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Net Profit  
 US\$ **151** million

Total Assets  
 US\$ **5.8** billion

## Financial Highlights

| (US\$ million)                                     | 2008  | 2009  | 2010  |
|--|-------|-------|-------|
| <b>For the year</b>                                |       |       |       |
| Gross Operating and Other Income                   | 10    | 153   | 223   |
| Operating Expenses                                 | 48    | 46    | 50    |
| Net Profit / (Loss)                                | (996) | 91    | 151   |
| <b>At year end</b>                                 |       |       |       |
| Total Assets                                       | 7,211 | 6,113 | 5,776 |
| Interest Bearing Securities and Funds              | 3,331 | 2,604 | 2,143 |
| Equities and Managed Funds                         | 1,103 | 458   | 556   |
| Projects and Equity Participations                 | 1,116 | 1,428 | 1,825 |
| Deposits   | 2,896 | 1,360 | 1,429 |
| Shareholders' Equity                               | 662   | 1,750 | 2,117 |
| <b>Selected Ratios (%)</b>                         |       |       |       |
| <b>Profitability</b>                               |       |       |       |
| Return on Paid-up Capital                          | -     | 5.3   | 7.2   |
| Return on Adjusted Shareholders' Equity            | -     | 6.3   | 7.7   |
| <b>Capital</b>                                     |       |       |       |
| <b>BIS Ratios</b>                                  |       |       |       |
| - Total  | 8.7   | 27.7  | 30.0  |
| - Tier 1   | 8.7   | 27.7  | 30.0  |
| Shareholders' Equity as a % of Total Assets        | 9.2   | 28.6  | 36.7  |
| <b>Asset Quality</b>                               |       |       |       |
| Marketable Securities as a % of Total Assets       | 48.2  | 43.2  | 39.1  |
| GCC and OECD Country Risk as a % of Total Assets   | 100.0 | 100.0 | 100.0 |
| <b>Liquidity</b>                                   |       |       |       |
| Liquid Assets Ratio                                | 79.3  | 73.0  | 65.6  |
| <b>Productivity</b>                                |       |       |       |
| Operating Income as Multiple of Operating Expenses | -     | 3.3   | 4.5   |

## 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

### Kingdom of Bahrain

**H.E. Dr. Zakaria Ahmed Hejres \***

**Chairman of the Board**

Chief Executive Officer  
Al Watan for Publishing & Distribution BSC

**H.E. Mr. Khalid A. Al-Bassam \*\* \*\*\***

Chairman  
Bahrain Islamic Bank

### Kingdom of Saudi Arabia

**H.E. Mr. Khalid S. Al-Khattaf \* \*\*\***

**Vice Chairman of the Board &  
Chairman of the Executive Committee**

Chief Finance Officer & Managing Director  
Nomura Saudi Arabia

**H.E. Mr. Turki Bin Ibrahim Al-Malek \*\***

**Chairman of the Audit Committee**

Chief Operations Officer  
Saudi Arabian Investment Co. (Saudi Sanabil)

### Sultanate of Oman

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

Minister Responsible for Financial Affairs  
Ministry of Finance

**H.E. Mr. Abdul Kader Askalan \*\* \*\*\***

Chief Executive Officer  
Oman Arab Bank

### State of Qatar

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

Deputy Governor  
Qatar Central Bank

**H.E. Dr. Hussain Al-Abdulla \*\* \*\*\***

Board Member - Executive  
Qatar Investment Authority

### State of Kuwait

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

**Chairman of Risk Management Committee**

Executive Director- General Reserve Sector  
Kuwait Investment Authority General Reserve Fund

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

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

### United Arab Emirates

**H.E. Mr. Faisal Al-Mansouri \* \*\*\***

Director of Revenues Department  
Ministry of Finance

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

Assistant Undersecretary of Budget and Revenue  
Ministry of Finance

### Senior Management Team

**Mr. Hisham Abdulrazzaq Al-Razuqi**

Chief Executive Officer

**Mr. Rashid Bin Rasheed**

Deputy General Manager &  
Head of Finance & Administration

\* 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:

On behalf of the Board of Directors, I have the privilege to present the Annual Report on the Corporation's activities and its financial results for the year ended 31 December 2010.

I am pleased to report that the sound performance of GIC in 2010 demonstrates, once again, its inherent capabilities to deal with dynamically changing operating environments. While, the Corporation had rebounded to profitability as early as 2009, the sustained improvement in profitability and financial strength again in 2010 clearly confirm its robustness and emergence from the financial turmoil as a sound and resilient financial institution.

Operating revenues grew by 46% to US\$ 223 million, driven by revenues from GIC's core business activities, resulting in a net profit of US\$ 151 million. This represents a 66% annual growth in profitability. The corporation's capital base was further strengthened through revaluation gains and realized profits. As of 31st December 2010, total shareholders' equity stood at US\$ 2,117 million, a year-on-year increase of 21%. The enhanced capital base combined with improved overall asset quality further strengthened the already healthy capital adequacy ratios. The balance sheet continues to be conservatively leveraged at about 2.7 times, reflecting a lower risk profile. Additional prudent measures were also applied in order to augment the overall risk control framework which, retrospectively, have proven to be quite beneficial. There is no question that maintaining a sound enterprise risk management infrastructure will continue to be an integral component of the strategic operational goals of GIC.

In 2010, GIC achieved well on multiple dimensions that include increased profitability, enhanced capital base, improved liquidity and leverage levels and better risk profile. These achievements differentiate GIC as a winner in the region. In tandem with these improved financial performance indicators, GIC successfully executed important principal investment projects in the GCC region. As well, within the capital markets and treasury business, GIC successfully completed several initiatives that contributed to optimizing asset allocation, strengthening risk controls and enhancing overall liquidity profile.

The GCC states, through their representatives on the Board, are fully committed to and have reiterated their support in enabling GIC achieve its strategic goals. The corporation will continue to maintain a focus on and contribute towards developing the economic and financial recourses of the shareholding states.

Over the years, GIC has established a solid franchise in the region. This is more so in the carefully-selected sectors where GIC has ascertained itself as a regional leader, conceiving, promoting and investing in major projects that contribute to the social and economic development of the GCC and its people. Through its in-depth knowledge of local business environment and intricate connectivity to private and public sector networks and niches, GIC is also playing a key role in the development of the GCC capital markets.

Prospectively, as always, the business landscape is expected to be dynamic and continuously evolving. We believe this change will present new opportunities, especially at the regional context. For one thing, economic growth in the GCC is accelerating on the back



of improved global economic environment, increased demand for oil, enhanced trade and investment and growth in construction and financial sector activities. With its strong ownership and standing in the region, solid capital position, robust organizational framework and strong track record, GIC is well positioned to take advantage of the changing dynamics and their embedded opportunities. I believe the future will beget further successes and prosperity for GIC.

On behalf of the Board of Directors, I would like to extend my appreciation to the Royal Highnesses Kings and Amirs, rulers of the GCC countries for their continuous support, and a special thanks to the State of Kuwait for hosting GIC's headquarters and extending all the support needed. I would also like to extend my appreciation to Excellences the Ministers of Finance of the Gulf Cooperation Council for their support.

In accordance with the bi-annual rotation policy in place, I became the Chairman of the Board of Directors in 2010. I wish to thank my predecessor, Mr Faisal Al Mansouri, Director of Revenues Department, Ministry of Finance, UAE, for his valuable contributions during his tenure. As well, my sincere appreciation goes to the distinguished members of the Executive Committee, the Risk Management Committee and the Audit Committee for their productive guidance and support.

Finally, I would like to take this opportunity to express my appreciation to the management and staff of GIC for their dedication and commitment.

**Dr. Zakaria Ahmed Hejres**  
Chairman

# CEO's Review





Gulf Investment Corporation (GIC) posted robust results in 2010, with net profit reaching US\$ 151 million, representing an annual growth of 66%. The sustained improvement in profitability and financial strength over the past two years reaffirms the Corporation's success in overcoming challenging operating environments, and is a reflection of its inherent resilience.

It is gratifying to note that both the key businesses performed well during 2010, exceeding revenue targets, whilst conforming to desired risk profiles. While earnings from principal investments contributed to most of the profitability, the global market portfolio assets also registered solid revaluation gains.

All key performance indicators improved in 2010. Operating revenues increased by 46% over the previous year to reach US\$ 223 million. The Corporation's capitalization levels crossed US\$ 2.1 billion, exceeding pre-crisis highs. Improved capital levels combined with lower risk exposures resulted in capital ratios, computed based on Basel II guidelines, reaching 30%. The Corporation's conservative liquidity policies ensured minimum thresholds, in terms of cash and liquid assets, were more than adequately met. In addition to maintaining low leverage levels, quantitative measures for credit and market risk were also well within defined risk appetite limits.

GIC made some bold decisions and initiated action plans over the past two years with objective of differentiating between risks that were to be entailed and those that were to be avoided. Even during the immediate aftermath of the financial turmoil that affected international and regional markets, management went ahead with projects and plans that it believed as value adding and beneficial. Similarly, while substantial de-risking and de-leveraging was executed, assets which were expected to normalize in terms of valuations, were not exited. Overall, this has proved to be a successful strategy, the results of which are reflected in the strong performance.

2010 witnessed major milestones in the independent power and water projects (IWPP's) co-developed by the company. In Saudi Arabia, the \$1.9 billion IWPP in Shuqaiq reached full operations, as did the \$3.4 billion Jubail Water & Power Company project, the world's largest IWPP. In Bahrain, the \$2.2 billion IWPP in Al-Dur achieved early power. In the telecommunications related sector, the Corporation became a founding shareholder in Gulf Bridge International, a project to lay an undersea high-speed cable ring in the Gulf with links to Europe and India.

**Principal Investments** continued to be the prime driver of corporate profitability. 2010 was an excellent year for this activity with gross operating revenues growing by more than 46% compared to the previous year. During the year, the projects team successfully executed several key transactions as well.

GIC continued to enhance its strong position in the regional metals segment, with the objective of securing a sustainable revenue stream. Foulath which is 50% owned by GIC, is constructing United Steel Company ("SULB") project in the Kingdom of Bahrain with a total investment of US\$ 1.4 billion. SULB is a joint venture between Foulath (51%) and Yamato Kogyo, Japan (49%), a leading global steel producer. On completion of SULB, Foulath will be a fully integrated steel complex operating within a single site, one of a kind globally. The SULB project was able to obtain attractive financing, thanks to its solid potential and strong ownership structure.

In line with the strategic objective of exiting investments at optimal value-add, GIC sold its stake in a chemicals manufacturer and another within the technology sector.

Over the past few years the Corporation has focused on certain niche sectors including metals, chemicals, power and utilities, telecommunication and financial services, establishing itself as predominant player and prime mover. This strategy of specializing in and building sustainable competitive advantages within core themes and sectors has proved beneficial, with several of these project investments yielding excellent risk adjusted returns.

While the Corporation will continue to pursue direct investment opportunities in the region, the rigor and diligence applied during the screening and selection phase will be maintained. Initiatives to strengthen the internal control framework within this activity are also being implemented. Efforts to unlock the intrinsic value in some of the investments are being reviewed as well, with the objective of recycling proceeds into other promising sectors.

The **Global Markets** activity, GIC's other key business, forms a vital component of its business model, enabling the Corporation balance the longer term, less liquid principal investments with capital market and treasury activities – a diversification of the corporate risk-return profile. The business

group's activities include investments in both regional and international markets covering a range of strategies for both proprietary and third party asset management. Proprietary assets are managed by both internal and externally selected professionals. Our diversified portfolio of proprietary assets include debt securities, public and private equities, alternative and hedge strategy funds, Islamic transactions, structured products and derivative transactions.

The rebound of the business group's performance in 2009 was further improved with robust results in 2010. The strategic and tactical asset allocation exercises proved beneficial with GIC being able to take advantage of opportunities, while avoiding unwanted risks. The Corporation's investment in international private equity funds provided handsome returns during 2010. The portfolio of hedge fund and alternative strategies also performed well achieving targets for the year.

With an in depth knowledge of the regional environment, the GCC capital markets teams were once again able to prove its strong competitive advantage with the fixed income and equity portfolios managed by them posting strong performance relative to benchmarks and peers. Besides profits booked as income, the proprietary portfolios continued to recorded significant unrealized valuation gains which were recorded directly into the shareholders' equity.

Leveraging this core competency, within the regional capital market space, to provide enhanced third party asset management services is a key objective going forward. The Corporation has plans to further develop this service with the aim securing a steady, consistent source of fee based income.

The treasury function within the global markets group manages the liability profile of the Corporation. The Corporation was able to strengthen its funding profile by adding on US\$ 300 million of medium term finance from regional investors during 2010. The team also successfully completed investor road shows in the Far East during the last quarter of the year, and expects to raise additional term finance from these markets. Managing liquidity has been a strong point for GIC, proving over the years our ability to source funds even during highly turbulent and critical phases. As of end 2010, cash and short term

money market assets amounted to over US\$ 654 million. This is after repayment of all maturing bonds and liabilities during the year.

GIC has always recognized that sound risk management is vital to long term growth and stability, and in this regard has committed significant resources to strengthen its risk management activities. The Corporation has and will continue bring its risk management capabilities in line with international best practices.

The resurgence from the 2008 downturn and consistent good performance since then, combined with the significant improvement in financial strength, has resulted in a stabilization of GIC's credit ratings. During the second half of 2010, Moody's upgraded its outlook to 'Stable' from 'Negative', while reaffirming its BBB long term rating. Likewise, during 2010, Fitch reaffirmed its BBB / Stable rating of GIC as well. Rating Agency Malaysia (RAM) also reaffirmed their AAA / Stable rating of GIC during the year.

Our ownership and standing, strong capital position, efficient and flexible organization structure, clear focus, and most importantly, the entrepreneurial culture constitute our principal strengths. I am confident that the Corporation is now well positioned and has the wherewithal to leverage these strengths for continued success.

The year under review was an excellent one for GIC in several aspects and is primarily the result of dedicated efforts from a team of committed professionals. I wish to congratulate the staff of GIC for this commendable performance. I would also like to take this opportunity to thank the Board of Directors for their guidance and support. Going forward, I am confident that the strong foundation we have set in place will enable us achieve our objectives and goals to the benefit of our shareholders and the region we serve.

**Hisham Abdulrazzaq Al-Razuqi**

Chief Executive Officer



## Economic Review



## Global Economy

Overall, the global economy endured a turbulent year during 2010 with conspicuously uneven regional economic growth. Since May 2010 in particular, global economic growth was overshadowed by frequent market jitters that stemmed from bloating sovereign debt, especially in the peripheral EU countries of Portugal, Ireland, Greece and Spain. These jitters contributed to the reappearance of the risk of a double-dip recession, which roiled financial markets in mid-2010. Later in the year however, these sentiments had given way to a more optimistic outlook helped by improved economic data and firmer policy resolve. Estimates by the IMF indicate that the global economy realized an overall growth of 4.8%<sup>1</sup>. The U.S. grew at a markedly slower pace than the global average, i.e. at 2.9% y/y while the EU inched forward at nearly 1.7%. The core EU economy, Germany, grew at 3.6% - its highest in history since 1981 while France grew mildly at 1.6%, Italy grew at about 1%. By contrast, Spain and Greece regressed by (-0.3%) and (-4.0%) respectively.

Despite very large gross public debt, Japan grew at 4.3%. Yet the key global growth propeller was the emerging economies which provided support to global demand in 2010. For instance, China which overtook Japan in the second quarter of 2010 to become the world's second largest economy - achieved an overall year-long average growth rate of 10.1% that helped other regions and countries through trade and investment channels. Asia's other emerging economies performed well too including India which grew at 8.7%, Malaysia 6.7%, and South Korea 6.1%. Brazil achieved a solid growth of 7.5% and Russia 4%, both helped by buoyant global commodities market.

Inflation remained largely subdued globally and especially in mature economies, at 1.6% in the U.S. and EU but upward pressures built up sporadically in emerging economies, notably in India 9.7%, Brazil 5%, Russia 6.5% and China 3.3%. Singapore's annual CPI rate rose to 3.8% in November, the highest since January 2009 but the overall year average was under 3%. As well, consumer prices rose in Germany, 1.1% while Japanese prices were deflated by -0.8%.

Central banks in mature economies remained committed to keeping interest rates low, but increasing growth momentum and building up inflationary expectations prompted gate-keepers of some emerging economies to increase their baseline rates as happened in China, whose rate was increased to 5.81%, by 25bp to rein inflation. By year-end, the short-term cost of borrowing increased by 1.1% in 2009 compared with just 0.6% on 6-month libor rates on US dollar deposits. For the 3-months Euro deposits, the rate of increase declined from 1.2% in 2009 to 0.8% in 2010.

The combination of positive, albeit subdued growth and exceptionally loose monetary policy in much of the West created a positive climate for risky assets (equities, commodities, and emerging markets assets), which rallied strongly since July 2010.

## Equity Market

The key driver of global equity markets in 2010 was the strong earnings growth. Earnings grew vigorously in the first three quarters of 2010 and tended to be on the same track in the fourth quarter, aided by margin expansion<sup>2</sup>. Low bond yields made stocks appear attractively valued since global equities dividend yield during the year 2010 was up 150bp above weighted average government yield in G7 and 270bp above 3-months deposit rate. By year-end 2010, global equity indices had rebounded and remained in positive territory. Table II shows the performance of major Global Equity Indices by year-end 2010, which indicates positive returns in most indices.

## Commodity and Oil Markets

Commodity prices, including oil prices, improved throughout the year due to a strong global demand in emerging economies. The total return on JPMorgan aggregate commodity index increased by 14.3%. Within the aggregate index, sub commodity indices outperformed the aggregate index in terms of total returns. In individual sector's total returns ranged between 39.8% on agriculture index; 26.4% on non-energy index; 24.9% on precious metals index and 15.4% on industrial index<sup>3</sup>.

WTI oil prices ended the year rising by 15.1% from \$79.3pb at year-end 2009 to \$91.4pb at year-end 2010. Consequently, the currencies of many emerging and commodity exporting countries including Australia, Canada and New Zealand appreciated vs. the U.S. dollar during the year 2010.

<sup>1</sup> IMF Global Economic Report, October 2010. Per the EIU reports the global economic growth rate is lower when gauged on current market exchange rates, that is about 3.5% in 2010 EIU Global Outlook, January 2011.

<sup>2</sup> BCA "Special year-end issue", January 2011.

<sup>3</sup> Bloomberg, JP Morgan Commodity Index, 17 January 2011.

However, the decline in the value of the U.S. dollar reflected rising concerns about the sustainability of the U.S. debt and the tendency of some emerging economies to hold their foreign exchange reserves in Euro rather than in U.S. dollars.

### The US Bond Market

By the end 2010, the yield on 10-year Treasury bonds had fallen by 14.3% to 3.29% from 3.84% in 2009. The benchmark 10-year US Treasury yield remained largely flat at 3.19%, on average, throughout the year, below a fair value of 4% bond yield that is consistent with other post recessionary periods<sup>4</sup>. This was attributed to a set of factors that remained in force throughout the year including weak private credit growth; persistent deflation due to falling unit labor costs and rising unemployment; the maintenance of short-term interest rate close to zero and risk-averse investors. Deflationary pressures were encouraging for fixed income securities during the year 2010 as pricing pressures at the retail level remained largely subdued. Within the fixed income market, high yield corporate bonds offered better opportunities than Treasuries during the year 2010. Corporate bonds, especially in Emerging Markets continued to perform well and outpaced treasuries except for the 10-year US Treasury. By and large, corporate bonds posted steady gains relative to Treasury securities in 2010; aside from two episodes of heightened risk aversion that were prompted by the European sovereign debt crisis.

### The GCC Economies

The year 2010 witnessed the return of the GCC economies to higher growth tracks with an overall rate in the vicinity of 4%<sup>5</sup>. The non-hydrocarbon real GDP increased, on average by 3.7% in 2010 but rates were uneven across countries with Qatar realizing highest non-hydrocarbon growth rate, 8.0%, followed by Oman, 5.0%. The corresponding rates were lower however, 4% in Bahrain and Saudi Arabia and 2% in Kuwait and the UAE. Because of firm oil prices, hydrocarbon real GDP growth was robust in 2010, 4.8% on average. Highest country rates were realized by Qatar's hydrocarbon sector, 15% while Oman ranked second at 7.2%. Slower hydrocarbon growth obtained in the UAE 2.2% and 1.7% in Saudi Arabia and Kuwait. In the least hydrocarbon endowed GCC economy, Bahrain, the hydrocarbon sector grew marginally, 0.4%<sup>5</sup>.

Along with good growth performance, the GCC economies enjoyed domestic price stability on the heels of price spikes in 2008. On average, the 2010 inflation rate in the GCC economies was in the vicinity of 3.5%. Yet this overall average masks discernible country variance in consumer price increases: the highest rate of 5.7% was recorded in Saudi Arabia followed by Kuwait at 4.3%. In the rest of GCC economies the rates were 2.7% in both Oman and Bahrain and 1.8% in the UAE and -1.6% in Qatar. Mega infrastructure projects and high population growth intensified the GCC region's demand for industrial commodities and food imports which cropped concerns of building up inflationary pressures. However, core inflation, excluding energy and food prices, remained largely supportive to economic growth during the year as well as to the currency peg of GCC currencies to the U.S. dollar<sup>6</sup>.

The consolidated current account surplus increased by 91.9% from its 2009 level of \$62bn to \$119bn in 2010 propelled by firm and rising oil prices in tandem with mild increases in oil exports production. Consequently, the overall current account balance as percent of GDP increased from 7.1% in 2009 to 11.8% in 2010 and the region foreign assets position reached \$1.5trillion by the end of 2010, representing 153% of GDP<sup>7</sup>. Domestically, fiscal positions were generally healthy with an overall surplus of 5.6% of the 2010 combined GDP which represents an improvement versus the minute deficit of 2.5% in 2009 that was brought about by falling revenues and expansionary policies.

In the banking sector, the increase in non-performing loans as a percentage of total loans, especially in the UAE and Kuwait along with increasing provisions adversely impacted GCC banks. Non-performing loans increased from 4.9%, on average, in 2009 to 6.2% in 2010. While discernible, the increase in NPL was well below corresponding increase in the global economy. At the country-level non-performing loans ranged between 10.4% in Kuwait to 8.2% in the UAE and 7.1% in Bahrain; around 4.0% in both Oman and Saudi Arabia; to 3.2% in Qatar. However, effective regulations were already in place to safeguard the sector and protect the economy. Government regulations especially in Saudi Arabia, the UAE and Kuwait directed banks to clean their balance sheets before the year-end of 2010.

<sup>4</sup> BCA, "US Fixed Investment Strategy" October 2010.

<sup>5</sup> IIF estimates, October 2010.

<sup>6</sup> Kuwait pegs the Dinar to a basket of currencies.

<sup>7</sup> IIF, GCC Regional Overview, October 2010.

## GCC MARKETS REVIEW

### Overview

2010 was marked by sharp turnarounds in trends and direction in the GCC markets. On the heels of 2009, which drew to a close with the overhang of credit issues looming over markets, marked recovery in investor sentiment followed in 2010.

Figure 1: Performance of GCC Indices



Source: GIC Research, Bloomberg data

The first quarter of the year signaled the return of confidence in the markets, with selective improvements across key indices. However, the second quarter witnessed a reversal in sentiments, as regional markets dropped in tandem with declines in indices across the globe.

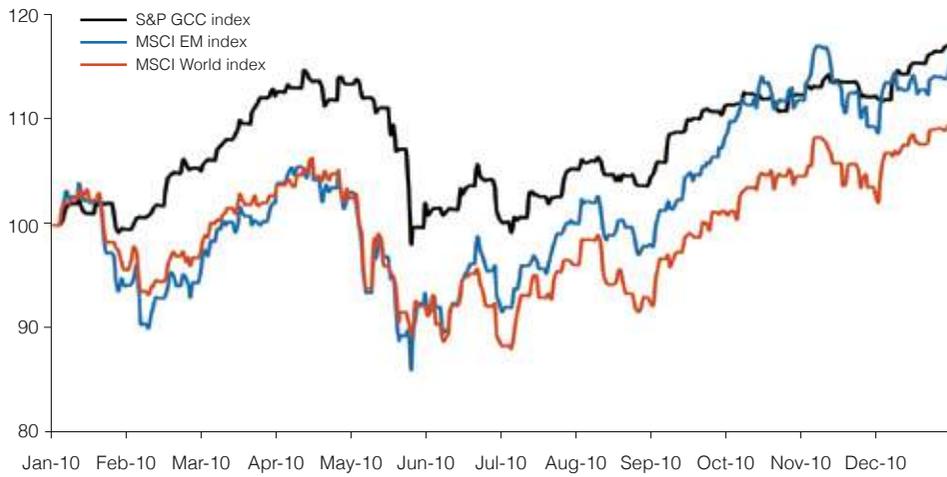
Continuing the flip-flop in direction, the third quarter set the scene for resurgence in the GCC markets, as they shook off doubts about the possibility of a double-dip recovery in global markets, and rode the strong wave in Oil prices. Winding up the year, the last quarter was marked by a robust surge in Qatar, as momentum surrounding the World Cup 2022 gathered pace, culminating in a successful award in December.

Stable regional macro-economic indicators and continued infrastructure spending reinforced the positive sentiment across GCC markets. However, they continued to be swayed by volatility in global markets. Overall trading volumes across the GCC remained subdued on average, particularly during the summer, which witnessed an exceptionally lean period. Institutional investors did not take an active role in the markets, and speculative traders remained wary of high volatility as they closely tracked global cues.

### Relative Performance Of S&P GCC Index

During 2010, the S&P GCC index generated a net gain of +16.96%, out-performing the MSCI EM and World indices, which added net gains of +16.36% and +9.55% respectively. The S&P GCC index also outperformed the S&P Pan-Arab index, which returned +11.35% for the year.

Figure 2: Relative Performance of S&P GCC Index



Source: GIC Research, Bloomberg data

Macro developments and resultant gyrations in the global markets proved to be a key driving force for the GCC markets. Correlation between the S&P 500 and S&P GCC indices climbed sharply to 0.87 during the year.

Figure 3: Relative Performance of S&P GCC Index vs. S&P 500 Index



Source: GIC Research, Bloomberg data

## Country Performances

During the year, four of the GCC country indices closed with net gains, while three others recorded net negative returns. Kuwait's KWSE (Weighted) index was the best performing for 2010, adding +25.51%, while the QE index in Qatar closely followed with +24.75%. Saudi Arabia's Tadawul index managed +8.51% and the MSM 30 added +6.06%. Both the UAE indices could not sustain any gains for the year, as Dubai's DFM index and Abu Dhabi's ADSM indices shed -9.60% and -0.87% respectively. The BHSE index in Bahrain closed the year with a loss of -1.78%.

Figure 5: Index Returns

|                            | Dec 09   | Dec 10   | % Chg   |
|----------------------------|----------|----------|---------|
| S&P GCC index              | 103.57   | 121.14   | +16.96% |
| S&P Pan Arab index         | 657.66   | 732.31   | +11.35% |
| MSCI EM index              | 989.47   | 1,151.38 | +16.36% |
| MSCI World index           | 1,168.47 | 1,280.07 | +9.55%  |
| Kuwait - KWSE (Wgt.) index | 385.75   | 484.17   | +25.51% |
| Qatar - QE index           | 6,959.17 | 8,681.65 | +24.75% |
| Saudi - Tadawul index      | 6,121.76 | 6,620.75 | +8.15%  |
| Oman - MSM 30 index        | 6,368.80 | 6,754.92 | +6.06%  |
| UAE - ADSM index           | 2,743.61 | 2,719.87 | -0.87%  |
| Bahrain - BSE index        | 1,458.24 | 1,432.26 | -1.78%  |
| UAE - DFM index            | 1,803.58 | 1,630.52 | -9.60%  |

Source: GIC Research, Bloomberg data

Table I: World Major Economic Indicators (Annual % Change)

| Country        | Real GDP |      |      | Inflation |      |      | Unemployment |      |      |
|----------------|----------|------|------|-----------|------|------|--------------|------|------|
|                | 2009     | 2010 | 2011 | 2009      | 2010 | 2011 | 2009         | 2010 | 2011 |
| United States  | -2.6     | 2.9  | 3.2  | -0.3      | 1.6  | 1.7  | 9.3          | 9.7  | 9.3  |
| Japan          | -6.3     | 4.3  | 1.2  | -1.4      | -0.8 | -0.3 | 5.1          | 5.1  | 4.9  |
| Germany        | -4.7     | 3.6  | 2.5  | 0.4       | 1.1  | 1.7  | 8.2          | 7.7  | 7.1  |
| France         | -2.5     | 1.6  | 1.6  | 0.1       | 1.5  | 1.6  | 9.1          | 9.4  | 9.3  |
| United Kingdom | -5.0     | 1.7  | 2.1  | 2.2       | 3.3  | 3.3  | 4.7          | 4.6  | 4.7  |
| Euro Zone      | -4.0     | 1.7  | 1.5  | 0.3       | 1.6  | 1.8  | 9.5          | 10.0 | 9.9  |
| China          | 9.1      | 10.1 | 9.2  | -0.7      | 3.3  | 4.3  | -            | -    | -    |
| India          | 7.4      | 8.7  | 8.3  | 12.4      | 9.7  | 6.9  | -            | -    | -    |

Sources:

- Consensus Economics Inc: Consensus Forecast, January 2011.

- Consensus Economics Inc: Asia Pacific Consensus Forecasts, January 2011.

Table II: Global Equity Indices for 2010 (in local currencies)

| Index                           | 31 Dec. 09 | 31 Dec. 2010 | % Change | High 2010  | Low 2010   |
|---------------------------------|------------|--------------|----------|------------|------------|
| <b>North America</b>            |            |              |          |            |            |
| DJIA                            | 10,428.10  | 11,577.51    | 11.02    | 11,585.38  | 9,686.48   |
|                                 |            |              |          | 12/29/2010 | 07/02/2010 |
| S&P 500                         | 1,115.10   | 1,257.64     | 12.78    | 1,259.55   | 1,021.91   |
|                                 |            |              |          | 12/29/2010 | 07/02/2010 |
| NASDAQ Composite                | 2,269.15   | 2,652.87     | 16.91    | 2,671.48   | 2,091.79   |
|                                 |            |              |          | 12/22/2010 | 07/02/2010 |
| Russell 2000                    | 625.10     | 783.65       | 25.30    | 792.35     | 586.49     |
|                                 |            |              |          | 12/27/2010 | 02/08/2010 |
| DJ Wilshire 5000                | 43.60      | 51.21        | 17.45    | 51.42      | 40.27      |
|                                 |            |              |          | 12/29/2010 | 01/07/2010 |
| DJ Wilshire Global Total Market | 2,318.10   | 2,608.80     | 12.54    | 2,610.85   | 2,130.64   |
|                                 |            |              |          | 12/31/2010 | 05/25/2010 |
| <b>Europe</b>                   |            |              |          |            |            |
| FTSE 100                        | 5,412.90   | 5,899.94     | 9.00     | 6,008.92   | 4,805.75   |
|                                 |            |              |          | 12/24/2010 | 07/01/2010 |
| Xetra Dax                       | 5,957.43   | 6,914.19*    | 16.06    | 7,077.99   | 5,434.34   |
|                                 |            |              |          | 12/21/2010 | 02/05/2010 |
| CAC 40                          | 3,936.33   | 3,804.78     | -3.34    | 4,065.65   | 3,331.29   |
|                                 |            |              |          | 04/15/2010 | 05/25/2010 |
| <b>Asia</b>                     |            |              |          |            |            |
| Nikkei 225                      | 10,546.44  | 10,228.92*   | -3.01    | 11,339.30  | 8,824.06   |
|                                 |            |              |          | 04/05/2010 | 08/31/2010 |
| Hang Seng                       | 21,872.50  | 23,035.45    | 5.32     | 24,964.37  | 18,985.50  |
|                                 |            |              |          | 11/08/2010 | 05/25/2010 |

Source: Bloomberg and Reuters

Table III: US Treasuries (Yields) (%)

|          | 31 December 2009 | 31 December 2010 | Annual (% Change) |
|----------|------------------|------------------|-------------------|
| 3-Months | 0.0608           | 0.1268           | 108.55            |
| 5-Year   | 2.6839           | 2.0076           | -25.20            |
| 10-Year  | 3.8368           | 3.2877           | -14.31            |
| 30-Year  | 4.6351           | 4.3360           | -6.45             |

Source: Reuters

Table IV: Historical &amp; Current Spot Crude Prices, Yearly Average (US\$/bl)

|            | OPEC Basket | Y/Y % change | Brent | Y/Y % change | WTI    | Y/Y % change |
|------------|-------------|--------------|-------|--------------|--------|--------------|
| YTD 2010 * | 75.70       | 24.0%        | 77.73 | 26.02%       | 77.90  | 26.89%       |
| Year 2009  | 61.06       | -35.4%       | 61.68 | -36.7%       | 61.88  | -38.1%       |
| Year 2008  | 94.45       | 36.7%        | 97.37 | 34.2%        | 100.00 | 38.3%        |
| Year 2007  | 69.10       | 13.1%        | 72.55 | 11.3%        | 72.29  | 9.5%         |
| Year 2006  | 61.08       | 20.6%        | 65.16 | 19.7%        | 66.04  | 16.9%        |

\* 2010 year-to-date average price till October.

Note: An OPEC price average is usually lower than Brent.

Source: Middle East Petroleum and Economic Publications (MEES), November 2010.

Table V: FX Rates

|       | 31 December 2009 | 31 December 2010 | 2010 Annual Change<br>(against the US\$) |
|-------|------------------|------------------|--|
| Euro  | 1.4316           | 1.3377           | -6.56                                    |
| Pound | 1.6154           | 1.5599           | -3.44                                    |
| Yen   | 92.9             | 81.15            | -12.65                                   |

Source: Reuters

Table VI: GCC Oil &amp; Gas Export Revenues (US\$ billion)

|                      | 2006  | 2007  | 2008  | 2009  | 2010f | 2011f |
|----------------------|-------|-------|-------|-------|-------|-------|
| Bahrain              | 9.2   | 11.0  | 14.0  | 9.0   | 11.0  | 11.0  |
| Kuwait               | 53.2  | 59.0  | 83.0  | 47.0  | 59.3  | 65.0  |
| Oman                 | 18.0  | 19.0  | 29.0  | 18.0  | 23.0  | 22.0  |
| Qatar                | 31.2  | 40.0  | 59.0  | 36.4  | 49.3  | 56.0  |
| Saudi Arabia         | 188.0 | 205.0 | 281.0 | 163.0 | 204.0 | 212.0 |
| United Arab Emirates | 70.2  | 74.2  | 103.0 | 68.0  | 88.2  | 92.0  |
| GCC                  | 369.8 | 408.2 | 569.0 | 341.4 | 434.8 | 458.0 |

f = forecasts

Source: The Institute of International Finance (IIF), GCC Country Database, October 2010.

Table VII: Consumer Price Index for GCC Countries (Annual % Change)

|                      | 2007 | 2008 | 2009 | 2010f | 2011f |
|----------------------|------|------|------|-------|-------|
| Bahrain              | 3.3  | 3.5  | 3.0  | 2.6   | 3.5   |
| Kuwait               | 5.5  | 10.6 | 4.0  | 4.3   | 4.0   |
| Oman                 | 5.9  | 12.0 | 3.5  | 2.7   | 2.6   |
| Qatar                | 13.6 | 15.2 | -4.9 | -1.6  | 3.8   |
| Saudi Arabia         | 4.0  | 9.9  | 5.1  | 5.7   | 5.1   |
| United Arab Emirates | 11.1 | 12.3 | 1.2  | 1.8   | 3.0   |

f = forecasts.

Sources: Institute of International Finance (IIF), GCC Regional Overview, October 2010.

Table VIII: GCC Real GDP Growth (2007 – 2011) (Y/Y % change)

| Country              | 2007 | 2008 | 2009e | 2010f | 2011f |
|----------------------|------|------|-------|-------|-------|
| Bahrain              | 8.4  | 6.3  | 3.1   | 3.7   | 4.9   |
| Kuwait               | 4.4  | 6.0  | -4.3  | 2.0   | 3.4   |
| Oman                 | 5.4  | 12.8 | 3.6   | 5.6   | 6.1   |
| Qatar                | 26.8 | 25.4 | 8.6   | 11.5  | 10.6  |
| Saudi Arabia         | 3.3  | 4.5  | 0.6   | 3.5   | 3.9   |
| United Arab Emirates | 6.4  | 5.4  | -2.0  | 2.0   | 3.3   |
| GCC                  | 6.7  | 7.6  | 0.4   | 4.0   | 4.6   |

e = estimates; f = forecasts

Sources: Institute of International Finance (IIF), GCC Regional Overview, October 2010.



## Financial Review

### Our Financial Goal

To maximize long-term shareholder value through steady first rate financial performance while realizing strong financial conditions.

### Our Financial Performance Objective

Maintain robust profit growth and to diligently achieve target return on equity, through diversified sources of revenues.

### Our Financial Condition Objective

To efficiently manage various risk types that are associated with our business and maintain strong asset quality, capital base and liquidity, while firmly achieving the set targets.

### **Net Income Analysis**

Gulf Investment Corporation (GIC) posted net consolidated profit of US\$ 151 million for the year 2010 compared to US\$ 91 million in 2009. This is after provision of US\$ 22 million (2009: US\$ 16 million) which relates mostly to accounting of marked-to-market valuation provision of some holdings in international private equity funds and debt securities.

Growth of approximately 66% in net profit for the current year was mainly contributed by GIC's core business - project investments, which reflects the effective and timely implementation of prudent strategic decisions. Analysis of the contributing components confirms good asset quality and the strength of GIC's investment philosophy under challenging situations.

### **Interest Income**

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

Gross interest and similar income declined by 49% to US\$ 43 million during 2010, which is attributable to the continuity of low interest rate scenario globally and due to redemptions and partial liquidation of interest bearing assets, within the context of a planned portfolio restructuring scheme.

### **Net Gains from Investments**

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

GIC recorded a net gain of US\$ 59 million during 2010, compared to US\$ 108 million in the prior year. Net gains for the year comprise of realized gain of US\$ 8 million on financial assets available for sale, US\$ 36 million from financial assets at fair value through statement of income and US\$ 15 million realized on planned exit from two associate companies.

### **Dividend Income**

Dividend income of US\$ 20 million (2009: US\$ 17 million) comprises of receipts from private equity funds, equities and managed funds and equity participations. Dividends from private equity funds amounted to US\$ 4 million. Equities and managed funds also contributed US\$ 4 million as dividends. An amount of US\$ 12 million was received as dividends from equity participation in projects.

### **Share of Results of Associates**

Share of results from associates accounted during the year amounted to US\$ 134 million showing significant growth compared to prior year income of US\$ 5 million. This represents GIC's share of profits from associated companies. The increase during 2010 was, to a large extent, contributed by projects in the steel and chemicals sector. Turn-around in the steel sector and overall industrial growth contributed to remarkable profits during the current year. It must be noted that the portfolio also includes new ventures, contributions from which are currently moderate, though expected to enhance significantly in the coming years, as they progress. Further, GIC's investments in mega projects within the power, utilities, re-insurance and other sectors are expected to provide the direction for future growth.

### **Net Fee and Commission Income**

Income from fee and commission amounting to US\$ 7 million for the year declined by US\$ 15 million compared to 2009. Prior year fees included one-off income of US\$ 11 million received from the successful development of a major power and utilities project in Bahrain. Last year's income also included fees of US\$ 3 million from advisory services for the assignments completed during that year. Fee income is generated from the fund management activity, financial advisory business and by providing custodial and administrative services to the funds managed by third parties.

### **Other Operating Income**

Other operating income represents the income from consolidated and other subsidiaries which at US\$ 6 million increased by approx. 20% compared to prior year.

### Interest Expense

Interest expense declined 41% compared to prior year, a reflection of the decline in interest rates and the average outstanding interest bearing liabilities.

### Operating Expenses

In line with increase in activities, operating expenses increased by approx. 9% or US\$ 4 million on an annual basis to reach at US\$ 50 million as at 31st December 2010.-

### Provision for Impairments/Mark-to-Market Losses

Net charge for the year in impairment/mark-to-market losses totaled US\$ 22 million, compared to US\$ 16 million recorded in 2009. Most of the additional provisions during 2010 relate to exposures in international private equity funds and debt securities. The Corporation continued to adhere to its conservative provisioning policy, based on mark-to-market valuations where ever possible. A detailed break down is provided in Note 20 to the Financial Statements.

### Balance Sheet Analysis

The Corporation took prudent steps to restructure and reduce leverage within the balance sheet, with the objective of achieving an asset allocation which enhances the risk adjusted return profile. This was also as a result of, and in step with the changed business environment. Initiatives were implemented both, on the assets and liabilities sides. As a result of this, total assets declined by 6% to reach US\$ 5,776 million at the end of year 2010.

The Corporation's strategic focus continues to be on the GCC states and their major trading partners in the industrialized world. Note 22.3.1 to the Financial Statements sets out the geographic distribution of the Corporation's credit risk exposure.

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

### Equity

Total equity increased by US\$ 367 million or 21% to reach US\$ 2,117 million at the end of 2010 (2009: US\$ 1,750 million). The increase is comprised of net profit of US\$ 151 million and marked-to-market valuation of assets available for sale & share of revaluation reserves of associates amounting to US\$ 216 million.

### Financial Assets at Fair Value through Statement of Income

This category includes investments in trading equities and funds of US\$ 52 million, trading bond and other debt funds of US\$ 219 million and alternative equity investments of US\$ 370 million. The portfolio increased by 7% compared to the previous year, primarily due to the increase in NAVs.

### Loans

In line with the strategic decision to discontinue this line of business, except for loans to entities within GIC's principal investment portfolio, the outstanding balance of loans, as of end 2010 amounted to US\$ 74 million net of provision. This is a loan, advanced at an arms length transaction, and at commercial rate of return, to a project investment in the portfolio.

Total loan loss provisions including loan guarantees amounted to US\$ 5 million at 31 December 2010. Counterparty specific provisions amounted to US\$ 2 million while general provisions as per Central Bank of Kuwait regulations were US\$ 3 million. The specific provisions are made against subordinate loans related 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.

### **Financial Assets Available for Sale**

As at 31 December 2010, financial assets available for sale amounted to US\$ 2,870 million, 8% lower than the levels of the previous year. Debt and other interest bearing securities, constituting 67% of the financial assets available for sale declined by US\$ 471 million or 20% during the year. Sales and natural redemptions amounting to approx. US\$ 736 million were partially offset by new purchases, net market appreciation and forex impact of non-USD denominated securities.

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

Financial assets available for sale also includes investments in equities and funds of US\$ 134 million, equity participation amounting to US\$ 536 million and international private equity fund exposures of US\$ 276 million. Equities and funds increased by 109% over the previous year end mainly due to re-investing in global equities portfolio and increasing the net exposure in GCC strategic equities.

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

Investments in private equity funds are carried at fair value. An amount of US\$ 10 million was charged to income statement for mark-to-market losses during the year.

Details on financial assets available for sale are provided in Note 5 to the financial statements.

### **Investment in Associates**

An associate is a company over which the Group exerts significant influence, usually evidenced by a holding/voting power of more than 20% of the investee company. The Corporation's investments in associates are accounted for using the equity method of accounting. Under the equity method, investment in associate is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Corporation's share of net assets of the investee company.

Principal investments in viable business ventures in the GCC region is a core activity of GIC. Over the years, the Corporation has become a predominant player and prime mover of such projects in the private sector. The focus has been on niche sectors like metal, petrochemical, power & utilities, financial services and building materials, where a sustainable competitive advantage has been built.

Investment in associates increased by 24% to US\$ 1,250 million primarily due to injection of capital and funds in new and some of the existing projects.

### **Property and Other Assets**

Including property and fixed assets, total other assets amounted to US\$ 287 million at 31 December 2010. Of this US\$ 36 million related to property and other fixed assets. The remaining US\$ 251 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 8 to the Financial Statements.

### **Liquidity and Funding**

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

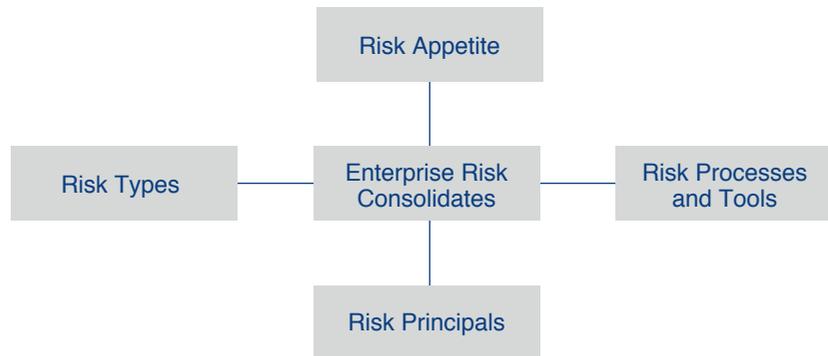
The management of risk is an integral part of the corporate strategic objective. The Corporation's business activities, in striving to achieve their financial goal of earning steady consistent competitive returns, entail risks. Cognizant of the interrelationship between risk and returns, the goal of risk management is to understand, analyze and manage these risks. Besides its vital role as business protector, the risk function of the Corporation strives to contribute as a business enabler as well.

During 2010, GIC implemented several initiatives in order to mitigate risks, deleverage the balance sheet, optimize resource allocation, and strengthen systems. These initiatives have begun to bear fruit, with significant improvement in capital adequacy, asset quality, leverage, processes and profitability. Unequivocally, GIC remains a significantly resilient, measurably strong and stable financial institution.

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

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

An independent Risk Management Division 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 spectrum of risks to which GIC's business and operations might be exposed. These risks are: Credit, Market, Funding and Liquidity, and Operational risks.

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

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

- a) Identifying and measuring the various risks generated,
- b) Monitoring, reporting and controlling them, and finally,
- c) Optimizing in relation to the return.

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

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

From the "Internal Control" perspective, the process of risk management is facilitated by a set of independent functions in addition to the Risk Management Division. These units report directly to senior management, including Financial Control, Internal Audit and Compliance. This multi-faceted approach upholds 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 defined as the risk of an economic loss that might arise from the failure of counterparty to fulfill its contractual obligations.*

During 2010, the continued improvements in credit markets produced positive impact on GIC's credit portfolio, especially due to the high quality of assets within. Valuation gains recorded in 2009 were maintained and improved on during the year. Further, the Corporation's strategy to focus on GCC credits and highly rated international names resulted in the superior quality and liquidity of the aggregate debt portfolio. Notwithstanding the Corporation's rigorous and prudent policies for provisioning, no material write-downs were required during 2010. This is a reflection of the good quality of the portfolio. GIC's credit portfolios recorded valuations gains of approximately US\$ 92.9 million during the year in review.

The year under review represented a unique challenge with sovereign credits being differentiated on the basis of macro considerations. The most adverse impact was felt on some of the European sovereigns where increasing debt levels weighed adversely on their credit. GIC was largely unaffected, with no material exposure to such troubled European sovereigns, largely due to its strong internal risk guidelines and proactive portfolio management. Moreover, GIC continued to focus on regional credit markets where the team has a better understanding of inherent risks. This has resulted in an enhanced risk return profile.

The Corporation further executed a planned scaling down of its asset backed securities portfolio with minimal impact on profitability and earnings, while contributing to the overall reduction of credit risk. The Corporation continued to be flexible and ready to adapt rapidly to unforeseen events along with the efficient utilization of conventional risk management tools, including mathematical and statistical models.

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

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

The Debt Capital Markets portfolio forms the largest asset class and constitutes approximately 33% of the balance sheet, is monitored against a Credit Value at Risk (Credit VaR) limit, and approved by the board. The US\$ 190 million VaR limit (99.96% confidence, 1 year), which supplements the existing notional limits for this portfolio, is based on the Creditmetrics methodology and is measured using Monte Carlo simulation techniques.

The table below provides the Credit VaR figures for the Debt Capital Markets Portfolios. On 31st December 2010 the market value of this portfolio was US\$ 1,923.6 million. As of 1st Jan 2010, it was US\$ 2,603.7 million. While, the average credit VaR was at about the same level of the previous year, scaling down of the lower quality asset backed security positions during the latter half of 2010, resulted in a 10% or US\$ 15.6 million decrease in year end VaR.

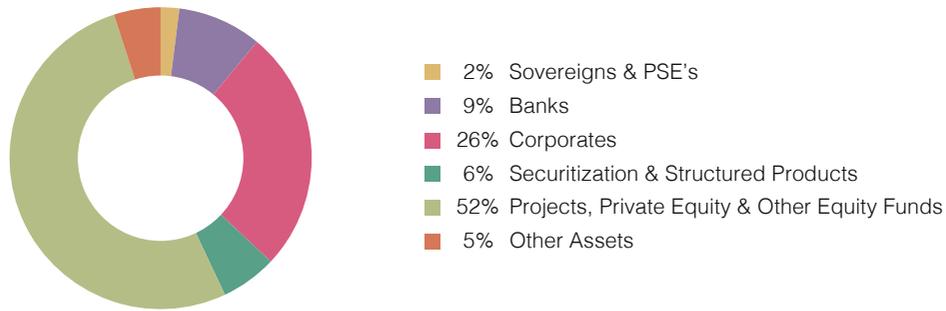
Table 1: 2010 Credit Value at Risk - 99.96% confidence level, 1 year holding period

| US\$ 000's      | Average | Minimum | Maximum | 31 Dec 2010 |
|-----------------|---------|---------|---------|-------------|
| Debt Portfolios | 162,783 | 139,143 | 180,028 | 139,143     |

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

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

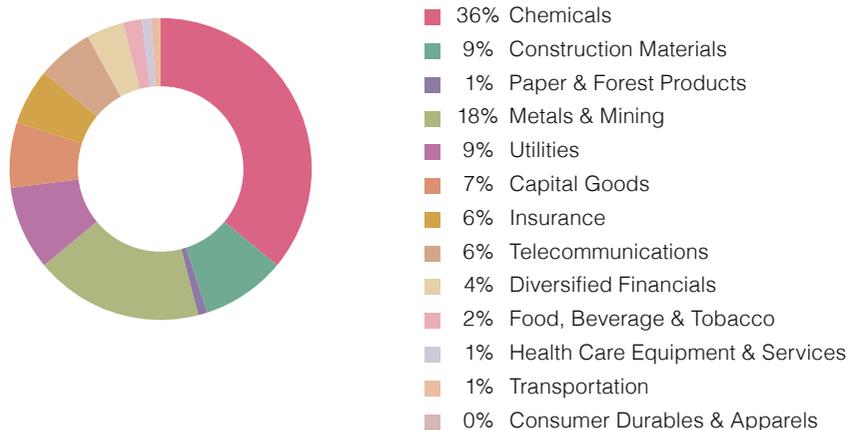
Chart 1: Sources of Credit Risk (Weighted Credit Risk Exposure)



Noteworthy, most of the realignment in the credit risk pie at the end of 2010, compared to the previous year-end, pertained to Securitization and Structured Investment Vehicle and projects & private equity. Credit risk weighted exposure for projects and private equity increased from 46.5% of total in 2009 to 52.0% at the 2010 year-end and for corporates increased from 25.5% of total in 2009 to 26.5% at the 2010 year-end. Credit risk weighted exposure for Securitization and Structured Investment Vehicle decreased from 9.2% of total in 2009 to 6.1% at the 2010 year-end. The two key components of total credit risk exposure were projects, private equity investments and other equity funds and corporates.

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

Chart 2: Principal Investing (Projects) by Industry



### Off-balance Sheet Financial Instruments

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

In the case of derivatives and foreign exchange transactions, procedures similar to on balance sheet products are used for measuring and monitoring credit risk. Credit risk weighted exposure to off balance sheet products amounted to nearly 8.4% of total credit risk weighted exposure. This figure represents the mark-to-market or replacement cost of these transactions. At the year end 2010, all outstanding derivatives held for trading were foreign exchange contracts, 37% of which were short term with a maturity of less than one year. Credit risk amounts arising from these transactions relate to major banks. Off balance sheet transactions also include credit-related contingent items designed to meet the financial requirement of the Corporation's customers. A detailed credit risk analysis of credit-related contingent items, derivatives and foreign exchange products is set in Notes 23 & 24 to the financial statements.

Although, the global credit markets have stabilized from their peak levels of uncertainty and volatility that were experienced during the crisis, the Corporation will continue to adhere to strong internal risk controls.

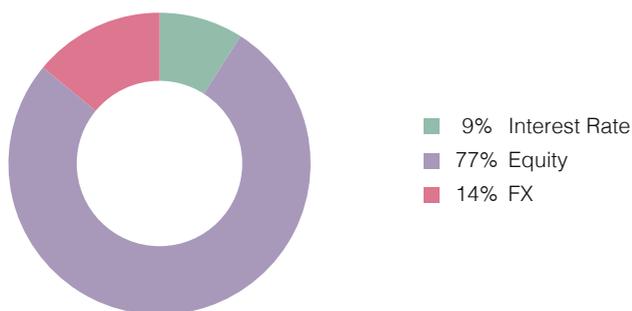
While the mechanism of risk monitoring and control has been fostered further, the risk management function is now more engaged with the business units, having been brought forward within the investment process. In addition to incorporating additional credit information, including CDS prices, equity prices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

### MARKET RISK

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

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

Chart 3: Market Risk Constituents – Overall



Market risk is measured, monitored and managed, both on a notional basis, and using a Market Value at Risk (Market VaR) concept. A blend of quantitative statistical methods combined with expert judgments and experienced talent is used to effectively manage market risk. A system of limits and guidelines restrain the risk taking activity with regard to individual transactions, net positions, volumes, maturities, concentrations, maximum allowable losses. 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 (Total VaR) 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.

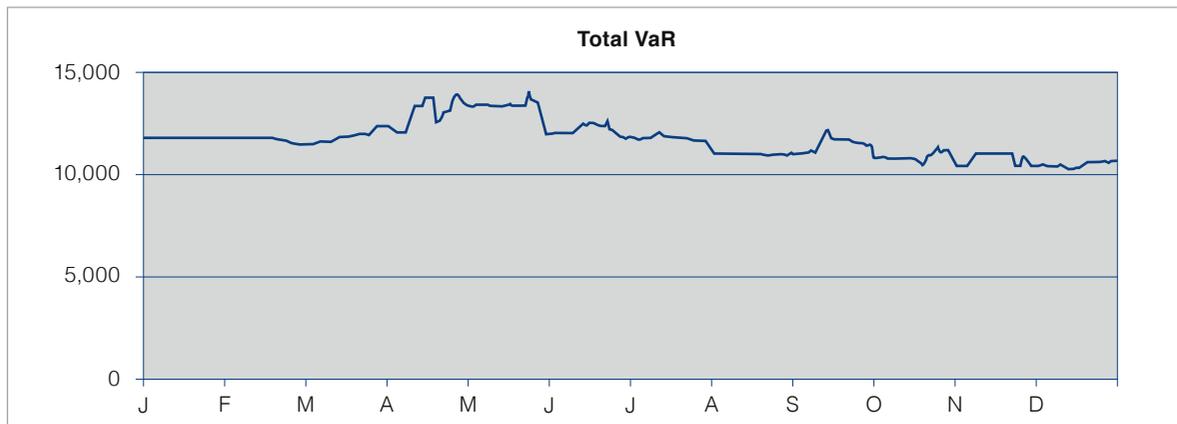
Table 2: Market VaR for Global Markets Group alone - 25 day holding period, 95% confidence level

| 2010             |         |         |         |           |
|------------------|---------|---------|---------|-----------|
| US\$ 000's       | Average | Minimum | Maximum | 31-Dec-10 |
| Interest rate    | 1,362   | 768     | 2,726   | 2,720     |
| Equity           | 12,116  | 11,201  | 14,564  | 11,593    |
| Foreign Exchange | 2,229   | 924     | 4,340   | 3,465     |
| Total*           | 11,856  | 10,490  | 14,240  | 10,890    |
| 2009             |         |         |         |           |
| US\$ 000's       | Average | Minimum | Maximum | 31-Dec-09 |
| Interest rate    | 4,823   | 1,536   | 7,975   | 1,872     |
| Equity           | 24,968  | 10,172  | 32,935  | 10,981    |
| Foreign Exchange | 2,411   | 1,765   | 4,406   | 2,117     |
| Total*           | 25,203  | 10,200  | 33,132  | 11,086    |

\* Total VaR incorporates benefits of diversification

During 2010, the corporation maintained its prudential view with no material increase in market risk exposures. This is reflected in the lower level of Total Market VaR, which ranged between US\$ 10.5 million and US\$ 14.2 million, averaging at about US\$ 11.9 million. Comparatively, the average Total VaR in 2009 was US\$ 25.5 million. Total market risk VaR remained within limits as approved by the Risk Management Committee and the Board of Directors. Equity Value at Risk (Equity VaR) continues to be the dominant component of Market VaR. Interest rate VaR continues to be moderate, given that interest rate positions are, to a large extent, hedged. The Corporation will closely monitor the operating environment and seek to take on appropriate market risk at opportune times.

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



We should note that certain portfolios and positions are not included in the market VaR analysis, where VaR is not the most suitable measure of risk. These include the principal project investments in the GCC and the portfolio of international private equity funds. The market risk relating to these investments are measured in terms of a 10% sensitivity measure – an estimated decline in asset values. The fair values of the underlying positions may be sensitive to changes in a number of factors, including but not limited to: the financial performance of the companies, projected timing and amount of future cash flows, discount rates, trends within sectors and underlying business models. The table below provides the sensitivity measure for 2010 and 2009. 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.

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 2010  | 31 Dec 2009 |
| Principal Investments | Underlying asset value  | 187,809  | 147,194     |
| Private Equity Funds  | Underlying asset value  | 27,602   | 26,946      |

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

### Liquidity Risk Management

**Liquidity risk is defined as 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:

- Cash flow illiquidity**, arising from the inability to honor financial commitments or to procure funds at reasonable rates and required maturities; and
- Asset illiquidity**, relating to the lack of market depth during times when assets are to be liquidated on a forced basis.

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

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

- Meeting day-to-day cash outflows;
- Providing for seasonal fluctuation of sources of funds;
- Providing for cyclical fluctuations in economic conditions that may impact availability of funds;
- Minimizing the adverse impact of potential future changes in market conditions affecting GIC's ability to fund itself; and
- Surviving the consequences of loss of confidence that might induce fund providers to withdraw funding to GIC.

### Liquidity Limits

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

The liquidity limits that are regularly monitored include the following:

- a) Maximum daily cash outflow limit for major currencies;
- b) Maximum cumulative cash outflow which should include likely outflows as a result of draw-down of commitments, etc; and
- c) Net liquid asset ratio – this ratio is calculated by taking a conservative view of marketability of liquid assets, with a discount to cover price volatility and any drop in price in the event of a forced sale. The ratio is the proportion of such liquid assets to volatile liabilities.

The net liquid asset ratio as of 31st December 2010 was 217.7%. This figure was determined taking into account the following basic criteria:

- a) A 3-month remaining maturity is used to establish the time threshold by which balance sheet items are determined to be liquid or illiquid, stable or volatile;
- b) Appropriate "haircuts" are applied on liquid assets to reflect potential market discounts; and
- c) A "business as usual" posture is maintained in ascertaining the level of assets to be liquidated or pledged to avoid sending a wrong signal to the market.

The Corporation's investment portfolio is managed so that 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. By the end of December 2010, investments in marketable securities tallied at approximately US\$ 1.9 billion, and are primarily made up of investment grade securities.

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

### **Market Access for Liquidity**

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

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

A diversity of funding sources, currencies, and maturities are used in order to gain a broad access to the investor base. Several initiatives to strengthen the corporation's liquidity profile were successfully executed during 2010. Significant among these was the raising of US\$ 300 million of three year term finance from regional investors. As of 31 December 2010, the Corporation's term financing stood at US\$ 1,179 million.

Further, the Corporation was successful in enhancing the diversity of its depositor base, a reflection of increased market confidence. At year-end 2010 the Corporation's deposit base stood at about US\$ 1,429 million, of which approximately 99% is due to GCC depositors. 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 24.7% of total funding at year-end 2010. During the year, the Corporation was successful in raising funds through repurchase agreement for relatively longer tenure of 2 years and 3 years at competitive rates indicating the high quality of the securities portfolio.

During 2010, the over liquidity condition in the international and regional markets was appreciably better than the previous year. However, the Corporation has continued to maintain a conservative approach by setting aside above normal levels of cash and other short term liquid assets.

The table below provides the breakdown of the Corporation's funding source for the comparative years 2009 to 2010.

| US\$ Millions                | 2010 (US\$) | 2010 (%) | 2009 (US\$) | 2009 (%) |
|------------------------------|-------------|----------|-------------|----------|
| GCC Deposits                 | 1,419       | 25%      | 1,349       | 22%      |
| International Deposits       | 10          | -        | 11          | -        |
| Repo Financing               | 856         | 15%      | 1,211       | 20%      |
| Term Financing               | 1,179       | 20%      | 1,587       | 26%      |
| Shareholder's funds & Others | 2,312       | 40%      | 1,955       | 32%      |
| Total                        | 5,776       | 100%     | 6,113       | 100%     |

### Contingency Funding Plan

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

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

- A suite of measures to be undertaken in the absence of liquidity crisis to enhance GIC's available liquidity in the event of a crisis;
- Careful identification of specific triggers that would prompt activation of CFP; and;
- Specification of exact guidelines for adequate management of liquidity crisis.

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

### Interest Rate Gapping Risk

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

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

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

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

The Eurodollar futures contract position value as at December 31, 2010 is calculated at 2,012 contracts, with an estimated VaR of US\$ 0.93 million.

### Maturity profile of assets and liabilities

A detailed breakdown of the maturity profile by individual asset and liability category is provided in Note 22 to financial statements. At December 31st 2010, roughly 58% 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 32% 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

With the sustained good performance over the last two years, including the significant improvements in financial strength, liquidity & liability profile and enhanced overall risk levels, GIC's ratings have stabilized. Most recently, Moody's reaffirmed GIC's Baa2 rating, while upgrading the outlook to 'Stable' from 'Negative'. As of end 2010, GIC's long term deposits were rated BBB by Fitch and Baa2 by Moody's. GIC continues to be rated AAA by Rating Agency Malaysia (RAM).

|                                | <b>Moody's</b> | <b>Fitch</b> | <b>RAM</b> |
|--------------------------------|----------------|--------------|------------|
| Long-term Deposits             | Baa2           | BBB          | AAA        |
| Short-term Deposits            | P2             | F3           | P1         |
| Bank Financial Strength (BFSR) | D-             |              |            |

## 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.

At US\$ 2.1 billion, the capital base has crossed the high levels that existed prior to the financial crisis year of 2008. GIC continues to be one of the best capitalized financial institutions in the region

## Regulatory Capital

The Basel Committee on Banking Supervision has introduced a revised capital adequacy framework that 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's view is that it is prudent to implement the recommendations set forth under the revised accord with the following primary objectives:

- 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;
- GIC acknowledges the importance of the qualitative and quantitative approaches set out in Basel II that impose rigor and discipline with respect to capital adequacy assessment; and
- Adopting the Basel II 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 2010 was 30.0%. The Tier 1 ratio was the same, since the existing small quantum of Tier 2 capital was reduced to nil after deductions. Comparatively, the Total and Tier 1 capital ratios the previous year was 27.7%, and 8.65% in 2008. The continued enhancement in capital adequacy ratios was driven by the strengthening of the core capital base. Moreover, the scaling down of risk exposures also had a positive impact on capital ratios. The standardized approach was used to calculate the capital requirement to cover credit and operational risks. Market risk capital cover calculation, on the other hand, employed the VaR-based approach. Going forward, GIC aims to achieve convergence of regulatory capital with economic capital as it adopts more advanced measurements for capital adequacy. Details of the regulatory capital ratio computations are provided in the Basel II disclosure section of this annual report.

### Economic Capital

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

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

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

### OPERATIONAL RISK

*Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, or systems, external events, and the oversight of unexpected low-probability, high impact 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 (low frequency, high severity) and unusual one-time events, such as disaster events - in its framework for Operational Risk Management. Operational Risk is embedded in all our activities, including the practices and controls used to manage other risks.

Our Operational Risk Management framework flows directly from our Enterprise Risk Management framework and sets out the principles and practices that we use to manage Operational Risk by identifying, measuring, controlling, monitoring and reporting it. Among these controls are:

- a) appropriate segregation of duties by adopting the "maker-checker" 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 and the Sound Practices of Management and Supervision of Operational Risk, 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, emerging and/or other potential problems.

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

The 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.

Any high-risk exposures that we identify are subject to remedial measures, monitoring and control testing. This includes exposures identified through our integrated risk and control assessment and monitoring program, internal audits, compliance reviews, business continuity readiness reviews, or Operational Risk event reporting.

#### **Risk monitoring/control - Loss Event Framework**

Operational loss events are reported in a central database. Comprehensive information about these events is collected, and includes information regarding amount, occurrence, discovery date, business area and product involved, and detailed root cause analysis. In keeping with our broad definition of Operational Risk, during 2009 we began to include data on events with non-monetary impacts and near-miss events in our collection and analysis activities.

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 Corporation's 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 Corporation's; and
- link the various components of Operational Risk events; and facilitates compliance with regulatory and supervisory requirements.

#### **Business Resilience and Continuity Planning (BCP)**

When a Business Continuity Plan is correctly used, it can help reduce operational risks. With careful and regular reviews BCP ensures the Corporation an ability to operate on an ongoing basis and limit losses in the event of a severe business disruption.



## Basel II Disclosure

Basel II Rationale:

### **Aligning banking risk management with Capital Requirements**

As Basel II 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 bank's internal controls and risk management processes and models, the supervisory review process, and market discipline.

Basel II encourages the ongoing improvements in risk assessments and mitigation. Thus, over time, it presents banks with 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 banks may derive from compliance to the new accord.

## **The Architecture of Basel II –The Three Pillars**

With Basel II, the Basel Committee abandons Basel I'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 II 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 via its publication dated June 2006 – A Revised Framework for International Convergence of Capital Measurement and Capital Standard. In line with its conservative policies, the Corporation had adopted in 2009 the increased capital requirement for market risk proposed by Basel Committee and due for adoption in 2010.

## 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 2010 and December 2009. The definition of regulatory capital under the two accords remains unchanged. However, Basel II 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 2010, 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\$ 1,882.1 million by year-end December 2010 compared to US\$ 1,683.6 million recorded in December 2009. The increase in capital was a result of the Corporation's financial performance and significant valuation gains. As a conservative measure, the net fair value reserve, which was positive for the year under review, was deducted from eligible capital to the extent of 55% of the same. 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 2010 | 31 December 2009 |
|--|------------------|------------------|
| Paid-up capital                                  | 2,100.0          | 2,100.0          |
| Disclosed reserves                               | 505.3            | 475.0            |
| Retained earnings                                | (566.3)          | (686.0)          |
| Less: Goodwill                                   | 38.9             | 40.6             |
| Less: Deductions                                 | 118.0            | 25.7             |
| Less: Adjustment for negative Fair value reserve | -                | 139.0            |
| Total Tier 1 Capital                             | 1,882.1          | 1,683.6          |
| Fair value reserve (55% discount)                | 34.8             | -                |
| General Provision                                | 2.4              | 2.6              |
| Less: Deductions                                 | 37.2             | 2.6              |
| Total Tier 2 Capital                             | -                | -                |
| Total eligible regulatory capital                | 1,882.1          | 1,683.6          |

## 2. Capital Adequacy Management

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

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

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 32 of this annual report.

Table 2: Capital Adequacy Ratios

| In US\$ millions        | Risk-weighted assets | Capital requirement |
|-------------------------|----------------------|---------------------|
| Credit Risk             | 4,070.3              | 325.6               |
| Market Risk             | 1,930.9              | 154.5               |
| Operational Risk        | 278.6                | 22.3                |
| Total                   | 6,279.8              | 502.4               |
| Capital Adequacy Ratios |                      |                     |
| Total CAR               | 30.0%                |                     |
| Tier 1 Ratio            | 30.0%                |                     |

Table 2 details the risk-weighted assets together with their corresponding regulatory capital requirements as at 31 December 2010. Total CAR and Tier 1 capital ratio are likewise calculated. The numbers were generated by applying the 'Standardized' approach for credit and operational risks, while the 'Internal Model' approach was utilized to yield market risk positions. Total risk-weighted exposures of US\$ 6,279.8 million, as at 31 December 2010, requires regulatory capital of US\$ 502.4 million to meet the minimum Basel II CAR of 8%. Should the minimum CAR threshold be raised to GIC's internal target of 16%, the required regulatory capital increases to about US\$ 1,004.8 million. The reported eligible regulatory capital of US\$ 1,882.1 million still provides sufficient cushion to support business expansions.

Table 3: Risk Exposure Break-down

| In US\$ millions                                 | 31 December 2010 |
|--|------------------|
| <b>Credit Risk (RWA)</b>                         |                  |
| Claims on sovereigns                             | 20.7             |
| Claims on Public Sector Entities                 | 58.1             |
| Claims on Banks                                  | 378.1            |
| Claims on Corporates                             | 1,115.1          |
| Securitization and Structured Investment Vehicle | 117.3            |
| Venture Capital and Private Equity               | 268.1            |
| Investments in Commercial Entities               | 1,789.7          |
| Investments in Other Funds and Quoted Equities   | 132.8            |
| Other Assets                                     | 190.4            |
| Total  | 4,070.3          |
|  |                  |
| <b>Market Risk (VaR)</b>                         |                  |
| Interest rate risk position                      | 6.0              |
| Foreign exchange risk position                   | 9.2              |
| Equity risk position                             | 23.4             |
| (Total VaR + Stress VaR) x 3                     | 115.8            |
| Specific risk position                           | 38.7             |
| Total capital requirement                        | 154.5            |
| Total RWA (capital requirement x 12.5)           | 1,930.9          |
|  |                  |
| <b>Operational Risk (RWA):</b>                   |                  |
| Operational risk capital charge                  | 22.3             |
| Total RWA (capital charge x 12.5)                | 278.6            |

### 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 need 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, are to:

- Risk Appetite – Review the proposed risk appetite settings and recommend it to the Board for approval;
- Risk Limits and Delegation Structure – Review the proposed risk limits, in the context of the risk appetite, to control Credit, Market, Liquidity and Operational risks.
- Policies and Procedures – Review key policies and procedures for the effective identification, measurement, monitoring and controlling of Credit, Market, Liquidity and Operational risks.
- 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.
- 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 Risk Management Division (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 and 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:

- Evaluate and analyze the enterprise wide risk profile by developing risk monitoring techniques
- Set up and develop criteria for defining the Corporation's risk threshold in terms of various risks
- Develop and establish tools for the measurement of the Corporation's various risk types; and
- 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.

- Management Committee covers mainly general management issues including performance review vis-à-vis budget, and assessment of status quo against strategic business plan.
- Global Markets Group Investment Committee translates investment strategy directions into asset allocation guidelines, recommends investment proposals, and reviews investment portfolios. The committee also functions as a surrogate Asset-Liability Committee.
- Principle Investing Investment Committee evaluates proposals for investments and divestiture of assets and ensures compliance to investment criteria as well as investment procedures at each phase of the investment process.
- Global Markets 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.
- 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.
- Audit Committee provides assurance on the adequacy of internal controls and accuracy of reports and reporting.
- 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 document which aims to promote a strong credit risk management architecture that includes credit procedures and processes. The policy defines the areas and scope of investment activities undertaken by the Corporation and its main goal is not simply to avoid losses, but to ensure achievement of targeted financial results with a high degree of reliability. The Corporation's credit risk management focuses on the dynamic and interactive relationship between three credit process phases: portfolio strategy and planning, investment origination and maintenance, and performance assessment and reporting. Each of these phases is discussed briefly below.

##### **Portfolio Strategy and Planning**

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

##### **The Investment Committees**

The Committees monitor and approve investment proposals and review portfolio concentrations in terms of economic sectors and asset class. These limits are reviewed annually to ensure that there are no undue concentrations in one sector or asset class, and that the limits are within those set out by the Corporation. For counter-party limits, such as limits for banks and financial institutions, credit line approval follows a strict process of credit review, with proper authority levels delegated to senior credit officers. Foreign exchange trading and 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 Executive 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 Capital Employed (ROCE)
- c) Additional economic value created by individual projects.
- d) Exceptions to risk acceptance criteria; and
- e) Other policy exceptions.

Inherent in the Corporation's business activity is the presence of 'portfolio risk', which arises whenever there is high positive correlation between individual credit portfolios. To address this particular risk, the Corporation employs the 'Credit Manager' system promoted by the Risk Metrics Group. The system is a quantitative based program where overall portfolio 'Credit Value at Risk' Credit VaR is measured and controlled. This model calculates Credit VaR based on credit ratings of the names, default probabilities, loss given default, current market prices of the credits, while considering the impact of correlation of the various credits in the portfolio. In order to institute a common language for understanding and dimensioning credit risk across GIC's range of investments in projects, 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 II 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 II's multiple assessment guidelines are invoked. In order to provide a common platform into which different notations used by the aforementioned rating agencies can be mapped, a scale of uniform Credit Quality Grades (CQG) represented by the numerals 1 to 5 or 6 are used to represent the relevant risk weights of each standard portfolio. Separate scales are prepared for risk-weighting both long-and short-term issues.

Table 4: CQG Mapping

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

Table 4 serves as a sample of mapping notations of rating agencies into CQGs for claims on Corporates. At 31 December 2010, rated credit exposures accounted for more than 24% of total credit exposures. Note that the numbers are after applying the equivalent risk-weights (credit conversion) as provided under the Basel II accord. Meanwhile, gross credit exposure to rated assets was recorded at approximately 42% of total gross credit exposure. Assets that are rated single 'A' or better comprised 71% of rated gross credit exposure.

Table 5: Credit Exposure (post-credit conversion)

| In US\$ millions                   | 31 December 2010 |         |         |
|------------------------------------|------------------|---------|---------|
|                                    | Rated            | Unrated | Total   |
| Claims on Sovereigns               | -                | 20.7    | 20.7    |
| Claims on Public Sector Entities   | 58.1             | -       | 58.1    |
| Claims on Banks                    | 373.2            | 4.9     | 378.1   |
| Claims on Corporate                | 480.4            | 634.7   | 1,115.1 |
| Securitization and SIVs            | 117.3            | 138.6   | 255.9   |
| Venture Capital and Private Equity | -                | 268.1   | 268.1   |
| Investments in Commercial Entities | -                | 1,789.7 | 1,789.7 |
| Other Funds and Quoted Equities    | -                | 132.8   | 132.8   |
| Other Assets                       | -                | 190.4   | 190.4   |
| Total                              | 1,029.0          | 3,179.9 | 4,208.9 |
| In Percent                         | 24.4%            | 75.6%   | 100.0%  |

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

| In US\$ millions                   | 31 December 2010 |         |         |
|------------------------------------|------------------|---------|---------|
|                                    | Rated            | Unrated | Total   |
| Claims on Sovereigns               | 45.3             | 20.7    | 66.0    |
| Claims on Public Sector Entities   | 129.2            | -       | 129.2   |
| Claims on Banks                    | 1,165.5          | 9.7     | 1,175.2 |
| Claims on Corporate                | 680.6            | 634.7   | 1,315.3 |
| Securitization and SIVs            | 302.0            | 127.4   | 429.4   |
| Venture Capital and Private Equity | -                | 268.1   | 268.1   |
| Investments in Commercial Entities | -                | 1,789.7 | 1,789.7 |
| Other Funds and Quoted Equities    | -                | 132.8   | 132.8   |
| Other Assets                       | -                | 190.4   | 190.4   |
| Total                              | 2,322.6          | 3,173.5 | 5,496.1 |
| In Percent                         | 42.3%            | 57.7%   | 100.0%  |

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

Table 7: Gross Credit Exposure before CRM

| In US\$ millions                   | 31 December 2010 |          |         |
|------------------------------------|------------------|----------|---------|
|                                    | Funded           | Unfunded | Total   |
| Claims on Sovereigns               | 66.0             | -        | 66.0    |
| Claims on Public Sector Entities   | 129.2            | -        | 129.2   |
| Claims on Banks                    | 1,162.1          | 13.1     | 1,175.2 |
| Claims on Corporate                | 868.0            | 447.3    | 1,315.3 |
| Securitization and SIVs            | 429.4            | -        | 429.4   |
| Venture Capital and Private Equity | 268.1            | -        | 268.1   |
| Investments in Commercial Entities | 1,789.7          | -        | 1,789.7 |
| Other Funds and Quoted Equities    | 132.8            | -        | 132.8   |
| Other Assets                       | 190.4            | -        | 190.4   |
| Total                              | 5,035.7          | 460.4    | 5,496.1 |
| In Percent                         | 91.6%            | 8.4%     | 100.0%  |

In terms of facility type (Table 7), US\$ 5,035.7 million or approximately 92% 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 December 2010 |        |               |      |         |
|------------------------------------|------------------|--------|---------------|------|---------|
|                                    | GCC              | Europe | North America | Asia | Total   |
| Claims on Sovereigns               | 66.0             | -      | -             | -    | 66.0    |
| Claims on Public Sector Entities   | 129.2            | -      | -             | -    | 129.2   |
| Claims on Banks                    | 506.1            | 497.5  | 130.5         | 41.1 | 1,175.2 |
| Claims on Corporate                | 835.8            | 165.1  | 293.6         | 20.8 | 1,315.3 |
| Securitization and SIVs            | -                | 165.8  | 263.6         | -    | 429.4   |
| Venture Capital and Private Equity | 23.9             | 49.1   | 192.3         | 2.8  | 268.1   |
| Investments in Commercial Entities | 1,664.5          | -      | 125.2         | -    | 1,789.7 |
| Other Funds and Quoted Equities    | 72.6             | -      | 60.2          | -    | 132.8   |
| Other Assets                       | 108.9            | 35.0   | 46.5          | -    | 190.4   |
| Total                              | 3,407.0          | 912.5  | 1,111.9       | 64.7 | 5,496.1 |
| In Percent                         | 62.0%            | 16.6%  | 20.2%         | 1.2% | 100.0%  |

The geographical distribution (Table 8) is based on either the primary purpose of the exposure or the place of incorporation of the debt security issuer, or incorporation of the fund manager. A sizable portion of credit exposure is in the GCC region tallying at US\$ 3,407.0 million, or 62.0% of the total. Following suit are exposures to North America and Europe, 20.2% and 16.6% respectively. These exposures are due in great part to investments in global securities and funds with varying investment themes.

Table 9: Gross Credit Exposure by Industry Sector

| In US\$ millions                   | 31 December 2010 |                 |           |                |       |         |
|------------------------------------|------------------|-----------------|-----------|----------------|-------|---------|
|                                    | Banks & FIs      | Trading & Mftg. | Utilities | Govt. Agencies | Other | Total   |
| Claims on Sovereigns               | -                | -               | -         | 66.0           | -     | 66.0    |
| Claims on Public Sector Entities   | -                | -               | -         | 129.2          | -     | 129.2   |
| Claims on Banks                    | 1,175.2          | -               | -         | -              | -     | 1,175.2 |
| Claims on Corporate                | 241.0            | 272.0           | 802.3     | -              | -     | 1,315.3 |
| Securitization and SIVs            | 429.4            | -               | -         | -              | -     | 429.4   |
| Venture Capital and Private Equity | 268.1            | -               | -         | -              | -     | 268.1   |
| Investments in Commercial Entities | 167.5            | 1,248.2         | 300.1     | -              | 73.9  | 1,789.7 |
| Other Funds and Quoted Equities    | 132.8            | -               | -         | -              | -     | 132.8   |
| Other Assets                       | 131.8            | 39.0            | 3.0       | 4.0            | 12.6  | 190.4   |
| Total                              | 2,545.8          | 1,559.2         | 1,105.4   | 199.2          | 86.5  | 5,496.1 |
| In Percent                         | 46.3%            | 28.4%           | 20.1%     | 3.6%           | 1.6%  | 100.0%  |

The table on industry distribution (Table 9) of the gross credit exposure reveals a concentration on banks and financial institutions, amounting to 46.3% 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 December 2010 |                    |              |              |         |
|------------------------------------|------------------|--------------------|--------------|--------------|---------|
|                                    | Within 3 months  | 3 months to 1 year | 1 to 5 years | Over 5 years | Total   |
| Claims on Sovereigns               | -                | -                  | 55.9         | 10.1         | 66.0    |
| Claims on Public Sector Entities   | -                | -                  | 43.0         | 86.2         | 129.2   |
| Claims on Banks                    | 649.1            | 170.7              | 355.4        | -            | 1,175.2 |
| Claims on Corporate                | 36.9             | 513.8              | 624.7        | 139.9        | 1,315.3 |
| Securitization and SIVs            | 14.2             | 67.9               | 218.5        | 128.8        | 429.4   |
| Venture Capital and Private Equity | -                | -                  | 3.4          | 264.7        | 268.1   |
| Investments in Commercial Entities | -                | -                  | -            | 1,789.7      | 1,789.7 |
| Other Funds and Quoted Equities    | -                | -                  | -            | 132.8        | 132.8   |
| Other Assets                       | 37.0             | 60.0               | 16.0         | 77.4         | 190.4   |
| Total                              | 737.2            | 812.4              | 1,316.9      | 2,629.6      | 5,496.1 |
| In Percent                         | 13.4%            | 14.8%              | 24.0%        | 47.8%        | 100.0%  |

The residual maturity of gross credit exposure broken down by standard credit risk exposure is shown in Table 10. More than 47% of gross credit exposure falls within the longest time bucket of over five years.

### Recognition of Impairment of Assets

The Corporation assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. Investments are treated as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires considerable judgment. In addition, the Corporation evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for projects and unquoted equities. The Corporation reviews its problem loans and advances, and investment in debt instruments at each reporting date to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based

on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. Noteworthy, the Corporation has taken a strategic decision to wind down its lending activities. An insignificant amount of impaired assets stemming from project loans provided to two manufacturing companies 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 II capital adequacy guidelines. As such, the external credit assessments provided by either Moody's or S&P are considered when determining credit risk weights for securitization exposures.

Table 11: Credit Exposure on Securitization and SIVs

| In US\$ millions | 31 December 2010 |                          |
|------------------|------------------|--------------------------|
|                  | Gross Exposure   | Post-credit Conversion   |
| CQG 1            | 232.4            | 46.6                     |
| CQG 2            | 29.7             | 14.8                     |
| CQG 3            | 17.8             | 17.8                     |
| CQG 4            | 10.9             | 38.1                     |
| CQG 5            | 2.8              | (deduction from capital) |
| CQG 6            | 8.4              |                          |
| Unrated          | 127.4            |                          |
| Total            | 429.4            | 117.3                    |

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 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 VaR being equal to the arithmetic sum of the three components. The capital charge relating to market risk is determined for all portfolios categorized as trading (the trading book), which includes the following (Ref Notes 4 of 2010 consolidated financial statements):

|                                |             |      |
|--------------------------------|-------------|------|
| <b>(US\$ million)</b>          | <b>2010</b> | 2009 |
| Equities and Managed funds     | 352         | 326  |
| Alternative equity investments | 289         | 275  |
|                                | <b>641</b>  | 601  |

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

The VaR 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 VaR measure, the Corporation felt it appropriate to utilize the 'hypothetical portfolio' approach. In this approach, a static hypothetical model portfolio, with similar characteristics of the actual portfolio, is created and daily change in market value is computed based on actual price observations. VaR is also computed for this static portfolio using the model and comparisons are made between actual results and model estimates. The advantage of this method is that the value change outcomes are not 'contaminated' by changes in the portfolio (which could happen if the actual portfolio were used).

The multiplication factor of 3 is used for capital calculation, in line with the Basel guidelines.

Capital charge for market risk is determined based on the following formula:

$$\text{Capital Charge (market risk)} = (\text{Max}\{V_{\text{avg}}, V_{\text{end}}\} + \text{Max}\{SV_{\text{avg}}, SV_{\text{end}}\}) \times Mf$$

Where,  $V_{\text{avg}}$  equals: Average Total VaR for the trading book over the previous 60 business days

$V_{\text{end}}$  equals: End of period Total VaR for the trading book

$SV_{\text{avg}}$  equals: Average Stressed VaR for the trading book over the previous 60 business days

$SV_{\text{end}}$  equals: End of period Stressed VaR for the trading book

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

Table 12: Trading Book VaR (US\$ 000's) – 10 day holding period, 99% confidence level. For the last 60 business days in 2010

| In US\$ millions | Interest Rate | Equity | FX  | Total |
|------------------|---------------|--------|-----|-------|
| Max              | 1.0           | 8.6    | 4.1 | 13.7  |
| Min              | 0.8           | 7.5    | 3.0 | 11.3  |
| Average          | 0.9           | 7.8    | 3.7 | 12.4  |
| 31-Dec-10        | 0.9           | 7.8    | 3.8 | 12.5  |
| Stress VaR       | 5.1           | 15.5   | 5.6 | 26.2  |

## 7. Operational Risk

Operational risk is defined by GIC as "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.

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  |
| Headquarters            | Income classified for Headquarters as per internal FTP (Fund Transfer Pricing) method, and other income that cannot be classified in any other business line | Income from Free Capital, Rental Income, Other Income, etc   |

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

Table 14: Operational Risk Capital Charge

| In US\$ millions        | 31 December 2010          |             |                |
|-------------------------|---------------------------|-------------|----------------|
|                         | 3 yr Average Gross Income | Beta Factor | Capital Charge |
| Principal Investment    | 112.9                     | 18%         | 20.4           |
| Debt Capital Market     | (1.1)                     | 18%         | (0.2)          |
| Equities Investments    | 12.2                      | 18%         | 2.2            |
| Alternative Investments | (40.5)                    | 18%         | (7.3)          |
| Treasury                | 3.3                       | 18%         | 0.6            |
| Asset management        | 13.5                      | 12%         | 1.6            |
| Corporate Finance       | 26.8                      | 18%         | 4.8            |
| Head-quarters           | 1.2                       | 18%         | 0.2            |
| Total                   | 128.3                     |             | 22.3           |
| Risk-weighted exposure  |                           |             | 278.6          |

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

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

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

## 8. Equity Risk in the Banking Book

Equity investments in the banking book are classified at the time of acquisition into those acquired for realizing capital gains and to those purchased for strategic investments. The decision where to classify investments is arrived at after considering significant factors that include business and strategic advantages to the Corporation, and the amount of planned investments. All investment decisions require the approval of the Investment Committees, or the Executive Committee, depending on the amount of exposure. Investments acquired with a view to generating income and profits from capital appreciation are reviewed periodically and disposed 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 2010 is US\$ 985.9 million, net of provision (refer to Table 15 on the following page). Cumulative realized gain from sale or exchange of available for sale securities and projects is approximately US\$ 183.5 million, of which a significant portion is from publicly traded equity holdings. Meanwhile, the total unrealized gain recognized in equity is US\$ 125.8 million.

Table 15: Equity Holdings in Banking Book

| In US\$ millions                      | 31 December 2010 |                |       |
|---------------------------------------|------------------|----------------|-------|
|                                       | Publicly Traded  | Privately Held | Total |
| Fair Value of Equity Investments      | 512.9            | 473.0          | 985.9 |
| Realized gains recorded in P/L        | 167.4            | 16.1           | 183.5 |
| Unrealized gains recorded in equity   | 108.1            | 17.6           | 125.8 |
| 45% unrealized gain in Tier 2 Capital | 48.7             | 7.9            | 56.6  |

## 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 31 December 2010 is calculated at 2,012 contracts, with an estimated VaR of US\$ 0.93 million.



## Consolidated Financial Statements

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Gulf Investment Corporation G.S.C. (the "Corporation") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the 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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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 at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

### Report on Other Legal and Regulatory Requirements

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 Corporation's 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 of association, that an inventory was duly carried out 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 of association, have occurred during the year ended 31 December 2010 that might have had a material effect on the business of the Corporation's or on its financial position.

We further report that, during the course of our audit, to the best of our knowledge and belief, 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 2010.

**Waleed A. Al Osaimi**

License No. 68 A of Ernst & Young

24 February 2011  
Kuwait

## Consolidated Statement of Financial Position

as at 31 December 2010

| (US\$ million)   | Notes | 2010         | 2009         |
|--|-------|--------------|--------------|
| <b>Assets</b>  |       |              |              |
| Cash and cash equivalents                                  |       | 22           | 35           |
| Placements with banks and other financial institutions     | 3     | 632          | 1,030        |
| Financial assets at fair value through statement of income | 4     | 641          | 601          |
| Financial assets available for sale                        | 5     | 2,870        | 3,127        |
| Investment in associates                                   | 6     | 1,250        | 1,009        |
| Loans and advances   | 7     | 74           | 85           |
| Other assets   | 8     | 287          | 226          |
| <b>Total assets</b>  |       | <b>5,776</b> | <b>6,113</b> |
| <b>Liabilities and equity</b>                              |       |              |              |
| <b>Liabilities</b>   |       |              |              |
| Deposits from banks and other financial institutions       | 9     | 1,429        | 1,360        |
| Securities sold under repurchase agreements                | 10    | 856          | 1,211        |
| Term finance   | 11    | 1,179        | 1,587        |
| Other liabilities  | 12    | 195          | 205          |
| <b>Total liabilities</b>                                   |       | <b>3,659</b> | <b>4,363</b> |
| <b>Equity</b>  |       |              |              |
| Share capital  | 13    | 2,100        | 2,100        |
| Reserves   | 13    | 582          | 336          |
| Accumulated losses   |       | (565)        | (686)        |
| <b>Total equity</b>  |       | <b>2,117</b> | <b>1,750</b> |
| <b>Total liabilities and equity</b>                        |       | <b>5,776</b> | <b>6,113</b> |

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.



**Dr. Zakaria Ahmed Hejres**  
Chairman



**Hisham Abdulrazzaq Al-Razuqi**  
Chief Executive Officer

## Consolidated Statement of Income

for the year ended 31 December 2010

| (US\$ million)                 | Notes | 2010       | 2009 |
|--------------------------------|-------|------------|------|
| Interest income                | 14    | 43         | 84   |
| Net gains from investments     | 15    | 59         | 108  |
| Dividend income                | 16    | 20         | 17   |
| Share of results of associates | 6     | 134        | 5    |
| Net fee and commission income  | 17    | 7          | 22   |
| Foreign exchange gain (loss)   |       | 4          | (3)  |
| <b>Total income</b>            |       | <b>267</b> | 233  |
| Interest expense               | 18    | (50)       | (85) |
| Other operating income         | 19    | 6          | 5    |
| <b>Net operating income</b>    |       | <b>223</b> | 153  |
| Staff cost                     |       | (34)       | (33) |
| Premises cost                  |       | (2)        | (2)  |
| Other operating expense        |       | (14)       | (11) |
| <b>Operating profit</b>        |       | <b>173</b> | 107  |
| Impairment losses              | 20    | (22)       | (16) |
| <b>Net profit for the year</b> |       | <b>151</b> | 91   |

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

## Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

| (US\$ million)   | Notes | 2010       | 2009 |
|--|-------|------------|------|
| <b>Net profit for the year</b>                                 |       | 151        | 91   |
| <b>Other comprehensive income:</b>                             |       |            |      |
| Financial assets available for sale:                           |       |            |      |
| -Net unrealised gain arising during the year                   |       | 208        | 404  |
| -Transferred to consolidated statement of income on sale       | 15    | (8)        | (34) |
| -Transferred to consolidated statement of income on impairment |       | 19         | 15   |
| Share of other comprehensive (loss) income of associates       | 6     | (3)        | 62   |
| Other comprehensive income for the year                        |       | 216        | 447  |
| Total comprehensive income for the year                        |       | <b>367</b> | 538  |

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

| (US\$ million)                                | Reserves      |                    |                   |                                | Accumulated losses | Total        |
|---|---------------|--------------------|-------------------|--------------------------------|--------------------|--------------|
|   | Share capital | Compulsory reserve | Voluntary reserve | Investment revaluation reserve |                    |              |
| Balance as at 1 January 2010                  | 2,100         | 301                | 174               | (139)                          | (686)              | 1,750        |
| Net profit for the year                       | -             | -                  | -                 | -                              | 151                | 151          |
| Other comprehensive income for the year       | -             | -                  | -                 | 216                            | -                  | 216          |
| Total comprehensive income                    | -             | -                  | -                 | 216                            | 151                | 367          |
| Transfer to compulsory and voluntary reserves | -             | 15                 | 15                | -                              | (30)               | -            |
| <b>Balance as at 31 December 2010</b>         | <b>2,100</b>  | <b>316</b>         | <b>189</b>        | <b>77</b>                      | <b>(565)</b>       | <b>2,117</b> |
| Balance as at 1 January 2009                  | 1,550         | 292                | 162               | (586)                          | (756)              | 662          |
| Net profit for the year                       | -             | -                  | -                 | -                              | 91                 | 91           |
| Other comprehensive income for the year       | -             | -                  | -                 | 447                            | -                  | 447          |
| Total comprehensive income                    | -             | -                  | -                 | 447                            | 91                 | 538          |
| Transfer to compulsory and voluntary reserves | -             | 9                  | 9                 | -                              | (18)               | -            |
| Transfer of CBK general provision             | -             | -                  | 3                 | -                              | (3)                | -            |
| Receipt of called up capital                  | 550           | -                  | -                 | -                              | -                  | 550          |
| <b>Balance as at 31 December 2009</b>         | <b>2,100</b>  | <b>301</b>         | <b>174</b>        | <b>(139)</b>                   | <b>(686)</b>       | <b>1,750</b> |

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

## Consolidated Statement of Cash flows

for the year ended 31 December 2010

| (US\$ million)  | Notes | 2010         | 2009           |
|---|-------|--------------|----------------|
| <b>Cash flows from operating activities:</b>                                      |       |              |                |
| Net profit for the year   |       | 151          | 91             |
| Adjustments for:  |       |              |                |
| Impairment losses   | 20    | 22           | 16             |
| Net gains from investments  |       | (23)         | (35)           |
| Share of results of associates  | 6     | (134)        | (5)            |
| Amortisation of net discount / premium on debt securities                         |       | (2)          | (3)            |
| Dividend income   | 16    | (20)         | (17)           |
| Depreciation  |       | 5            | 3              |
|   |       | (1)          | 50             |
| Changes in operating assets and liabilities:                                      |       |              |                |
| (Increase) decrease in financial assets at fair value through statement of income |       | (40)         | 492            |
| Decrease in placements with banks and other financial institutions                |       | 398          | -              |
| Increase (decrease) in deposits from banks and other financial institutions       |       | 69           | (1,536)        |
| Decrease (increase) in loans and advances   |       | 11           | (12)           |
| Movement in other assets and other liabilities (net)                              |       | (144)        | (135)          |
| <b>Net cash inflows (outflows) from operating activities</b>                      |       | <b>293</b>   | <b>(1,141)</b> |
| <b>Cash flows from investing activities:</b>                                      |       |              |                |
| Proceeds from sale and maturity of financial assets available for sale            |       | 807          | 1,618          |
| Purchase of financial assets available for sale                                   |       | (298)        | (387)          |
| Distribution from associates  | 6     | 11           | 11             |
| Proceeds from sale of investment in associates                                    |       | 29           | 5              |
| Purchase of associates  |       | (110)        | (113)          |
| Purchase of property, plant and equipment   |       | (2)          | (16)           |
| Dividend income received  | 16    | 20           | 17             |
| <b>Net cash inflows from investing activities</b>                                 |       | <b>457</b>   | <b>1,135</b>   |
| <b>Cash flows from financing activities:</b>                                      |       |              |                |
| Decrease in securities sold under repurchase agreements                           |       | (355)        | (59)           |
| Decrease in term finance  |       | (408)        | (484)          |
| Proceeds from increase in share capital   |       | -            | 550            |
| <b>Net cash (outflows) inflows from financing activities</b>                      |       | <b>(763)</b> | <b>7</b>       |
| (Decrease) increase in cash and cash equivalents                                  |       | (13)         | 1              |
| Cash and cash equivalents at beginning of year                                    |       | 35           | 34             |
| <b>Cash and cash equivalents at end of year</b>                                   |       | <b>22</b>    | <b>35</b>      |

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

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# Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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## 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 2010 were authorised for issue in accordance with a resolution of the directors on 24th February 2011. The Annual 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 preparation

The consolidated financial statements are prepared on a historical cost basis as modified for the revaluation at fair value of financial assets at fair value through statement of income, financial assets available for sale, derivative financial instruments and financial assets forming part of effective fair value hedging relationships, except those financial assets for which a reliable measure of fair value is not available.

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

#### Changes in accounting policy and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following new and amended IASB Standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations during the year:

- IFRS 2: Share-based Payment: Group cash-settlement share-based payment transactions effective 1 January 2010
- IFRS 3: Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 January 2010, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 28, IAS 31 and IAS 39.
- IAS 39: Financial Instruments: Recognition and Measurement - Eligible hedged items effective 1 July 2009
- IFRIC 17: Distributions of non-cash assets to owners effective 1 July 2009
- IFRIC 18: Transfers of assets from customers effective 1 July 2009

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# Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Basis of preparation (continued)

#### Changes in accounting policy and disclosures (continued)

The major changes in the new and amended Standards are as follows:

##### *IFRS 2: Share-based Payment: Group cash-settlement share-based payment transactions*

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010 but as the Group has no share-based payment transactions there was no impact on the financial position or performance of the Group.

##### *IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)*

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests occurring after 1 January 2010.

The Group adopted the amendments to IFRS 3 & IAS 27 as of 1 January 2010 but this did not result in an impact on the financial position or performance of the Group.

##### *IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The amendment does not have impact on the financial position or performance of the Group.

##### *IFRIC Interpretation 17: Distribution of Non-cash Assets to Owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position or performance of the Group.

##### *IFRIC Interpretation 18: Transfers of assets from customers*

This interpretation applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation has no effect on either, the financial position or performance of the Group.

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# Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Basis of preparation (continued)

#### Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

#### *IFRS 9: Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

#### *IAS 24 Related party (Revised)*

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

#### *IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)*

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

#### *IFRIC 14 Prepayments of a minimum funding requirement (Amendment)*

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

#### *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

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# Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Basis of preparation (continued)

#### Standards issued but not yet effective (continued)

##### *Improvements to IFRSs (issued in May 2010)*

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

### 2.3 Basis of consolidation

#### *Basis of Consolidation from 1 January 2010*

The consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries as at 31 December 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Corporation, using consistent accounting policies. The financial statements of subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in other comprehensive income
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the Corporation's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

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# Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Basis of consolidation (continued)

#### *Basis of Consolidation prior to 1 January 2010*

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the Corporation, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between NCI and the Corporation shareholders
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 has not been restated.

### 2.4 Business Combination and Goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

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## Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4 Business Combination and Goodwill (continued)

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

#### 2.5 Cash and cash equivalents

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

#### 2.6 Placements with banks and other financial institutions

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

#### 2.7 Financial assets

##### (i) Recognition

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

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

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

##### (ii) Classification and measurement

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

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

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

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- When the assets and liabilities are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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# Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Financial assets (continued)

#### (ii) Classification and measurement (continued)

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

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

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

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

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

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

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

#### (iii) Impairment

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

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# Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Financial assets (continued)

#### (iii) Impairment (continued)

##### *Financial assets carried at amortised cost*

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

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

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

##### *Financial assets available for sale*

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

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

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

In addition, in accordance with Central Bank of Kuwait instructions, the Group 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.

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## Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.7 Financial assets (continued)

##### (iv) Derecognition

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

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

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

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

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

#### 2.8 Financial liabilities

##### (i) Recognition

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

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

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

##### (ii) Classification and measurement

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

###### *Loans and borrowings*

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

###### *Accounts payable and accruals*

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

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# Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Financial liabilities (continued)

#### (ii) Classification and measurement (continued)

##### *Deposits from banks and financial institutions*

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

##### *Term finance*

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

##### *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 statement of income. The Group recognises the premium received in the consolidated statement of income on a straight line basis over the life of the guarantee.

#### (iii) Derecognition

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

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

### 2.9 Offsetting

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

### 2.10 Fair value of financial instruments

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

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

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## Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.10 Fair value of financial instruments (continued)

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

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

An analysis of fair value of financial instruments and further details as to how they are measured are provided in Note 26.

#### 2.11 Impairment of non-financial assets

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

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

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

#### 2.12 Repurchase and resale arrangements

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

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

#### 2.13 Investment in associates

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

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# Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.13 Investment in associates (continued)

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

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

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

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

The principle associates are listed in note 30.

### 2.14 Other provisions

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

### 2.15 Property, plant and equipment

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

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## Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.16 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 the consolidated statement of financial position.

#### 2.17 Hedge accounting

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

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

A hedging relationship exists where:

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

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

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

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

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

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# Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 Recognition of income and expenses

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

#### *Interest income and expense*

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

#### *Fees and commission income*

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

#### *Investment income*

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

#### *Dividend income*

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

#### *Sale of goods*

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

### 2.19 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 statement of financial position date. The obligations are paid into a plan which is administrated by an independent trustee.

### 2.20 Foreign currency

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

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

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# Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.20 Foreign currency (continued)

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 they form part of an effective hedging strategy.

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

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

### 2.21 Segment reporting

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

### 2.22 Significant accounting judgements and estimates

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

#### Judgements

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

#### *Classification of investments*

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

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

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

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# Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.22 Significant accounting judgements and estimates (continued)

#### Judgements (continued)

##### *Classification of investments (continued)*

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

All other investments are classified as available for sale.

##### *Impairment of equity investments*

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

##### *Estimation uncertainty*

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

##### *Impairment losses on investment in debt instruments*

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

##### *Valuation of unquoted equity investments*

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

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

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of securities where this estimation cannot be reliably determined and these are carried at cost as disclosed in note 5. 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.

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## Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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### 3 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

| (US\$ million) | 2010       | 2009         |
|----------------|------------|--------------|
| Local Banks    | -          | 121          |
| Overseas Banks | 632        | 909          |
|                | <u>632</u> | <u>1,030</u> |

### 4 FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF INCOME

| (US\$ million)  | 2010       | 2009       |
|---|------------|------------|
| <b>Held for trading</b>                                     |            |            |
| Investment in unquoted managed funds                        | <u>350</u> | <u>324</u> |
| <b>Designated at fair value through statement of income</b> |            |            |
| Unquoted equity securities                                  | 2          | 2          |
| Investments in alternative equity funds                     | <u>289</u> | <u>275</u> |
|   | <u>291</u> | <u>277</u> |
| <b>Total</b>  | <u>641</u> | <u>601</u> |

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 5 FINANCIAL ASSETS AVAILABLE FOR SALE

| (US\$ million)                    | 2010         | 2009  |
|-----------------------------------|--------------|-------|
| <b>Debt Instruments</b>           |              |       |
| International bonds               | 814          | 724   |
| GCC and Islamic bonds             | 687          | 771   |
| Asset backed securities           | 48           | 80    |
| Structured debt instruments       | 375          | 820   |
|                                   | <b>1,924</b> | 2,395 |
| <b>Equities and managed funds</b> |              |       |
| Quoted equity investments         | 56           | 28    |
| Unquoted managed fund investments | 78           | 36    |
|                                   | <b>134</b>   | 64    |
| <b>Equity participations</b>      |              |       |
| Quoted equity investments         | 378          | 287   |
| Unquoted equity investments       | 158          | 112   |
|                                   | <b>536</b>   | 399   |
| <b>Private equity funds</b>       |              |       |
| Managed funds portfolio           | 225          | 219   |
| Real estate funds portfolio       | 42           | 42    |
| GCC Diversifie funds portfolio    | 9            | 8     |
|                                   | <b>276</b>   | 269   |
| <b>Total</b>                      | <b>2,870</b> | 3,127 |

Debt instruments available for sale amounting to US\$ 856 million (31 December 2009: US\$ 1,211 million) are pledged as security in respect of borrowings under securities sold under repurchase agreements (note 10).

During the year an impairment loss of US\$ 4 million (31 December 2009: reversal of US\$ 6 million) has been recognised in the consolidated statement of income on debt instruments available for sale (note 20).

During the year an impairment loss amounting to US\$ 3 million (31 December 2009: US\$ 4 million) has been recognised in the consolidated statement of income on the investment in equities and managed funds (note 20).

Unquoted equity investments are carried at cost due to the unpredictable nature of future cash flows and the unavailability of financial information to arrive at a reliable measure of fair value. During the year, the group recognised an impairment loss of US\$ 2 million (31 December 2009: US\$ 2 million) in respect of unquoted equity participations. Management has performed an analysis of the underlying investments and have concluded that the impairment losses recognized are adequate (note 20).

Investments in private equity funds are carried at net asset values as reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments. During the year an impairment loss amounting to US\$ 10 million (31 December 2009: US\$ 15 million) has been recognised in the consolidated statement of income on the investments in private equity funds (note 20).

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 6 INVESTMENT IN ASSOCIATES

Movement in the carrying amount of investment in associates is as follows:

| <b>(US\$ million)</b>                            | <b>2010</b>  | 2009         |
|--|--------------|--------------|
| Balance at beginning of the year                 | 1,009        | 808          |
| Additional investment made during the year       | 136          | 148          |
| Change in associates' other comprehensive income | (3)          | 62           |
| Disposals during the year                        | (14)         | (3)          |
| Share of results                                 | 134          | 5            |
| Dividend received                                | (11)         | (11)         |
| Impairment loss                                  | (1)          | -            |
| <b>Balance at end of the year</b>                | <b>1,250</b> | <b>1,009</b> |

The carrying amount of investment in associates includes goodwill amounting to US\$ 72 million (2009: US\$ 74 million).

During the year, the Corporation sold its entire holding in Oman Polypropylene LLC and Oman Fiber Optic Co. SAOG for a sale consideration of US\$ 19 million and US\$ 10 million, respectively, thereby recognising gains of US\$ 11 million and US\$ 4 million, respectively in the consolidated statement of income (2009: US\$ 2 million) (Note 15).

The fair value of the Group's investment in associates that are listed on a stock exchange have a carrying value of US\$ 14 million and a market value of US\$ 39 million (2009: carrying value of US\$ 7 million and a market value of US\$ 9 million).

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

| <b>(US\$ million)</b>                | <b>2010</b>  | 2009         |
|--------------------------------------|--------------|--------------|
| Share of assets                      | 2,880        | 2,854        |
| Share of liabilities                 | (1,699)      | (1,917)      |
| Share of net assets                  | 1,181        | 937          |
| Goodwill                             | 72           | 74           |
| Impairment losses                    | (3)          | (2)          |
| <b>Carrying amount of investment</b> | <b>1,250</b> | <b>1,009</b> |
| <b>Share of results for the year</b> | <b>134</b>   | <b>5</b>     |

List of associated companies are disclosed in note 30.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 7 LOANS AND ADVANCES

| <b>(US\$ million)</b> | <b>2010</b>      | 2009      |
|-----------------------|------------------|-----------|
| Loans to associates   | 77               | 88        |
| Impairment losses     | (3)              | (3)       |
|                       | <u><b>74</b></u> | <u>85</u> |

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

### 8 OTHER ASSETS

| <b>(US\$ million)</b>                             | <b>2010</b>       | 2009       |
|---|-------------------|------------|
| Accrued interest, fees, commissions and dividends | 34                | 33         |
| Net positive fair value of derivative instruments | 19                | -          |
| Employees' end of service benefit asset           | 60                | 54         |
| Prepayments                                       | 1                 | 1          |
| Property, plant and equipment                     | 36                | 38         |
| Other, including accounts receivable              | 137               | 100        |
|   | <u><b>287</b></u> | <u>226</u> |

### 9 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

| <b>(US\$ million)</b>                          | <b>2010</b>         | 2009         |
|--|---------------------|--------------|
| Deposits from Central Banks                    | 254                 | 105          |
| Deposits from commercial banks                 | 171                 | 123          |
| Deposits from non-banks financial institutions | 904                 | 1,132        |
| Other deposits                                 | 100                 | -            |
|  | <u><b>1,429</b></u> | <u>1,360</u> |

At 31 December 2010 deposits from GCC Country Governments, Central Banks and other institutions headquartered in the GCC States amounted to US\$ 1,419 million (2009: US\$ 1,349 million).

Deposits from banks and other financial institution carry an interest in the range of 1.27% to 1.73% (2009: 1.73% to 3.56%)

### 10 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

As at 31 December 2010 the Group has entered into repurchase agreements with third-party international investment banks against certain debt instruments available for sale (note 5). Repurchase agreements amounting to US\$ 592 million (2009: US\$ 856 million) are due within one year of the reporting date.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 11 TERM FINANCE

| (US\$ million)                                  | Effective interest<br>rate % 2010 | 2010         | 2009         |
|---|-----------------------------------|--------------|--------------|
| US Dollar floating rate term loan due in 2010   | 6 months \$ LIBOR + 35 bps        | -            | 200          |
| US Dollar Floating Rate Bonds due in 2013       | 6 months \$ LIBOR + 250 bps       | 100          | -            |
| US Dollar Floating Rate Bonds due in 2013       | 3 months \$ LIBOR + 250 bps       | 200          | -            |
| <b>Medium Term Note Issues (EMTN) :</b>         |                                   |              |              |
| GIC US Dollar floating rate note due in 2010    | 3 months \$ LIBOR + 45 bps        | -            | 500          |
| GIC Euro floating rate note due in 2011         | 3 months € LIBOR + 30 bps         | 535          | 576          |
| 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)    | 195          | 175          |
| GIC MYR medium term fixed rate note due in 2023 | 4.52 % per annum (semi annual)    | 130          | 117          |
|   |                                   | <b>1,179</b> | <b>1,587</b> |

### 12 OTHER LIABILITIES

| (US\$ million)   | 2010       | 2009       |
|--|------------|------------|
| Accrued interest                                       | 37         | 45         |
| Derivative instruments                                 | 57         | 65         |
| Employees' end of service benefits                     | 61         | 58         |
| Other, including accounts payable and accrued expenses | 40         | 37         |
|  | <b>195</b> | <b>205</b> |

### 13 EQUITY

- 13.1 The authorised, issued and fully paid capital comprises of 2.1 million shares of US\$ 1,000 each (2009: 2.1 million shares of US\$ 1,000 each).
- 13.2 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 non-distributable compulsory reserve until the reserve reaches a minimum of 50 percent of share capital.

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## Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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### 13 EQUITY (continued)

13.3 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 may be discontinued by a resolution adopted in the general assembly meeting of the shareholders.

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

### 14 INTEREST INCOME

| (US\$ million)   | 2010      | 2009      |
|--|-----------|-----------|
| Placements with banks and other financial institutions | 5         | 7         |
| Financial assets available for sale                    | 37        | 72        |
| Financial assets held to maturity                      | -         | 1         |
| Loans and advances                                     | 1         | 4         |
|  | <u>43</u> | <u>84</u> |

### 15 NET GAINS/ (LOSSES) FROM INVESTMENTS

| (US\$ million)  | 2010      | 2009       |
|---|-----------|------------|
| Realised gain on financial assets available for sale                            | 8         | 34         |
| Realised loss on financial assets held to maturity                              | -         | (1)        |
| Realized gain from financial assets at fair value through statement of income   | 2         | 29         |
| Unrealized gain from financial assets at fair value through statement of income | 34        | 44         |
| Realised gain on sale of associates (note 6)                                    | 15        | 2          |
|   | <u>59</u> | <u>108</u> |

### 16 DIVIDEND INCOME

| (US\$ million)                           | 2010      | 2009      |
|--|-----------|-----------|
| Private equity funds available for sale  | 4         | 1         |
| Equities and managed funds               | 4         | 4         |
| Equity participations available for sale | 12        | 12        |
|  | <u>20</u> | <u>17</u> |

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 17 NET FEE AND COMMISSION INCOME

| (US\$ million)                  | 2010     | 2009      |
|---------------------------------|----------|-----------|
| Management fees                 | 6        | 7         |
| Custody and administration fees | 1        | 1         |
| Advisory fees                   | -        | 3         |
| Project development fees        | -        | 11        |
|                                 | <u>7</u> | <u>22</u> |

### 18 INTEREST EXPENSE

| (US\$ million)                                       | 2010      | 2009      |
|--|-----------|-----------|
| Deposits from banks and other financial institutions | 18        | 33        |
| Securities sold under repurchase agreements          | 19        | 19        |
| Term finance   | 13        | 33        |
|  | <u>50</u> | <u>85</u> |

### 19 OTHER OPERATING INCOME

Other operating income represents the net income from manufacturing and the other operating income / expense of non-core businesses

| (US\$ million)                                 | 2010      | 2009      |
|--|-----------|-----------|
| Sales  | 53        | 51        |
| Cost of sales                                  | (41)      | (36)      |
| Gross profit                                   | <u>12</u> | <u>15</u> |
| Selling and distribution expenses              | (2)       | (2)       |
| Administrative expenses                        | (2)       | (3)       |
|  | <u>8</u>  | <u>10</u> |
| Other operating results of non-core businesses | (2)       | (5)       |
|  | <u>6</u>  | <u>5</u>  |

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 20 IMPAIRMENT LOSSES

| (US\$ million)  | 2010        | 2009        |
|---|-------------|-------------|
| Placements with non-bank financial institutions                           | -           | 1           |
| Loans and advances / guarantees   | -           | (1)         |
| Financial assets available for sale – Debt securities (note 5)            | (4)         | 6           |
| Financial assets available for sale – Equities and managed funds (note 5) | (3)         | (4)         |
| Financial assets available for sale – Equity participations (note 5)      | (2)         | (2)         |
| Financial assets available for sale – Private equity funds (note 5)       | (10)        | (15)        |
| Investment in associates (note 6)   | (1)         | -           |
| Other assets  | (2)         | (1)         |
|   | <u>(22)</u> | <u>(16)</u> |

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

The total cost of retirement and other end of service benefits included in staff expenses for the year ended 31 December 2010 amounted to US\$ 6.1 million (2009: US\$ 6.5 million).

### 22 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 section of the annual report.

#### 22.1 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.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 22 RISK MANAGEMENT (continued)

#### 22.1 Liquidity risk (continued)

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

#### 31 December 2010

| (US\$ million)                                       | Within 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total        |
|--|-----------------|--------------------|--------------|--------------|--------------|
| Deposits from banks and other financial institutions | 777             | 658                | -            | -            | 1,435        |
| Securities sold under repurchase agreements          | 332             | 262                | 278          | -            | 872          |
| Term finance   | 19              | 538                | 535          | 201          | 1,293        |
| Gross settled derivative instruments                 |                 |                    |              |              |              |
| - Contractual amount payable                         | 778             | -                  | 204          | 123          | 1,105        |
| - Contractual amount receivable                      | (779)           | -                  | (214)        | (130)        | (1,123)      |
| Other liabilities                                    | 37              | 24                 | 56           | 78           | 195          |
| <b>Total undiscounted financial liabilities</b>      | <b>1,164</b>    | <b>1,482</b>       | <b>859</b>   | <b>272</b>   | <b>3,777</b> |
| Commitments  | -               | 256                | -            | -            | 256          |
| Contingent liabilities                               | -               | 320                | -            | -            | 320          |

#### 31 December 2009

| (US\$ million)                                       | Within 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total        |
|--|-----------------|--------------------|--------------|--------------|--------------|
| Deposits from banks and other financial institutions | 1,160           | 202                | -            | -            | 1,362        |
| Securities sold under repurchase agreements          | 560             | 301                | 370          | -            | 1,231        |
| Term finance   | 6               | 714                | 809          | 160          | 1,689        |
| Gross settled derivative instruments                 |                 |                    |              |              |              |
| - Contractual amount payable                         | 494             | 214                | 238          | 123          | 1,069        |
| - Contractual amount receivable                      | (494)           | (214)              | (229)        | (117)        | (1,054)      |
| Other liabilities                                    | 41              | 33                 | 53           | 78           | 205          |
| <b>Total undiscounted financial liabilities</b>      | <b>1,767</b>    | <b>1,250</b>       | <b>1,241</b> | <b>244</b>   | <b>4,502</b> |
| Commitments  | -               | 166                | -            | -            | 166          |
| Contingent liabilities                               | -               | 341                | -            | -            | 341          |

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 22 RISK MANAGEMENT (continued)

#### 22.1 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        |
|--|-----------------|--------------------|--------------|--------------|--------------|
| <b>At 31 December 2010</b>                                 |                 |                    |              |              |              |
| <b>Assets</b>  |                 |                    |              |              |              |
| Cash and cash equivalents                                  | 22              | -                  | -            | -            | 22           |
| Placements with banks and other financial institutions     | 632             | -                  | -            | -            | 632          |
| Financial assets at fair value through statement of income | 639             | 2                  | -            | -            | 641          |
| Financial assets available for sale                        | 2,005           | 445                | 94           | 326          | 2,870        |
| Investment in associates                                   | -               | -                  | -            | 1,250        | 1,250        |
| Loans and advances   | -               | -                  | 74           | -            | 74           |
| Other assets   | 37              | 60                 | 16           | 174          | 287          |
| <b>Total assets</b>  | <b>3,335</b>    | <b>507</b>         | <b>184</b>   | <b>1,750</b> | <b>5,776</b> |
| <b>Liabilities</b>   |                 |                    |              |              |              |
| Deposits from banks and other financial institutions       | 776             | 653                | -            | -            | 1,429        |
| Securities sold under repurchase agreements                | 332             | 260                | 264          | -            | 856          |
| Term finance   | 19              | 535                | 495          | 130          | 1,179        |
| Other liabilities  | 35              | 27                 | 57           | 76           | 195          |
| <b>Total liabilities</b>                                   | <b>1,162</b>    | <b>1,475</b>       | <b>816</b>   | <b>206</b>   | <b>3,659</b> |
| <b>Net gap</b>   | <b>2,173</b>    | <b>(968)</b>       | <b>(632)</b> | <b>1,544</b> |              |

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 22 RISK MANAGEMENT (continued)

#### 22.1 Liquidity risk (continued)

| (US\$ million)   | Within 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total        |
|--|-----------------|--------------------|--------------|--------------|--------------|
| At 31 December 2009  |                 |                    |              |              |              |
| Assets   |                 |                    |              |              |              |
| Cash and cash equivalents                                  | 35              | -                  | -            | -            | 35           |
| Placements with banks and other financial institutions     | 1,030           | -                  | -            | -            | 1,030        |
| Financial assets at fair value through statement of income | 598             | 3                  | -            | -            | 601          |
| Financial assets available for sale                        | 1,837           | 910                | 34           | 346          | 3,127        |
| Investment in associates                                   | -               | -                  | -            | 1,009        | 1,009        |
| Loans and advances   | -               | -                  | 85           | -            | 85           |
| Other assets   | 31              | 40                 | 34           | 121          | 226          |
| <b>Total assets</b>  | <b>3,531</b>    | <b>953</b>         | <b>153</b>   | <b>1,476</b> | <b>6,113</b> |
| Liabilities  |                 |                    |              |              |              |
| Deposits from banks and other financial institutions       | 1,158           | 202                | -            | -            | 1,360        |
| Securities sold under repurchase agreements                | 560             | 296                | 355          | -            | 1,211        |
| Term finance   | -               | 700                | 771          | 116          | 1,587        |
| Other liabilities  | 65              | 87                 | 14           | 39           | 205          |
| <b>Total liabilities</b>                                   | <b>1,783</b>    | <b>1,285</b>       | <b>1,140</b> | <b>155</b>   | <b>4,363</b> |
| <b>Net gap</b>   | <b>1,748</b>    | <b>(332)</b>       | <b>(987)</b> | <b>1,321</b> |              |

#### 22.2 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.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 22 RISK MANAGEMENT (continued)

#### 22.3 Credit risk

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

As at 31 December 2010, the Group has not obtained any collateral on any of the financial assets.

#### 22.3.1 Maximum exposure to credit risk

The maximum credit exposure of the Group is as follows:

| (US\$ million)   | Maximum exposure |              |
|--|------------------|--------------|
|  | 2010             | 2009         |
| Cash and cash equivalents                              | 22               | 35           |
| Placements with banks and other financial institutions | 632              | 1,030        |
| Debt Securities available for sale                     | 1,924            | 2,395        |
| Loans and advances                                     | 74               | 85           |
| Other assets   | 212              | 188          |
| <b>Credit exposure on assets</b>                       | <b>2,864</b>     | <b>3,733</b> |
| Credit commitments                                     | 320              | 341          |
| <b>Total credit exposure</b>                           | <b>3,184</b>     | <b>4,074</b> |

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

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The maximum credit exposure to a single counterparty (rated as investment grade) is US\$ 85 million (2009: US\$ 81 million).

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 22 RISK MANAGEMENT (continued)

#### 22.3.1 Maximum exposure to credit risk (continued)

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

| (US\$ million)   | GCC          | Europe       | North America | Asia      | Total        |
|--|--------------|--------------|---------------|-----------|--------------|
| <b>At 31 December 2010</b>                             |              |              |               |           |              |
| Cash and cash equivalents                              | 20           | 1            | 1             | -         | 22           |
| Placements with banks and other financial institutions | 309          | 323          | -             | -         | 632          |
| Debt Securities available for sale                     | 645          | 500          | 758           | 21        | 1,924        |
| Loans and advances                                     | 74           | -            | -             | -         | 74           |
| Other assets   | 109          | 35           | 68            | -         | 212          |
| <b>Credit exposure on assets</b>                       | <b>1,157</b> | <b>859</b>   | <b>827</b>    | <b>21</b> | <b>2,864</b> |
| Credit commitments                                     | 320          | -            | -             | -         | 320          |
| <b>Total credit exposure</b>                           | <b>1,477</b> | <b>859</b>   | <b>827</b>    | <b>21</b> | <b>3,184</b> |
| (US\$ million)   | GCC          | Europe       | North America | Asia      | Total        |
| <b>At 31 December 2009</b>                             |              |              |               |           |              |
| Cash and cash equivalents                              | 14           | 12           | 8             | 1         | 35           |
| Placements with banks and other financial institutions | 599          | 391          | -             | 40        | 1,030        |
| Debt Securities available for sale                     | 728          | 724          | 918           | 25        | 2,395        |
| Loans and advances                                     | 85           | -            | -             | -         | 85           |
| Other assets   | 105          | 13           | 69            | 1         | 188          |
| Credit exposure on assets                              | 1,531        | 1,140        | 995           | 67        | 3,733        |
| Credit commitments                                     | 341          | -            | -             | -         | 341          |
| <b>Total credit exposure</b>                           | <b>1,872</b> | <b>1,140</b> | <b>995</b>    | <b>67</b> | <b>4,074</b> |

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 22 RISK MANAGEMENT (continued)

#### 22.3.1 Maximum exposure to credit risk (continued)

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

| (US\$ million)   | Bank & Fls.  | Trading & Mftg. | Utilities  | Govt. agencies | Other     | Total        |
|--|--------------|-----------------|------------|----------------|-----------|--------------|
| <b>At 31 December 2010</b>                             |              |                 |            |                |           |              |
| Cash and cash equivalents                              | 22           | -               | -          | -              | -         | 22           |
| Placements with banks and other financial institutions | 632          | -               | -          | -              | -         | 632          |
| Debt Securities available for sale                     | 1,240        | 176             | 316        | 133            | 59        | 1,924        |
| Loans and advances                                     | -            | -               | 74         | -              | -         | 74           |
| Other assets   | 162          | 39              | 3          | 4              | 4         | 212          |
| <b>Credit exposure on assets</b>                       | <b>2,056</b> | <b>215</b>      | <b>393</b> | <b>137</b>     | <b>63</b> | <b>2,864</b> |
| Credit commitments                                     | -            | 96              | 224        | -              | -         | 320          |
| <b>Total credit exposure</b>                           | <b>2,056</b> | <b>311</b>      | <b>617</b> | <b>137</b>     | <b>63</b> | <b>3,184</b> |
| (US\$ million)   | Bank & Fls.  | Trading & Mftg. | Utilities  | Govt. agencies | Other     | Total        |
| <b>At 31 December 2009</b>                             |              |                 |            |                |           |              |
| Cash and cash equivalents                              | 28           | 7               | -          | -              | -         | 35           |
| Placements with banks and other financial institutions | 1,030        | -               | -          | -              | -         | 1,030        |
| Debt Securities available for sale                     | 1,685        | 172             | 180        | 294            | 64        | 2,395        |
| Debt Securities held to maturity                       | 2            | -               | -          | -              | -         | 2            |
| Loans and advances                                     | -            | 11              | 74         | -              | -         | 85           |
| Other assets   | 145          | 31              | 3          | 4              | 3         | 186          |
| Credit exposure on assets                              | 2,890        | 221             | 257        | 298            | 67        | 3,733        |
| Credit commitments                                     | -            | 117             | 224        | -              | -         | 341          |
| <b>Total credit exposure</b>                           | <b>2,890</b> | <b>338</b>      | <b>481</b> | <b>298</b>     | <b>67</b> | <b>4,074</b> |

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 22 RISK MANAGEMENT (continued)

#### 22.3.2 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 statement of financial position lines.

| (US\$ million)   | Neither past due nor impaired |            | Total        |
|--|-------------------------------|------------|--------------|
|  | Investment grade              | Unrated    |              |
| <b>At 31 December 2010</b>                             |                               |            |              |
| Cash and cash equivalents                              | 22                            | -          | 22           |
| Placements with banks and other financial institutions | 632                           | -          | 632          |
| Debt Securities available for sale                     | 1,731                         | 193        | 1,924        |
| Loans and advances                                     | 74                            | -          | 74           |
| Other assets   | 110                           | 102        | 212          |
| <b>Credit exposure on assets</b>                       | <b>2,569</b>                  | <b>295</b> | <b>2,864</b> |
| Credit commitments                                     | 320                           | -          | 320          |
| <b>Total credit exposure</b>                           | <b>2,889</b>                  | <b>295</b> | <b>3,184</b> |
| (US\$ million)   | Neither past due nor impaired |            | Total        |
|  | Investment grade              | Unrated    |              |
| <b>At 31 December 2009</b>                             |                               |            |              |
| Cash and cash equivalents                              | 35                            | -          | 35           |
| Placements with banks and other financial institutions | 1,030                         | -          | 1,030        |
| Debt Securities available for sale                     | 2,101                         | 294        | 2,395        |
| Loans and advances                                     | 85                            | -          | 85           |
| Other assets   | 115                           | 73         | 188          |
| Credit exposure on assets                              | 3,366                         | 367        | 3,733        |
| Credit commitments                                     | 341                           | -          | 341          |
| <b>Total credit exposure</b>                           | <b>3,707</b>                  | <b>367</b> | <b>4,074</b> |

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 23 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.

|  | Notional principal amount |            |
|--|---------------------------|------------|
|  | 2010                      | 2009       |
| <b>Credit Risk Amounts</b>   |                           |            |
| <b>(US\$ million)</b>  |                           |            |
| Transaction-related contingent items:  |                           |            |
| - Letter of guarantees   | 318                       | 339        |
| Undrawn loan commitments and underwriting commitments under note issuance and revolving facilities | 2                         | 2          |
|  | <b>320</b>                | <b>341</b> |

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 statement of financial position 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 (2009: US \$ 2 million).

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

| (US\$ million)  | 2010       | 2009       |
|---|------------|------------|
| Undrawn commitments for investments in private equity funds                       | 90         | 116        |
| Undrawn commitments for investments in associates and other equity participations | 166        | 50         |
|   | <b>256</b> | <b>166</b> |

### 24 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 2010

### 24 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 reporting date the notional amount of interest rate swaps used to hedge interest rate risk amounted to US\$ 889 million (2009: US\$ 919 million) and its net fair value was a swap loss of US\$ 57 million (2009: US\$ 50 million).

For the year ended 31 December 2010 the Group recognised a loss of US\$ 7 million (2009: gain of US\$ 29 million) representing the realised and unrealised loss on hedging instruments. The corresponding realised and unrealised gain on the hedged fixed income securities amounted to US\$ 4 million (2009: loss of US\$ 30 million).

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

| (US\$ million)                       | 2010                |                     |                 | 2009                |                     |                 |
|--------------------------------------|---------------------|---------------------|-----------------|---------------------|---------------------|-----------------|
|                                      | Positive fair value | Negative fair value | Notional amount | Positive fair value | Negative fair value | Notional amount |
| Derivatives held for hedging         |                     |                     |                 |                     |                     |                 |
| - Interest rate swaps                | -                   | (57)                | 889             | -                   | (50)                | 919             |
| - Cross currency swaps               | 18                  | -                   | 363             | -                   | (14)                | 366             |
| - Index linked swap                  | -                   | -                   | -               | -                   | (1)                 | 42              |
| Derivatives held for trading         |                     |                     |                 |                     |                     |                 |
| - Forward foreign exchange contracts | 4                   | (3)                 | 1,123           | 1                   | (1)                 | 1,054           |
|                                      | <b>22</b>           | <b>(60)</b>         | <b>2,375</b>    | <b>1</b>            | <b>(66)</b>         | <b>2,381</b>    |

#### Maturity analysis

| (US\$ million)                     | Year 1     | Year 1 to 5  | Above 5 years | Total        |
|------------------------------------|------------|--------------|---------------|--------------|
| <b>At 31 December 2010</b>         |            |              |               |              |
| <b>Notional amounts</b>            |            |              |               |              |
| Interest rate swaps                | 90         | 667          | 132           | 889          |
| Cross currency swaps               | 19         | 215          | 129           | 363          |
| Forward foreign exchange contracts | 779        | 214          | 130           | 1,123        |
|                                    | <b>888</b> | <b>1,096</b> | <b>391</b>    | <b>2,375</b> |
| (US\$ million)                     | Year 1     | Year 1 to 5  | Above 5 years | Total        |
| At 31 December 2009                |            |              |               |              |
| Notional amounts                   |            |              |               |              |
| Interest rate swaps                | 39         | 683          | 197           | 919          |
| Cross currency swaps               | -          | 249          | 117           | 366          |
| Index linked swap                  | 42         | -            | -             | 42           |
| Forward foreign exchange contracts | 708        | 229          | 117           | 1,054        |
|                                    | <b>789</b> | <b>1,161</b> | <b>431</b>    | <b>2,381</b> |

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## Notes to the Consolidated Financial Statements

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for the year ended 31 December 2010

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### 25 SEGMENTAL INFORMATION

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

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

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

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

The treasury division manages the Group's liquidity, short-term interest rate and foreign exchange activities using a variety of on and off-balance sheet treasury applications. The division trades on its own account 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' division 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



## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 25 SEGMENTAL INFORMATION (continued)

#### *Geographical segment*

The following table shows the distribution of the Group's net operating income and total assets by geographical segment:

#### 31 December 2010

| (US\$ million)       | GCC Region |               | International |               | Total     |               |
|----------------------|------------|---------------|---------------|---------------|-----------|---------------|
|                      | <i>PI</i>  | <i>Others</i> | <i>PI</i>     | <i>Others</i> | <i>PI</i> | <i>Others</i> |
| Net operating income | 150        | 51            | 2             | 20            | 152       | 71            |
| Total assets         | 1,958      | 1,252         | 20            | 2,546         | 1,978     | 3,798         |

#### 31 December 2009

| (US\$ million)       | GCC Region |               | International |               | Total     |               |
|----------------------|------------|---------------|---------------|---------------|-----------|---------------|
|                      | <i>PI</i>  | <i>Others</i> | <i>PI</i>     | <i>Others</i> | <i>PI</i> | <i>Others</i> |
| Net operating income | 104        | 13            | -             | 36            | 104       | 49            |
| Total assets         | 1,604      | 1,607         | 20            | 2,882         | 1,624     | 4,489         |

### 26 FAIR VALUE INFORMATION

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Investment securities classified as 'Available for sale' and 'Fair value through statement of income' are stated at fair values except for certain investments carried at cost as explained in note 5. For other financial asset and liabilities carried at amortized cost, the carrying value is not significantly different from their fair values as most of these assets and liabilities are of short term maturity or repriced immediately based on market movement in interest rates.

#### *Determination of fair value and fair value hierarchy:*

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

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

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

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

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 26 FAIR VALUE INFORMATION (continued)

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

| (US\$ million)   | Level 1      | Level 2    | Level 3    | Total        |
|--|--------------|------------|------------|--------------|
| <b>Assets measured at fair value</b>   |              |            |            |              |
| <i>Financial assets held for trading</i>                                     |              |            |            |              |
| Investment in unquoted managed funds   | 57           | 293        | -          | 350          |
| <i>Financial assets designated at fair value through statement of income</i> |              |            |            |              |
| Investment in alternative equity funds                                       | -            | 289        | -          | 289          |
| <i>Derivative financial instruments</i>                                      |              |            |            |              |
| Forward foreign exchange contracts   | -            | -          | 4          | 4            |
| Cross currency swaps   | -            | -          | 18         | 18           |
| <i>Financial assets available for sale</i>                                   |              |            |            |              |
| Debt Instruments   | 1,438        | 48         | 400        | 1,886        |
| Equities and managed funds   | 56           | 78         | -          | 134          |
| Equity participations  | 378          | -          | -          | 378          |
| Private equity funds   | -            | 29         | 225        | 254          |
|  | <b>1,929</b> | <b>737</b> | <b>647</b> | <b>3,313</b> |
| <b>Liabilities measured at fair value</b>                                    |              |            |            |              |
| <i>Derivative financial instruments</i>                                      |              |            |            |              |
| Interest rate swaps  | -            | 57         | -          | 57           |
| Forward foreign exchange contracts   | -            | -          | 3          | 3            |
|  | <b>-</b>     | <b>57</b>  | <b>3</b>   | <b>60</b>    |

### 27 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.

Transactions with associates during the year are as follows:

| (US\$ million)              | 2010 | 2009 |
|-----------------------------|------|------|
| Net fees and commissions    | 4    | 15   |
| Loans and advances          | 74   | 85   |
| Guarantees and commitments  | 319  | 330  |
| Receivables from associates | 9    | 24   |

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 27 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

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

| <b>(US\$ million)</b>                     | <b>2010</b> | 2009     |
|---|-------------|----------|
| Salaries and short-term employee benefits | 8           | 6        |
| Post employment and termination benefits  | 2           | 2        |
|   | <u>10</u>   | <u>8</u> |

Included in other assets are loans to key management personnel amounting to US\$ 1 million (2009: US\$ 1 million).

### 28 FIDUCIARY ACTIVITIES

At 31 December 2010 third party assets under management amounted to US\$ 208 million (2009: US\$ 224 million). These assets are managed in a fiduciary capacity and are therefore excluded from the consolidated statement of financial position. The related income from fiduciary activities amounted to US\$ 2 million (2009: US\$ 8 million).

### 29 CAPITAL MANAGEMENT

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

The objective of the Group is to deploy this resource in an efficient and 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.

Consistent with others in the industry, the group monitors Capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity as follows:

| <b>(US\$ million)</b>  | <b>2010</b>  | 2009         |
|--|--------------|--------------|
| Interest-bearing Deposits, term finance and other borrowings                         | 3,464        | 4,158        |
| Other liabilities  | 195          | 205          |
| Less: Cash and cash equivalents and placements with banks and financial institutions | (654)        | (1,065)      |
| <b>Net debt</b>  | <u>3,005</u> | <u>3,298</u> |
| <b>Equity</b>  | 2,117        | 1,750        |
| <b>Gearing ratio (Net debt /equity)</b>  | <b>1.4</b>   | 1.9          |

#### ***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.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

### 30 PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

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

| (US\$ million)                                    | Country of incorporation | Effective equity interest as at |       | Principal business activity      |
|---|--------------------------|---------------------------------|-------|----------------------------------|
|   |                          | 2010                            | 2009  |                                  |
| <b>Subsidiaries</b>                               |                          |                                 |       |                                  |
| Bituminous Products Company Limited (Bitumat)     | Saudi Arabia             | 100.0                           | 100.0 | Building material manufacturing  |
| G.I.C General Trading & Contracting Co. W.L.L.    | Kuwait                   | 100.0                           | 100.0 | Holding company                  |
| Gulf Denim Limited                                | UAE                      | 100.0                           | 100.0 | Textile manufacturing            |
| Investel Holdings W.L.L.                          | Bahrain                  | 100.0                           | 100.0 | Holding company                  |
| GIC Financial Services Ltd                        | Cayman Islands           | 100.0                           | 100.0 | Holding company                  |
| GIC Investment Holding Ltd                        | Cayman Islands           | 100.0                           | 100.0 | Holding company                  |
| <b>Associates</b>                                 |                          |                                 |       |                                  |
| Gulf Re Holdings Ltd.                             | UAE                      | 50.0                            | 50.0  | Re-insurance                     |
| Gulf United Steel Co                              | Bahrain                  | 50.0                            | 50.0  | Holding company                  |
| Al Dur Power & Water Co.                          | Bahrain                  | 25.0                            | 25.0  | Power & Water Utility Project    |
| United Stainless Steel Company B.S.C. (Closed)    | Bahrain                  | 50.0                            | 50.0  | Steel Manufacturing              |
| Oman Investment Co.                               | Oman                     | 50.0                            | 50.0  | Investing activities             |
| Gulf Industrial Investment Co. (E.C.)             | Bahrain                  | 50.0                            | 50.0  | Steel Pelletizing                |
| Gulf Electronic Tawasul Company KSCC              | Kuwait                   | 47.5                            | 47.5  | Information Technology           |
| Al Ezzel Power Company B.S.C.                     | Bahrain                  | 45.0                            | 45.0  | Power & Water Utility project    |
| Bahrain Industrial Pharmaceutical Co.             | Bahrain                  | 40.0                            | 40.0  | Pharmaceuticals                  |
| Orimix Concrete Products L.L.C                    | UAE                      | 40.0                            | 40.0  | Building Materials               |
| A'Saffa Poultry Farms Co. SAOG                    | Oman                     | 33.3                            | 33.3  | Poultry & Dairy Products         |
| The National Titanium Dioxide Co., Ltd. (CRISTAL) | Saudi Arabia             | 33.0                            | 33.0  | Production of Titanium Dioxide   |
| SGA Marafiq Holdings                              | Saudi Arabia             | 33.3                            | 33.3  | Power & Water Utility Project    |
| Technical Supplies & Services Co. Ltd.            | UAE                      | 30.7                            | 30.7  | Refrigeration & Cooling Services |
| Oman Fiber Optic Co. SAOG                         | Oman                     | -                               | 25.0  | Manufacturing Cables             |
| Jeddah Cable Company                              | Saudi Arabia             | 25.0                            | 25.0  | Manufacturing Cables             |
| ALUMCO L.L.C                                      | UAE                      | 24.5                            | 24.5  | Building Materials               |
| Interplast Company Limited L.L.C.                 | UAE                      | 23.5                            | 23.5  | Plastic                          |
| Celtex Weaving Mills Co. Ltd.                     | Bahrain                  | 23.0                            | 23.0  | Textiles                         |
| Rawabi Emirates (PJSC)                            | UAE                      | 22.5                            | 22.5  | Dairy Products                   |
| Oman Polypropylene LLC                            | Oman                     | -                               | 20.0  | Manufacturing                    |
| Shuqaiq Water & Electricity Co.                   | Saudi Arabia             | 20.0                            | 20.0  | Power & Water Utility Project    |
| Gulf International Pipe Industry Co.              | Oman                     | 20.0                            | 20.0  | Building Materials               |
| Gulf Stone Company SAOG                           | Oman                     | 20.0                            | 20.0  | Building Materials               |

## Direct Investments

| Name of the Project                                      | Location     | (US \$ million)            |                                   |
|--|--------------|----------------------------|-----------------------------------|
|  |              | Total Shareholders' Equity | Group Exposure % of share capital |
| 1 G.I. Corporation General Trading & Contracting Co.     | Kuwait       | 0.89                       | 100.00                            |
| 2 Bituminous Products Company Limited (Bitumat)          | Saudi Arabia | 86.31                      | 100.00                            |
| 3 Gulf Denim Limited                                     | UAE          | 1.58                       | 100.00                            |
| 4 Gulf Paramount for Electrical Services Company W.L.L.  | Kuwait       | 9.17                       | 92.84                             |
| 5 GIC Technologies Partnership Co                        | Kuwait       | 0.81                       | 80.00                             |
| 6 Gulf Jyoti International                               | UAE          | -                          | 70.00                             |
| 7 Crown Paper Mills Ltd. FZC                             | UAE          | 29.80                      | 55.90                             |
| 8 Oman Investment Corporation                            | Oman         | 68.26                      | 50.00                             |
| 9 Gulf Industrial Investment Co. (E.C.)                  | Bahrain      | 327.34                     | 50.00                             |
| 10 United Stainless Steel Company B.S.C. (Closed)        | Bahrain      | 75.26                      | 50.00                             |
| 11 Gulf United Steel Holding Company (Foulath) B.S.C (c) | Bahrain      | 132.93                     | 50.00                             |
| 12 Gulf Re Holdings Ltd.                                 | UAE          | 210.54                     | 50.00                             |
| 13 Gulf Electronic Tawasul Company K.S.C. (Closed)       | Kuwait       | 3.38                       | 47.50                             |
| 14 Al Ezzel Power Company B.S.C.                         | Bahrain      | 21.37                      | 45.00                             |
| 15 Orimix Concrete Products L.L.C *                      | UAE          | 74.31                      | 40.00                             |
| 16 Bahrain Industrial Pharmaceutical Co. W.L.L           | Bahrain      | 1.80                       | 40.00                             |
| 17 A'Saffa Poultry Farms Co. SAOG                        | Oman         | 35.18                      | 33.24                             |
| 18 The National Titanium Dioxide Co., Ltd. (CRISTAL)     | Saudi Arabia | 946.20                     | 33.00                             |
| 19 Technical Supplies & Services Co. Ltd.                | UAE          | 64.09                      | 30.67                             |
| 20 Jeddah Cable Company Ltd                              | Saudi Arabia | 207.17                     | 25.00                             |
| 21 Al Dur Power & Water Co.                              | Bahrain      | 528.76                     | 25.00                             |
| 22 ALUMCO L.L.C *  | UAE          | 136.76                     | 24.50                             |
| 23 Interplast Company Limited (L.L.C.)                   | UAE          | 193.39                     | 23.50                             |
| 24 Celtex Weaving Mills Co. Ltd.                         | Bahrain      | 4.48                       | 23.00                             |
| 25 Rawabi Emirates (PJSC)                                | UAE          | 104.10                     | 22.54                             |
| 26 Gulf International Pipe Industry Co. **               | Oman         | 65.31                      | 35.00                             |
| 27 Gulf Stone Company SAOG *                             | Oman         | 10.63                      | 20.00                             |
| 28 Wataniya Telecom Algeria                              | Algeria      | 307.00                     | 20.00                             |
| 29 Jubail Water & Power Co                               | Saudi Arabia | -                          | 20.00                             |
| 30 Shuqaiq Water & Electricity Co                        | Saudi Arabia | -                          | 20.00                             |

### Equity Participations - GIC ownership less than 20 percent

|  |              |          |       |
|--|--------------|----------|-------|
| 31 Tatweer Infrastructure Company (Q.S.C.C.)         | Qatar        | 209.77   | 13.00 |
| 32 The Dubai Wellness Center Limited                 | UAE          | 61.69    | 10.00 |
| 33 Gulf Bridge International                         | Qatar        | 474.00   | 10.00 |
| 34 Ras Laffan Power Company Limited (Q.S.C.)         | Qatar        | 240.80   | 10.00 |
| 35 Rasameel Structured Finance Co. K.S.C.            | Kuwait       | 85.89    | 10.00 |
| 36 KGL Logistics Company K.S.C. (Closed)             | Kuwait       | 156.43   | 9.00  |
| 37 Perella Weinberg Partners                         | USA          | 176.40   | 8.00  |
| 38 Securities and Investment Company B.S.C.          | Bahrain      | 144.83   | 8.00  |
| 39 National Industrialization Co. (NIC)              | Saudi Arabia | 2,464.48 | 7.42  |
| 40 Gulf Aluminium Rolling Mill Co. B.S.C.            | Bahrain      | 206.19   | 5.89  |
| 41 United Power Company SAOG                         | Oman         | 84.94    | 2.30  |
| 42 Al-Razzi Holding Company K.S.C.                   | Kuwait       | 154.10   | 2.00  |
| 43 Arabian Industrial Fibers Company (IBN RUSHD)     | Saudi Arabia | 867.73   | 1.95  |
| 44 Thuraya Satellite Telecommunications Company PJSC | UAE          | 598.00   | 1.72  |
| 45 Zamil Industrial Investment Co.                   | Saudi Arabia | 345.35   | 0.26  |

\* These associates are owned indirectly by our subsidiary Bitumat

\*\* Owned jointly with Oman Investment Company

## Investment Products

| The Fund                       | Currency | Inception Date | Investment Objectives  |
|--------------------------------|----------|----------------|--|
| <b>GCC Funds</b>               |          |                |  |
| <b>Equity</b>                  |          |                |  |
| 1 Gulf Premier Fund            | US\$     | April 2003     | <ul style="list-style-type: none"> <li>• Attain capital appreciation through investments in GCC equity markets.</li> <li>• Achieve competitive returns against a GCC equities index.</li> </ul>  |
| 2 Protected Gulf Premier Notes | US\$     | December 2005  | <ul style="list-style-type: none"> <li>• Provide safe access vehicle to the growing GCC equity through a capital guaranteed notes on Gulf Premier Fund.</li> </ul>   |
| 3 Gulf Islamic Fund            | US\$     | January 2008   | <ul style="list-style-type: none"> <li>• Attain capital appreciation through investments in GCC equity markets.</li> <li>• Achieve competitive returns against a GCC Sharia compliant equities index.</li> </ul>   |
| <b>Bonds</b>                   |          |                |  |
| 1 GIC KD Bond Fund             | KD       | May 2003       | <ul style="list-style-type: none"> <li>• Maximize current income and price appreciation consistent with preservation of capital and lower volatility through investment in debt issues in GCC &amp; Kuwaiti markets.</li> </ul>  |
| 2 Gulf Bond Fund               | US\$     | March 2005     | <ul style="list-style-type: none"> <li>• Maximize income returns through investments in debt issues of GCC entities.</li> <li>• Preservation of capital and lower volatility of total returns.</li> </ul>  |
| <b>Global Funds</b>            |          |                |  |
| 1 Alternative Strategies Fund  | US\$     | August 1999    | <ul style="list-style-type: none"> <li>• The fund is a portfolio of hedge funds that is diversified across a broad mix of styles and strategies that seek to generate long term capital appreciation while maintaining a low correlation with traditional global financial markets.</li> <li>• Risk Objective: Less volatile than traditional equity investments, emphasizing preservation of capital in down markets.</li> <li>• Achieve annual total returns in the range of LIBOR plus 3% to 5%.</li> <li>• Provide returns with low volatility 2% - 4%.</li> </ul> |
| 2 GIC Event-Driven Fund        | US\$     | July 2002      | <ul style="list-style-type: none"> <li>• A fund of hedge funds focused on event-driven hedge fund strategies.</li> <li>• Absolute annual returns in the range of LIBOR plus 4% to 8%.</li> <li>• Achieve those returns within volatility of 3% to 5%.</li> <li>• Provide returns with low correlation to the general direction of the traditional equity, fixed income and credit markets.</li> </ul>  |
| 3 GIC Global REITS Fund        | US\$     | December 2005  | <ul style="list-style-type: none"> <li>• Deliver capital appreciation through investments in global Real Estate securities listed in US, Europe and Asian equity markets.</li> <li>• Achieve competitive and stable returns.</li> </ul>  |

## Corporate Directory

### Senior Management

**Hisham Abdulrazzaq Al-Razuqi**

Chief Executive Officer

**Rashid Bin Rasheed**

Deputy General Manager &  
Head of Finance & Administration

**Arun Ratra**

Head of Global Markets Group

### Global Markets

**Malek Al-Ajeel**

Head of Business Development

**Talal Al-Tawari**

Head of GCC Equities

**Fahmi Al-Ali**

Head of Managed Funds

**Tarek El Rohayem**

Head of GCC Research

**Waleed Al-Braikan**

GCC Fund Management

**Martin Joy**

Head of Treasury  
Acting Head of Debt Capital Markets

**Mathew Abraham**

Money Markets

**Principal Investing****Shafic Ali**

Head of Financial Services &amp; Utilities Projects

**Khaled Al-Qadeeri**

Head of Manufacturing Projects

**Mohammad Al-Melhem**

Head of Diversified Projects

**Finance & Administration****Hani Al-Shakhs**

Head of Information Technology

**Hazem El-Rafie**

Head of Financial Control

**Shawki Khalaf**

Head of Operations

**Hamed Hamed**

Human Resources &amp; Administration

**Qais Al-Shatti**

Head of Public Relations &amp; Communication

**Corporate Office****Dr. Sulayman Al-Qudsi**

Head of Economics

**Sebastian Vadakumcherry**

Head of Risk Management

**Khaled Bukhamseen**

Head of Internal Audit

**Fahad Alabdulkader**

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