credit commitments	-	197	340	-	-	537
Total credit exposure	**4,868**	**813**	**606**	**628**	**27**	**6,942**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

23 RISK MANAGEMENT (continued)

23.3.2 Credit quality of financial assets

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

The table below shows the credit quality by class of asset for consolidated balance sheet lines.

(US$ million)	**Neither past due nor impaired**		
	investment grade	**Unrated**	**Total**
At 31 December 2008			
Cash and cash equivalents	34	-	34
Placements	1,030	-	1,030
Interest bearing securities and funds	3,147	184	3,331
Loans	110	-	110
Other assets	166	69	235
Credit exposure on assets	**4,487**	**253**	**4,740**
Credit commitments	369	-	**369**
Total credit exposure	**4,856**	**253**	**5,109**

(US$ million)	**Neither past due nor impaired**		
	investment grade	**Unrated**	**Total**
At 31 December 2007			
Cash and cash equivalents	19	-	19
Placements	623	-	623
Securities purchased under resale agreements	186	-	186
Interest bearing securities and funds	4,597	590	5,187
Loans	40	-	40
Other assets	268	82	350
Credit exposure on assets	**5,733**	**672**	**6,405**
Credit commitments	537	-	537
Total credit exposure	**6,270**	**672**	**6,942**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

24 COMMITMENTS AND CONTINGENT LIABILITIES

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

Credit Risk Amounts

(US$ million)	**2008 Notional principal amount**	2007 Notional principal amount
Transaction-related contingent items:		
- Letter of guarantees	366	441
- Shareholders deed of undertaking	-	51
Undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	3	45
	369	**537**

The above commitments and contingent liabilities have off balance-sheet credit risk because only origination fees and accruals for probable losses are recognised in the consolidated balance sheet until the commitments are fulfilled or expired. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows. The transaction related contingent liabilities are net of provision of US$ 2 million (2007: US $ 4 million).

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

(US$ million)	**2008**	2007
Undrawn commitments for investments in private equity funds	124	150
Undrawn commitments for investments in projects and equity participations	51	75
	175	**225**

25 DERIVATIVES

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

25 DERIVATIVES (continued)

Hedge accounting

Interest rate swaps under which the Group pays a fixed rate and receives a floating rate are used in fair value hedges of fixed interest securities available for sale.

As at the balance sheet date the notional amount of interest rate swaps used to hedge interest rate risk amounted to US$ 1,592 million (2007: US$ 2,728 million) and its net fair value was a swap loss of US$ 96 million (2007: US$ 5 million).

For the year ended 31 December 2008 the Group recognised a net loss of US$ 91 million (2007: gain of US$ 3 million) representing the loss on hedging instruments. The corresponding gain on the hedged fixed income securities amounted to US$ 90 million (2007: loss of US$ 2 million).

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

(US$ million)		**2008**			2007	
	Positive fair value	Negative fair value	Notional Amount	Positive fair value	Negative fair value	Notional Amount
Derivatives held for hedging						
- Interest rate swaps	-	(96)	1,592	13	(18)	2,728
- Cross currency swap	18	-	343	-	-	19
- Index linked swap	-	-	200	-	-	62
Derivatives held for trading						
- Forward rate agreements	41	(18)	1,452	9	(4)	1,328
	59	**(114)**	**3,587**	**22**	**(22)**	**4,137**

Maturity analysis

(US$ million)	**Year 1**	**Year 1 to 5**	**Above 5 years**	**Total**
At 31 December 2008				
Notional amounts				
Interest rate swaps	279	920	393	**1,592**
Cross currency swaps	-	227	116	**343**
Index linked swaps	-	200	-	**200**
Forward rate agreements	1,110	227	115	**1,452**

(US$ million)	**Year 1**	**Year 2 to 5**	**Above 5 years**	**Total**
At 31 December 2007				
Notional amounts				
Interest rate swaps	1,025	951	752	2,728
Cross currency swaps	-	19	-	19
Index linked swaps	62	-	-	62
Forward rate agreements	1,309	19	-	1,328

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

26 SEGMENTAL INFORMATION

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected by differences in the products and services produced. Secondary information is reported geographically.

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

The principal investment division is responsible for actively investing in projects and equity participations.

Debt capital market division provides a stable coupon/spread income and a reserve of additional liquidity. The investments comprise 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, hedge funds and other alternative assets.

The treasury division manages the Group's liquidity, short-term interest rate and foreign exchange activities using a variety of on and off-balance sheet treasury applications. The division trades on its own accounts and for clients in spot and forward foreign exchange and options, cash money markets, floating rate notes, interest rate swaps and other derivatives.

The "Corporate and other" segment comprises items which are not directly attributable to specific business divisions, including investments of a strategic nature, and income arising on the recharge of the Group's net free capital to business units. Other operations of the Group include asset management, operations, risk management and financial control. Transactions between business segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on rates which approximate the marginal cost of funds.

These segments are the basis on which the Group reports its primary segment information.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

26 SEGMENTAL INFORMATION (continued)

31 December 2008 (US$ million)	Principal investments	Debt capital markets	Equity and alternative investments	Treasury	Corporate and other	Eliminations	Total
Interest and similar income	6	207	1	40	54	(57)	251
Investment, fee and other operating income	159	3	(140)	(2)	2	-	22
Interest expense and similar charges	(58)	(168)	(66)	(29)	-	57	(264)
Gross operating income	107	42	(205)	9	56	-	9
Other operating expenses	(14)	(6)	(3)	(3)	(22)	-	(48)
Impairment losses	(148)	(655)	(157)	(1)	3	-	(958)
Segment results	(55)	(619)	(365)	5	37	-	(997)
Income from recovery of debt							1
Net income for the year							**(996)**
Other Information							
Segment assets	1,406	3,425	1,280	1,047	53	-	**7,211**
Segment liabilities	1,516	3,307	1,637	89	-	-	6,549
Equity							662
Total liabilities and equity							**7,211**

31 December 2007 (US$ million)	Principal investments	Debt capital markets	Equity and alternative investments	Treasury	Corporate and other	Eliminations	Total
Interest and similar income	7	239	5	63	95	(101)	308
Investment and fee income	163	24	269	11	5	-	472
Interest expense and similar charges	(66)	(226)	(80)	(61)	-	101	(332)
Gross operating income	104	37	194	13	100	-	448
Other operating expenses	(12)	(7)	(2)	(3)	(28)	-	(52)
Impairment losses	(4)	(240)	(5)	1	2	-	(246)
Segment results	88	(210)	187	11	74	-	150
Income from recovery of debt							103
Net income for the year							**253**
Other Information							
Segment assets	1,228	5,142	1,628	1,116	61	-	**9,175**
Segment liabilities	902	4,890	1,368	57	-	-	7,217
Equity							1,958
Total liabilities and equity							**9,175**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

26 SEGMENTAL INFORMATION (continued)

Secondary segment information

Although the management of the Group is based primarily on business segments, the Group operates in two geographic markets – the GCC region and International. The following table shows the distribution of the Group's net operating income and total assets by geographical segment:

31 December 2008

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

31 December 2007

	GCC Region		International		Total	
(US$ million)	**PI**	**Others**	**PI**	**Others**	**PI**	**Others**
Gross operating income	104	104	-	240	104	344
Total assets	1,208	2,026	20	5,921	1,228	7,947

27 FAIR VALUE INFORMATION

As at the balance sheet date the fair value of financial assets that are not carried at fair value is not materially different from their carrying amounts, except for certain unlisted equity securities whose fair value cannot be reliably determined (see note 9) as there are no observable market inputs. The Group intends to hold these securities for the foreseeable future.

28 RELATED PARTY TRANSACTIONS

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

There were no material transactions and balances with associates within and at the end of the current year (2007: nil).

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

(US$ million)	**2008**	2007
Short-term employee benefits	6	9
Post employment and termination benefits	2	1
Total compensation paid to key management personnel	**8**	**10**

Included in other assets are loans to key management personnel amounting to US$ 1 million (2007: US$ 1 million).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

29 FIDUCIARY ACTIVITIES

At 31 December 2008 third party assets under management (at fair value) amounted to US$ 457 million (2007: US$ 639 million). These assets are managed in a fiduciary capacity and are therefore excluded from the consolidated balance sheet.

30 CAPITAL MANAGEMENT

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

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

The Corporation manages its capital taking into account both regulatory and economic requirements.

No changes were made in the objectives, policies or processes from the previous year.

(US$ million)	**2008**	2007
Interest bearing deposits, term finance and other borrowings	6,237	6,996
Other liabilities	312	221
Less: Cash and cash equivalents and placements	(1,064)	(642)
Net debt	**5,485**	**6,575**
Equity	662	1,958
Gearing ratio (Net debt /equity)	**8.29**	**3.36**

Economic capital

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

31 COMPARATIVES

The Corporation has restated certain comparative figures in the consolidated financial statements as a result of consolidation of one subsidiary which was included under 'projects and equity participation' in prior year.

Direct Investments

(US$ million)

Name of the Project	Location	Total Shareholders' Equity	GIC share of capital %
Non-consolidated subsidiaries and associated companies			
Gulf Denim Limited	U.A.E	3.55	100.0
Investel Holdings W.L.L.	Bahrain	70.00	100.0
G.I. Corporation General Trading & Contracting Co.	Kuwait	0.91	100.0
Gulf Paramount for Electrical Services Company W.L.L.	Kuwait	6.59	92.8
GIC Technology Partnership Co.	Kuwait	0.79	80.0
Gulf Jyoti International	U.A.E	3.33	70.0
Crown Paper Mill Ltd. FZC	U.A.E	17.18	51.0
Gulf Re Holdings Ltd.	U.A.E	202.30	50.0
Al Dur Power & Water Co.	Bahrain	0.34	50.0
United Stainless Steel Company B.S.C. (Closed)	Bahrain	54.78	50.0
Oman Investment Co.	Oman	57.08	50.0
Gulf Industrial Investment Co. (E.C.)	Bahrain	271.98	50.0
Gulf Electronic Tawasul Company K.S.C. (Closed)	Kuwait	10.19	47.5
Al Ezzel Power Company B.S.C.	Bahrain	21.91	45.0
Bahrain Industrial Pharmaceutical Co.	Bahrain	1.80	40.0
Orimix Concrete Products L.L.C	U.A.E	59.51	40.0
SGA Marafiq Holding W.L.L.	Bahrain	0.90	33.3
A'Saffa Poultry Farms Co. SAOG	Oman	23.90	33.3
The National Titanium Dioxide Co. Ltd. (CRISTAL)	Saudi Arabia	441.42	33.0
Oman Fiber Optic Co. SAOG	Oman	18.12	25.0
Technical Supplies & Services Co. Ltd.	U.A.E	85.44	25.0
Kuwait International Advanced Industries Company (K.S.C.)	Kuwait	29.00	25.0
Jeddah Cable Company	Saudi Arabia	194.28	25.0
ALUMCO L.L.C	U.A.E	130.74	24.5
Interplast Company Limited - (L.L.C)	U.A.E	199.28	23.5
Celtex Weaving Mills Co. Ltd.	Bahrain	5.01	23.0
Rawabi Emirates (PJSC)	U.A.E	79.40	22.5
Oman Polypropylene L.L.C	Oman	32.80	20.0
Shuqaiq Water & Electricity Co.	Saudi Arabia	1.35	20.0
Gulf International Pipe Industry Co.	Oman	12.70	20.0
Gulf Stone Company SAOG	Oman	8.65	20.0
Equity Participations - GIC ownership less than 20 percent			
Tatweer Infrastructure Company (Q.S.C.C.)	Qatar	230.08	13.0
Perella Weinberg Partners	U.S.A	122.43	10.3
Rasameel Structured Finance Co. K.S.C.	Kuwait	112.37	10.0
Ras Laffan Power Company Limited (Q.S.C.)	Qatar	201.34	10.0
The Dubai Wellness Center Limited	U.A.E	184.10	10.0
KGL Logistics Company K.S.C. (Closed)	Kuwait	119.08	9.0
Securities and Investment Company B.S.C.	Bahrain	132.27	8.0
National Industrialization Co. (NIC)	Saudi Arabia	1,950.00	7.9
Gulf Aluminium Rolling Mill Co. B.S.C.	Bahrain	184.28	5.9
United Power Company SAOG	Oman	95.40	2.3
Al-Razzi Holding Company K.S.C.	Kuwait	176.18	2.0
Arabian Industrial Fibers Company (IBN RUSHD)	Saudi Arabia	1,201.93	1.9
Thuraya Satellite Telecommunications Company PJSC	U.A.E	682.49	1.7
Yanbu National Petrochemical Co. (Yansab)	Saudi Arabia	1,518.00	0.9
Zamil Industrial Investment Co.	Saudi Arabia	274.00	0.3

Investment Products

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

Corporate Directory

Senior Management

Hisham Abdulrazzaq Al-Razzuqi
Chief Executive Officer & General Manager

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

Riccardo Ricciardi
Deputy General Manager &
Head of Global Markets Group

Global Markets

Malek Al-Ajeel
Head of Business Development

Talal Al-Tawari
Head of GCC Equities

Fahmi Al-Ali
Managed Funds

Tarek El Rohayem
Head of GCC Research Division

Waleed Al-Braikan
GCC Fund Management

Mathew Abraham
Money Markets

Principal Investing

Shafic Ali
Head of Utilities and Financial Services

Khaled Al-Qadeeri
Head of Manufacturing Projects

Mohammad Al-Melhem
Head of GCC Diversified Projects

Robert Montgomery
Head of Project Finance

Corporate Office

Nabil Guirguis
Head of Risk Management

Hamdy El-Sayed
Head of Internal Audit

Ali Al-Sayegh
Head of GCC Expansion Project & Board Secretary

Dr. Magdy Ali
Acting Head of Economics & Strategy

Finance & Administration

Hani Al-Shakhs
Head of Information Technology

Hazem El-Rafie
Head of Financial Control

Shawki Khalaf
Head of Operations

Hamed Hamed
Acting Head of Human Resources & Administration

Khaled Al-Suraye
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