Annual Report and Accounts 2013

مؤسسة الخليج للاستثمار
Gulf Investment Corporation

Contents

Mission Statement

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

Financial Highlights

(US$ million)	2011	2012	2013
For the year			
Gross Operating and Other Income	292	222	302
Operating Expenses	61	66	66
Net Profit	181	130	163
At year end			
Total Assets	5,881	6,292	5,704
Interest Bearing Securities and Funds	1,771	2,045	1,750
Equities and Managed Funds	577	601	660
Projects and Equity Participations	2,192	2,085	2,278
Deposits	1,424	1,092	1,109
Shareholders' Equity	2,389	2,286	2,559
Selected Ratios (%)			
Profitability			
Return on Paid-up Capital	8.6	6.2	7.8
Return on Adjusted Shareholders' Equity	8.5	5.7	6.7
Capital			
BIS Ratios			
– Total	30.6	29.5	36.0
– Tier 1	30.6	29.5	36.0
Shareholders' Equity as a % of Total Assets	40.6	36.3	44.9
Asset Quality			
Marketable Securities as a % of Total Assets	33.2	35.3	41.6
GCC Country Risk as a % of Total Assets	65.7	60.7	71.2
Liquidity			
Liquid Assets Ratio	60.7	66.8	59.8
Productivity			
Operating Income as Multiple of Operating Expenses	4.8	3.4	4.6

Board of Directors

Kingdom of Saudi Arabia

H.E. Mr. Khaled S. Al-Khattaf * ***
Chairman of the Board -
Gulf Investment Corporation

H.E. Mr. Turki AlMalik ** ****
Deputy Chief Executive Officer
Chief Operating Officer
Saudi Arabian Investment Co.
(Sanabil Investments)

Sultanate of Oman

H.E. Mr. Darwish Ismail Ali Al-Bulushi * ****
Vice Chairman of the Board
& Chairman of the Executive Committee -
Gulf Investment Corporation
Minister Responsible for Financial Affairs
Ministry of Finance - Sultanate of Oman

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

State of Qatar

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

H.E. Dr. Hussain Ali Al-Abdulla ** ***
Chairman of the Audit Committee -
Gulf Investment Corporation
Minister of State and Board Member
Qatar Investment Authority

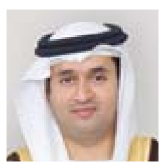
State of Kuwait

H.E. Mr. Bader Al-Ajeel * ***
Chairman of the Risk Management Committee -
Gulf Investment Corporation
Executive Director- General Reserve Sector
Kuwait Investment Authority

H.E. Mr. Faisal M. H. Boukhadour ** ****
Advisor in the Diwan of H.H. the Prime Minister

United Arab Emirates

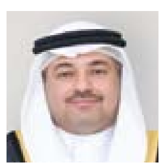
H.E. Mr. Faisal Ali Almansouri * ***
Director of Strategic Plannning
& Performance Department
Minister Office, Ministry of Finance



H.E. Mr. Saeed Rashed AlYateem ** ****
Chairman of Remuneration and
Human Resources Committee -
Gulf Investment Corporation
Assistant Undersecretary of Budget and Revenue
Ministry of Finance

Kingdom of Bahrain

H.E. Dr. Zakaria Ahmed Hejres * ****
Chief Executive Officer
Global Banking Corporation B.S.C. (closed)



H.E. Mr. Khalid A. Al-Bassam ** ***
Chairman
Foulath Holding Co.

Senior Management Team

Mr. Ibrahim Ali AlQadhi
Chief Executive Officer

Dr. Russell Read
Deputy Chief Executive Officer
& Chief Investment Officer

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

Chairman's Statement

To the Shareholders of
Gulf Investment Corporation, GIC:

On behalf of the Board of Directors, I am pleased to present the Annual Report that details the Corporation's activities and its financial results for the year ending on 31st December 2013.

GIC posted good results in 2013, with net profits growing by 25% to US $165 million.

GIC posted good results in 2013, with net profits growing by 25% to US $165 million. This strong performance in a challenging business environment is a testament to the corporation's resilience and strength. A significant increase in earnings from the global markets investment activity, combined with contributions from principal investments which forms GIC's core business, were the prime drivers of income growth. With shareholders' equity growing to US $2.6 billion at the end of 2013, the Corporation remains one of the more strongly capitalized financial institutions in the region. Total assets, as of 31st December 2013, stood at US $5.7 billion, resulting in a conservative debt-to-equity multiple of 1.2 times.

GIC's commitment to economic development in the GCC region is reflected in the growth of its portfolio of GCC-based project investments, which increased by US $205 million during 2013 to reach US $2.6 billion, constituting 43% of GIC's total assets. This is a clear testimony of GIC's vital role in promoting private enterprise and contributing to the development of GCC economies through participation in major projects in GIC's Focus Sectors including infrastructure, power and utilities, metals and petrochemicals. GIC's accumulated experienced and knowledge on top of its understanding of the regional business environment and its strong networking capabilities have helped GIC achieve new and significant milestones.
GIC continues to play a role in promoting economic and financial development in the GCC by participating and investing in the region's capital markets as well as private market funds specifically geared to developing the economic potential of the Gulf region. Along with its global investments, this portfolio provides meaningful diversification of risks and revenues from GIC's project investments.

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

Prospectively, as always, the business landscape is expected to be dynamic and continuously evolving. We believe this change will present new opportunities, especially within and related to the Gulf region. With its strong ownership and standing in the GCC, 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 am honored to take this opportunity to extend my appreciation to the Royal Highnesses, Kings and Amirs, rulers of the GCC countries for their continuous support. Special thanks also go to the State of Kuwait for its hosting of the GIC's headquarters and for extending all the support needed. I would also like to extend my appreciation to their excellencies the Ministers of Finance of the Gulf Cooperation Council for their guidance and support.

Finally, I would like to express my appreciation to all the members of the board, as well as the management and staff for their commitment and efforts during the year in achieving the Corporation's goals.

H.E. Khaled S. Al-Khattaf
Chairman

CEO's Review

Gulf Investment Corporation continued to record a healthy growth in profits during 2013 with net profits reaching US $165 million, an increase of US $34 million or 25% compared to prior year. In addition to registered net profits, unrealized valuation gains amounting to US $110 million reflected directly at the equity level, resulted in gross income growing to US $275 million for the year.

While global economic growth decelerated, global financial markets rebounded during the second half of the year mainly due to the expansionary monetary policies of the Federal Reserve in the US and the Central banks in the Euro zone and Japan through Quantitative Easing programs while maintaining low interest rates. Accordingly, the Corporation achieved this satisfying performance thru its main activity, namely global markets group and principal investments, by diversifying revenue sources, increasing operational efficiency and optimizing the overall risk profile. It is gratifying to note that the improvement in revenue growth was in tandem with stronger financial condition. Shareholders' equity grew by 12% year on year to reach US $2.6 billion, resulting in a leverage on 2.2 times, in terms of total assets to equity base. Consequently, GIC's Tier 1 capital adequacy ratio as at 31st December 2013 reached 36%. The corporation has also maintained a strong liquidity and liability profile by retaining an ample proportion of liquid assets and lengthening the maturity profile of liabilities.

GIC embarked on several initiatives during 2013 with the aim of promoting a more result-oriented culture, streamlining operational processes and systems to ensure efficiency, and aligning investment strategies to be mission consistent. In addition, a key strategic decision was made by the Board of Directors pertained to the cessation of third party funds, a step that is aimed at enhancing the focus and resource allocation to the core investment activities.

It goes without saying that rational deployment of financial resources in compliance with the reference guide, designed to achieve the highest return for a given level of risk, has contributed to achieve these results. The life-cycle completion of key projects in the portfolio resulted in revenue growth which contributed significantly to GIC's earning. This is a clear indication of the corporation's commitment towards the development of the GCC countries, with principal investments continued to be the Corporation's core business as it recorded year-on-year growth of 10% with an overall portfolio reaching US $2.6 billion at the 2013 year end.

It also confirms that GIC is keen to empower the role of the private sector in economic development in the region through active participation in joint ventures in vital sectors which are spread across the GCC region and include infrastructure, energy, metals and petrochemicals. Some of the project companies within the principal investments portfolio have emerged not just as regional leaders but also as major global players in their respective sectors. Improved operating efficiencies, progress in the life cycle, strategic global technological tie-ups and takeovers, combined with region specific natural advantages, have contributed to this success.

Likewise, Global Markets group which mainly invests in capital market products, performed well during 2013, comfortably beating performance targets.

During 2013, the corporation's long term credit ratings were reaffirmed by three international rating agencies. Furthermore, Fitch upgraded GIC's viability (VB) ratings from 'bb-' to 'bb', while reaffirming the long term BBB rating. Moody's reaffirmed GIC's long term rating at Baa2 and stand alone BFSR at D. In addition, Rating Agency Malaysia (RAM) reaffirmed its AAA long term rating of GIC. All ratings carry a "Stable" outlook.

While the new initiatives that GIC embarks on will be guided by inherent capabilities, arising opportunities and business strategy, it will also be governed by financial prudence and sound risk management. Maintaining sound enterprise risk management capabilities will continue to be a part of GIC's strategic goal. We will constantly enhance our systems and processes, adopting market best practices and in line with an evolving and dynamic operating environment.

I would like to take this opportunity to thank the shareholders, the board of directors and its sub-committees for their strategic guidance. I would also like to express my appreciation to GIC staff for their efforts, commitment and dedication. I am proud of what we accomplished in 2013 and even more excited about the opportunities that lie ahead. The strong foundation we have built combined with the goodwill we have established, will enable us to expand our business and regional franchise. We will continue, as a team, to strive towards achieving our corporate goals of contributing to the development of private enterprise in the region and creating value for our shareholders.

Ibrahim AlQadhi
Chief Executive Officer

Economic Review

The year 2013 will probably be looked at as the year of euphoria in financial markets, ultra loose monetary policy and mixed economic performance due to a set of interceding policy uncertainty and geopolitical events and all powerful central bodies that kept the global economy oscillating between progress and regression.

Seized by fiscal stress, geopolitical tension between Japan and China and the stand-off between the West and Iran/Syria, and the high unemployment rates in mature economies, growth of the global economy in 2013 hovered around 2.4% which is nearly half the record rates of the decade preceding the global financial crisis. Concomitantly in the US, economic growth was driven by money creation and GDP growth decelerated from 2.8% in 2012 to 1.7% due to fiscal stress exemplified by the 16-day government shut down which shaved at least 0.6% off annualized fourth quarter GDP growth. The growth prospects of the US economy were enhanced during the second half of the year however partly as a result of the Fed's pursue of quantitative easing and monetary policy extraordinaire and the harvesting of the shale oil and shale gas potentials of North America, thanks mainly to the application of the hydraulic technology. Relative calm reigned over the Eurozone throughout the year and the core economies of Europe showed signs of recovery in 2013 while the region's periphery continued to struggle. The euro area GDP contracted by 0.4% in 2013 compared with a 0.6% contraction in 2012 due to the prevalence of high private debt levels and high rates of non-performing loans.

Although emerging economies continued to account for the bulk of global growth in 2013, they faced the dual challenges of cyclical weakness and tighter external financial conditions triggered by US monetary policy. Consequently, the combined growth of emerging economies slowed down from 4.7% in 2012 to 4.5% in 2013 with China's realizing the highest rates of 7.5%. Developing Asia grew by 6.3% in 2013 but Russia and Brazil grew only moderately at 2.5% and 1.5% respectively[1]. During the year, Japan enjoyed vigorous rebound, thanks to the aggressive policy stimulus. Prospectively however, sustaining the growth momentum will ultimately depend on whether the increase in consumption tax is setting the right pace for fiscal consolidation and ushering the implementation of a credible set of structural reforms moving forward from cyclical recovery into sustained growth[2].

The reduced sovereign default risks within the EU had also positive impact on the recovery both within and outside the EU region. Default risks were subdued substantially and, concomitantly, the insurance on sovereign debt, CDS, were reduced relative to 2012 and certainly relative to the years that followed the onset of the global financial crisis. Yet the year witnessed other important financial and regulatory dynamics that will have future impact. These include Europe's efforts to achieve uniform bank reforms and the libor rigging probes and subsequent fines to four of the biggest US and EU Zone banks, Deutsche Bank, Société Générale, JP Morgan and Citi[3]. By year-end there was synchronized growth for the major global economies, pointing on to an optimistic outlook for 2014[4].

[1] IMF, WEO, October 2013.
[2] Economist's View, December 16, 2013.
[3] Financial Times, December 4. 2013.
[4] R. Keenan, Forecast 2014, Economic Trends.

Inflation was Muted in Mature Economies

The growth pick-up in advanced economies was motivated by the low level of inflation partly due to softer energy and nonfuel commodity prices which fell by 1.5% in 2013 after a 9.9% fall in 2012. High rates of excess capacity and labor market slack were also major contributors to disinflationary pressures. Inflation rate fell from 2.0% in 2012 to 1.4% in 2013 in mature economies and ranged between 2.7% in the UK; 1.5% in the Euro Area; 1.4% in the US; 1.1% in Canada and 0.7% in Japan.

Because the Fed's monetary policy is more entrenched and proactive relative to that of the ECB, deflation was less of an immediate threat to the US during 2013 but the European economy and the euro area in particular seemed vulnerable to a sustained fall in prices[5]. As a result, the ECB cut its main policy rate from 0.5% to 0.25% in November 2013 in response to the weak inflation figures.

The anomaly is that in a low inflation rate environment, global central banks became less able to combat the potential threat of another recession using their standard policy rates which are close to zero in nominal terms. In 2013, it ranged between 0.10% in Japan, 0.25% in both the US and the EU and 0.50% in the UK. Most central banks continued to rely on unconventional measures to ease monetary stances such as quantitative and credit easing. The forward guidance of the Fed and the BOE, announced in 2013, was an example where the credibility of both banks had increased by promising to keep rates low for extended period conditional on falling unemployment rates to 6.5% and 7% in the US and the UK respectively provided that inflation rates remain below their target levels[6].

In 2013, the Fed and the BOJ continued to maintain their expansive asset purchases programs, though at a slower pace in the US, which caused the size of their balance sheets to increase to nearly 30% and 40% of their respective GDP in 2013. While the BOE maintained its asset purchase program on hold and flat later of the year, on rising inflation rate above the 2.0% target rate, the size of its balance sheet reaches 35% of GDP in 2013. The ECB reduced its credit easing stance and the size of its balance sheet was reduced from around 34% of GDP in 2012 to 25% in 2013[7].

In emerging markets and developing economies, consumer prices grew by 6.2% in 2013 and rates of inflation continue to diverge across regions and across countries ranging from 12.3% in MENA region to 6.9% in Sub-Saharan Africa, 6.7% in Latin America and the Caribbean, 6.5% in CIS, 5.0% in Developing Asia and to 4.1% in Central and Eastern Europe[8].

Table 1: Short-Term Policy Rates

Date	Japan	UK	USA	Euro Area	China *
2008 Q1	0.50	5.25	2.661	4.00	6.57
2008 Q2	0.50	5.00	2.000	4.25	6.57
2008 Q3	0.50	5.00	2.000	4.25	6.21
2008 Q4	0.30	2.00	0.543	2.50	4.86
2009 Q1	0.10	0.50	0.125	1.50	4.86
2009 Q2	0.10	0.50	0.125	1.00	4.86
2009 Q3	0.10	0.50	0.125	1.00	4.86
2009 Q4	0.10	0.50	0.125	1.00	4.86
2010 Q1	0.10	0.50	0.125	1.00	4.86
2010 Q2	0.10	0.50	0.125	1.00	4.86
2010 Q3	0.10	0.50	0.125	1.00	4.86
2010 Q4	0.10	0.50	0.125	1.00	5.35
2011 Q1	0.10	0.50	0.125	1.00	5.60
2011 Q2	0.10	0.50	0.125	1.25	5.85
2011 Q3	0.10	0.50	0.125	1.50	6.10
2011 Q4	0.10	0.50	0.125	1.00	6.10
2012 Q1	0.10	0.50	0.125	1.00	6.10
2012 Q2	0.10	0.50	0.125	1.00	5.85
2012 Q3	0.10	0.50	0.125	0.75	5.60
2012 Q4	0.10	0.50	0.125	0.75	5.60
2013 Q1	0.10	0.50	0.125	0.75	5.60
2013 Q2	0.10	0.50	0.125	0.50	5.60
2013 Q3	0.10	0.50	0.125	0.50	5.60
2013 Q4	0.10	0.50	0.125	0.25	5.60

Note: China 6 month lending rate.
Source: Bloomberg.

[5] The European Commission, "EU Economic Forecast" November 5, 2013.
[6] The Economist, November 9, 2013.
[7] IIF, "Global Economic Chart Book" December 2013.
[8] IMF, WEO, October 2013.

In China, confidence in the underlying momentum of the economy and a mild pickup in inflation, from 2.5% in 2013 to 3.0% in 2013, encouraged a shift to tighter monetary conditions. The central bank had injected liquidity into the banking system through open market operations after the June spike in interest rates and credit squeeze, but the last quarter of the year, authorities started to drain liquidity, offsetting the monetary impact of a widening current account surplus and renewed capital inflows[9].

In India, the central bank scaled back its exceptional monetary measures in late September 2013 in response to financial calm while continuing to signal inflation concern. It lowered the marginal standing facility (MSF) rate by 75bp to 9.5% and reduced the daily minimum cash balance required to 95%. At the same time, the central bank raised the repo rate by 25bp to 7.5% to signal its continuing inflation concerns which reduced the differential with the MSF rate from 300bp to 200bp to gradually restore its position as the policy rate. The bank also used a version of the Fed's Operation Twist and purchased government bonds of longer maturity to mitigate the adverse impact of monetary tightening on long term yields and growth[10].

Under these conditions, capital flows to emerging economies were highly volatile in 2013. The surge of inflows, starting mid-2012, was followed by a sharp reversal from mid-May 2013, prompted in part by a shift in market expectations towards an early normalization of US monetary policy. Tight conditions in funding markets continued to weigh on growth in some EM countries as banks continued to their lending standards[11].

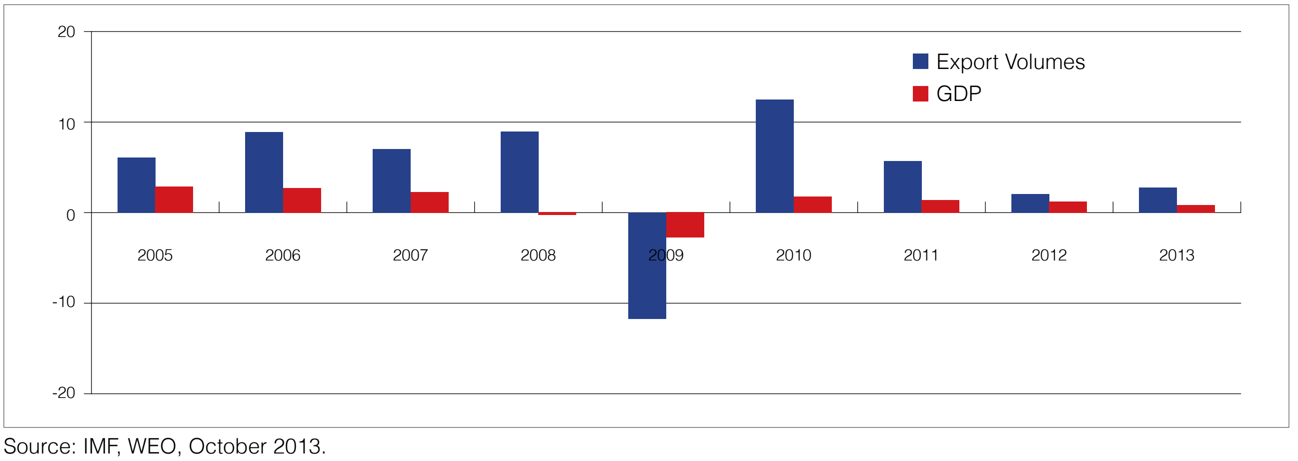
Subsequently, taper talks hit the markets as yields on the benchmark 10-year Treasury note climbed as high as 2.99% on early September from 1.93% on May 21, the day before Bernanke said that the central bank could take a step down in its pace of purchases in the next few FOMC meetings.

As of May 22, many equity, bonds and currency markets, especially in emerging markets experienced large losses, hovering around 20%. In addition, global equity markets lost $3 trillion in the five days after Bernanke's June 19 remarks that he may reduce monthly securities buying in 2013 and stop it by mid-2014[12]. The $10bn tapering announced in December 2013, would likely have some stabilizing effects along with the recent market reactions to taper talk in the form of cheaper equities and currencies and higher bond yields in different markets.

Signs of Improvement in Global Trade

The link between economic growth and growth in trade and services during the period 2005-2013 is revealed by the high correlation between GDP growth and trade growth, at 0.89. This high correlation hold in advanced economies as GDP and trade in goods and services continue to grow more slowly than their long term average rates in 2013. GDP growth of 0.9% y-o-y, is 0.3bp below its 2005-13 long term average rate of 1.2% while trade growth of 2.7% is 110bp below its long term average rate of 3.8%. This deviation can be explained by slower growth rates of export volume of all advanced economies except the UK, Japan and Canada in 2013 relative to 2012. In addition, import volume grew by 1.5% in 2013 in advanced economies, lower than its long terms average rate of 2.9% and low import growth was perceived in the US, Japan, the UK and Canada[13].

Figure 1: Advanced Economies: Growth in Volume of Trade and GDP, 2005-13



Source: IMF, WEO, October 2013.

9 IIF Research Note: "China: Solid Outlook Provides Opportunity for Reform" December 23, 2013.
10 IIF Research Note: "India: Back from the Brink" December 23, 2013.
11 IIF, "Emerging Markets Bank Lending Conditions Survey" 2013Q3, October 24, 2013.
12 IIF, "Capital Markets Monitor" September 2013.
13 WTO, International Trade Statistics, 2013.

On December 7, global parties agreed to trade facilitation[14], and already the volume of world trade in goods and services grew by 2.9% in 2013 as exports grew by 2.7% and 3.3% in advanced economies and EM and developing economies respectively. Likewise imports grew by 5.3% in emerging market and developing economies but export and import growth in 2013 remained below their long term average rates of 5.8% and 7.4% respectively. Regional wise, this trade growth is explained by the improved performance of exports and imports mainly in developing Asia, Latin America and the Caribbean and to a lesser extent central and eastern Europe[15]. The growth in trade and GDP for advanced economies is shown in Table 2.

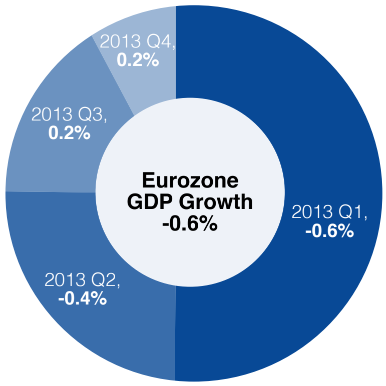
Table 2: Advanced Economies: Growth in Volume of Trade and GDP, 2005-2013

Year	Export Volumes	GDP
2005	6.1	2.9
2006	8.9	2.7
2007	6.9	2.3
2008	2.1	-0.2
2009	-11.6	-2.7
2010	12.4	1.8
2011	5.7	1.4
2012	2	1.2
2013	2.7	0.9

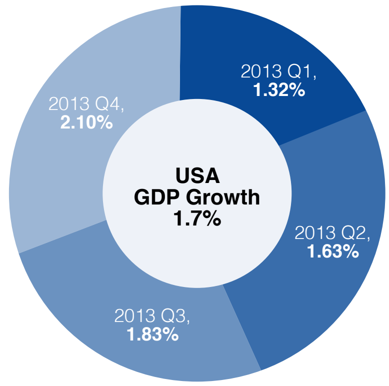
Source: WTO, International Trade Statistics, 2013.

[14] The Economist, December 20, 2013.
[15] IMF, WEO, October 2013.

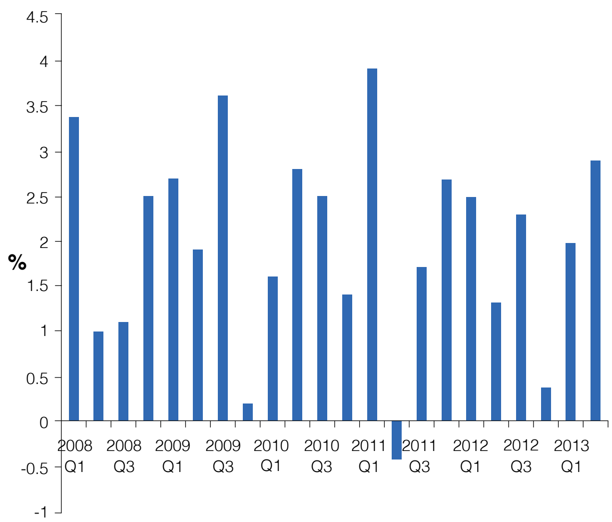
Selected EU Macroeconomic Indicators



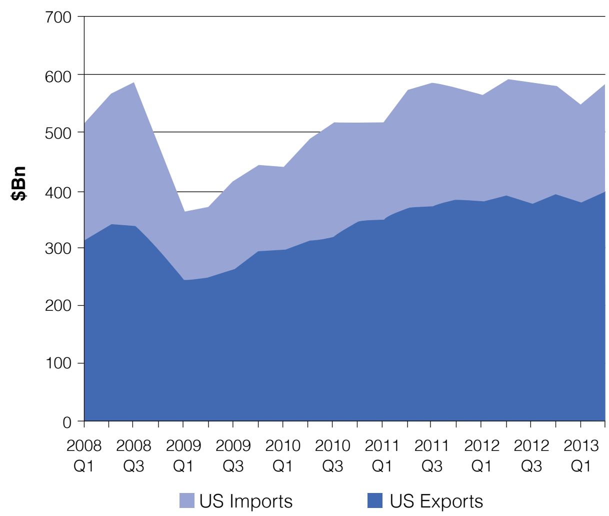
Selected US Macroeconomic Indicators



EU Inflation Rates

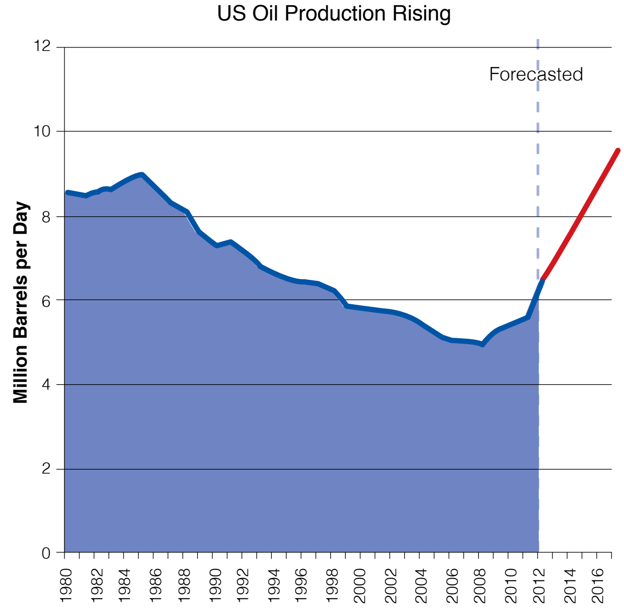


US Trade Rebounding



EU Industrial Production Index Dipping

US Oil Production Rising



GCC Economic Review

While estimates are still preliminary, analysts, including the IMF, put the combined growth of the GCC between 3.5% and 4% in 2013. We at GIC believe that when all is done the GCC economies will achieve a slightly higher overall economic growth of 4.5% driven by expansive fiscal policies, firm oil prices and dynamic private-public sector partnerships. The GCC countries also continue to pursue reforms, including labor market reforms as is the case in KSA, and overall, the GCC continues to promote private sector growth to realize further income diversification. Utilizing official data on GDP in the GCC, and applying statistical approaches we estimated the quarterly GDP of the GCC economies. The estimates are shown in Table 3.

Table 3: Quarterly Gross Domestic Product of the GCC Economies

$ Mn	Bahrain	Q-o-Q Growth	Kuwait	Q-o-Q Growth	Oman	Q-o-Q Growth	Qatar	Q-o-Q Growth	KSA	Q-o-Q Growth	UAE	Q-o-Q Growth
2008q1	5,014	6.0%	36,630	14.7%	13,232	6.8%	23,602	11.0%	131,238	11.0%	77,728	9.5%
2008q2	5,814	15.9%	38,506	5.1%	15,227	15.1%	26,535	12.4%	148,693	13.3%	80,915	4.1%
2008q3	6,089	4.7%	38,006	-1.3%	17,204	13.0%	28,935	9.0%	142,513	-4.2%	80,471	-0.5%
2008q4	4,995	-18.0%	34,533	-9.1%	14,998	-12.8%	21,324	-26.3%	96,936	-32.0%	76,318	-5.2%
2009q1	4,429	-11.3%	28,717	-16.8%	10,488	-30.1%	22,946	7.6%	93,863	-3.2%	68,369	-10.4%
2009q2	4,804	8.5%	26,436	-7.9%	10,578	0.9%	22,446	-2.2%	103,142	9.9%	63,305	-7.4%
2009q3	5,086	5.9%	25,252	-4.5%	12,004	13.5%	25,225	12.4%	112,749	9.3%	61,137	-3.4%
2009q4	5,246	3.2%	25,368	0.5%	15,107	25.9%	27,666	9.7%	119,303	5.8%	61,968	1.4%
2010q1	6,130	16.9%	26,847	5.8%	13,864	-8.2%	29,562	6.9%	127,903	7.2%	65,848	6.3%
2010q2	6,320	3.1%	28,416	5.8%	14,110	1.8%	29,172	-1.3%	126,692	-0.9%	69,799	6.0%
2010q3	6,325	0.1%	31,098	9.4%	14,304	1.4%	32,008	9.7%	127,580	0.7%	73,821	5.8%
2010q4	6,870	8.6%	33,744	8.5%	16,871	17.9%	34,353	7.3%	144,596	13.3%	77,918	5.6%
2011q1	6,928	0.8%	36,760	8.9%	16,100	-4.6%	38,765	12.8%	159,201	10.1%	82,097	5.4%
2011q2	7,265	4.9%	39,391	7.2%	17,884	11.1%	42,543	9.7%	167,661	5.3%	85,785	4.5%
2011q3	7,332	0.9%	41,241	4.7%	16,584	-7.3%	44,988	5.7%	167,933	0.2%	88,986	3.7%
2011q4	7,440	1.5%	42,735	3.6%	19,311	16.4%	45,131	0.3%	174,667	4.0%	91,692	3.0%
2012q1	7,557	1.6%	44,477	4.1%	18,938	-1.9%	47,969	6.3%	182,972	4.8%	93,884	2.4%
2012q2	7,343	-2.8%	45,382	2.0%	20,622	8.9%	46,887	-2.3%	175,127	-4.3%	95,588	1.8%
2012q3	7,600	3.5%	46,313	2.1%	17,669	-14.3%	47,815	2.0%	180,043	2.8%	96,791	1.3%
2012q4	7,781	2.4%	46,992	1.5%	20,806	17.8%	49,673	3.9%	172,841	-4.0%	97,484	0.7%
2013q1	8,034	3.3%	46,715	-0.6%	19,897	-4.4%	50,798	2.3%	178,807	3.5%	97,661	0.2%
2013q2	7,966	-0.9%	47,178	1.0%	20,434	2.7%	49,731	-2.1%	171,090	-4.3%	97,903	0.2%
2013q3	8,283	4.0%	47,858	1.4%	20,546	0.5%	50,665	1.9%	185,779	8.6%	98,214	0.3%
2013q4	8,328	0.5%	48,139	0.6%	20,719	0.8%	50,831	0.3%	207,333	11.6%	98,599	0.4%

Source: National Sources and GIC Estimates.

The GCC region hosted two head-of-state level conferences during the year. One was on 11th December 2013 during the 34th GCC Supreme Council Summit of the leaders of the GCC. The second was the 3rd Arab-African Summit on 19th November 2013. As well the UAE was selected to host the 2020 World Expo. It will be the first to be held in the MENASA (Middle East, North Africa and South Asia) region and will be a platform for connectivity to help pioneer new partnerships for growth and sustainability for the future. These important events help promote trade aid investments within the region and with the rest of the world. In addition, strong underlying economic fundamentals enabled the GCC countries to maintain their sovereign credit ratings in the upper tiers of investment grade. Qatar, Kuwait and UAE have the highest ratings at AA rating, followed by Saudi Arabia at AA- and Oman at A. Such credit ratings are on a par with most developed economies such as Belgium, Austria, New Zealand, France and Japan and are justified by large fiscal surpluses, low level of public debt, and robust non-oil GDP growth, at 5.0% annualized rate in 2013[16].

Table 4: GCC Sovereign Credit Ratings: S&P Foreign Currency Long Term Debt (YTD)

Country	Rating (S&P) YTD
Bahrain	**BBB**
Kuwait	**AA**
Oman	**A**
Qatar	**AA**
Saudi Arabia	**AA-**
Abu Dhabi	**AA**
USA	**AA+**

Source: Bloomberg Data Base, December 11, 2013.

Overall inflation in the GCC is expected to be moderate at 2.6% in 2013. Increasing food prices, sharp increase in housing costs and transport and education expenses led to a rise in inflation in Bahrain to 3.3% in 2013 from 2.7% in 2012. While in Kuwait consumer prices remain subdued at 2.9% this year. With modest rental cost, inflation in Oman is expected to slip down to 1.4% in 2013. In Qatar, inflation edged back to 2.8% in October as price rose by 0.6% due to a 1% rise in food prices and 0.8% increase in rent, fuel and energy costs and overall inflation is projected to rise to 3.2% this year and 4% in 2014. While in Saudi Arabia inflation is expected to hover around 3.5-4% during 2013-2014, UAE's inflation will remain at 1.1% in 2013 and will pick up to 2.4% in the next year[17].

GCC sovereign wealth funds (SWF) continue to grow with their combined assets reaching US$ 1.9 trillion beginning October 2013. The UAE accounts for almost 41% of total GCC SWF's with a combined assets of US$ 819 billion from its 5 Sovereign Wealth Funds. Oman and Bahrain also contribute their share of investments to Sovereign Wealth Funds with US$ 14.2 billion and US$ 7.1 billion respectively.

[16] IMF, Regional Economic Outlook, November 2013.
[17] Oxford Economics, Country Economic Forecast, November 2013.

Table 5: Sovereign Wealth Funds (SWF's) 1995-2013 ($ mn)

Year	World	GCC
1995	13,048.34	4,465.01
1996	13,483.31	4,562.47
1997	14,457.93	4,570.09
1998	15,628.43	5,449.81
1999	18,041.46	5,950.05
2000	19,312.39	5,950.05
2001	25,517.18	8,326.72
2002	36,095.58	8,326.72
2003	41,671.00	8,877.37
2004	47,368.08	11,866.02
2005	61,704.46	17,246.49
2006	76,475.09	24,135.84
2007	137,480.38	44,965.22
2008	217,835.16	78,437.97
2009	314,103.95	123,525.74
2010	393,706.66	149,854.10
2011	483,174.19	165,873.83
2012	542,135.41	178,698.61
**2013	**580,686.12**	**186,993.56**

Source: www.swftransaction.com
** Last transaction was updated on September 6, 2013.

Between 2005-2013, GCC's main areas of investments were in energy, financials, industry and real estate sectors. As per the sovereign Wealth Funds transaction database, activity in real estate sector investments reached to US$ 3,665 million in September 2013 from US$ 1,109 million in 2005. While for financial sector investments are widening to US$ 1,428 million from its highest peak in 2008 with US$20,156 million.

Table 6: GCC Sovereign Wealth Fund Yearly Investments by Sector, (US$ Mn)

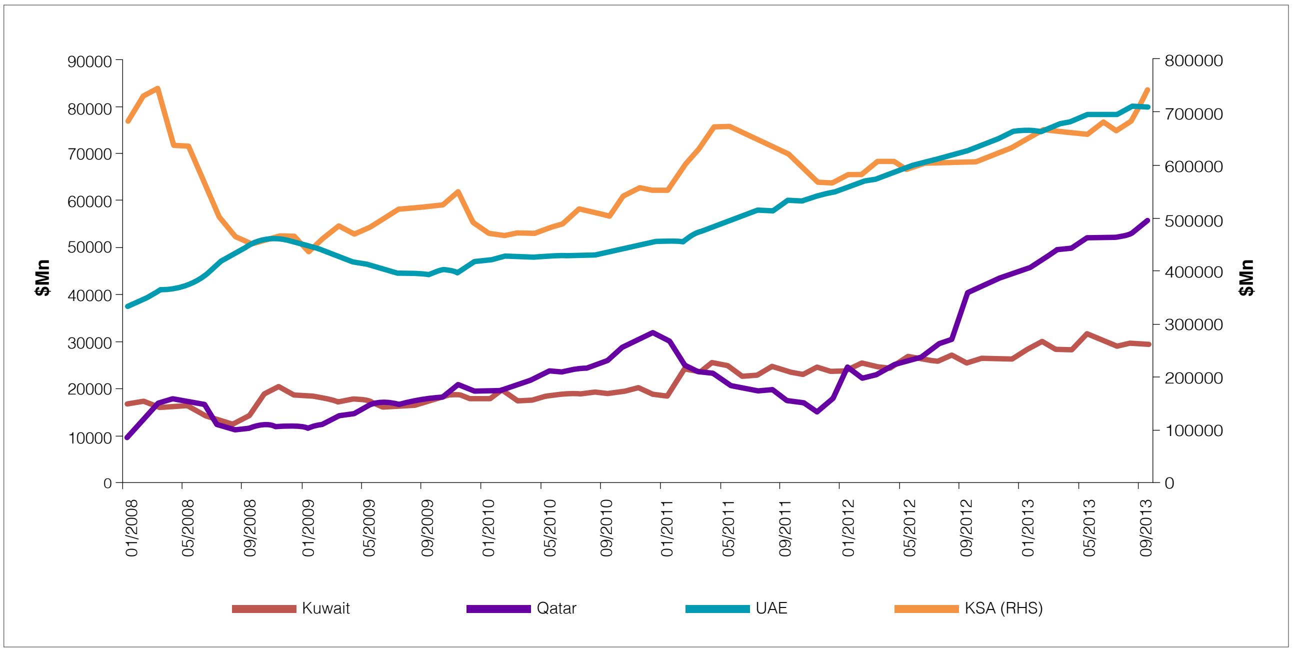
	Energy	Financials	Health Care	Industry	IT	Infra-structure	Real Estate
2005	182.60	21.66	13.15	112.10	.	.	1109.0
2006	383.22	270.57	.	289.36	.	.	4808.2
2007	5207.7	9202.10	546.56	161.62	824.08	.	2686.3
2008	1116.5	20155.55	151.46	252.83	241.02	2963.66	9311.2
2009	6050.4	2851.18	6.35	17667.36	540.78	14611.35	1722.3
2010	440.92	15993.62	199.13	1707.35	1208.22	1553.30	1562.9
2011	5421.4	5794.46	.	120.42	14.63	1586.32	3283.5
2012	4803.9	616.56	87.89	387.06	884.74	2446.75	3346.5
2013	219.49	1428.01	115.48	156.95	459.82	1069.23	3664.7

Source: www.swftransaction.com
Last transaction was updated on September 6, 2013.

As well, the financial sector in the GCC showed signs of strength and resilience, despite the weakened credit market. Generally conservative, the GCC central banks managed to take the domestic banks to safe shores with their accommodative monetary policies. Balance sheets of the GCC central banks have been growing persistently despite the economic turmoil throughout the last few years. Total assets of the GCC central banks grew from $557 billion in 2008 to $901 billion in September 2013, an impressive growth of 62%. Despite a minor setback in 2009, GCC central banks managed to compensate for the drop in 2009 and push their assets upward to reach $826 billion in 2012 versus $2.9 trillion in assets for the US federal reserves.

The composition of the region's central banks' assets varies mainly in terms of investments in gold and securities. Bahrain, Kuwait Oman and Qatar opted to maintain their reserves in gold, whereas KSA and UAE central banks hold a significant share of their assets in investments in foreign securities.

Figure 2: GCC Central Banks Total Assets ($ Mn)



Source: CEIC Database

Table 7: GCC Central Banks Total Assets ($ Mn)

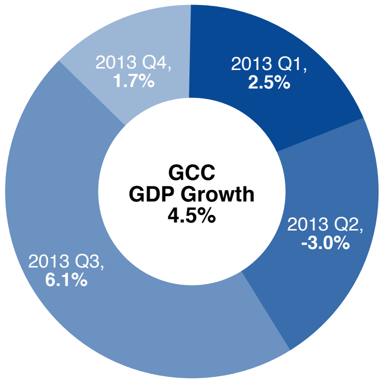
$Mn	Bahrain	Kuwait	Oman	Qatar	KSA	UAE	GCC
12/2008	5,188	18,822	12,039	12,214	455,999	52,756	**557,018**
12/2009	5,493	18,024	13,109	19,582	418,841	55,531	**530,581**
12/2010	6,354	18,904	13,775	32,153	454,768	62,338	**588,293**
12/2011	6,156	23,727	14,776	18,261	548,765	63,789	**675,474**
12/2012	6,709	26,282	15,056	44,296	662,682	71,383	**826,407**
09/2013	6,311	29,506	16,670	55,531	709,516	83,224	**900,759**

Source: CEIC Database

In this juncture, it is worth noting how the GCC central banks' balance sheets compare to the US Federal Reserve's balance sheet. The later is poised to exceed $4 trillion, prompting warnings its record easing is inflating asset-price bubbles and drawing renewed lawmaker scrutiny. The Fed's assets rose to a record $3.99 trillion on December 11, up from $2.82 trillion in September 2012, when it started on a third round of bond buying, all done with the goal to help lower long-term interest rates to spur economic growth. However, the growth in total assets of the GCC central banks with the performance of the GCC stock market indices, unfortunately the later are unable to catch up with the asset growth of the central banks and remain below pre-Lehman levels[18].

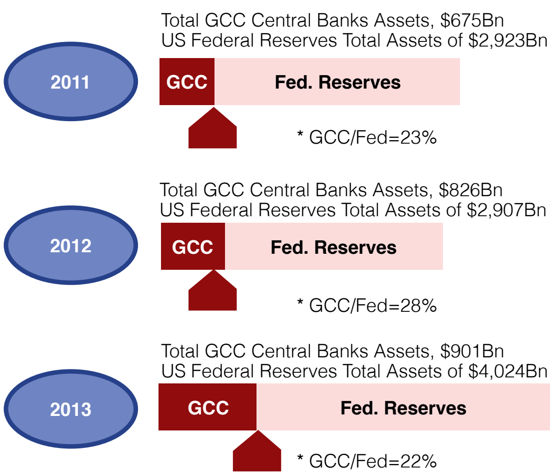
[18] Financial Times, December 18, 2013.

Selected GCC Macroeconomic Indicators

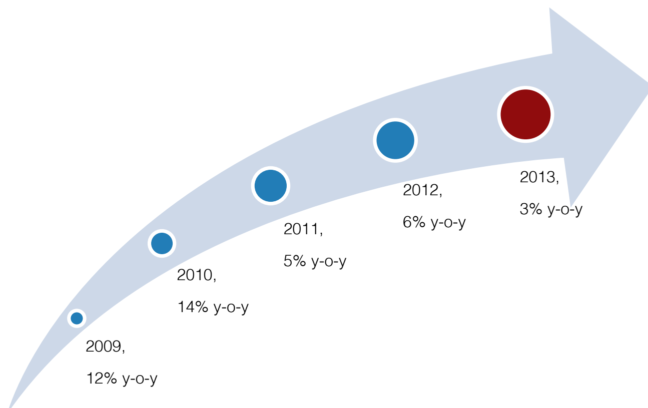


Selected China Macroeconomic Indicators

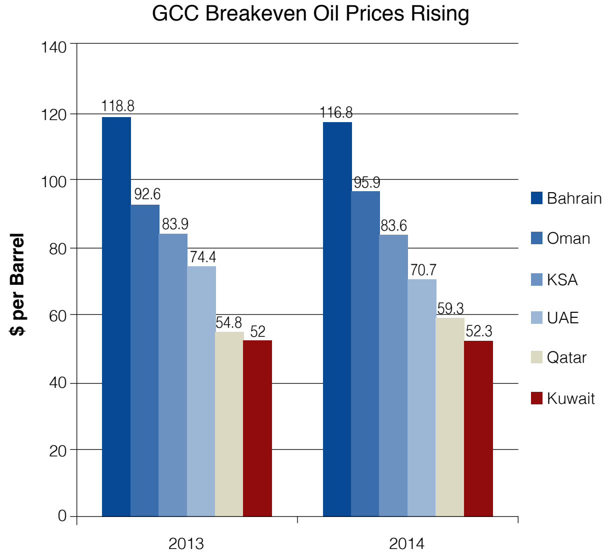
Fed and GCC Central Banks' Assets



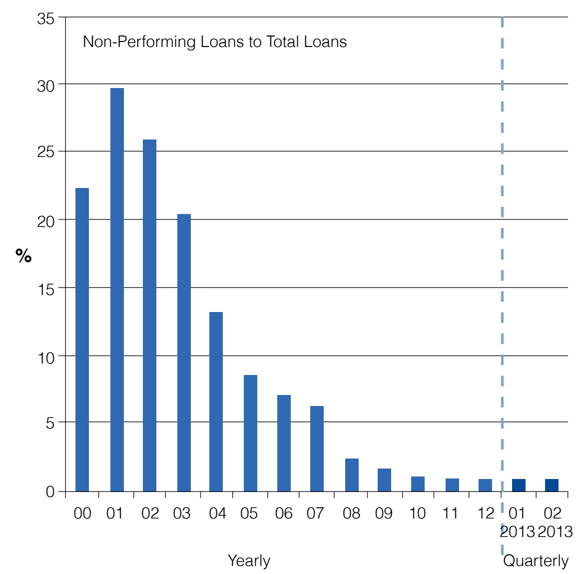
China's Annual Oil Demand Growth



GCC Breakeven Oil Prices Rising



EU Inflation Rates

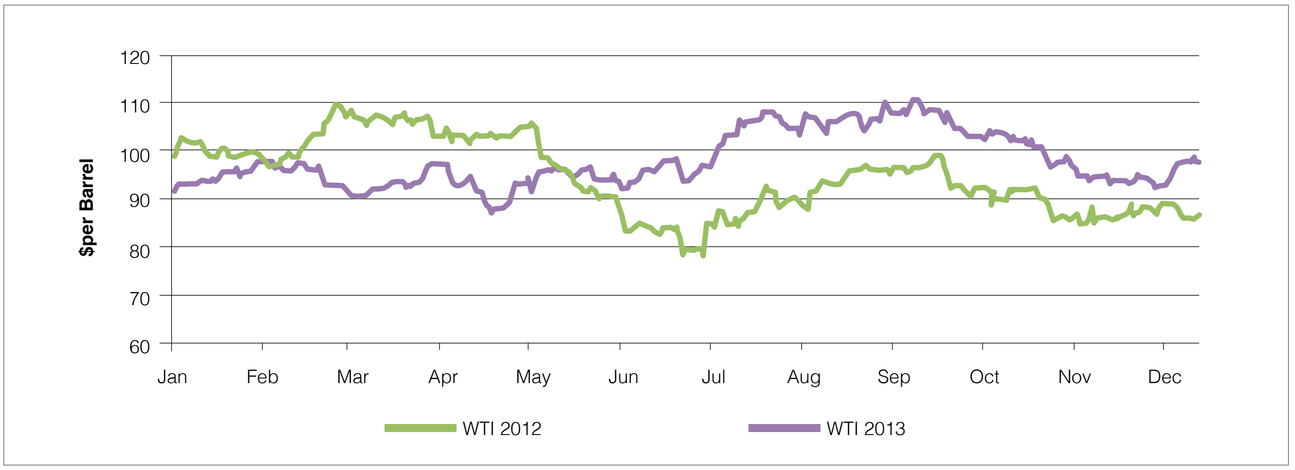


* Total GCC Central Banks Assets/Fed Reserves Assets

Oil Dynamics and Financial Markets Development in 2013

Oil prices, whether OPEC, WTI or Brent, all have recorded lower volatility in 2013, compared to the previous year. The highest volatility in oil prices occurred in the second quarter of 2012, but slowly calmed down throughout the rest of the year. OPEC and Brent's 2013 quarterly averages hover around last year's figures. However, WTI has marked a diverging trend in 2013 compared to 2012 as this year's prices trended above 2012 prices for 212 consecutive days and are on average 12.7% higher than last year's levels.

Figure 2: WTI Prices 2012 - 2013



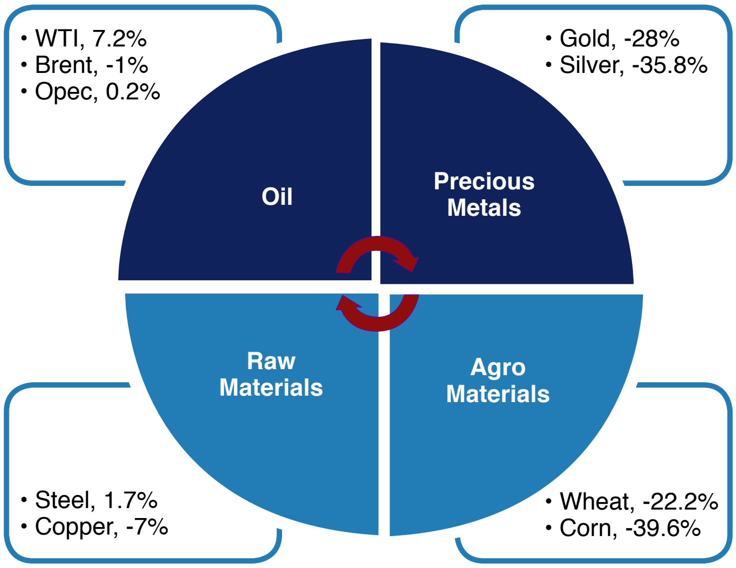
Source: Bloomberg.
Note: Up to December 12, 2012 and 2013.

Table 8: OPEC, WTI and BRENT Prices in 2012 and 2013

	OPEC 2012		OPEC 2013	
	Mean	**Volatility**	**Mean**	**Volatility**
Q1	117.2	5.4	109.4	2.8
Q2	106.9	10.5	100.9	2.1
Q3	106.6	5.8	107.0	2.7
Q4	107.4	1.9	106.2	1.6
	WTI 2012		**WTI 2013**	
	Mean	**Volatility**	**Mean**	**Volatility**
Q1	102.8	3.7	94.3	2.1
Q2	93.4	9.1	94.1	2.6
Q3	92.3	4.0	105.9	2.4
Q4	87.9	2.4	97.2	3.6
	BRENT 2012		**BRENT 2013**	
	Mean	**Volatility**	**Mean**	**Volatility**
Q1	118.5	6.5	112.8	3.4
Q2	109.0	10.7	102.9	2.2
Q3	110.1	5.8	110.2	2.9
Q4	110.5	2.5	109.1	2.3

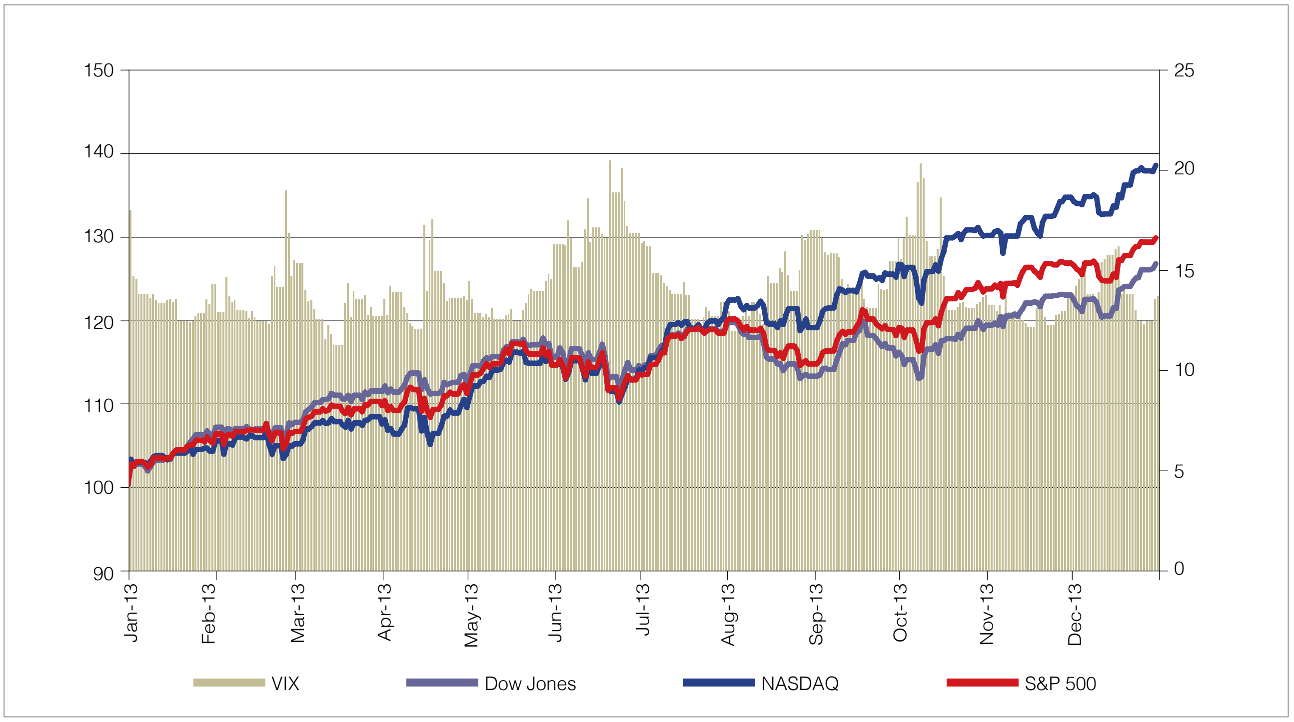
Source: Bloomberg.
Note: Up to December 12, 2012 and 2013.

Commodity Indices, 2013 Annual Performance *



Source: Bloomberg.
***Relative to 2012**

Figure 3: Major US Stocks and Market Volatility Index (VIX)

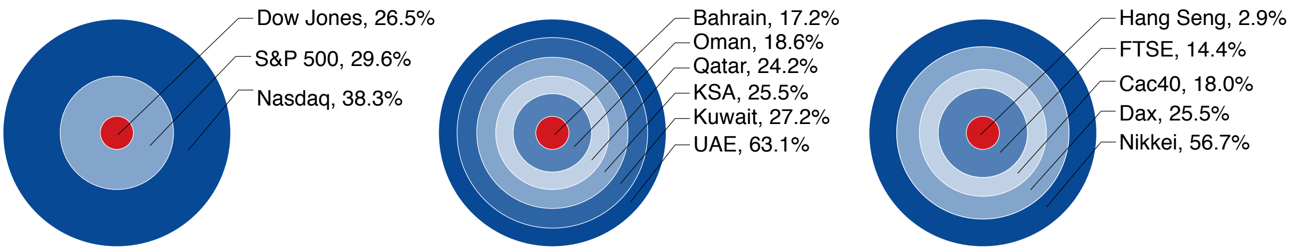


Source: Bloomberg.

US stock market indices maintained an escalating trend throughout the year regardless of certain events causing a drop down every now and then. The Dow Jones held the highest growth levels among the region during the first half of the year, but the daily gains of NASDAQ turned to be more dominant during the second half and led the growth to hit the highest levels at the end of the year. All the indices hit their record-highs during December after the Fed announced its call back for the monetary stimulus or its bond-buying program to stress that the economy has recovered and it is realizing positive and stable growth levels.

NASDAQ was the most volatile index with a disperse level of 96% around a mean growth of 116.70 compared to year-end 2012 while the disperse level of the S&P 500 was 45% around a mean of 114.86. The Dow Jones was the most stable index around a mean of 114.21, the disperse level was only 28% during the whole year.

Stock Market Indices, 2013 Annual Performance *

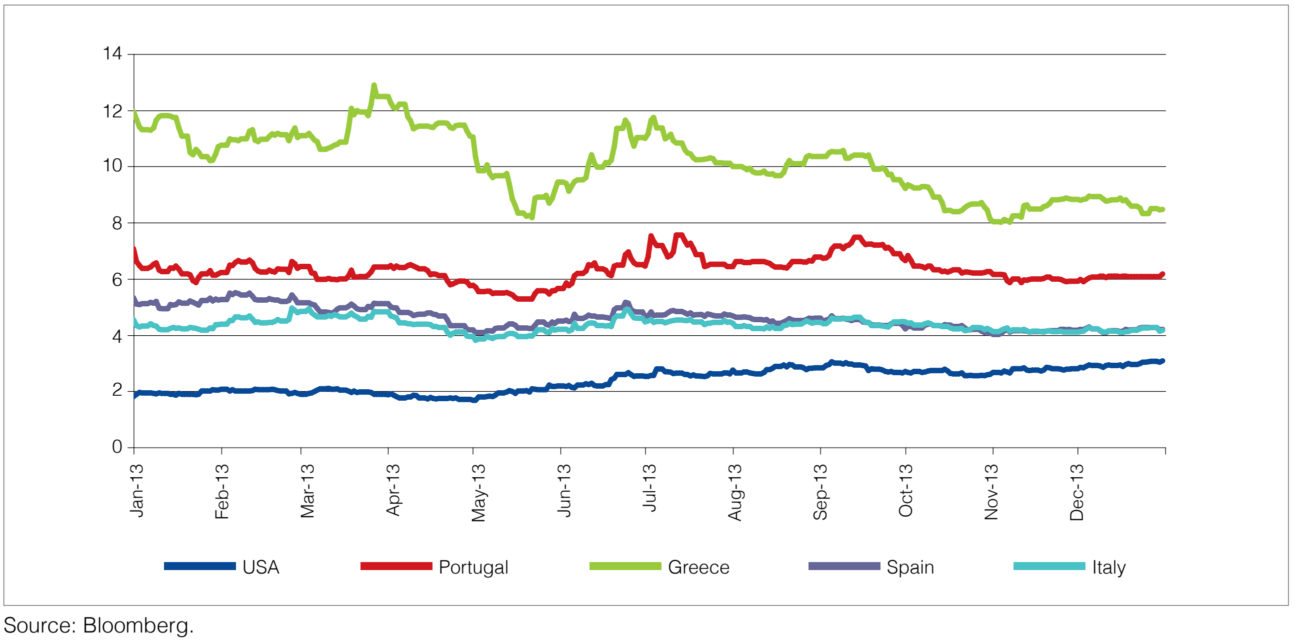


Source: Bloomberg.
*Relative to 2012

Treasuries

During 2013, most of the European economies witnessed a downfall in their 10 year government bond yields. Greece remains to be the country with the highest yields in the euro zone, with levels as high as 12.8%. While it's lowest value, 7.9%, even beats the highest level of yields in its peer countries, precisely Portugal at 7.5%. Portugal follows with the next highest yields, at 7% at the beginning of the year, and ending December at around 6%. US yields are relatively much lower, starting the year at 1.7% and closing at 2.9%.

Figure 4: Euro Area and USA 10-year government bond yields



Source: Bloomberg.

The table below summarizes average yields together with volatility and spreads between opening and closing levels. Yields in the Euro area in the year 2013 fared much better than those during 2012. For example, Greece began 2012 with yields as high as 34.9%, and a year later began 2013 with a much lower 11.9%. This pattern is mirrored across most Euro economies too. USA yields, however, displayed the opposite, where the average yield across 2012 was at 1.7%, and a much lower yield than 2013's average of 2.3%.

Table 9: Volatility of Spreads, 2013

	USA	Portugal	Greece	Spain	Italy	Ireland
Opening Value (Jan 1, 2013)	1.757	7.011	11.900	5.265	4.497	4.525
Closing Value (Dec 23, 2013)	2.902	6.019	8.515	4.172	4.154	4.401
Average	2.322	6.275	10.100	4.574	4.299	4.401
Standard Deviation	0.411	0.455	1.146	0.379	0.220	0.007
Minimum Value	1.626	5.232	7.966	3.971	3.763	4.401
Maximum Value	2.994	7.508	12.842	5.448	4.897	4.525

Source: Bloomberg.

Table 10: Government Bond Yields (%), 2013

	USA	Portugal	Greece	Spain	Italy
January	1.985	6.127	10.650	5.183	4.311
February	1.876	6.324	10.983	5.097	4.734
March	1.849	6.368	12.439	5.060	4.763
April	1.672	5.712	11.018	4.135	3.891
May	2.128	5.608	9.385	4.440	4.157
June	2.486	6.448	10.978	4.767	4.545
July	2.576	6.390	10.060	4.654	4.406
August	2.784	6.732	10.299	4.537	4.401
September	2.610	6.676	9.324	4.298	4.431
October	2.554	6.215	8.086	4.032	4.131
November	2.745	5.862	8.779	4.120	4.057
December	2.902	6.019	8.515	4.172	4.154
Y-O-Y % change	**65.11**	**-14.15**	**-28.45**	**-20.76**	**-7.63**

Note: End of month figures
Source: Bloomberg.

Credit Default Swaps

With improvement in the economic environment, the CDS displayed significant drops during the year. PIIGS CDS dropped by an average of 49%, excluding Greece, which has discontinued earlier this year. The average of the CDS for the PIIGS, was 541.5 bps in 2012, but dropped to 257.5 bps this year. Globally, the US witnessed a 22% drop in 2013 and regionally, but Abu Dhabi took the lead in the GCC, with a drop of 68% in CDS. Dubai saw a 5% drop this year, but its CDS level were significantly lower this year relative to previous years.

Table 11: CDS, 2013

	Portugal	Ireland	Greece	Spain	Italy	USA	Bahrain	Abu Dhabi	Dubai	KSA	Qatar
January	395.27	196.53	4476.70	269.11	252.29	42.72	201.36	73.77	220.00	70.87	73.72
February	391.66	169.25	3890.20	269.57	278.32	42.50	208.26	67.50	225.84	67.29	68.22
March	403.14	190.00	-	302.26	304.50	37.73	206.61	69.55	229.19	69.44	67.54
April	361.78	159.45	-	241.04	252.19	33.11	201.72	64.82	213.68	64.03	66.72
May	327.81	146.54	-	234.55	254.80	26.41	205.00	70.13	221.45	69.80	72.33
June	400.38	164.99	-	281.47	280.53	28.17	259.40	81.24	254.51	79.44	83.66
July	441.38	145.56	-	251.73	253.58	22.27	235.00	65.37	218.83	63.31	73.06
August	511.34	148.21	-	233.34	240.47	22.23	255.68	77.00	246.73	74.54	83.15
September	494.65	142.16	-	228.23	268.01	33.38	262.50	63.89	211.51	69.50	70.50
October	380.00	127.34	-	183.67	208.66	30.86	250.00	60.00	205.00	62.50	66.50
November	342.30	120.88	-	153.33	178.15	30.41	243.14	60.50	216.84	60.00	65.85
December	351.68	119.41	-	157.48	168.45	29.00	240.00	55.00	214.83	55.00	55.97
Y-O-Y% change	**-0.21**	**-0.46**	**-**	**-0.47**	**-0.42**	**-0.23**	**0.26**	**-0.35**	**-0.05**	**-0.24**	**-0.32**

Note: End of month figures
Source: Bloomberg.

GCC Equity Markets Review - 2013

Overview

2013 proved to be a good year for GCC equity markets, as the S&P GCC index out-performed markets in the wider MENA region, as well as Developed and Emerging Market peers.

Strong macro-economic fundamentals for GCC countries, driven by firm oil prices and an expansionary stance, lent support to the GCC markets through the year. Nevertheless, the markets remained susceptible to spells of volatility, influenced largely by external factors. Though the first half of the year was marked by geo-political uncertainties in the region that took its toll on GCC markets, a de-escalation of the crisis in Syria caused the markets to bounce back, albeit cautiously at first.

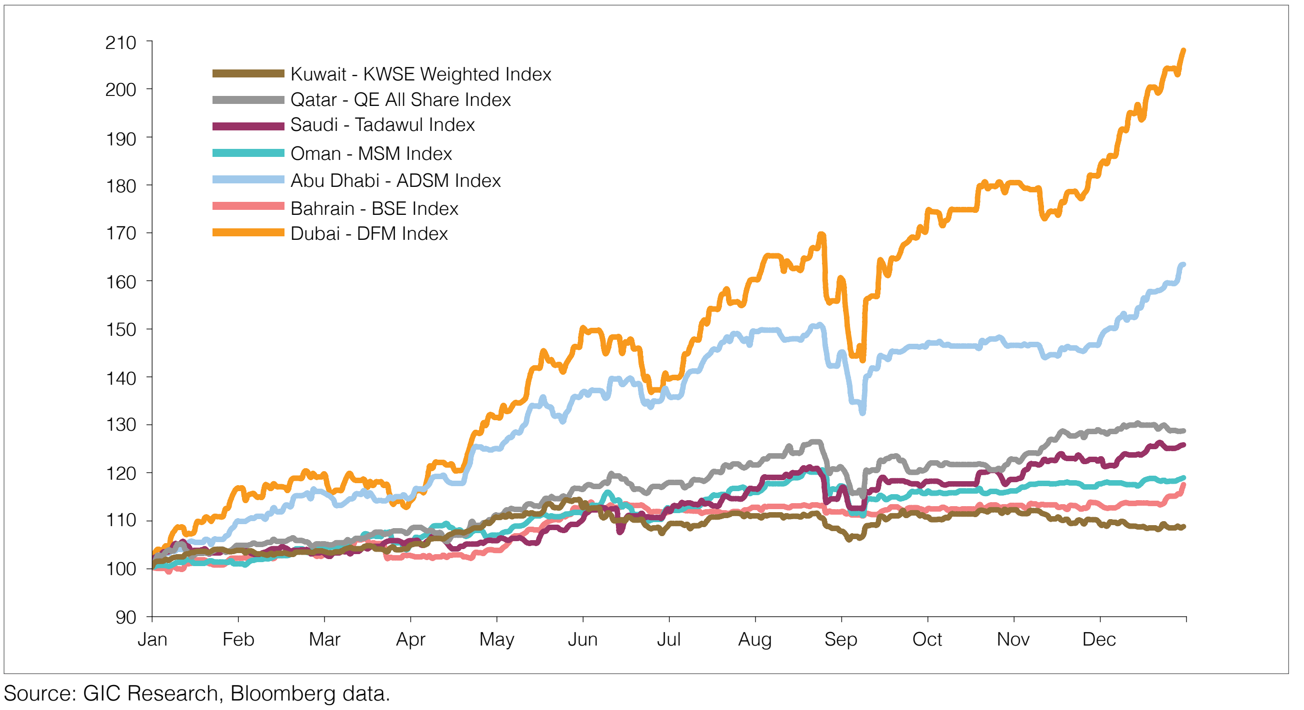
GCC equities were also strongly influenced by global events during the year, given the close correlation of GCC equity indices with Developed Markets, particularly the US. The end of the fiscal cliff and the start of tapering in the US, as well as the return of economic stability in Europe proved to be defining factors for the GCC markets.

Key positive developments for the markets during the year included the reclassification of the MSCI UAE and MSCI Qatar indices from ‘Frontier’ to ‘EM’ status, to be made effective in June 2014. The awarding of the rights to host ‘Expo 2020’ to Dubai, also lent support to the markets towards the end of the year. This event strengthened Dubai’s resurgent Real Estate sector, which had already staged a strong recovery, as Dubai emerged a ‘safe haven’ amidst the turmoil in the Middle East, attracting investors and tourists from other parts of the region.

Emerging from a prolonged period of latency, the IPO market witnessed some activity as new issuances were seen mostly in Oman and Saudi Arabia, with signs of a healthy pipeline for 2014.

Amongst other factors, a labor shortage, stemming from a government crackdown on illegal workers in Saudi Arabia, weighed down on the short-term performance of certain key sectors in the country.

Figure 6: Performance of GCC Indices

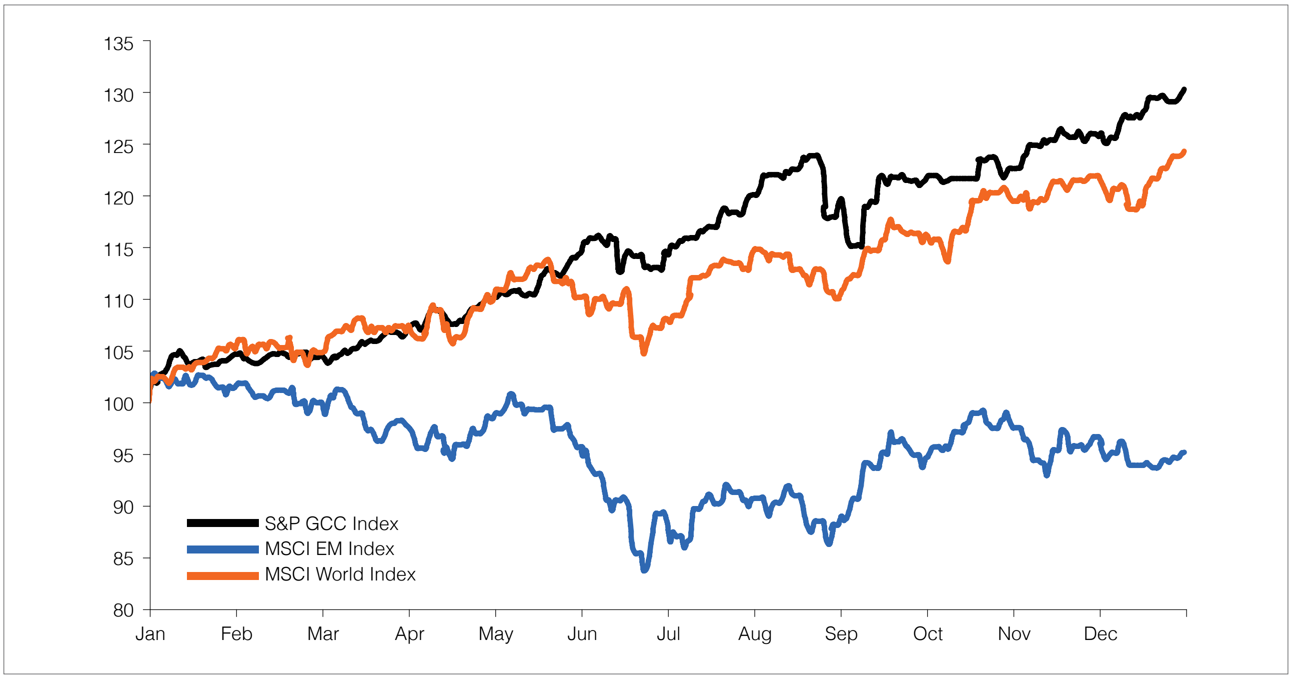


Source: GIC Research, Bloomberg data.

Relative Performance of S&P GCC Index

During 2013, the S&P GCC index recorded net gains of +30.1%, compared to returns of +26.6% for the S&P Pan-Arab index, +24.1% for the MSCI World index, and negative returns of -5.0% for the MSCI EM index.

Figure 6: Relative Performance of S&P GCC Index



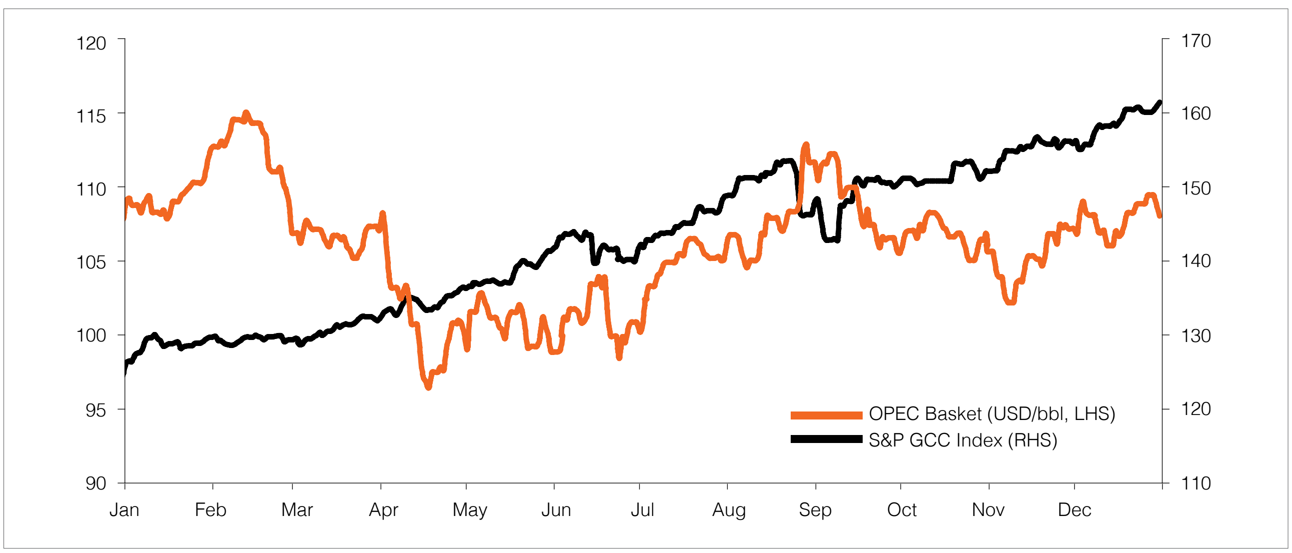
Source: GIC Research, Bloomberg data.

With the OPEC Crude basket averaging $105.87 per barrel during 2013, firmness of oil prices have helped the GCC economies to sustain their expansionary fiscal stance, and remain resilient in the face of global turmoil.

Oil prices witnessed sharp swings through the year, starting with a sharp correction in March, as prices dropped under the weight of renewed pessimism for the global economic outlook.

This was followed by a sedate recovery during the middle of the year, as the geo-political situation in the Middle East worsened, and expectations of military intervention by the US in Syria reached a peak. The eventual resolution to the crisis led to some normalization in prices during September.

Figure 7: Relative Performance of S&P GCC Index vs. Oil prices



Source: GIC Research, Bloomberg data.

Country Performance

During the year, all seven GCC indices closed with net positive gains for the year. Dubai's DFM index emerged as the best-performing in the GCC, as it recorded gains of +107.7%, with the Investments & Financial Services emerging the best-performing sector with +169.2%. Other key contributors included the Banks sector with +120.6% and the Real Estate sector with +108.2%.

The ADSM index in Abu Dhabi closed with gains of +63.1%, driven largely by gains in the Financial Services & Investments sector that surged by +299.9%, and the Real Estate sector that added +146.2%.

Qatar's QE All-Share index clocked gains of +28.44% for the year, with most sectors contributing to the gains. The Transportation and Telecom sectors generated the highest returns for the year, adding +38.6% and +36.5% respectively.

Meanwhile, in Saudi Arabia, the largest market in the GCC in terms of market capitalization, the Tadawul index added +25.5% for the year. The small-cap Hotels sector was the best-performing with a gain of +123.0%, while the Retail and Real Estate sectors added +55.9% and +42.4% respectively.

Oman's MSM 30 added a +18.6% for the year, as all three sectors contributed to the gains, with the Industrials sector being the most notable as it added +40.39%.

Bahrain's BSE index gained +17.2% during the year, though performance amongst the sectors were mixed, as a resurgent Banking sector added +37.1%, while the Industries sector added +21.0% and the Hotels & Tourism and Services sectors showed a deficit.

The Kuwait bourse was the least-performing amongst its peers, as the KWSE (Weighted) index closed the year with +8.43%. Consumer Goods were the best-performing sector, followed by the Financial Services and Basic Materials sectors.

Figure 8: Index Returns

	31-Dec-12	31-Dec-13	% Change
S&P GCC Index	123.09	161.25	30.1%
S&P GCC Pan-Arab Index	1,397.60	1,768.94	26.6%
MSCI World Index	1,338.50	1,661.07	24.1%
MSCI EM INdex	1,055.20	1,002.69	-5.0%
UAE - DFM Index	1,622.53	3,369.81	107.7%
UAE - ADSM Index	2,630.86	4,290.30	63.1%
Qatar - QE All Share Index	2,014.60	2,587.57	28.4%
Saudi - Tadawul Index	6,801.22	8,535.60	25.5%
Oman - MSM 30 Index	5,760.84	6,834.56	18.6%
Bahrain - BSE Index	1,065.61	1,248.86	17.2%
Kuwait - KSWE (Wgt.) Index	417.65	452.86	8.4%

Source: GIC Research, Bloomberg data.

Table 12: World Major Economic Indicators (Annual % Change)

Country	Real GDP			Inflation			Unemployment		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
United States	1.8	2.8	1.9	3.1	2.1	1.5	9.0	8.1	7.4
Japan	-0.4	1.4	1.7	-0.3	0.0	0.4	4.6	4.4	4.0
Germany	3.3	0.7	0.4	2.1	2.0	1.5	7.1	6.8	6.9
France	2.0	0.0	0.2	2.1	2.0	0.9	9.2	9.8	10.6
United Kingdom	1.1	0.3	1.9	4.5	2.8	2.6	4.7	4.8	4.3
Euro Zone	1.6	-0.6	-0.4	2.7	2.5	1.4	10.2	11.4	12.1
China	9.3	7.7	7.7	5.4	2.7	2.6	-	-	-
India	6.2	5.0	4.7	8.3	10.3	9.8	-	-	-

Source: Consensus Forecasts and Asia Pacific Consensus Forecasts, February 2014.

Table 13: Global Equity Indices for 2013

	2012 year-end	2013 year-end	% Change	High 2013	Low 2013
DJIA	13,104.14	16,576.70	26.50%	16,576.66	13,328.85
				12/31/2013	*01/08/2013*
S&P 500	1,426.19	1,848.36	29.60%	1,848.36	1,457.15
				12/31/2013	*01/08/2013*
Nasdaq Comp	3,019.51	4,176.59	38.32%	4,176.59	3091.81
				12/31/2013	*01/08/2013*
MSCI	938.202	1,184.50	26.25%	1,184.50	938.24
				12/31/2013	*01/01/2013*
Russell 2000	849.35	1,163.64	37.00%	1,163.64	872.60
				12/31/2013	*01/03/2013*
S&P GCC	123.99	117.55	-5.19%	118.04	95.30
				12/23/2013	*01/01/2013*
FTSE 100	5,897.81	6,749.09	14.43%	6,840.27	6,027.37
				05/22/2013	*01/02/2013*
Xetra Dax	7,612.39	9,552.16	25.48%	9,589.39	7,459.96
				12/27/2013	*04/19/2013*
CAC 40	3,641.07	4,295.95	17.98%	4,320.68	3,595.63
				11/18/2013	*06/24/2013*
Nikkei 225	10,395.18	16,291.31	56.72%	16,291.31	10,486.99
				12/30/2013	*01/23/2013*
Hang Seng	22,656.92	23,306.40	2.87%	24,038.55	19,813.98
				12/02/2013	*06/24/2013*

Source: Bloomberg.

Table 14: Real GDP Growth, (% change)

Country	2010	2011	2012	2013f	2014f
Bahrain	4.5	1.9	3.4	4.6	4.3
Kuwait	-2.4	6.3	4.8	2.2	2.8
Oman	5.6	4.3	7.1	4.6	5.7
Qatar	16.7	13.0	6.2	5.4	5.1
Saudi Arabia	7.4	8.5	5.1	3.9	4.5
United Arab Emirates	3.0	3.9	4.4	4.7	3.9

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

Table 15: Consumer Prices, (% change)

Country	2010	2011	2012	2013f	2014f
Bahrain	1.9	-0.4	2.8	2.4	2.5
Kuwait	4.0	4.7	2.9	3.1	3.5
Oman	3.3	4.0	2.9	3.0	2.7
Qatar	-2.4	1.9	1.9	3.5	3.9
Saudi Arabia	3.8	3.7	2.9	3.5	3.5
United Arab Emirates	0.6	0.9	0.7	1.4	2.6

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

Table 16: Hydrocarbon Exports (Oil & Gas), ($ Mn)

Country	2010	2011	2012	2013f	2014f
Bahrain	11.50	15.49	15.19	15.64	15.97
Kuwait	61.8	96.7	112.9	108.4	107.3
Oman	25.24	33.36	36.33	36.29	37.31
Qatar	68.4	105.3	121.8	115.2	111.4
Saudi Arabia	215.2	317.8	335.9	316.1	316.4
United Arab Emirates	79.6	111.7	118.1	118.5	118.7

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

Table 17: US Treasuries Yields, (%)

Yields	2012 Year-end	2013 Year-end	Annual (% change)
2-Year	0.247	0.380	53.85%
5-Year	0.724	1.741	140.47%
10-Year	1.757	3.028	72.34%
30-Year	2.950	3.968	34.51%

Source: Bloomberg.

Table 18: LIBOR Rates

LIBOR Rates	2012 Year-end	2013 Year-end	Annual (% change)
US 3-Months	0.306	0.246	-19.61%
US 1-Year	0.844	0.583	-30.92%
Euro 3-Months	0.129	0.266	106.20%
Euro 1-Year	0.440	0.519	17.95%

Source: Bloomberg.

Table 19: Historical and Current Spot Crude Prices, Yearly Average ($ per barrel)

	OPEC Basket	Y/Y % change	Brent	Y/Y % change	WTI	Y/Y % change
Year 2013	105.89	-3.24%	108.69	-2.69%	98.00	4.09%
Year 2012	109.44	1.84%	111.70	0.72%	94.18	-0.94%
Year 2011	107.46	38.75%	110.90	38.02%	95.07	19.45%
Year 2010	77.45	26.84%	80.35	30.27%	79.59	28.62%
Year 2009	61.06	-35.35%	61.68	-36.65%	61.88	-38.12%
Year 2008	94.45	36.73%	97.37	34.21%	100.00	38.33%

Source: Middle East Petroleum and Economic Publications (MEES), January 2014.

Financial Review

Net Income Analysis

Gulf Investment Corporation (GIC) posted consolidated net profit of US$165 million for the year 2013 compared to US$131 million in 2012. This is after impairment provisions of US$71 million (2012: US$ 25 million) which mainly relates to investments in projects and some holdings in international private equity funds. Net unrealized gains and share in Other comprehensive income of associates totaled to US$110 million taking the consolidated total comprehensive income to US$275 million (2012: loss –US$102 million). Significant decline in cash flow hedging deficit of associated companies in power sector made a major contribution to the comprehensive income of the current year.

Excellent performance recorded by GIC for the year with 26% growth in net profit was mainly contributed by equities & alternative investments and principal investments. Higher level of profitability and efficiency was achieved without any increase in operating expenses. Overall results for the year were partially offset by higher interest expense due to rise in funding cost and higher provisioning for impairment losses resulting from conservative approach towards the uncertainties of the business. Growth of over 43% in net profit before provisions posted by principal investments reflect a balanced and well diversified portfolio resilient to periodical cyclicality of any specific industry. GIC's core business of project investments was well supported by outstanding performance of debt and equity portfolios. Analysis of the contributing components to the net profit confirms good asset quality and the strength of GIC's investment philosophy.

Interest Income

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

Gross interest and similar income declined by -10% to US$38 million during 2013. 92% of the interest income is contributed by securities, investment in which declined by 14% mainly due to liquidations driven by favorable market opportunities. Redeployment of almost 83% of the sales and redemptions proceeds in an ideal mix of GCC bonds, emerging market bonds, high yield bonds and international corporate bonds contributed to enhance the spread in a continued low interest rate scenario.

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$132 million during 2013 compared to US$78 million in the prior year, an increase of over 69%. Net gains for the year comprise of realized gains of US$79 million on financial assets available for sale and market gains of US$53 million from financial assets at fair value through statement of income.

Dividend Income
Dividend income of US$42 million (2012: US$28 million) comprises of receipts from equity participations, private equity funds, equities and managed funds. Dividends from equity participations amounted to US$32 million whereas the balance contribution is shared equally by private equity funds portfolio and equities & managed funds.

Share of Results of Associates
Share of results from associates accounted during the year amounted to US$112 million showing a growth of over 14% compared to prior year income of US$ 98 million. Majority of the associates posted improved performance year-on-year basis, which in overall was significantly offset by cyclical decline in the results of a major project in chemicals. Investments in communication and food sectors recorded above 100% growth in income in the current year. Power projects posted steady performance whereas investment in financial sector yielded exceptional results for the year.

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

Net Fees, Commission and Other Income
Income for the year amounted to US$35 million (2012: US$26 million) which includes other income of US$22 million representing mainly the receipt of fully written off investment in a structured note besides miscellaneous income. Fee income is mainly generated from project development/consultancy, fund management activity, financial advisory business and by providing custodial and administrative services to the funds managed by third parties. Income for the year includes project development/consultancy fees of US$7 million and management fees of US$6 million.

Other Operating Income
Other operating income represents the income from consolidated subsidiaries which at US$12 million increased by appox. 20% compared to prior year.

Interest Expense
Interest expense increased by 13% compared to prior year to reach US$69 million for the year, which can be mainly attributed to higher funding cost of new tranches of term finance and maturities of few low cost tranches. Average funding cost on deposits and repos was comparatively lower than prior year, but the impact was mostly offset by lower volume.

Operating Expenses
Efficiency in operations, higher productivity and profitability was achieved with strict control over operating expenses capping them at prior year level of US$66 million.

Provision for Impairments/Mark-to-Market Losses
Net charge for the year in impairment/mark-to-market losses totaled US$71 million, compared to US$25 million recorded in 2012. Provisions during 2013 relate mainly to exposures in few projects and private equity funds. The Corporation continues to adhere to its conservative provisioning policy, based on mark-to-market/fair valuations where-ever possible. A detailed break down is provided in Note 19 to the Financial Statements.

Balance Sheet Analysis
Emphasis during the year has been to work out an ideal mix of assets and liabilities with the ultimate objective of achieving sustainable and enhanced risk adjusted return profile. Initiatives were implemented both, on the assets and liabilities sides. To achieve the desired results, overall consolidated balance sheet was downsized by -9% to US$5,704 million. Equity at US$2,578 million increased by US$275 million or by 12% due to net profit US$165 million and Other comprehensive income US$110 million.

The Corporation's strategic focus continues to be on the GCC states and their major trading partners in the industrialized world. Note 21 to the Financial Statements sets out the geographic distribution of the Corporation's credit risk exposure.

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

Financial Assets at Fair Value through Statement of Income
This category includes investments in Debt instruments of US$53 million, Managed funds US$313 million and Alternative equity investments of US$340 million. The portfolio increased by US$85 million or 14% compared to the previous year primarily due to increase in almost all the categories.

Financial Assets Available for Sale

As at 31 December 2013, financial assets available for sale amounted to US$2,500 million, a decline of -11% from the prior year level. Debt and other interest bearing securities, constituting 62% of the financial assets available for sale declined by -US$327 million or -18% during the year. Emerging market bonds and funds were fully liquidated whereas exposure to International bonds and Structured debt instruments was reduced. Overall decline was partially offset by increase in investment in GCC & Islamic bonds.

The Debt portfolio is monitored against stringent internal guidelines, ensuring that high quality is maintained. Major portion of the portfolio is comprised of investment grade issuers and high quality GCC sovereign credits. A credit risk analysis of the investment securities portfolio is provided in the risk management section of this report.

Financial assets available for sale also include investments in Equities and managed funds of US$164 million, Equity participation amounting to US$575 million and International & GCC private equity fund exposures of US$221 million. Investment in Equities and managed funds increased by US$6 million, whereas increase in Equity participations comprised of net increase in the market value of quoted projects, investment in a new project offset by few liquidations.

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$11 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 20% or more 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 at US$1,703 million increased by US$144 million or above 9%, which is comprised of equity accounted income, equity bridge loans & commitment, dividend received, change due to net new investment and share in the revaluation reserve.

Other Assets

Including property and fixed assets, total other assets amounted to US$387 million at 31 December 2013. Of this US$112 million related to property and other fixed assets. The remaining US$275 million comprised of accrued income receivable, trade & accounts receivables, positive fair value of derivative instruments, prepaid expenses and other miscellaneous assets. Details are set out in Note 7 to the Financial Statements.

Liquidity and Funding

Total borrowings at US$2,753 million declined by -US$887 million from 2012 year-end level. This is primarily due to the repayment of five tranches of matured term finance amounting to -US$510 million and decline in repo funding by -US$370 million. Deposits from banks and other financial institutions increased by US$17 million to reach US$1,109 million.

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

Other Liabilities

At US$373 million other liabilities comprise of trade payables of subsidiaries, accrued interest, accrued expenses, margin money for derivative products and negative fair value of derivative instruments.

Equity

Consolidated total equity increased by US$275 million to reach US$2,578 million showing a growth of 12%. Increase in the equity is comprised of net profit for the year US$165 million, net unrealized gain on available for sale investments US$68 million and share in other comprehensive income of associates amounting to US$42 million.

Risk Management

The financial goal of the Corporation is to consistently earn competitive returns while maintaining risks within acceptable levels - defined risk appetite. Recognizing the relationship between risk and return, the management of risk forms an integral part of the corporate strategic objective.

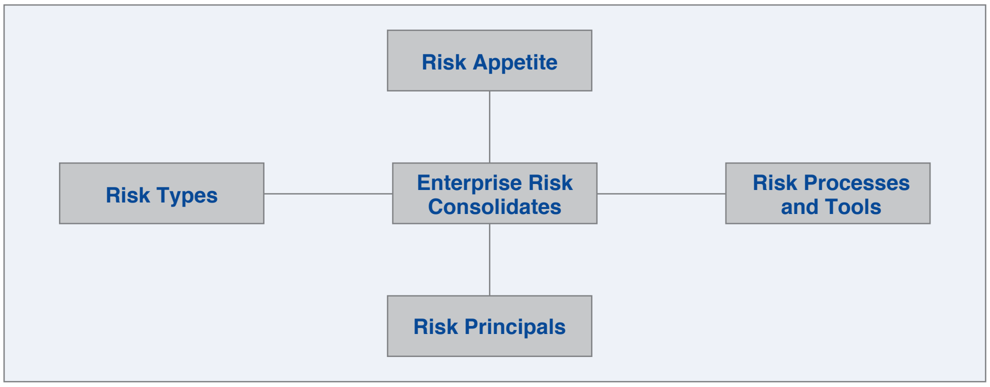
The continuous and rapidly changing business environment has increased the complexity and diversity of risks. The goal of risk management is to understand, analyze and manage these risks. Besides its vital role as the business protector, the risk function of the Corporation strives to contribute as a business enabler as well.

GIC's success during 2013, a challenging year in many respects, is testimony to strong business capabilities and a robust enterprise risk framework. In addition to registering significant profit growth, the Corporation enhanced almost all financial strength parameters during 2013. The multiple initiatives implemented have borne fruit, with significant improvements in capital adequacy, asset quality, leverage and internal processes, along with steady earnings growth. Unequivocally, GIC remains a significantly resilient, measurably strong and stable financial institution. Risk management will continue to be an important aspect of corporate strategy and every effort will be made to ensure it is adaptive, effective and value adding.

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

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

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



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

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

Structurally, risk management begins with the Risk Management Committee (RMC) 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 of GIC 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 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 RMD. These units reporting directly to senior management, include Financial Control, Internal Audit, Legal 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 refers to the risk of an economic loss that might arise from the failure of the counterparty to fulfill its contractual obligations.

World credit markets for 2013 displayed divergent trends with the developed markets' credit outlook improving on the back of US & Eurozone economies stabilizing, whereas, the emerging markets' credit outlook weakening due to concerns around these economies ability to manage fallouts of US Fed's tapering of quantitative easing program. As we move into 2014, the impact from these factors linger on at varying levels of intensity. GIC with its active portfolio management registered an impressive performance on the credit portfolios. GIC remained totally unscathed during the year, registering nil credit losses, thanks to prudent proactive measures, stringent control frameworks and continuous monitoring. While the Corporation's credit portfolio, mainly made up of debt securities, constitutes a material portion of the overall asset base, strong internal risk guidelines and proactive portfolio management ensure that high quality is maintained at all times. Notwithstanding the Corporation's rigorous and prudent policies for provisioning, no material write-downs were required during 2013. This is a reflection of the good quality of the portfolio. Gains of approximately US$ 13.9 million were realised during the year in review within GIC's credit portfolios.

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

The size of the high quality asset backed securities portfolio continued to contract, a result of accelerated prepayments and maturities, with minimal impact on profitability and earnings, while contributing to the overall reduction of credit risk. The Corporation continued to be flexible and ready to adapt rapidly to unforeseen events 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 (DCM) portfolio which forms the largest asset class and constitutes approximately 31% of the balance sheet is monitored against a Credit Value at Risk (credit VaR) limit, approved by the board. The US$ 251 million VaR limit (99.96% confidence, 1 year), which supplements the existing notional limits for this portfolio, is based on the Creditmetrics methodology and is measured using Monte Carlo simulation techniques.

The table below provides the Credit VaR figures for the DCM portfolios. On 31st December 2013 the market value of this portfolio was US$ 1,750.3 million. As of 1st Jan 2013, it was US$ 2,041.7 million. The average and year end Credit VaR was down as compared to the previous year end. The decrease in Credit VaR was in line with the reduction in overall exposure under the DCM portfolios.

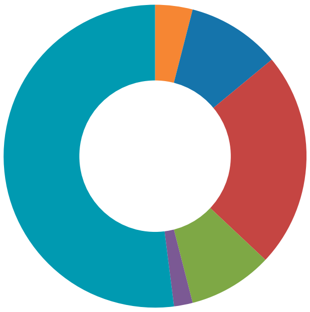
Table 1: 2013 Credit Value at Risk - 99.96% confidence level, 1 year holding period

US$ 000's	Average	Minimum	Maximum	31 Dec 2013
Debt Portfolios	149,602	131,008	176,419	137,561

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 the BIS Capital Adequacy Guidelines. Additional details, including credit exposures by rating, sector, geography and maturity are provided in the comprehensive Basel II Disclosure section.

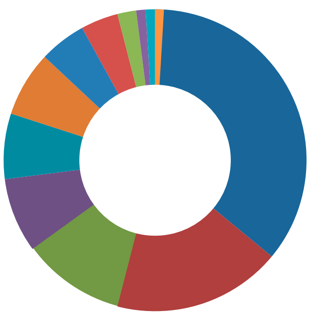
Chart 1: Sources of Credit Risk (Weighted Credit Risk Exposure)



Noteworthy, most of the realignment in the credit risk pie at the end of 2013, compared to the previous year-end, pertained to Banks, Corporates and Projects & Private Equity and other funds. Credit risk weighted exposure for Projects & Private Equity and other funds decreased from 59% of total in 2012 to 52% at the 2013 year-end and for Corporates decreased from 17% of total in 2012 to 9% at the 2013 year-end and for Banks increased from 15% of total in 2012 to 23% at the 2013 year-end. The two key components of total credit risk exposure were "Projects, Private Equity and Other funds", and "Debt Securities of Banks", "Sovereign & PSE and Corporates".

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

Chart 2: Principal Investing (Projects) by Industry



Off-balance Sheet Financial Instruments

In the normal course of its business, the Corporation utilizes derivatives and foreign exchange instruments to meet 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 4.4% of total credit risk weighted exposure. This figure represents the mark-to-market or replacement cost of these transactions. At the year end 2013, outstanding derivatives held for trading were foreign exchange contracts and put options, 29 % 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 22 & 23 to the Consolidated Financial Statements.

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

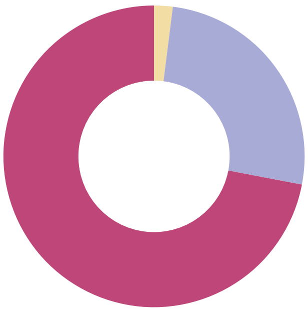
While the mechanism of risk monitoring and control has been fostered further, the risk management function is now more engaged with the business units, having been brought forward within the investment process. In addition to incorporating additional credit information, including CDS prices, equity prices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

MARKET RISK

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

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

Chart 3: Market Risk Constituents – Overall



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

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

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

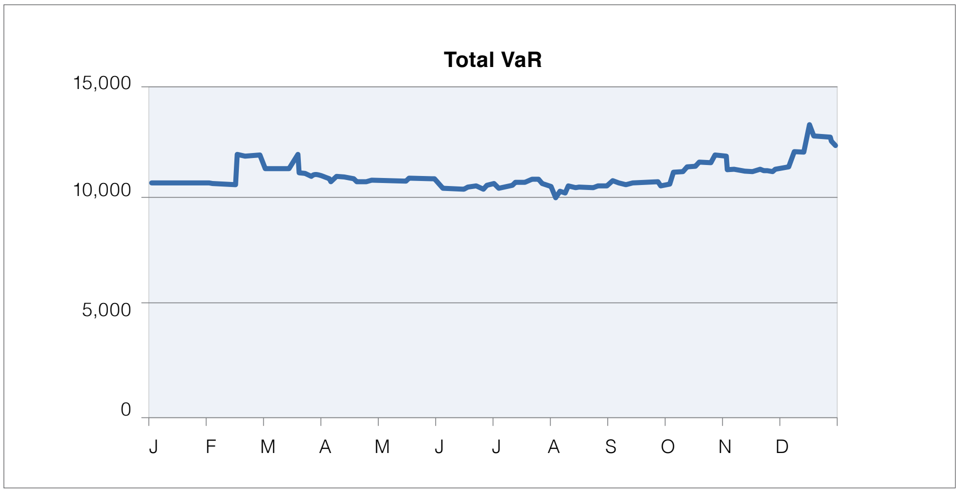
Table 2: Market Value at Risk for Global Markets Group alone - 25 day holding period, 95% confidence level

2013				
US$ 000's	**Average**	**Minimum**	**Maximum**	**31-Dec-13**
Interest rate	3,853	1,942	6,102	3,960
Equity	10,646	9,521	11,900	11,346
Foreign Exchange	342	99	1,277	122
Total*	**11,024**	**9,948**	**13,266**	**12,222**
2012				
US$ 000's	Average	Minimum	Maximum	31-Dec-12
Interest rate	7,801	3,693	11,864	4,130
Equity	14,935	9,926	18,436	10,458
Foreign Exchange	366	211	842	639
Total*	15,405	10,266	17,909	10,688

***** Total VaR incorporates benefits of diversification

On an average basis, VaR pertaining to market risk, was lower in 2013 compared to the prior year by approximately 28%, mostly attributable to lower average levels of interest rate and equity VaR components. The key factor that contributed to these declines, on an average basis, was the scaling down positions within the bond and equity portfolios. The 5 year fixed rate liability issued in 2012 continues to act as a hedge, offsetting some of the interest rate risk at the corporate level. However, as at 31st December 2013, total market risk VaR reached US$12.2 million, moderately higher than at the prior year end Total Market risk VaR remained within limits as approved by the Risk Management Committee and the Board of Directors. The Corporation will closely monitor the operating environment and seek to take on appropriate market risk at opportune times.

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



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 2013 and 2012. 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-13	31-Dec-12
Principal Investments	Underlying asset value	239,249	216,052
Private Equity Funds	Underlying asset value	22,113	24,879

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

Liquidity Risk Management

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

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

a) ***Cash flow illiquidity***, arising from the inability to honor financial commitments or to procure funds at reasonable rates and required maturities; and
b) ***Asset illiquidity***, relating to the lack of market depth during times when assets are to be liquidated on a forced basis.
The Corporation believes that capital plays a special role in liquidity planning inasmuch as liquidity problems could arise in the short run if the market believes that capital has been so impaired that in the long run the Corporation may not be able to pay-off its liabilities.

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

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

Liquidity Limits

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

The liquidity limits that are regularly monitored include the following:

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

The net liquid asset ratio as of 31st December 2013 was 191%. 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 2013, investments in marketable securities tallied at approximately US$ 2.8 billion, and are primarily made up of investment grade securities.

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

Market Access for Liquidity

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

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

A diversity of funding sources, currencies, and maturities are used in order to gain a broad access to the investor base. The proactive steps GIC undertook during the previous years, particularly in terms of raising medium term financing, enabled the corporation to secure a sound asset-liability maturity profile. As of 31 December 2013, the Corporation's term financing stood at US$1,570 million.

Further, the Corporation was successful in enhancing the diversity of its depositor base, a reflection of increased market confidence. At year-end 2013 the Corporation's deposit base stood at about US$ 1,109 million, all of which 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 2% of total funding at year-end 2013.

The table below provides the breakdown of the Corporation's funding source for the comparative years 2012 to 2013.

Table 2: Advanced Economies: Growth in Volume of Trade and GDP, 2005-2013

US$ Millions	2013(US$)	2013(%)	2012(US$)	2012(%)
GCC Deposits	1,109	20%	1,020	17%
International Deposits	-		72	1%
Repo Financing	55.14	1%	425	7%
Term Financing	1,570	28%	2,102	34%
Shareholder's funds & Others	2,840	51%	2,535	41%
Total	**5,574**	**100%**	6,154	100%

Contingency Funding Plan

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

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

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

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

Interest Rate Gapping Risk

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

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

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

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

The Eurodollar futures contract position value as at December 31, 2013 was 8,670 contracts, with an estimated VaR of US$ 0.056 million. This is significantly higher than the levels of the previous year (31st December 2012: 10,670 contracts). Excluding the impact of this EMTN issuance, the number of contracts, at 31st December 2013, would be approximately 670 contracts.

Maturity profile of assets and liabilities

A detailed breakdown of the maturity profile by individual asset and liability category is provided in Note 21 of the Consolidated Financial Statements. At December 31st 2013, roughly 48% 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 37% of total liabilities were in the same time bucket. The sizable portfolio of high quality marketable securities contributed to the relatively high ratio of liquid assets. The Corporation's GCC retention record shows that short maturity deposits from GCC governments, central banks and other regional financial institutions have been regularly renewed over the past several years. With the success achieved in raising medium term finance, the Corporation was able to optimize the asset liability maturity gap, especially within the medium and long term buckets

CREDIT RATING

Both rating agencies (Moody's & Fitch) reaffirmed GIC's credit ratings during the year. GIC's strong financial indicators were acknowledged in the rating reports. As of end 2013, GIC's long term deposits were rated BBB by Fitch and Baa2 by Moody's. All ratings carry a stable outlook. GIC continues to be rated AAA by Rating Agency Malaysia (RAM).

	Moody's	Fitch	RAM
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.

The Corporation's capital base stood at USD 2.6 billion at 2013 year end. GIC continues to be one of the best capitalized financial institutions in the region.

Regulatory Capital

The Basel Committee on Banking Supervision has introduced a revised capital adequacy framework that 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:

a) The Corporation has been subjecting itself to the standards of Basel 1 (1988) and the amendments introduced in 1998 (market risk). As a natural progression, adoption of the modified standards as outlined in the revised capital accord underscores the Corporation's commitment to be in line with international standards;
b) GIC acknowledges the importance of the qualitative and quantitative approaches set out in Basel II that impose rigor and discipline with respect to capital adequacy assessment; and
c) 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 2013 was 36.0%. 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 29.5%. 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 Return On Equity (ROE) for the Corporation.

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

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

OPERATIONAL RISK

Operational Risk is the risk of loss resulting from inadequate or failed processes, people, or systems, either internally or externally.

Other risks to which GIC is exposed to include Regulatory, Strategic, and Reputational:

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

Key Aims:

The management of Operational Risk has the following key objectives:

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

Overview:

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

a) Risk and Control Self-Assessment framework;
b) Loss Event framework;
c) Corrective Action Plans framework; and
d) Operational Risk Reporting framework.

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

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

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

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

b. Loss Event Framework

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

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

c. Corrective Action Plan (CAP) Framework

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

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

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

d. Operational Risk Reporting Framework

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

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

OPERATION RISK WEIGHTED EXPOSURE:

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

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

INSURANCE:

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

BUSINESS CONTINUITY AND DISASTER RECOVERY PLANNING:

The Business Continuity Plan Team, led by Operational Risk and Information Technology, are responsible for creating, managing and continuously improving GIC's disaster recovery planning.

Currently there are three active and fully tested disaster recovery sites:-

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

LEGAL RISK MANAGEMENT:

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

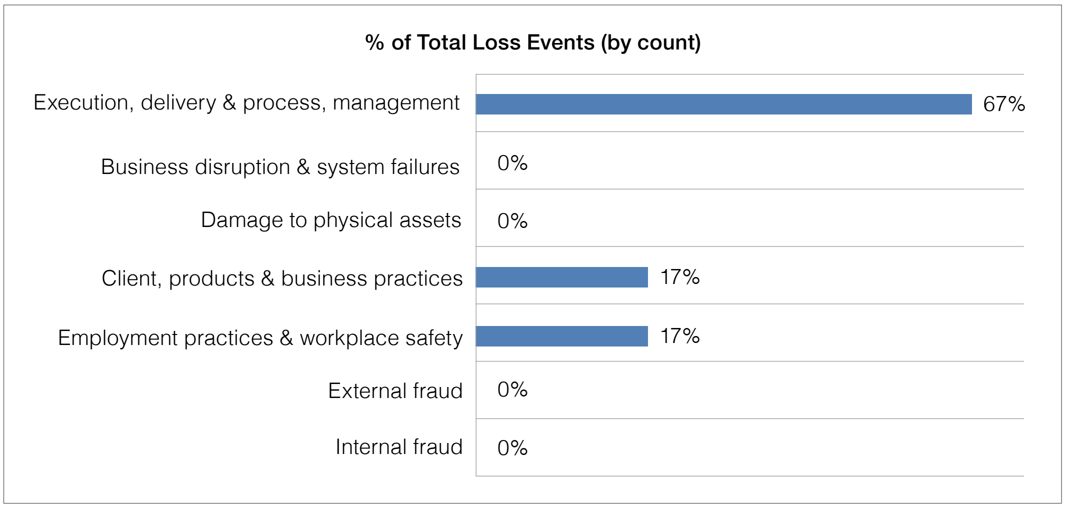
INFORMATION SECURITY FRAMEWORK:

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

OPERATIONAL LOSS EVENT PROFILE FOR 2013:

The Corporation monitors the loss events by the Basel II loss event categories. There are no threshold limits – all events whether a loss or gain are captured, including near misses.

During 2013, the highest frequency of events occurred under the following categories:



Basel II Disclosure

Basel II Rationale: Aligning banking risk management with Capital Requirements

As Basel guidelines continue to evolve, the Basel Committee moves closer to its goal of aligning banking risk and its management with capital requirements. The primary objective of these guidelines is to improve safety and soundness within the financial system by placing increased emphasis on 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 II'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, and increased capital requirement for market risk as proposed in Basel Committee's document 'Revision to the Basel II market risk framework' dated July 2009.

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 2013 and December 2012. 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 2013, full deduction is made from Tier 1 capital due to negative fair value adjustment. Total eligible regulatory capital was US$ 2,174.3 million by year-end December 2013 compared to US$ 1,784.8 million recorded in December 2012. The Corporation has adopted a conservative policy for the treatment of net fair value reserve, wherein, if negative - the total amount is deducted from eligible capital, and if positive - only 45% of fair value reserve is included within eligible capital.

Table 1: Eligible Regulatory Capital

In US$ millions	31 December 2013	31 December 2012
Paid-up capital	2,100.0	2,100.0
Disclosed reserves	567.5	541.5
Retained earnings	(153.6)	(291.6)
Less: Goodwill	39.6	38.7
Less: Deductions	296.0	416.8
Less: Adjustment for Fair value reserve	4.0	109.6
Total Tier 1 Capital	2,174.3	1,784.8
Fair value reserve (55% discount)	-	-
General Provision	0.4	1.5
Less: Deductions	0.4	1.5
Total Tier 2 Capital	-	-
Total eligible regulatory capital	2,174.3	1,784.8

2. Capital Adequacy Management

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

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

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

Finally, the Corporation targets a credit risk rating of single 'A' or better. This would allow easy access to capital from the market at competitive pricing in the event additional funding needs to be appropriated. GIC is among a select few financial institutions in the region to maintain high ratings by both major international agencies (Moody's & Fitch). Details of the Corporation's ratings are provided on page 48 of this annual report.

Table 2: Capital Adequacy Ratios

In US$ millions	Risk-weighted assets	Capital requirement
Credit Risk	3,681.5	294.5
Market Risk	1,772.7	141.8
Operational Risk	583.1	46.7
Total	6,037.3	483.0
Capital Adequacy Ratios		
Total CAR	36.0%	
Tier 1 Ratio	36.0%	

Table 2 details the risk-weighted assets together with their corresponding regulatory capital requirements as at 31 December 2013. Total capital adequacy ratio and Tier 1 capital ratio are likewise calculated. The numbers were generated by applying the 'Standardized' approach for credit and operational risks, while the 'Internal Model' approach was utilized to yield market risk positions. Total risk-weighted exposures of US$ 6,037.3 million, as at 31 December 2013, requires regulatory capital of US$ 483.0 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$ 966.0 million. The reported eligible regulatory capital of US$ 2,174.3 million still provides sufficient cushion to support business expansions.

Table 3: Risk Exposure Break-down

In US$ millions	31 December 2013
Credit Risk (RWA)	
Claims on sovereigns	34.9
Claims on Public Sector Entities	171.8
Claims on Banks	418.1
Claims on Corporates	384.0
Securitization and Structured Investment Vehicle	63.0
Venture Capital and Private Equity	185.1
Investments in Commercial Entities	2,097.5
Investments in Other Funds and Quoted Equities	155.0
Other Assets	172.1
Total	3,681.5
Market Risk (VaR)	
Interest rate risk position	4.0
Foreign exchange risk position	3.5
Equity risk position	25.4
(Total VaR + Stress VaR) x 3	98.7
Specific risk position	43.1
Total capital requirement	141.8
Total RWA (capital requirement x 12.5)	1,772.7
Operational Risk (RWA):	
Operational risk capital charge	46.7
Total RWA (capital charge x 12.5)	583.1

3. Risk Management Structure

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

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

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

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

a) Review and assess the Enterprise Risk Management governance structure;
b) Review the Risk Management framework (encompassing risk assessment guidelines and policies regarding Credit, Market, Liquidity, Interest Rate, and Operational risk management);
c) Oversee policies and guidelines for determining the macro Enterprise Risk Limit levels, and review the utilization of these limits;
d) Review the adequacy of GICs' capital allocations including economic and regulatory, incorporating the risk adjusted return on capital;
e) Review and assess the integrity and adequacy of the Risk Management Division of the Corporation; and
f) Receive and review reports on selected risk topics as management deems appropriate from time to time.

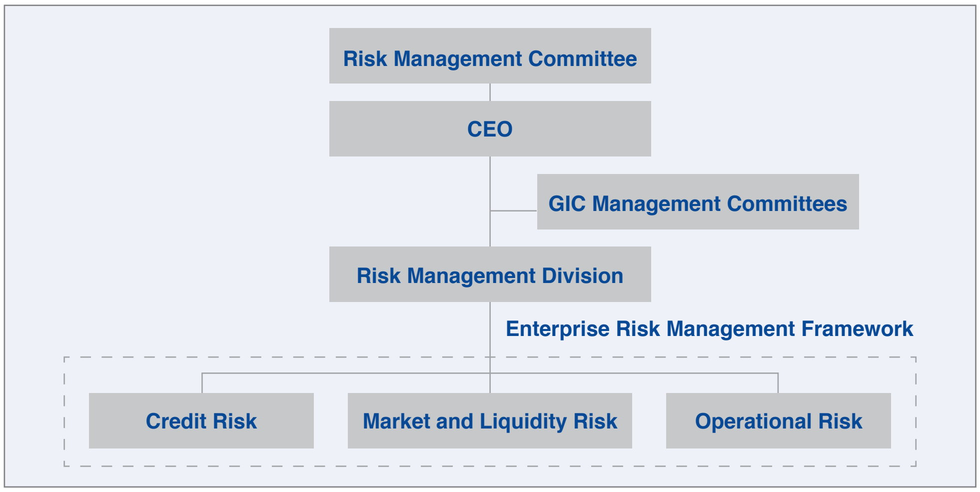
The RMC, senior management, risk officers, and line managers contribute to effective Enterprise-wide Risk Management. The RMC defines its expectations, and through its oversight determines its accomplishment. The Board of Directors has ultimate responsibility for risk management as they set the tone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

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

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

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

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



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

a) Management Committee covers mainly general management issues including performance review vis-à-vis budget, and assessment of status quo against strategic business plan;
b) Global Markets Group Investment Committee translates investment strategy directions into asset allocation guidelines, recommends investment proposals, and reviews investment portfolios. The Committee also functions as a surrogate Asset-Liability Committee;
c) Principle Investing Investment Committee evaluates proposals for investments and divestiture of assets and ensures compliance to investment criteria as well as investment procedures at each phase of the investment process; and
d) Systems Steering Committee provides the forum to review the IT architecture and its condition to meet current and future business requirements;

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 Return On Risk Adjusted Capital (RORAC). Portfolio management establishes composition targets, monitors the results of these diverse business strategies on a continual basis, and allows the Corporation to manage concentrations that can result from seemingly unrelated activities. Specifically, portfolio management involves setting concentration limits by standard dimensions so that no one category of assets or dimension of risk can materially harm the overall performance of the Corporation. The Board has set specific limits for individual borrowers and groups of borrowers and for geographical and industry segments. These limits consider the individual credit of the various counterparties as well as the overall portfolio risk.

The Investment Committees

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

Investment Origination and Maintenance

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

Performance Assessment and Reporting

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

a) Portfolio concentrations by obligor, industry, risk rating, maturity, asset class, as well as other dimensions;
b) Generated Return On Capital Employed (ROCE);
c) Additional economic value created by individual projects;
d) Exceptions to risk acceptance criteria; and
e) Other policy exceptions.

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

Credit Risk as per Basel 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 3: Risk Exposure Break-down

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

Table 4 serves as a sample of mapping notations of rating agencies into CQGs for claims on Corporates. At 31 December 2013, rated credit exposures accounted for more than 22% 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 40% 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 2013		
	Rated	Unrated	Total
Claims on Sovereigns	22.2	12.7	34.9
Claims on Public Sector Entities	138.3	33.5	171.8
Claims on Banks	418.1	-	418.1
Claims on Corporate	199.1	184.9	384.0
Securitization and SIVs	62.9	0.1	63.0
Venture Capital and Private Equity	-	185.1	185.1
Investments in Commercial Entities	-	2,097.5	2,097.5
Other Funds and Quoted Equities	-	155.0	155.0
Other Assets	-	172.1	172.1
Total	840.6	2,840.9	3,681.5
In Percent	22.8%	77.2%	100.0%

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

In US$ millions	31 December 2013		
	Rated	Unrated	Total
Claims on Sovereigns	174.5	12.7	187.2
Claims on Public Sector Entities	260.2	33.5	293.7
Claims on Banks	1,084.0	-	1,084.0
Claims on Corporate	258.1	184.9	443.0
Securitization and SIVs	117.0	0.1	117.1
Venture Capital and Private Equity	-	185.1	185.1
Investments in Commercial Entities	-	2,097.5	2,097.5
Other Funds and Quoted Equities	-	155.0	155.0
Other Assets	-	172.1	172.1
Total	1,893.8	2,840.9	4,734.7
In Percent	40.0%	60.0%	100.0%

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

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

In US$ millions	31 December 2013		
	Funded	Unfunded	Total
Claims on Sovereigns	187.2	-	187.2
Claims on Public Sector Entities	293.7	-	293.7
Claims on Banks	1,059.0	25.0	1,084.0
Claims on Corporate	258.1	184.9	443.0
Securitization and SIVs	117.1	-	117.1
Venture Capital and Private Equity	185.1	-	185.1
Investments in Commercial Entities	2,097.5	-	2,097.5
Other Funds and Quoted Equities	155.0	-	155.0
Other Assets	172.1	-	172.1
Total	4,524.8	209.9	4,734.7
In Percent	95.6%	4.4%	100.0%

In terms of facility type (Table 7), US$ 4,524.8 million or approximately 96% is funded. The balance is ascribed to guarantees issued and commitments made by the Corporation, as well as credit exposures on outstanding forward and swap transactions with banks.

Table 8: Gross Credit Exposure by Geographic Distribution

In US$ millions	31 December 2013				
	GCC	Europe	Americas	Others	Total
Claims on Sovereigns	187.2	-	-	-	187.2
Claims on Public Sector Entities	239.1	-	-	54.6	293.7
Claims on Banks	677.3	84.7	211.6	110.4	1,084.0
Claims on Corporate	227.5	132.9	60.2	22.4	443.0
Securitization and SIVs	-	51.1	66.0	-	117.1
Venture Capital and Private Equity	5.3	43.7	83.9	52.2	185.1
Investments in Commercial Entities	1,948.3	-	20.0	129.2	2,097.5
Other Funds and Quoted Equities	56.4	-	98.6	-	155.0
Other Assets	80.0	46.5	2.6	43.0	172.1
Total	3,421.1	358.9	542.9	411.8	4,734.7
In Percent	72.3%	7.6%	11.5%	8.7%	100.0%

The geographical distribution (Table 8) is based on either the primary purpose of the exposure or the place of incorporation of the debt security issuer, or incorporation of the fund manager. A sizable portion of credit exposure is in the GCC region tallying at US$ 3,421.1 million, or 72.3% of the total. Following suit are exposures to Americas and Europe, 11.5% and 7.6% 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 2013					
	Banks & Financial Institutions	Trading & Manufacturing	Utilities	Government Agencies	Others	Total
Claims on Sovereigns	-	-	-	187.2	-	187.2
Claims on Public Sector Entities	-	-	-	293.7	-	293.7
Claims on Banks	1,084.0	-	-	-	-	1,084.0
Claims on Corporate	-	123.4	265.4	-	54.2	443.0
Securitization and SIVs	117.1	-	-	-	-	117.1
Venture Capital and Private Equity	185.1	-	-	-	-	185.1
Investments in Commercial Entities	177.4	1,444.5	418.1	-	57.5	2,097.5
Other Funds and Quoted Equities	155.0	-	-	-	-	155.0
Other Assets	93.8	34.4	11.2	31.8	0.9	172.1
Total	1,812.4	1,602.3	694.7	512.7	112.6	4,734.7
In Percent	38.3%	33.8%	14.7%	10.8%	2.4%	100.0%

The table on industry distribution (Table 9) of the gross credit exposure reveals a concentration on Banks and financial institutions, amounting to 38.3% 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, in line with GIC'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 2013				
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Claims on Sovereigns	-	76.5	55.7	55.0	187.2
Claims on Public Sector Entities	-	37.0	177.1	79.6	293.7
Claims on Banks	416.7	146.6	419.1	101.6	1,084.0
Claims on Corporate	-	8.7	111.5	322.8	443.0
Securitization and SIVs	-	17.7	25.7	73.7	117.1
Venture Capital and Private Equity	-	-	-	185.1	185.1
Investments in Commercial Entities	-	-	-	2,097.5	2,097.5
Other Funds and Quoted Equities	-	-	-	155.0	155.0
Other Assets	26.6	46.8	79.1	19.6	172.1
Total	443.3	333.3	868.2	3,089.9	4,734.7
In Percent	9.4%	7.0%	18.3%	65.3%	100.0%

The residual maturity of gross credit exposure broken down by standard credit risk exposure is shown in Table 10. Approximately 65% of gross credit exposure falls within the longest time bucket of over five years.

Recognition of Impairment of Assets

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

5. Securitization Activities

The Corporation's securitization exposure comes by way of its investments in structured products, which can be generally classified under synthetic securitization. Capital cover treatment of securitization exposures follows the 'Ratings Based' approach as recommended in the Basel 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 2013	
	Gross Exposure	Post-credit Conversion
CQG 1	51.3	10.3
CQG 2	42.4	21.2
CQG 3	18.7	18.7
CQG 4	3.7	12.8
CQG 5	-	(deduction from capital)
CQG 6	0.9	
Unrated	0.1	
Total	117.1	63.0

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 June 2006 – A Revised Framework for International Convergence of Capital Measurement and Capital Standard, and increased capital requirement for market risk as proposed in Basel Committee's document 'Revision to the Basel II market risk framework' dated July 2009. GIC follows the Internal Models Approach (IMA) to quantify the capital charge associated with market risk within the trading portfolio.

The Corporation uses the 'Risk Manager' system, developed by Risk Metrics Inc. (part of MSCI), and utilizes a parametric computational method based on the variance – covariance concept. In line with the capital accord, the parameters used in determining the VaR are a 10 day holding period and 99% confidence level. The computation utilizes an equally weighted historical data set going back one year. The computation ignores the correlation benefit amongst the three risk types (interest rate, equity and foreign exchange), with Total Market Risk VaR being equal to the arithmetic sum of the three components. The capital charge relating to market risk is determined for all portfolios categorized as trading (the trading book), which includes the following (Ref Note 4 of 2013 Consolidated Fnancial Statements):

(US$ million)	2013	2012
Quoted debt instruments	53	21
Equities and Managed funds	313	293
Alternative equity investments	340	307
	706	621

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

The Value at Risk concept is a sound basis for the quantification of market risk, and the variance – co-variance methodology adequately suits the Corporation's asset types. Most of the exposures within the trading book entail very little optionality and are mostly linear in nature. The VaR based system provides a dynamic measure of market risk capturing, in a timely manner, the impact of changes in environment on the value of the portfolio of financial instruments. The VaR model is a statistical tool, based on simplifying assumptions, and as such has certain limitations (examples: occurrence of 'fat tails', non-normal distributions and event risks; the past not being a good approximation of future, etc). To a large extent, these limitations are addressed by the back-testing exercise and related multiplication factor used. For all the portfolios within the trading book, the same variance – co-variance methodology is used to compute VaR, which is computed on a daily basis as per the parameters described above.

Scenario analysis and stress testing is an essential component of the market risk management framework. The assumption of normality on which the statistical models are based may become invalid due to the occurrence of certain events. Future scenarios, which result in a breakdown of the historical behavior and relationships between risk constituents, are projected, and potential loss amounts are determined. Most of these scenarios are derived from macroeconomic events of the past, modified with the expectations for the future.

Back-testing

The objective of 'Back-testing' is to measure/validate the accuracy of the internal VaR model. Back-testing essentially deals with the process of comparing actual trading results with the model generated risk measures (estimates). Back-testing is conducted in line with the 'Supervisory Framework Document' issued by the Basel Committee. The parameters for back-testing are a one-day holding period and 99% confidence level. To the extent that the back-testing program is viewed purely as a statistical test of the integrity of the calculation of Value at Risk (VaR) measure, the Corporation felt it appropriate to utilize the 'hypothetical portfolio' approach. In this approach, a static hypothetical model portfolio, with similar characteristics of the actual portfolio, is created and daily change in market value is computed based on actual price observations. VaR is also computed for this static portfolio using the model and comparisons are made between actual results and model estimates. The advantage of this method is that the value change outcomes are not 'contaminated' by changes in the portfolio (which could happen if the actual portfolio were used).

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

Capital charge for market risk is determined based on the following formula:
Capital Charge (market risk) = (Max {Vavg,Vend} + Max{SVavg,SVend})X Mf
Where, Vavg equals: Average Total VaR for the trading book over the previous 60 business days
Vend equals: End of period Total VaR for the trading book
SVavg equals: Average Stressed VaR for the trading book over the previous 60 business days
SVend equals: End of period Stressed VaR for the trading book
Mf equals: Multiplication factor (a factor of three issued based on the results of back-testing)

Table 12: Trading Book VaR (US$ 000's) – 10 day holding period, 99% confidence level. For the last 60 business days in 2013

In US$ millions	Interest Rate	Equity	FX	Total
Max	1.0	7.5	1.1	9.6
Min	0.7	5.4	0.6	6.7
Average	0.7	5.9	0.8	7.4
31-Dec-13	0.8	7.2	1.1	9.1
Stress VaR	3.2	18.2	2.4	23.8

7. Operational Risk

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

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

Table 13: Business Lines for Operational Risk

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

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

Table 14: Operational Risk Capital Charge

In US$ millions	31 December 2013		
	3 yr Average Gross Income	Beta Factor	Capital Charge
Principal Investment	161.0	18%	28.9
Debt Capital Market	36.5	18%	6.6
Equities Investments	9.8	18%	1.8
Alternative Investments	53.8	18%	9.7
Treasury	(3.3)	18%	(0.6)
Asset management	16.3	12%	2.0
Corporate Finance	(9.6)	18%	(1.7)
Head-quarters	0.1	18%	0.0
Total	264.6		46.7
Risk-weighted exposure			583.1

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

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

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

8 Equity Risk in the Banking Book

Equity investments in the banking book are classified at the time of acquisition into those acquired for realizing capital gains and to those purchased for strategic investments. The decision where to classify investments is arrived at after considering significant factors that include business and strategic advantages to the Corporation, and the amount of planned investments. All investment decisions require the approval of the Investment Committees, or the Executive Committee, depending on the amount of exposure. Investments acquired with a view to generating income and profits from capital appreciation are reviewed periodically and disposed 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 using valuation techniques such as recent arm's length transactions, reference to the market value of a similar investment, an earnings multiple or the expected discounted cash flows, or other appropriate valuation models. Equity investments whose fair value cannot be estimated accurately are carried at cost less impairment, if any. More details on the accounting treatment of equity investments can be found under' Significant Accounting Policies' in the notes to the Consolidated Financial Statements.

Publicly traded investments represent quoted equities traded in the local and international stock exchanges. Privately held investments represent investments in unquoted entities and projects. The total value of equity investments in the banking book at the end of December 2013 is US$ 1,031.1 million, net of provision (refer to Table 15 below). Cumulative realized gain from sale or exchange of available for sale securities and projects is approximately US$ 65.9 million, of which a significant portion is from publically held equity holdings. Meanwhile, the total un-realized gain recognized in equity is US$ 68.2 million.

Table 15: Equity Holdings in Banking Book

In US$ millions	31 December 2013		
	Publicly Traded	Privately Held	Total
Fair Value of Equity Investments	581.6	449.5	1,031.1
Realized gains recorded in P/L	36.2	29.7	65.9
Unrealized gains recorded in equity	63.4	4.8	68.2
45% unrealized gain in Tier 2 Capital	28.5	2.2	30.7

9. Interest Rate Risk in the Banking Book

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

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

The Eurodollar futures contract position value as at December 31, 2013 was 8,670 contracts, with an estimated VaR of US$ 0.056 million. This is lower than the levels of the previous year (31st December 2012: 10,670 contracts). Excluding the impact of this EMTN issuance, the number of contracts, at 31st December 2013, would be approximately 670 contracts.

Consolidated Financial Statements

31 December 2012

Consolidated Financial Statements

31 December 2013

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74, Safat
13001 Safat, Kuwait
Baitak Tower, 18 - 21st Floor
Safat Square, Ahmed Al Jaber St., Kuwait
Tels: 22452880 / 22955000
Fax: 22456419
kuwait@kw.ey.com
www.ey.com/me

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 (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, consolidated statements of income, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and 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 Companies Law No. 25 of 2012, as amended, and by the Corporation's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no material violations of the Companies Law No. 25 of 2012, as amended, or of the Corporation's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2013 that might have had a material effect on the business of the Corporation or on its financial position.

We further report that, during the course of our audit, we have not become aware of any 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 2013 that might have had a material effect on the business of the Corporation or on its financial position.

Waleed A. Al Osaimi
License No. 68 A of Ernst & Young
Al Aiban, Al Osaimi & Partners

0000000 2014
Kuwait

Consolidated Statement of Financial Position

as at 31 December 2013

(US$ million)	Notes	2013	2012
Assets			
Cash and cash equivalents		63	72
Placements with banks	3	345	884
Financial assets at fair value through statement of income	4	706	621
Financial assets available for sale	5	2,500	2,800
Investment in associates	6	1,703	1,559
Other assets	7	387	356
Total assets		**5,704**	6,292
Liabilities and equity			
Liabilities			
Deposits from banks and other financial institutions	8	1,109	1,092
Securities sold under repurchase agreements	9	55	425
Term finance	10	1,589	2,123
Other liabilities	11	373	349
Total liabilities		**3,126**	3,989
Equity			
Share capital	12	2,100	2,100
Reserves	12	643	502
Accumulated losses		(184)	(316)
Equity attributable to equity holders of the Corporation		**2,559**	2,286
Non-controlling interests		19	17
Total equity		**2,578**	2,303
Total liabilities and equity		**5,704**	6,292

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

Khaled S. Al-Khattaf
Chairman

Ibrahim A. AlQadhi
Chief Executive Officer

Consolidated Statement of Income

for the year ended 31 December 2013

(US$ million)	Notes	**2013**	2012
Interest income	13	38	42
Net gains from investments	14	132	78
Dividend income	15	42	28
Share of results from associates	6	112	98
Net fees, commission and other income	16	35	26
Foreign exchange gain		-	1
Total income		**359**	273
Interest expense	17	(69)	(61)
Other operating income	18	12	10
Net operating income		**302**	222
Staff costs		(50)	(49)
Premises costs		(2)	(2)
Other operating expense		(14)	(15)
Impairment losses	19	(71)	(25)
Profit for the year		**165**	131
Attributable to:			
Equity holders of the Corporation		163	130
Non-controlling interests		2	1
		165	131

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

(US$ million)	Notes	2013	2012
Profit for the year		165	131
Other comprehensive income (loss) reclassifiable to consolidated statement of income in subsequent periods:			
Financial assets available for sale:			
- Net unrealised gain arising during the year		136	65
- Transferred to consolidated statement of income on sale	14	(79)	(40)
-Transferred to consolidated statement of income on impairment, net	19	11	7
Share of other comprehensive income (loss) of associates		42	(265)
Other comprehensive income (loss) for the year		110	(233)
Total comprehensive income (loss) for the year		**275**	(102)
Attributable to:			
Equity holders of the Corporation		**273**	(103)
Non-controlling interest		**2**	1
		275	(102)

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

(US$ million)	Share Capital	Reserves: Compulsory reserve	Reserves: Voluntary reserve	Reserves: Investment revaluation reserve	Reserves: Cash flow hedge reserve	Reserves: Foreign currency translation reserve	Accumulated Loses	Subtotal	Non-controlling interest	Total equity
Balance as at 1 January 2013	2,100	347	220	281	(325)	(21)	(316)	2,286	17	2,303
Profit for the year	-	-	-	-	-	-	163	163	2	165
Other comprehensive income for the year	-	-	-	76	65	(31)	-	110	-	110
Total comprehensive income for the year	-	-	-	76	65	(31)	163	273	2	275
Transfer	-	-	-	(1)	-	-	1	-	-	-
Transfer to compulsory and voluntary reserves	-	16	16	-	-	-	(32)	-	-	-
Balance as at 31 December 2013	**2,100**	**363**	**236**	**356**	**(260)**	**(52)**	**(184)**	**2,559**	**19**	**2,578**
Balance as at 1 January 2012	2,100	334	207	249	(64)	(17)	(420)	2,389	16	2,405
Profit for the year	-	-	-	-	-	-	130	130	1	131
Other comprehensive income (loss) for the year	-	-	-	32	(261)	(4)	-	(233)	-	(233)
Total comprehensive income (loss) for the year	-	-	-	32	(261)	(4)	130	(103)	1	(102)
Transfer to compulsory and voluntary reserves	-	13	13	-	-	-	(26)	-	-	-
Balance as at 31 December 2012	2,100	347	220	281	(325)	(21)	(316)	2,286	17	2,303

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2013

(US$ million)	Notes	2013	2012
Cash flows from operating activities:			
Profit for the year		165	131
Non-cash and other adjustments to reconcile profit for the year to net cash flows:			
Impairment losses	19	71	25
Realised gain on financial assets available for sale	14	(79)	(40)
Realised gain on sale of associates	14	-	(4)
Share of results of associates	6	(112)	(98)
Amortisation of net discount / premium on debt securities		6	1
Dividend income	15	(42)	(28)
		9	(13)
Changes in operating assets and liabilities:			
Placements with banks		539	(338)
Financial assets at fair value through statement of income		(85)	(56)
Financial assets available for sale		410	(77)
Deposits from banks and other financial institutions		17	(332)
Movement in other assets and other liabilities, (net)		(49)	(27)
Dividend income received	15	42	28
Net cash flows from (used in) operating activities		**883**	(815)
Cash flows from investing activities:			
Dividends from associates		8	50
Proceeds from sale of investment in associates		-	2
Additional contribution to associates		(1)	(33)
Net cash flows from investing activities		7	19
Cash flows from financing activities:			
Decrease in securities sold under repurchase agreements		(370)	(113)
New term finance obtained		-	931
Term finance repaid		(529)	-
Net cash flows (used in) from financing activities		**(899)**	818
Net (decrease) increase in cash and cash equivalents		(9)	22
Cash and cash equivalents at 1 January		72	50
Cash and cash equivalents at 31 December		**63**	72

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

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 2013 were authorised for issue in accordance with a resolution of the directors on __________ 2014. The Annual General Assembly of Shareholders has the power to amend these consolidated financial statements after issuance.

The New Companies Law issued on 26 November 2012 by Decree Law No. 25 of 2012 (the "Companies Law"), cancelled the Commercial Companies Law No. 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law No. 97 of 2013 (the Decree). The Executive Regulations of the new amended law issued on 29 September 2013 was published in the official Gazette on 6 October 2013. As per Article three of the Executive Regulations, companies have one year from the date of publishing the Executive Regulations to comply with the new amended law.

The Corporation's Agreement of Incorporation and Articles of Association gives it a special, supranational status. In particular, Article 8 of GIC's Agreement of Incorporation provides that local laws in each GCC state complement the provisions of GIC's Agreement of Incorporation and Articles, provided that such laws do not conflict with GIC's Agreement of Incorporation or Articles. To the extent there is such a conflict, GIC's Agreement of Incorporation and Articles prevail over local laws, including the Companies Law of Kuwait.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliances

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 ('CBK'). These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective provision, which has been replaced by the CBK's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets. In addition, the consolidated financial statements have been prepared in accordance with the 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 of the fair value of financial assets at fair value through statement of income, financial assets available for sale, derivative financial instruments and financial assets / liabilities carried at amortised cost which are part of effective fair value hedging relationships to the extent of risk being hedged.

The consolidated financial statements are presented in United States Dollars, 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 following new and amended IFRS effective as of 1 January 2013. However, the implementation of new and amended IFRS did not have a significant impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect only the presentation of the consolidated financial statements and have no impact on the Group's financial position or performance.

IAS 28 Investments in Associates and Joint Ventures
As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The adoption of this standard did not have any material impact on the consolidated financial statements of the Group.

IAS 19: Employee Benefits (Amendment)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard requires the recognition of actuarial gains and losses in other comprehensive income and impacts the net benefit expense as the expected return on plan assets is now calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendment did not have an impact on the Group's financial position and performance.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The adoption of this standard did not have any material impact on the consolidated financial statements of the Group as the Group has not entered into any such arrangements.

IFRS 10: Consolidated Financial Statements
IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements. It also addresses the issues raised in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgement to determine which entities are controlled and therefore, are required to be consolidated by the Group, compared with the requirements that were in IAS 27. The Group, regardless of the nature of its involvement with an entity, shall determine whether it is a parent by assessing whether it controls the entity. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Once control is established, the standard requires the Group to start consolidating the investee from the date the investor obtains control of the investee and cease consolidation when the investor loses control of the investee. This did not have any material impact on the consolidated financial statements of the Group.

IFRS 12: Disclosure of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2013)
IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to disclose information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of the consolidated entities. The Group has provided these disclosures in Note 6.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

IFRS 13 – Fair Value measurement
IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The adoption of this standard does not have any material impact on the financial position or performance of the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. The Group has provided these disclosures in Note 25.

Standards issued but not yet effective
Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing of standards issued is those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IFRS 9 'Financial Instruments':
IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. 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 the final standard including all phases is issued. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. On November 19, 2013, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 that introduced a new general hedge accounting and removed the 1 January 2015, mandatory effective date from IFRS 9. The new hedge accounting model significantly differs from the IAS 39 hedge accounting model in a number of aspects including eligibility of hedging instruments and hedged items, accounting for the time value component of options and forward contracts, qualifying criteria for applying hedge accounting, modification and discontinuation of hedging relationships etc. Under the amendments, entities that adopt IFRS 9 (as amended in November 2013) can choose an accounting policy of either adopting the new IFRS 9 hedge accounting model now or continuing to apply the hedge accounting model in IAS 39 for the time being.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments are effective for annual periods beginning on or after 1 January 2014, and it provides an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

The application of these standards will be made in the consolidated financial statements when these standards become effective. The Group's management is yet to assess the impact of the application of these standards on the consolidated financial statements of the Group.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries including special purpose entities. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

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

The results of the subsidiaries acquired or disposed off during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Business Combination and Goodwill (continued)

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in 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 benefits from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

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

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

2.7 Financial assets
(i) Recognition

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(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.

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(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.

Financial assets carried at amortised cost

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

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

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

Financial assets available for sale

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income) is removed from other comprehensive income and recognised in the 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 CBK instructions, the Group recognises a minimum general provision on all applicable credit facilities (net of certain categories of collateral) that are not subject to specific provision. No other general provisions are made.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

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.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial liabilities (continued)

(ii) Classification and measurement (continued)

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

Accounting policy for period from 1 January 2013

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

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 25.

Accounting policy for periods before 1 January 2013

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.

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.

2.11 Impairment of non-financial assets

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Repurchase and resale arrangements

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

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.

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 associates are listed in Note 29.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 re-measuring the hedging instrument is recognised immediately in the consolidated statement of income. The hedged items are also adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the consolidated statement of income.

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

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

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

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 reporting 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.

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Foreign currency (continued)

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items at fair value through statement of income are recognised in the consolidated statement of income within the 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, designated at fair value through statement of income, or available for sale.

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

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

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

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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Significant accounting judgements and estimates (continued)

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.

3 PLACEMENT WITH BANKS

(US$ million)	2013	2012
Local banks	71	48
Overseas banks	274	836
	345	884

Placements with banks carry a time weighted average interest of 0.504% (2011: 0.445%).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

4 FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF INCOME

(US$ million)	2013	2012
Designated at fair value through statement of income		
Quoted debt instruments	53	21
Investment in unquoted managed funds	311	291
Unquoted equity fund	2	2
Investments in alternative equity funds	340	307
	706	621

5 FINANCIAL ASSETS AVAILABLE FOR SALE

(US$ million)	2013	2012
Debt instruments		
International bonds	569	660
GCC and Islamic bonds	857	816
Emerging market bonds and funds	-	153
Structured debt instruments	114	238
	1,540	1,867
Equities and managed funds		
Quoted equity investments and funds	138	123
Unquoted managed fund investments	26	35
	164	158
Equity participations		
Quoted equity investments	418	386
Unquoted equity investments	157	140
	575	526
Private equity funds		
Managed funds portfolio	187	204
Real estate funds portfolio	25	32
Infrastructure fund portfolio	4	6
GCC diversified funds portfolio	5	7
	221	249
Total	**2,500**	2,800

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

5 FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

Certain repoable debt instruments available for sale are pledged as security in respect of borrowings under securities sold under repurchase agreements amounting to US$ 55 million (31 December 2012: US$ 425 million) (Note 9).

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

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

Management has performed an analysis of financial assets available for sale and have concluded that the impairment losses of US$ 31 million (2012: US$ 7 million) recognized are adequate (Note 19).

6 INVESTMENT IN ASSOCIATES

The carrying amount of investment in associates includes goodwill before provisions for impairment amounting to US$ 93 million (2012: US$ 91 million).

The Group's investment in associates that are listed on a stock exchange have a carrying value of US$ 25 million (2012: US$ 19 million) and a market value of US$ 105 million (2012: US$ 48 million).

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

(US$ million)	**2013**	2012
Share of assets	5,520	5,303
Share of liabilities	(3,880)	(3,821)
Share of net assets	1,640	1,482
Goodwill	93	91
Impairment losses	(30)	(14)
Carrying amount of investment	1,703	1,559
Share of revenue	1,938	1,993
Share of results for the year	112	98

List of associates is disclosed in Note 29.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

6 INVESTMENT IN ASSOCIATES (contnued)

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

2013 (US$ million)	**Foulath Holding B.S.C (C)**	**The National Titanium Dioxide Co., Ltd. (Cristal)**	**Jeddah Cable Company Ltd. and Energya Group**	**Wataniya Telecom Algerie S.P.A.**	**Gulf Re Holdings Limited**
Assets	2,526	4,371	605	1,920	312
Liabilities	(1,375)	(2,524)	(405)	(1,274)	(105)
Non-controlling interests	(363)	(31)	-	-	
Net assets	788	1,816	200	646	207
Revenue	772	2,142	661	1,067	45
Results for the year	8	77	(1)	201	(6)
Other comprehensive income for the year	13	(90)	-	9	(3)

2012 (US$ million)	Foulath Holding B.S.C (C)	The National Titanium Dioxide Co., Ltd. (Cristal)	Jeddah Cable Company Ltd. and Energya Group	Wataniya Telecom Algerie S.P.A.	Gulf Re Holdings Limited
Assets	2,419	4,176	635	1,355	301
Liabilities	(1,273)	(2,310)	(434)	(919)	(85)
Non-controlling interests	(379)	(37)	-	-	-
Net assets	767	1,829	201	436	216
Revenue	1,129	2,068	525	1,023	47
Dividend	-	(100)	-	-	-
Results for the year	(147)	391	1	99	(1)
Other comprehensive income for the year	4	-	-	(22)	1

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

(US$ million)	**2013**	2012
Assets	8,924	8,758
Liabilities	(7,557)	(8,112)
Net assets	1,367	646
Revenue	1,764	1,546
Results for the year	169	89
Other comprehensive income for the year	309	(1,233)

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

7 OTHER ASSETS

(US$ million)	2013	2012
Accrued interest, fees, commissions and dividends	42	45
Positive fair value of derivative instruments	1	25
Prepayments	1	2
Property, plant and equipment	112	110
Other, including trade receivable from subsidiaries	231	174
	387	356

8 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

(US$ million)	2013	2012
Deposits from Central Banks	80	80
Deposits from commercial banks	30	173
Deposits from other financial institutions	671	787
Other deposits	328	52
	1,109	1,092

At 31 December 2013, deposits from GCC Country Governments, Central Banks and other institutions headquartered in the GCC States amounted to US$ 1,109 million (2012: US$ 1,092 million).

Deposits from banks and other financial institutions carry a time weighted average interest of 0.58 % (2012: 0.94 %).

9 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

As at 31 December 2013 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$ 55 million (2012: US$ 425 million) are due within one year of the reporting date.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

10 TERM FINANCE

(US$ million)	Interest rate %	2013	2012
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
US Dollar Floating Rate Bonds due in 2014	6 months $ LIBOR + 250 bps	100	100
AED Floating Rate term loan	3 months EIBOR + 350 bps	12	-
AED Floating Rate term loan	3 months $ LIBOR + 400 bps	-	10
AED Floating Rate term loan	6 months EIBOR + 250 bps	-	2
AED Floating Rate term loan	$ LIBOR + 450 bps	3	3
AED Floating Rate term loan	EIBOR + 350 bps	4	6
Medium Term Note Issues (EMTN) :			
GIC MYR medium term fixed rate note due in 2013	3.98 % per annum (semi annual)	-	196
GIC MYR medium term fixed rate note due in 2015	2.75 % per annum (annual)	337	327
GIC MYR medium term fixed rate note due in 2016	5.25 % per annum (semi annual)	183	196
GIC MYR medium term fixed rate note due in 2016	4.90 % per annum (semi annual)	229	245
GIC MYR medium term fixed rate note due in 2017	3.25 % per annum (semi annual)	500	500
GIC MYR medium term fixed rate note due in 2022	5.10 % per annum (semi annual)	52	56
GIC MYR medium term fixed rate note due in 2023	4.52 % per annum (semi annual)	122	131
GIC MYR medium term fixed rate note due in 2027	5.30 % per annum (semi annual)	47	51
		1,589	2,123

11 OTHER LIABILITIES

(US$ million)	2013	2012
Accrued interest	27	41
Negative fair value of derivative instruments	64	45
Margin money for derivative products	12	35
Other, including trade payable of subsidiaries and accrued expenses	270	228
	373	349

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

12 EQUITY

12.1 The authorised, issued and fully paid capital comprises of 2.1 million shares of US$ 1,000 each (2012: 2.1 million shares of US$ 1,000 each).

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

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

13 INTEREST INCOME

(US$ million)	2013	2012
Placements with banks	3	3
Financial assets available for sale	34	37
Financial assets at fair value through income statement	1	1
Loans and advances	-	1
	38	42

14 NET GAINS FROM INVESTMENTS

(US$ million)	2013	2012
Realised gain on financial assets available for sale	79	40
Realized gain from financial assets at fair value through statement of income	3	1
Unrealized gain from financial assets at fair value through statement of income	50	33
Realised gain on sale of an associate	-	4
	132	78

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

15 DIVIDEND INCOME

(US$ million)	2013	2012
Private equity funds available for sale	5	3
Equities and managed funds available for sale	4	4
Equities and managed funds at fair value through statement of income	1	-
Equity participations available for sale	32	21
	42	28

16 NET FEES, COMMISSION AND OTHER INCOME

(US$ million)	2013	2012
Management fees	13	10
Other income	22	16
	35	26

17 INTEREST EXPENSE

(US$ million)	2013	2012
Deposits from banks and other financial institutions	(5)	(13)
Securities sold under repurchase agreements	(1)	(6)
Term finance	(63)	(42)
	(69)	(61)

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

18 OTHER OPERATING INCOME

Other operating income represents the net income from manufacturing and the other operating results of subsidiaries.

(US$ million)	2013	2012
Sales	193	199
Cost of sales	(155)	(157)
Gross profit	38	42
Other income in non core business	1	1
Selling and distribution expenses	(3)	(17)
Administrative expenses	(24)	(16)
	12	10

19 IMPAIRMENT LOSSES

(US$ million)	2013	2012
Financial assets available for sale:		
Debt securities	-	2
Equities and managed funds	-	(1)
Equity participations	(20)	-
Private equity funds	(11)	(8)
Investment in associates	(16)	(12)
Other assets	(24)	(6)
	(71)	(25)

20 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 at 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 2013 amounted to US$ 8 million (2012: US$ 8 million).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

21 RISK MANAGEMENT

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

Risk management begins with the Risk Management Committee which is composed of members from the Corporation's Board of Directors and senior management, which defines and recommends the Group's risk appetite to the Board of Directors.

The Board of Directors is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

21.1 Liquidity risk

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

The liquidity profile of financial liabilities reflects the projected cash flows, based on contractual repayment obligations which include future interest payments over the life of these financial liabilities. The liquidity profile of

31 December 2013

(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	915	196	-	-	1,111
Securities sold under repurchase agreements	55	-	-	-	55
Term finance	124	46	1,384	274	1,828
Gross settled derivative instruments:					
- Contractual amount payable	407	-	749	221	1,377
- Contractual amount receivable	(408)	-	(790)	(226)	(1,424)
Other liabilities	75	110	176	12	373
Total undiscounted financial liabilities	**1,168**	**352**	**1,519**	**281**	**3,320**
Commitments	111	4	-	-	115
Contingent liabilities	-	74	48	-	122

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

21 RISK MANAGEMENT (continued)

21.1 Liquidity risk (continued)

31 December 2012

(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	965	130	-	-	1,095
Securities sold under repurchase agreements	365	60	-	-	425
Term finance	198	316	1,568	363	2,445
Gross settled derivative instruments:					
- Contractual amount payable	890	62	769	237	1,958
- Contractual amount receivable	(880)	(61)	(775)	(226)	(1,942)
Other liabilities	77	111	41	120	349
Total undiscounted financial liabilities	1,615	618	1,603	494	4,330
Commitments	116	8	-	3	127
Contingent liabilities	-	49	124	-	173

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

(US$ million)	**Within 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
31 December 2013					
Assets					
Cash and cash equivalents	63	-	-	-	63
Placements with banks	345	-	-	-	345
Financial assets at fair value through statement of income	276	430	-	-	706
Financial assets available for sale	1,983	145	45	327	2,500
Investment in associates	-	-	-	1,703	1,703
Other assets	65	37	85	200	387
Total assets	**2,732**	**612**	**130**	**2,230**	**5,704**
Liabilities					
Deposits from banks and other financial institutions	914	195	-	-	1,109
Securities sold under repurchase agreements	55	-	-	-	55
Term finance	109	3	1,256	221	1,589
Other liabilities	75	110	176	12	373
Total liabilities	**1,153**	**308**	**1,432**	**233**	**3,126**
Net gap	**1,579**	**304**	**(1,302)**	**1,997**	

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

21 RISK MANAGEMENT (continued)

21.1 Liquidity risk (continued)

(US$ million)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2012					
Assets					
Cash and cash equivalents	72	-	-	-	72
Placements with banks	884	-	-	-	884
Financial assets at fair value through statement of income	619	2	-	-	621
Financial assets available for sale	2,174	246	63	317	2,800
Investment in associates	-	-	-	1,559	1,559
Other assets	80	78	34	164	356
Total assets	3,829	326	97	2,040	6,292
Liabilities					
Deposits from banks and other financial institutions	964	128	-	-	1,092
Securities sold under repurchase agreements	365	60	-	-	425
Term finance	196	310	1,380	237	2,123
Other liabilities	77	111	41	120	349
Total liabilities	1,602	609	1,421	357	3,989
Net gap	2,227	(283)	(1,324)	1,683	

21.2 Market risk

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

Interest rate risk

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

Foreign exchange risk

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

Equity price risk

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

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

21 RISK MANAGEMENT (continued)

21.2 Market risk (continued)

2013
(US$ million)

	Average	Minimum	Maximum	31 December 2013
Interest rate	4	2	6	4
Equity price	11	10	12	11
Foreign exchange	-	-	1	-
Total*	**11**	**10**	**13**	**12**

2012
(US$ million)

	Average	Minimum	Maximum	31 December 2012
Interest rate	8	4	12	4
Equity price	15	10	18	10
Foreign exchange	-	-	1	1
Total*	15	10	18	11

***** Total VaR incorporates benefits of diversification.

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

(US$ million)

Market indices	*Change in equity price*	*Effect on equity*	
		2013	2012
Saudi Stock Exchange	+/-10	**46**	48
Other GCC indices	+/-10	**2**	6

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

Please refer Note 24 for distribution of assets and liabilities between the divisions.

21.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Corporation's Board of Directors has set limits for individual 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 2013, the Group has not obtained any collateral on any of the financial assets.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

21 RISK MANAGEMENT (continued)

21.3.1 Maximum exposure to credit risk

The maximum credit exposure of the Group is as follows:

	Maximum exposure	
(US$ million)	**2013**	2012
Cash and cash equivalents	63	72
Placements with banks	345	884
Debt securities at fair value through income statement	210	178
Debt securities available for sale	1,540	1,867
Other assets	200	201
Credit exposure on assets	**2,358**	3,202
Credit commitments	122	173
Total credit exposure	**2,480**	3,375

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$ 82 million (2012: US$ 85 million).

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

(US$ million)	GCC	Europe	America	Asia/Africa	Total
At 31 December 2013					
Cash and cash equivalents	59	3	1	-	63
Placements with banks	310	20	-	15	345
Debt securities at fair value through income statement	164	29	11	6	210
Debt securities available for sale	857	268	278	137	1,540
Other assets	93	54	3	50	200
Credit exposure on assets	**1,483**	**374**	**293**	**208**	**2,358**
Credit commitments	115	-	-	7	122
Total credit exposure	**1,598**	**374**	**293**	**215**	**2,480**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

21 RISK MANAGEMENT (continued)

21.3.1 Maximum exposure to credit risk (continued)

(US$ million)	GCC	Europe	America	Asia/Africa	Total
At 31 December 2012					
Cash and cash equivalents	70	1	1	-	72
Placements with banks	607	202	75	-	884
Debt securities at fair value through income statement	157	8	13	-	178
Debt securities available for sale	784	462	524	97	1,867
Other assets	78	84	6	33	201
Credit exposure on assets	1,696	757	619	130	3,202
Credit commitments	165	-	-	8	173
Total credit exposure	1,861	757	619	138	3,375

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

(US$ million)	Banks & FIs.	Trading & Mftg.	Utilities	Govt. agencies	Other	Total
At 31 December 2013						
Cash and cash equivalents	63	-	-	-	-	63
Placements with banks	345	-	-	-	-	345
Debt securities at fair value through income statement	123	6	36	37	8	210
Debt securities available for sale	921	67	415	133	4	1,540
Other assets	109	40	13	37	1	200
Credit exposure on assets	**1,561**	**113**	**464**	**207**	**13**	**2,358**
Credit commitments	-	1	74	47	-	122
Total credit exposure	**1,561**	**114**	**538**	**254**	**13**	**2,480**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

21 RISK MANAGEMENT (continued)

21.3.1 Maximum exposure to credit risk (continued)

(US$ million)	Banks & FIs.	Trading & Mftg.	Utilities	Govt. agencies	Other	Total
At 31 December 2012						
Cash and cash equivalents	72	-	-	-	-	72
Placements with banks	884	-	-	-	-	884
Debt securities at fair value through income statement	165	10	-	3	-	178
Debt securities available for sale	1,134	126	380	188	39	1,867
Other assets	101	61	15	21	3	201
Credit exposure on assets	2,356	197	395	212	42	3,202
Credit commitments	-	74	69	30	-	173
Total credit exposure	2,356	271	464	242	42	3,375

21.3.2 Credit quality of financial assets

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

(US$ million)	**Neither past due nor impaired**		**Total**
	Investment grade	**Unrated**	
At 31 December 2013			
Cash and cash equivalents	63	-	63
Placements with banks	345	-	345
Debt securities at fair value through income statement	205	5	210
Debt securities available for sale	1,494	46	1,540
Other assets	145	55	200
Credit exposure on assets	**2,252**	**106**	**2,358**
Credit commitments	122	-	122
Total credit exposure	**2,374**	**106**	**2,480**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

21 RISK MANAGEMENT (continued)

21.3.2 Credit quality of financial assets (continued)

(US$ million)	Neither past due nor impaired		Total
	Investment grade	Unrated	
At 31 December 2012			
Cash and cash equivalents	72	-	72
Placements with banks	884	-	884
Debt securities at fair value through income statement	167	11	178
Debt securities available for sale	1,749	118	1,867
Other assets	107	94	201
Credit exposure on assets	2,979	223	3,202
Credit commitments	173	-	173
Total credit exposure	3,152	223	3,375

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

22 COMMITMENTS AND CONTINGENT LIABILITIES

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

	Notional principal amount	
	2013	2012
Credit Risk Amounts (US$ million)		
Transaction-related contingent items:		
- Letter of guarantees	122	170
- Others	-	3
	122	173

The above commitments and contingent liabilities have off balance-sheet credit risk because only origination fees and accruals for probable losses are recognised in the consolidated financial statements until the commitments are fulfilled or expired. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows. The transaction related contingent liabilities are net of allowance of US $ 0.4 million (2012: US $ 1 million).

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

(US$ million)	**2013**	2012
Undrawn commitments for investments in private equity funds	109	104
Undrawn commitments for investments in associates and other equity participations	-	12
Other commitments	6	11
	115	127

23 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 2013

23 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 income financial assets available for sale.

As at the reporting date, the notional amount of interest rate swaps and interest rate futures used to hedge interest rate risk amounted to US$ 413 million (2012: US$ 607 million) and its net fair value was a swap loss of US$ 16 million (2012: US$ 35 million).

For the year ended 31 December 2013, the Group recognised unrealised gain of US$ 18 million (2012: US$ 13 million) and realised loss of US$ Nil (2012: US$ 3 million) on hedging instruments. The corresponding unrealised and realised loss on the hedged fixed income securities amounted to US$ 18 million (2012: US$ 13 million) and US$ Nil (2012: gain of US$ 1 million) respectively.

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

	2013			2012		
(US$ million)	**Positive fair value**	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount
Derivatives held for hedging						
- Interest rate swaps	-	(17)	377	-	(35)	607
- Interest rate futures	1	-	36	-	-	-
- Cross currency swaps	-	(46)	1,015	24	(6)	1,222
Derivatives held for trading						
- Put options	-	-	-	-	-	26
- Forward foreign exchange contracts	-	(1)	1,424	1	(4)	1,958
	1	**(64)**	**2,852**	25	(45)	3,813

Maturity analysis

(US$ million)	**Within 1 year**	**Year 1 to 5**	**Above 5 years**	**Total**
31 December 2013				
Notional amounts				
Interest rate swaps	210	128	39	377
Interest rate futures	36	-	-	36
Cross currency swaps	-	789	226	1,015
Forward foreign exchange contracts	409	789	226	1,424
	655	**1,706**	**491**	**2,852**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

23 DERIVATIVES (continued)

(US$ million)	Within 1 year	Year 1 to 5	Above 5 years	Total
31 December 2012				
Notional amounts				
Interest rate swaps	241	323	43	607
Interest rate futures	216	769	237	1,222
Cross currency swaps	26	-	-	26
Forward foreign exchange contracts	952	769	237	1,958
	1,435	1,861	517	3,813

24 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 includes 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 2013

24 SEGMENTAL INFORMATION (continued)

31 December 2013 (US$ million)	*Principal investments*	*Debt Capital Markets*	*Equity and Alternative Investments*	*Treasury*	*Corporate and Other*	*Eliminations*	*Total*
Interest income	2	35	-	28	3	(30)	38
Interest expense	(54)	(10)	(14)	(21)	-	30	(69)
Share of results from associates	112	-	-	-	-	-	112
Other operating income	77	31	107	(1)	7	-	221
Net operating income	137	56	93	6	10	-	302
Other operating expenses	(14)	(5)	(2)	(4)	(41)	-	(66)
Impairment losses	(59)	-	(11)	-	(1)	-	(71)
Segment results	**64**	**51**	**80**	**2**	**(32)**	**-**	**165**
Profit for the year							**165**
Segment assets	2,571	1,786	884	447	2,349	(2,333)	**5,704**
Segment liabilities	2,514	1,753	710	453	29	(2,333)	3,126
Equity							2,578
Total liabilities and equity							**5,704**
OTHER INFORMATION							
Investment in associates	1,703	-	-	-	-	-	**1,703**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

24 SEGMENTAL INFORMATION (continued)

31 December 2012 (US$ million)	Principal investments	Debt Capital Markets	Equity and Alternative Investments	Treasury	Corporate and Other	Eliminations	Total
Interest income	1	39	-	41	5	(44)	42
Interest expense	(48)	(15)	(13)	(29)	-	44	(61)
Share of results from associates	98	-	-	-	-	-	98
Other operating income	51	27	58	1	6	-	143
Net operating income	102	51	45	13	11	-	222
Other operating expenses	(13)	(7)	(2)	(3)	(41)	-	(66)
Impairment losses	(19)	2	(9)	-	1	-	(25)
Segment results	70	46	34	10	(29)	-	131
Profit for the year							131
Segment assets	2,345	2,103	844	979	2,234	(2,213)	6,292
Segment liabilities	2,353	2,070	735	1,001	43	(2,213)	3,989
Equity							2,303
Total liabilities and equity							6,292
OTHER INFORMATION							
Investment in associates	1,559	-	-	-	-	-	1,559

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

31 December 2013

	GCC Region		**International**		**Total**	
(US$ million)	***PI***	***Others***	***PI***	***Others***	***PI***	***Others***
Net operating income	**137**	**81**	**-**	**84**	**137**	**165**
Total assets	**2,551**	**1,508**	**20**	**1,625**	**2,571**	**3,133**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

24 SEGMENTAL INFORMATION (continued)

31 December 2012

	GCC Region		International		Total	
(US$ million)	*PI*	*Others*	*PI*	*Others*	*PI*	*Others*
Net operating income	102	66	-	54	102	120
Total assets	2,325	1,494	20	2,453	2,345	3,945

25 FAIR VALUE INFORMATION

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

Determination of fair value and fair value hierarchy:

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

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

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

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

25 FAIR VALUE INFORMATION (continued)

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

2013

(US$ million)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Financial assets at fair value through statement of income				
Investment in quoted debt instruments	53	-	-	53
Investment in unquoted managed funds	-	208	103	311
Unquoted equity fund	-	2	-	2
Investment in alternative equity funds	-	-	340	340
Financial assets available for sale				
Debt instruments	1,426	-	114	1,540
Equities and managed funds	138	26	-	164
Equity participations	418	-	-	418
Private equity funds	-	-	220	220
Other assets – derivative financial instruments				
Interest rate futures	-	1	-	1
	2,035	**237**	**777**	**3,049**
Liabilities measured at fair value				
Other liabilities – derivative financial instruments				
Interest rate swaps	-	17	-	17
Cross currency swaps	-	-	46	46
Forward foreign exchange contracts	-	-	1	1
	-	**17**	**47**	**64**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

25 FAIR VALUE INFORMATION (continued)

2012

(US$ million)	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through statement of income				
Investment in quoted debt instruments	21	-	-	53
Investment in unquoted managed funds	-	195	96	311
Unquoted equity fund	-	2	-	2
Investment in alternative equity funds	-	-	307	340
Financial assets available for sale				
Debt instruments	1,599	-	238	1,540
Equities and managed funds	123	35	-	164
Equity participations	386	-	-	418
Private equity funds	-	-	237	220
Other assets – derivative financial instruments				
Forward foreign exchange contracts	-	-	1	1
Cross currency swaps	-	-	24	24
	2,129	232	903	3,264
Liabilities measured at fair value				
Other liabilities – derivative financial instruments				
Interest rate swaps	-	35	-	35
Cross currency swaps	-	-	6	6
Forward foreign exchange contracts	-	-	4	4
	-	35	10	64

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

25 FAIR VALUE INFORMATION (continued)

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

31 December 2013
(US$ million)

	At 1 January 2013	Gain recorded in the consolidated statement of income	Gain recorded in equity	Net purchases, sales, transfers and settlements	At 31 December 2013
Assets measured at fair value					
Financial assets at fair value through statement of income					
Investment in unquoted managed funds	96	10	-	(3)	103
Investment in alternative equity funds	307	33	-	-	340
Financial assets available for sale					
Debt instruments	238	-	15	(139)	114
Private equity funds	237	29	5	(51)	220
Other assets – derivative financial instruments					
Forward foreign exchange contracts	1	(1)	-	-	-
Cross currency swaps	24	(24)	-	-	-
Other liabilities – derivative financial instruments					
Cross currency swaps	6	40	-	-	46
Forward foreign exchange contracts	4	(3)	-	-	1

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

25 FAIR VALUE INFORMATION (continued)

31 December 2012
(US$ million)

	At 1 January 2012	Gain recorded in the consolidated statement of income	Gain recorded in equity	Net purchases, sales, transfers and settlements	At 31 December 2012
Assets measured at fair value					
Financial assets at fair value through statement of income					
Investment in unquoted managed funds	88	4	-	4	96
Investment in alternative equity funds	290	17	-	-	307
Financial assets available for sale					
Debt instruments	419	6	19	(206)	238
Private equity funds	224	24	11	(22)	237
Other assets – derivative financial instruments					
Forward foreign exchange contracts	9	(8)	-	-	-
Cross currency swaps	9	15	-	-	24
Other liabilities – derivative financial instruments					
Cross currency swaps	22	(16)	-	-	6
Forward foreign exchange contracts	3	1	-	-	4

26 RELATED PARTY TRANSACTIONS

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

Significant transactions with associates during the year are as follows:

(US$ million)	**2013**	2012
Net fees and commissions and other income	7	14
Guarantees and commitments	74	154
Receivables from associates	12	6

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

26 RELATED PARTY TRANSACTIONS (continued)

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

(US$ million)	2013	2012
Salaries and short-term employee benefits	12	15
Post-employment and termination benefits	2	3
	14	18

27 FIDUCIARY ACTIVITIES

The related income from fiduciary activities amounted to US$ 2 million (2012: US$ 2 million).

28 CAPITAL MANAGEMENT

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

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

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

No changes were made in the objectives, policies or processes from the previous year. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity as follows:

(US$ million)	2013	2012
Interest-bearing deposits, term finance and other borrowings	2,753	3,640
Other liabilities	373	349
Less: Cash and cash equivalents and placements with banks	(408)	(956)
Net debt	2,718	3,033
Equity attributable to equity holders of the Corporation	2,559	2,286
Gearing ratio (net debt /equity)	1.1	1.3

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

29 PRINCIPAL SUBSIDIARIES AND ASSOCIATES

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

	Country of incorporation	Effective equity interest as at		Principal business activity
		2013	2012	
Principal Subsidiaries				
Bituminous Products Company Limited (Bitumat)	Saudi Arabia	100.0	100.0	Building material manufacturing
G.I. Corporation General For Trading and Contracting Company W.L.L.	Kuwait	100.0	100.0	Holding company
Investel Holdings W.L.L.	Bahrain	100.0	100.0	Holding company
Kuwait Bituminous Products for Buidling Material and Equipment Trading Company	Kuwait	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
Power and Water Investments Limited	Channel Islands	100.0	100.0	Holding company
GIC Funds Company B.S.C (CLOSED)	Bahrain	100.0	100.0	Holding company
GIC Management	Cayman Islands	100.0	100.0	Holding company
GIC Funding Limited	Cayman Islands	100.0	100.0	Holding company
Gulf Partners LP Limited	UAE	100.0	100.0	Holding company
Gulf Partners GP Limited	UAE	100.0	100.0	Holding company
Gulf Partners I LP	UAE	100.0	100.0	Holding company
GIC First PanGulf Holding Co. Limited	UAE	100.0	100.0	Holding company
GIC First Saudi Holding Co. LLC	Saudi Arabia	100.0	100.0	Holding company
GIC Second Saudi Holding Co. LLC	Saudi Arabia	100.0	100.0	Holding company
GIC Kuwait (Cayman)	Cayman Island	100.0	100.0	Holding Company
GIC CM (Cayman)	Cayman Island	100.0	100.0	Holding Company
GIC Bahrain	Bahrain	100.0	100.0	Holding Company
Alternative Strategies Fund	Cayman Islands	100.0	91.4	Investing activities
GIC Event Driven Fund	Cayman Islands	100.0	100.0	Investing activities
Gulf Islamic Fund	Bahrain	100.0	100.0	Investing activities
Global REITS Fund	Cayman Islands	100.0	100.0	Investing activities
Gulf Paramount for Electrical Services Company WLL	Kuwait	92.8	92.8	Electrical Services
Gulf Bond Fund	Bahrain	90.5	80.7	Investing activities
Gulf Electronic Tawasul Company KSCC	Kuwait	86.5	86.5	Information Technology
GIC Technologies Company W.L.L	Kuwait	80.0	80.0	Technical advisory
Gulf Jyoti International L.L.C	UAE	70.0	70.0	Construction & Engineering
Crown Paper Mill Ltd. FZC	UAE	58.7	58.7	Paper Manufacturing

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

29 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

	Country of incorporation	Effective equity interest as at		Principal business activity
		2013	2012	
Associates				
Gulf Re Holdings Limited	Channel Islands	50.0	50.0	Re-insurance
Foulath Holding B.S.C (c)	Bahrain	50.0	50.0	Holding company
Oman Investment Corporation SAOC	Oman	50.0	50.0	Investing activities
Al Ezzel Power Company B.S.C. (c)	Bahrain	45.0	45.0	Power & Water Utility project
Bahrain Industrial Pharmaceutical Co. W.L.L	Bahrain	40.0	40.0	Pharmaceuticals
Orimix Concrete Products L.L.C	UAE	40.0	40.0	Building Materials
A'Saffa Foods 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	Bahrain	33.3	33.3	Power & Water Utility project
Shuqaiq International Water and Electricity Company Limited	Saudi Arabia	33.3	33.3	Power & Water Utility project
Technical Supplies & Services Co. Ltd.	UAE	30.7	30.7	Refrigeration & Cooling Services
The Dubai Wellness Centre Limited (L.L.C.)	UAE	26.8	-	Medical services
Al Dur Holding Company Limited	UAE	25.0	25.0	Power & Water Utility project
Jeddah Cable Company Ltd. and Energya Group	Saudi Arabia	25.0	25.0	Manufacturing Cables
Al Shafar Industries L.L.C. (ALUMCO)	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
Wataniya Telecom Algerie S.P.A.	Algeria	20.0	20.0	Telecom service provider
Gulf Stone Company SAOG	Oman	20.0	20.0	Building Materials
Saudi Mechanical Industries Company Limited	Saudi Arabia	20.0	20.0	Manufacturing of Engineering Products

Gulf Investment Corporation G.S.C.
Stand-alone Statement of Financial Position
as at 31 December 2013

The following appendix represents the statement of financial position of Gulf Investment Corporation excluding the assets and liabilties of its subsidiaries do not form part of the consolidated financial statements of the Corporation.

(US$ million)	**2013**	2012
Assets		
Cash and cash equivalents	44	46
Placements with banks	331	878
Financial assets at fair value through statement of Income	706	621
Financial assets available for sale	2,500	2,800
Investment in associates	1,658	1,507
Investment in subsidiaries	163	158
Other assets	172	144
Total assets	**5,574**	6,154
Liabilities and equity		
Liabilities		
Deposits from banks and other financial institutions	1,109	1,092
Securities sold under repurchase agreements	55	425
Term finance	1,570	2,102
Other liabilities	281	249
Total liabilities	**3,015**	3,868
Equity		
Share capital	2,100	2,100
Reserves	643	827
Accumulated losses	(184)	(316)
Total Equity	**2,559**	2,286
Total liabilities and equity	**5,574**	6,154

Principal Investing

Projects and Equity Participations as of Dec 2013

	Name of the Project	Location	Paid-up Share Capital - USD Million	GIC Effective holding %
	Subsidiaries and Associates of GIC			
1	G.I.Corporation for General Trading & Contracting Co. W.L.L	Kuwait	0.89	100.00%
2	Bituminous Products Company Limited (Bitumat)	Saudi Arabia	16.00	100.00%
3	InvesTel Holdings W.L.L.	Bahrain	102.56	100.00%
4	Power & Water Investments Limited	Channel Islands	0.05	100.00%
5	GIC Financial Services Limited	Cayman Islands	0.05	100.00%
6	Gulf Partners LP Limited	DIFC, UAE	0.05	100.00%
7	Gulf Partners GP Limited	DIFC, UAE	0.05	100.00%
8	GIC First PanGulf Holding Co. Limited	JAFZ,UAE	0.00	100.00%
9	GIC First Saudi Holding Co. L.L.C.	Saudi Arabia	0.03	100.00%
10	GIC Second Saudi Holding Co. L.L.C.	Saudi Arabia	0.03	100.00%
11	Kuwait Bituminous Products for Building Material and Equipment Trading Co. (Bitumat, Kuwait) *	Kuwait	0.53	100.00%
12	Gulf Paramount for Electrical Services Company W.L.L	Kuwait	43.61	92.85%
13	Gulf Electronic Tawasul Company KSCC	Kuwait	18.98	86.44%
14	GIC Technologies Co. (W.L.L)	Kuwait	0.01	80.00%
15	Gulf Jyoti International L.L.C.	UAE	11.73	70.00%
16	Crown Paper Mill Ltd. FZC	UAE	35.12	58.71%
17	Oman Investment Corporation SAOC	Oman	51.95	50.00%
18	Foulath Holding B.S.C (c)	Bahrain	566.36	50.00%
19	Gulf Re Holdings Limited	Channel Islands	200.00	50.00%
20	Gulf Reinsurance Ltd.	UAE	200.00	50.00%
21	Al Ezzel Power Company B.S.C. (c)	Bahrain	55.99	45.00%
22	Orimix Concrete Products L.L.C. *	UAE	8.17	40.00%
23	Bahrain Industrial Pharmaceutical Co. W.L.L.	Bahrain	2.77	40.00%
24	SGA Marafic Holdings W.L.L.	Bahrain	0.89	33.33%
25	Shuqaiq International Water & Electricity Company Limited	Saudi Arabia	0.80	33.33%
26	A'Saffa Foods Co. SAOG	Oman	28.64	33.25%
27	The National Titanium Dioxide Co. Ltd. (CRISTAL)	Saudi Arabia	629.92	33.00%
28	Technical Supplies & Services Co. Ltd.	UAE	27.23	30.67%
29	The Dubai Wellness Center Limited (L.L.C)	UAE	68.79	26.77%
30	Jeddah Cable Company Ltd. & Energya Group	Saudi Arabia	131.98	25.00%
31	Al- Dur Holding Company Limited	UAE	0.00	25.00%

Principal Investing

Projects and Equity Participations as of Dec 2013

	Name of the Project	Location	Paid-up Share Capital - USD Million	GIC Effective holding %
	Subsidiaries and Associates of GIC			
32	Al Dur Power & Water Co. B.S.C. (c)	Bahrain	66.31	25.00%
33	Al Shafar Industries L.L.C. (ALUMCO) *	UAE	0.48	24.46%
34	Interplast Company Limited - (L.L.C.)	UAE	27.23	23.50%
35	Celtex Weaving Mills Co. Ltd.	Bahrain	8.00	23.00%
36	Rawabi Emirates (PJSC)	UAE	59.18	22.54%
37	Gulf Stone Company SAOG *	Oman	9.43	20.00%
38	Wataniya Telecom Algerie S.P.A.	Algeria	613.38	20.00%
39	Jubail Water & Power Co.	Saudi Arabia	1.33	20.00%
40	Saudi Mechanical Industries Company	Saudi Arabia	40.00	20.00%
41	Shuqaiq Water & Electricity Co.	Saudi Arabia	1.33	20.00%
	Equity Participations - GIC ownership less than 20 percent			
1	Moobility Telecom International Holding Ltd.	British Virgin Islands	2.73	17.47%
2	TMK Gulf International Pipe Industry L.L.C.	Oman	68.16	14.20%
3	Tatweer Infrastructure Company (Q.P.S.C.)	Qatar	168.63	11.64%
4	Gulf Bridge International Inc.	Virgin Island	345.50	10.00%
5	Ras Laffan Power Company Limited (Q.S.C.)	Qatar	138.90	10.00%
6	Rasameel Structured Finance Co. K.S.C.	Kuwait	106.36	10.00%
7	KGL Logistics Company K.S.C. (Closed)	Kuwait	118.40	9.00%
8	Securities and Investment Company B.S.C.	Bahrain	113.66	7.70%
9	National Industrialization Co. (TASNEE) (Saudi Joint Stock Co.)	Saudi Arabia	5,974.92	6.52%
10	Gulf Aluminium Rolling Mill Co. B.S.C.	Bahrain	102.61	5.90%
11	United Power Company SAOG	Oman	18.11	2.27%
12	Arabian Industrial Fibers Company (IBN RUSHD) (Closed Joint Stock Company)	Saudi Arabia	2,269.06	1.95%
13	Thuraya Satellite Telecommunications Company PJSC	UAE	653.87	1.65%

* Thse associates are indirectly owned by GIC's subsidiary Bitumat

Investments Products

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

* On 16th May 2013, GIC elected to cease all third party investment management activities which will include the liquidation and closure of any related fund management business.

Corporate Directory

Senior Management

Mr. Ibrahim Ali AlQadhi
Chief Executive Officer

Dr. Russell Read
Deputy Chief Executive Officer
& Chief Investment Officer

Global Markets

Mr. Malek Al-Ajeel
Advisor to Deputy CEO
& Chief Investment officer

Mr. Talal Al-Tawari
Head of GCC Equities Div.

Mr. Fahmi Al-Ali
Head of Managed Funds Div.

Mr. Tarek El Rohayem
Head of GCC Research Div.

Mr. Martin Joy
Head of Treasury Div.

Mr. Raffaele Bertoni
Head of Debt Capital Markets Div.

Principal Investing

Mr. Shafic Ali
Group Head of Principal Investment
& Acting Head of Manufacturing Projects Div.

Mr. Saad Al Bader
Acting Head of Diversified Projects Div.

Mr. Meshary M. Al Judaimi
Acting Head of Financial Services & Utilities Div.

Mr. Muthuswamy Chandrasekaran
Head of Principal Investing Analytics Div.

Mr. Fadi Twainy
Head of Private Equity Div.

Finance & Administration

Mr. Hani Al-Shakhs
Head of Information Technology Div.

Mr. Shawki Khalaf
Head of Operations Div.

Mr. Hazem El-Rafie
Head of Financial Control Div.

Ms. Eman Al-Bedah
Head of Human Resources Div.

Mr. Qais Al-Shatti
Head of Public Relations & Communication Dept.

Corporate Office

Dr. Sulayman Al-Qudsi
Head of Economics Div.

Mr. Sebastian Vadakumcherry
Head of Risk Management Div.

Dr. Khaled Bukhamseen
Head of Internal Audit Div.

Mr. Khalid Khan
General Counsel

Mr. Fahad Alabdulkader
Head of BOD Secretariat Div.

Mr. Adil Jawad
Head of Compliance Dept.

Contact Details

Mailing Address
P.O. Box 3402, Safat 13035, Kuwait

Courier Address
Sharq, Jaber Al-Mubarak Street, Kuwait

Website
www.gic.com.kw

Email
gic@gic.com.kw

S.W.I.F.T.
GCOR KWKW

Telephone
(+965) 2222 5000

Fascimile
(+965) 2222 5010