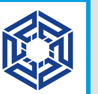
ANNUAL REPORT 2016 & ACCOUNTS

مؤسسة الخليج للاستثمار

Gulf Investment Corporation



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

FINANCIAL HIGHLIGHTS

(US$ million)

For the year	2014	2015	2016
Gross Operating and Other Income	336	209	133
Operating Expenses	67	57	54
Net Profit	201	110	57
At year end			
Total Assets	5,186	5,097	4,619
Interest Bearing Securities and Funds	1,691	1,969	1,584
Equities and Managed Funds	483	611	619
Projects and Equity Participations	1,856	1,376	1,592
Deposits	772	919	570
Shareholders’ Equity	2,729	2,491	2,547
Selected Ratios (%)			
Profitability			
Return on Paid-up Capital	9.6	5.2	2.7
Return on Adjusted Shareholders’ Equity	7.6	4.0	2.1
Capital			
BIS Ratios			
- Total	42.6	45.9	38.8
- Tier 1	42.6	45.9	38.8
Shareholders’ Equity as a % of Total Assets	52.6	48.9	55.1
Asset Quality			
Marketable Securities as a % of Total Assets	38.5	44.1	42.3
GCC Country Risk as a % of Total Assets	71.1	63.8	75.5
Liquidity			
Liquid Assets Ratio	62.0	65.1	61.9
Productivity			
Operating Income as Multiple of Operating Expenses	5.0	3.7	2.5

BOARD OF **DIRECTORS**

State of Qatar

H.E. Shaikh Fahad Faisal Al-Thani * ****
Chairman of the Board
Deputy Governor, Qatar Central Bank

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

State of Kuwait

H.E. Mr. Bader Al-Ajeel * ***
Chairman of the Executive Committee
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 Planning
& Performance Department
Minister Office, Ministry of Finance

H.E. Mr. Majed Ali Omran Al Shamsi ** ****
Chairman of Audit Committee
Director of International
Financial Relations Department
Ministry of Finance

Kingdom of Bahrain

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

H.E. Mr. Hesham Abdul Ghaffar Khonji ** ***
Chairman of the Risk Management Committee
Head of Treasury and Capital Markets
Bahrain Mumtalakat Holding Co. B.S.C.

Kingdom of Saudi Arabia

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

H.E. Mr. Turki Almalik ** ****
Chairman of Remuneration
and Human Resources Committee
Deputy Chief Executive Officer
Chief Operations Officer,
Saudi Investment Co.
(Sanabil Investments)

Sultanate of Oman

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

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

Senior Management Team

Mr. Ibrahim Ali AlQadhi
Chief Executive Officer

Mr. Shafiq Ali
Group Head of Principal Investment

Mr. Talal Al-Tawari
Group Head of Global Markets

Mr. Hani Shakhs
Group Head of Support

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

CHAIRMAN'S
STATEMENT

On behalf of the Board of Directors, it is my pleasure to present the Annual Report on the Corporation's activities and its financial results for the year ended 31 December 2016.

The Corporation continued its success despite the economic and geopolitical challenges, as it reported net profit of $57 million, with shareholders' equity of $2,547 million, or $56 million increase compared to the last year. This outcome was the result of the Corporation's adherence to capital adequacy, and asset quality standards as well as operating within acceptable risk appetite and high levels of liquidity.

In the spirit of its key mandate, GIC has been successful in promoting economic development in the GCC region with the prime focus on the principle investment portfolio which increased by $185 million, from $1.47 billion in 2015 to $1.65 billion in 2016. This appreciation was due to additional investments during the year, share of results in associates' profits, and increase in market value of quoted projects. Notably, the principle investment portfolio composed of diversified projects that are distributed across a variety of economic sectors such as infrastructure, power and utilities, services, metals, and petrochemicals.

The Corporation's exposure to the Gulf market is complemented by investments in global equities, bonds, and funds, thus diversifying GIC's total assets as well as diversifying both sources of income and risk. By the yearend, the volume of this portfolio reached $2.7 billion, compared to $3.2 billion in 2015, or a decrease of $517 million, mostly from the international bond portfolio to reduce risk profile.

GIC has established its pioneering position in the region, through its proven ability to adapt to various economic conditions, and its high degree of resilience to withstand various economic challenges, thanks to the strong financial position and the excellence of its human capital, evidenced by the reaffirmation of both Moody's and Fitch's of their credit ratings. These rating affirmations are a consequence of the continuous improvement in key financial indicators of the Corporation, despite global and regional economic challenges and uncertainties, which reflect the strong financial position of the corporation, and encourage us for more achievements in the future

Finally, on behalf of the Board of Directors, I wish to take this opportunity to extend my appreciation to their Royal Highnesses, Kings and Amirs, rulers of the GCC countries for their continuous support. Special thanks to the State of Kuwait for hosting GIC's headquarters, and for providing all necessary forms of support. I would also like to extend my appreciation to their Excellencies Ministers of Finance of the Gulf Cooperation Council for their support.

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

H.E. Shaikh Fahad Faisal Al-Thani

Chairman

CEO'S STATEMENT

It is my pleasure to present the annual report of the Gulf Investment Corporation, which addresses achieving good results that reflect the strength of the Corporation's performance while maintaining the resilience and soundness of its financial position in a challenging business environment.

Despite the economic and political challenges, both regional and international, the Corporation managed to report a net profit of $57 million and a shareholders' equity of $2,547 million; with net increase of $56 million compared to the last year.

During the year, the Corporation managed to achieve its goals including planned cash flow ratios, which are considered one of the most important financial objectives, as well as maintaining a solid capital base, high liquidity levels, and excellent funding mix. Also, the Corporation increased its direct investment portfolio with new and additional investments while reducing its global market portfolio.

In spite of economic volatility in the global markets, the net operating income was $79 million, as the Corporation was able to endure these challenges and cope with market developments due to the soundness of its strategy and its prudent risk management. In addition, the corporation provided 22 million of provisions as a precautionary measure due to the decline in the fair value of some principle investment portfolio and global market portfolio investments.

The Corporation's principle investment performed well during the year, with portfolio volume reaching $1.65 billion compared to $1.47 billion at the end of 2015, or an increase of $185 million. The portfolio also achieved gross revenues of $83 million, down from last year's results due to the partial sale of Cristal that took place in 2015. In addition, nearly all investment portfolio elements improved their operating performance and achieved higher results compared to previous year.

Global markets portfolio contributed total revenues of $100 million, down from $109 million in 2015. The performance was slightly declined due to the volatility in financial markets, both International and regional, in addition to low performance of hedge funds.

The global markets portfolio stood at $2.7 billion, down from $3.2 billion in 2015, or a decrease of $517 million which resulted mainly due to reducing international bond portfolio.

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

In line with our developmental mandate, the corporation continued its efforts to build and develop the GCC human capital, through specialized training programs and courses, whether inside or outside the corporation. Moreover, the ratio of GCC leaders rose to 74% of total Corporation leaders, up from 65% in 2015.

I would like to take this opportunity to thank GIC's shareholders and its board of directors and its subcommittees for their constant support and guidance. I would also like to express my appreciation of the efforts, commitment, and dedication of GIC staff. The corporation's performance and success in 2016 is a subject of pride to all of us and represents a motivation to continue our success and contributes effectively in supporting GCC's economic development and helps bring added value to our shareholders.

Ibrahim Al-Qadhi
CEO

ECONOMIC
REVIEW

1. INTRODUCTION

Several dynamics occurred during 2016 that impacted the GCC economies. First and foremost is the sharp fall in oil prices which exerted downward pressures on the region's overall economic growth during the year. Moreover, the fall in oil revenues pushed the GCC economies to implement several economic reform policies and austerity measures together with resorting to international capital markets to fund elevating budget deficits.

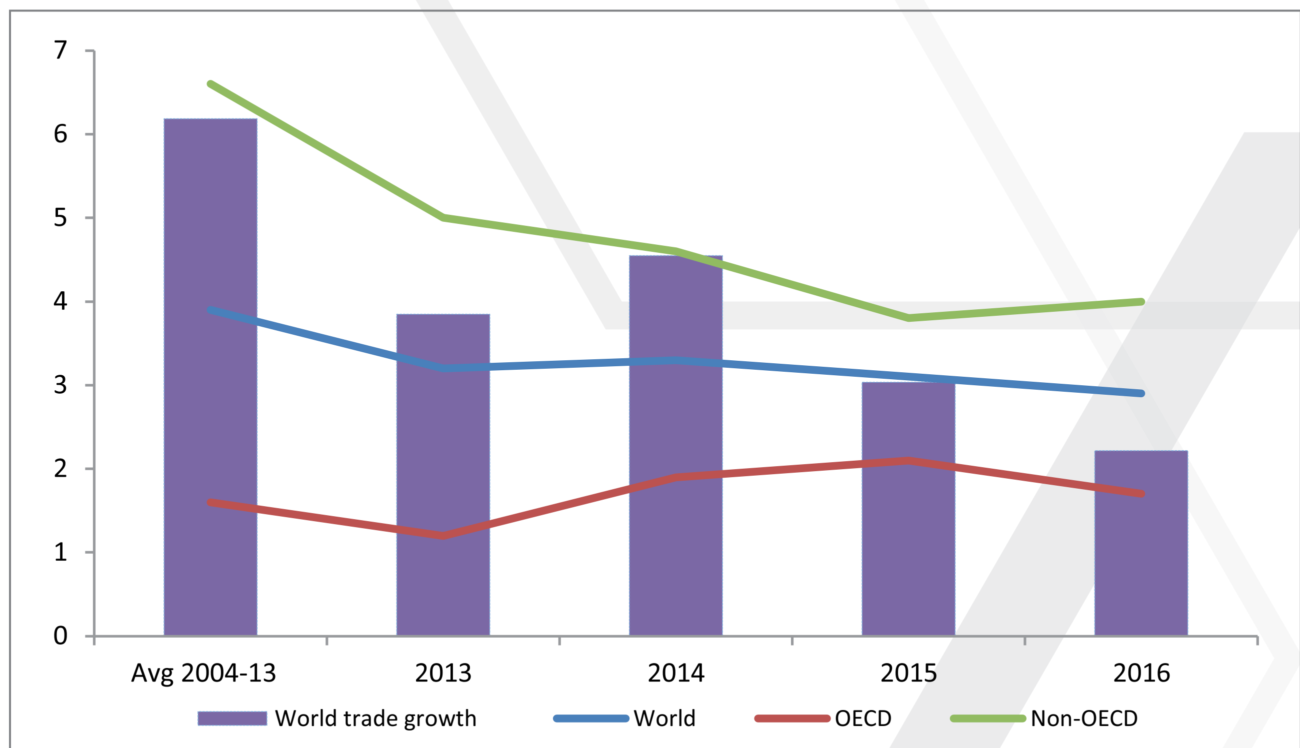
In addition, the global economy remained in a low growth trap, largely due to geopolitical risks, characterized mainly by weak trade and productivity growth as well as subdued wage growth in advanced economies despite the upturn in the second half. During the year, the low interest rate environment supported credit growth, spending growth, both private and government, together with rising corporate debt, thus raised vulnerability in the global bond markets. In emerging market economies, growth eased due to weakening external demand; exchange rate volatility, and the reversals in capital flows which were a reflection of rising risk perceptions and the dollar movement. Global financial risks continued to persist especially as some major central banks started to normalize their monetary policy amid tightening financial and labor market conditions.

The economic review below is in four sections. The first section deals with global economy, as it illustrates major developments in GDP growth, inflation, macro policies, capital flows and trade. The second section reviews oil market dynamics. The third section reviews GCC economies, while the last section tracks developments in GCC equity markets.

1.1. Global Growth

Global growth eased to 3.1% y-o-y, in 2016, down from 3.2% in 2015 and lower than its 3.9% average during 2004-2013. This subpar growth was driven by a more subdued growth of world trade in real terms, at 1.9%, which was below its 5.3% average as shown in Figure 1. In 2016, the global economy remained in the low growth trap despite the upturn in the second half and the low interest rate environment, reflecting poor underlying supply side developments, modest aggregate demand and diminished reform efforts.

Figure 1: The Global GDP and Trade Growth, y-o-y (% Change)

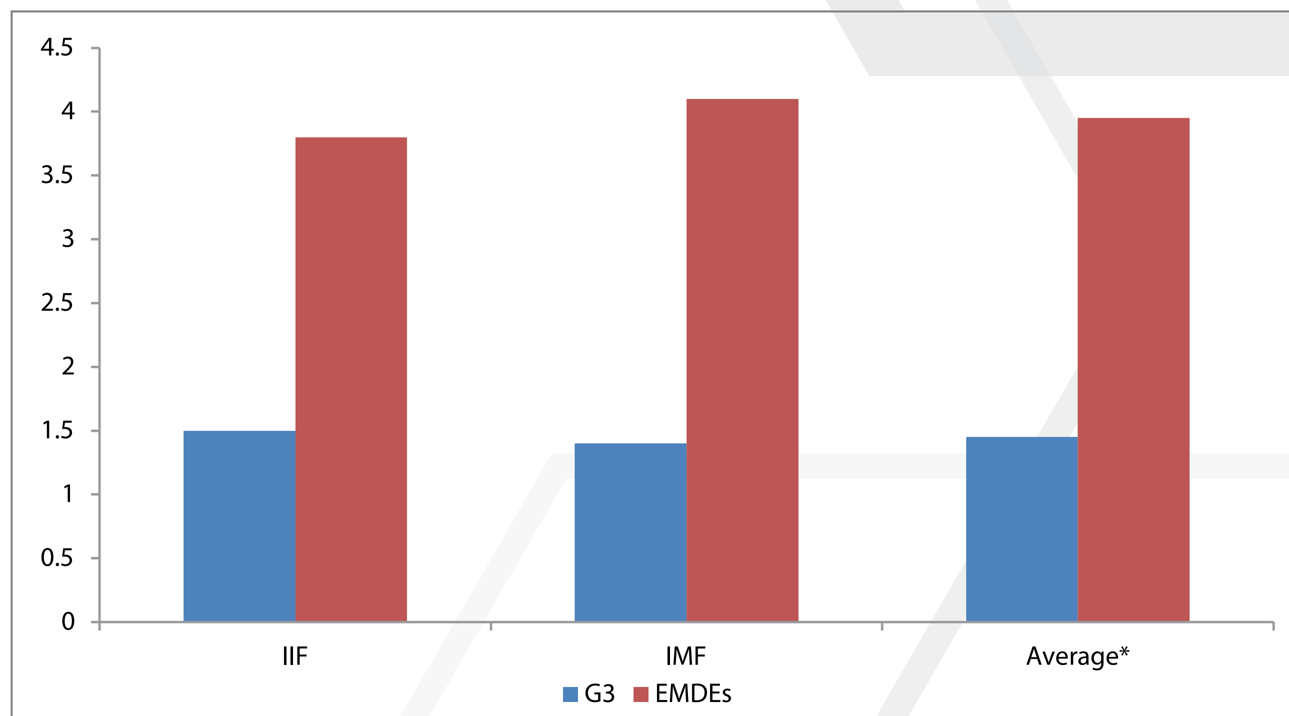


Source: OECD Economic Outlook 100 database, 2016.

In advanced economies, the pickup in growth was stronger than expected, due to a reduced drag from inventories and some recovery in manufacturing output. In contrast, it was matched by an unexpected slowdown in some emerging market economies, mostly reflecting idiosyncratic factors.

Figure 2 shows that aggregate GDP in G3 grew by 1.5% on average in 2016 while that of emerging markets and developing economies (EMDEs) grew by 4% based on consensus forecasts of the IMF and IIF.

Figure 2: Comparison of GDP Growth Forecasts in 2016, (% Change)



Source: IMF, WEO Update, January 2017& IIF Global Economic Monitor, December 2016.
**Simple Average of IMF and IIF.*

The US growth eased to 1.6% y-o-y, in 2016, down from 2.6% in 2015, as the fall in oil prices led to a sharp decline in the energy sector's activity, while weak external demand and the exchange rate appreciation constrained export growth and manufacturing investment. Nevertheless, the US economy was on a recovery mode, assisted by a strong rebound in household spending, employment and wage gains, and an increase in the purchasing power due to the fall in energy prices. The industrial sector lacked momentum in 2016 however, due to the slowdown in emerging economies; sluggish business investment and modest residential investment[1].

The European economy maintained its moderate recovery as private consumption continued to increase in 2016. Its growth eased however, to 1.7% y-o-y, in 2016 following 2% in 2015, reflecting weakness in both exports and domestic demand while output remained below its potential. Also, business investment failed to display a sustained recovery during the year though weaker imports helped to keep the Euro area's current account in large surplus.

While unemployment declined only gradually, the Euro region's economic activity remained divergent across countries with activity in Germany continued to outpace that in France and Italy, in tandem with a much lower unemployment rate. Among the countries hit hardest by the sovereign debt crisis, Ireland and Spain maintained much stronger growth than their peers, with the recovery in Spain boosted by a significant easing of fiscal policy[2].

In the UK, GDP growth eased to 2% y-o-y, in 2016, down from 2.2% in 2015, as growth was not negatively impacted by the Brexit vote as was previously expected. Domestic demand and economic activity continued to recover yet, the pace of recovery slowed somewhat during the year as housing and business fixed investment deteriorated[3].

In the meantime, Japan's economy continued its moderate recovery trend in 2016, although exports and production continued to slow, mainly due to the effects of the slowdown in emerging market economies and the past appreciation of the yen. GDP growth eased to 0.9% y-o-y, in 2016, down from 1.2% in 2015, as the decline in public investment leveled off and business fixed investment increased due to high corporate profits. Private consumption continued to be resilient on rising employees' income moderately along with steadily improving labor market conditions[4].

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1. OECD, Economic Outlook, Volume 2016, Issue 2, December 2016.
2. OECD, Economic Outlook, Volume 2016, Issue 2, December 2016.
3. Bank of England, Inflation Report. November 2016.
4. BOJ, "Minutes of the Monetary Policy Meeting October 31- November 1". December 26, 2016.

With regard to EM and developing economies (EMDEs), the pace of growth remained flat at 4.1% y-o-y in 2016, due to subdued growth in China and output contraction in both Brazil and Russia. China's growth was stronger than expected, supported by continued policy stimulus, while activity in Russia was slightly better than expected in part reflecting firmer oil prices. In India, private and government consumption as well as exports bounced back whereas private investment weakened. However, in some Latin American countries, such as Argentina, Brazil, and Turkey, activity was weaker than expected[5].

The Chinese economy remained slightly subdued, particularly in exports and production, but maintained its stable growth on the whole. The pace of growth of the Chinese economy moderated in 2016, to 6.7% y-o-y, down from 6.9%, as weak business investment demand and rising costs continued to weigh on imports and exports respectively. In contrast, consumption remained robust, with buoyant e-commerce sales and tourism services imports.

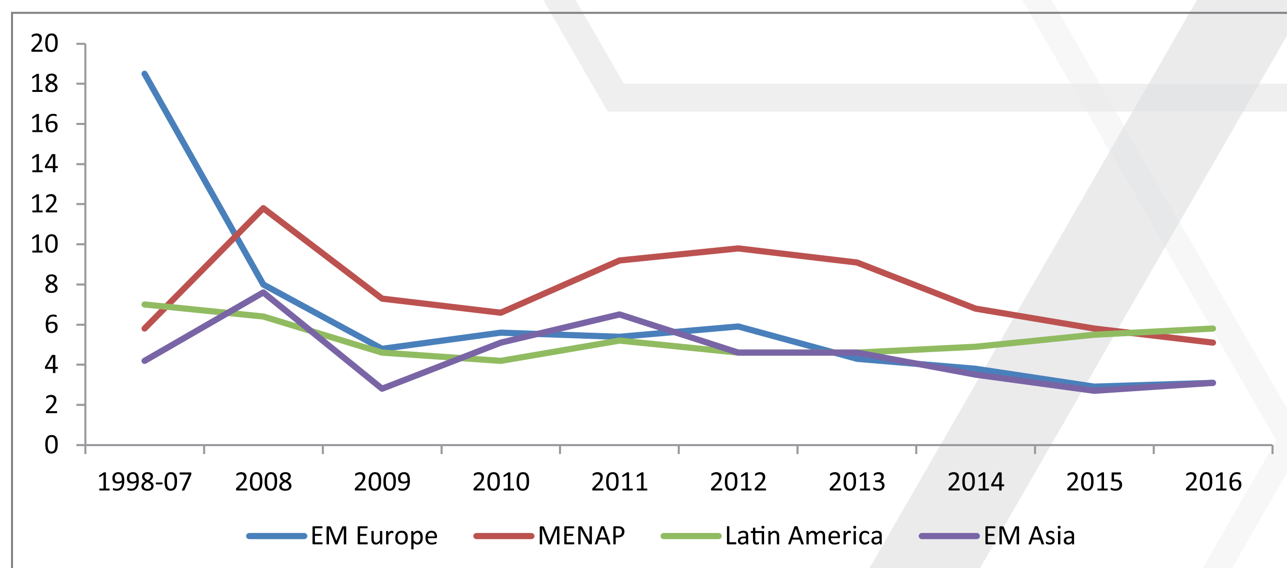
In India, the economy continued to grow steadily, particularly in domestic demand, reflecting partly expectations for structural reforms and of monetary easing effects. GDP growth slowed to 6.6% y-o-y in 2016, down from 7.6% in 2015. Economic activity in Brazil and Russia were higher relative to 2015, mainly due to a halt in the decline in commodity prices. GDP contracted by 3.5% in Brazil and 0.6% in Russia, following GDP contraction of 3.8% and 3.7% respectively in 2015. Economic activity in other EM commodity exporters was subdued as exports and production continued to be weak on the whole but domestic demand continued to be resilient due to the effects of economic stimulus measures[6].

1.2. Inflation

Headline inflation rates recovered in advanced economies in 2016 to 0.7%, up from 0.3% in 2015, with the bottoming out of commodity prices, but core inflation rates remained broadly unchanged and generally below inflation targets. In the US, the y-o-y rate of increase in the core personal consumption expenditure was in the range of 1.5-2% while that for all items was at around 1.0%, mainly due to the negative contribution of energy prices. Likewise, the Euro area's core inflation remained low at around 1.0%, but the y-o-y rate of change in the HICP for all items was 0.5%, mainly due to the decline in energy prices as well. In the UK, consumer prices increased by 0.7% annualized rate in 2016, up from 0.1% in 2015 whereas that of Japan decelerated by 0.2%, down from 0.8%[7].

As for prices in EM economies, inflation rates in general remained flat at low levels in many countries and regions as the fall in energy prices and the depreciation of their currencies offset each other. Capacity cuts and higher commodity prices have pushed China's producer price inflation to positive territory following a prolonged period of deflation. However, excess capacity continued to put downward pressure on China's producer prices while consumer price inflation was at 2.1%. In other EMDEs, inflation developments have been heterogeneous, reflecting differing exchange rate movements and idiosyncratic factors. Those in Brazil and Russia remained at high levels, 9% and 7.2% respectively, but declined due to a pause in the depreciation of their currencies. Consumer price inflation in EMDEs fell to 4.5% on average in 2016, down from 4.7%. It edged up to 5.8% in Latin America and to 3.1% in both Emerging Europe and Emerging Asia, but it fell to 5.1% in MENAP region, down from 5.8% in 2015[8].

Figure 3: Consumer Prices across EM Regions (Annual % Change)



Source: IMF.

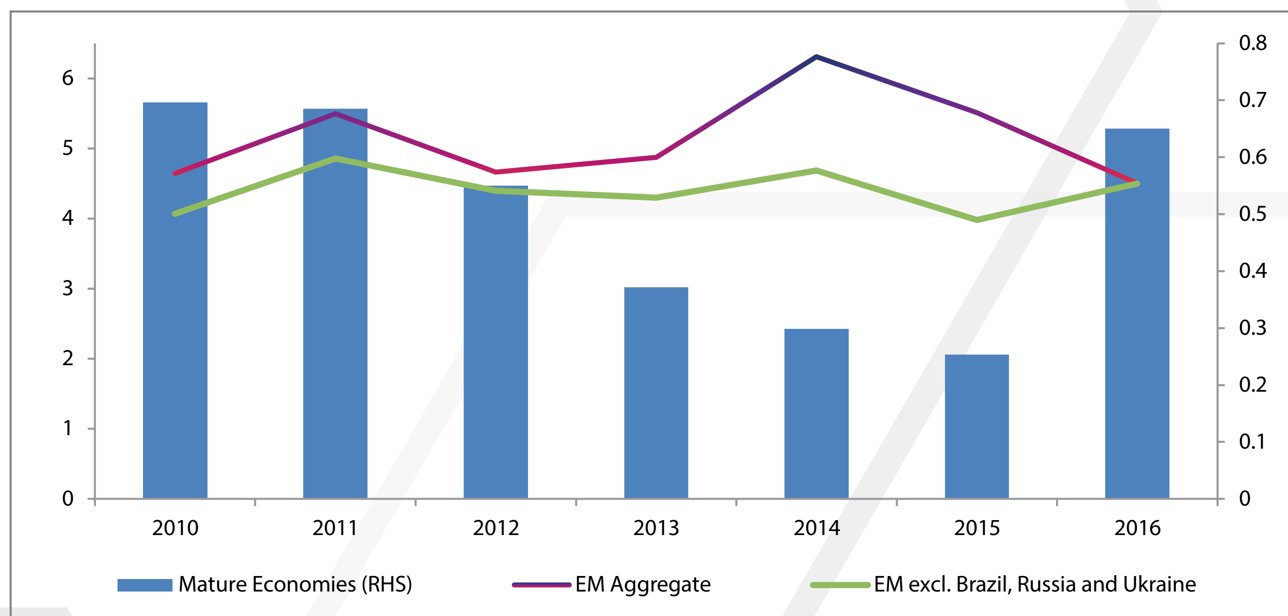
5. IMF, WEO Update, January 2017 & October 2016.
6. IMF, WEO Update, January 2017 & October 2016.
7. IMF, WEO Update, January 2017 & October 2016.
8. IMF, WEO Update, January 2017 & October 2016.

1.3. Financial Market Developments and Supportive Policy

In advanced economies, low interest rates on government debt, following exceptional accommodative monetary policy, improved fiscal space in most OECD countries, as lower interest rates have more than offset headwinds from lower potential growth and higher debt. In 2016, a number of OECD countries announced adjustment of fiscal policy initiatives to support growth and increase long term productive capacities amid fragile recovery, rising political uncertainties and ultra-monetary easing. Since 2015, the fiscal stance in the OECD has moved to being broadly neutral in many countries amid diminishing financial turbulence in the Euro area markets[9].

Likewise, borrowing costs remained relatively favorable in many emerging market economies. Official policy rates in developed economies edged up to 0.7% in 2016 from 0.3% in 2015 due to the 25bps Fed rate hike, whereas rates in EM declined on aggregate to 4.5%, down from 5.5%, excluding high inflation countries such as Brazil and Russia[10].

Figure 4: Trends in Official Policy Rates, (%)



Source: IIF.

The US Federal Reserve raised short-term interest rates in December 2016 but in most other advanced economies, the monetary policy stance has remained broadly unchanged. Long-term nominal and real interest rates rose substantially since August 2016, particularly in the US since the November election. Nominal yields on 10-year US Treasury bonds increased by close to 1% since August and 60bps since the US election. The increase in Euro area long-term yields since August was more moderate by approximately 35bps in Germany but by 70bps in Italy, reflecting elevated political and banking sector uncertainties[11].

In emerging market economies, financial conditions were heterogeneous but generally tightened, with higher long-term interest rates on local-currency bonds, especially in emerging Europe and Latin America. Policy rate changes since August also reflected this heterogeneity, with rate hikes in Mexico and Turkey but cuts in Brazil, India, and Russia. More specifically, it remained low at 4.35% in China throughout the year with a 25bps cut in the deposit rate, while it increased initially to 6.0% in India before it was reduced to 5.8% by end 2016. Other rate cuts occurred in Brazil (25bps), Indonesia (25bps), South Korea (25bps), Russia and Poland (50bps) each, whereas rate hikes occurred in Mexico (50bps), Turkey (25bps), and South Africa (25bps)[12].

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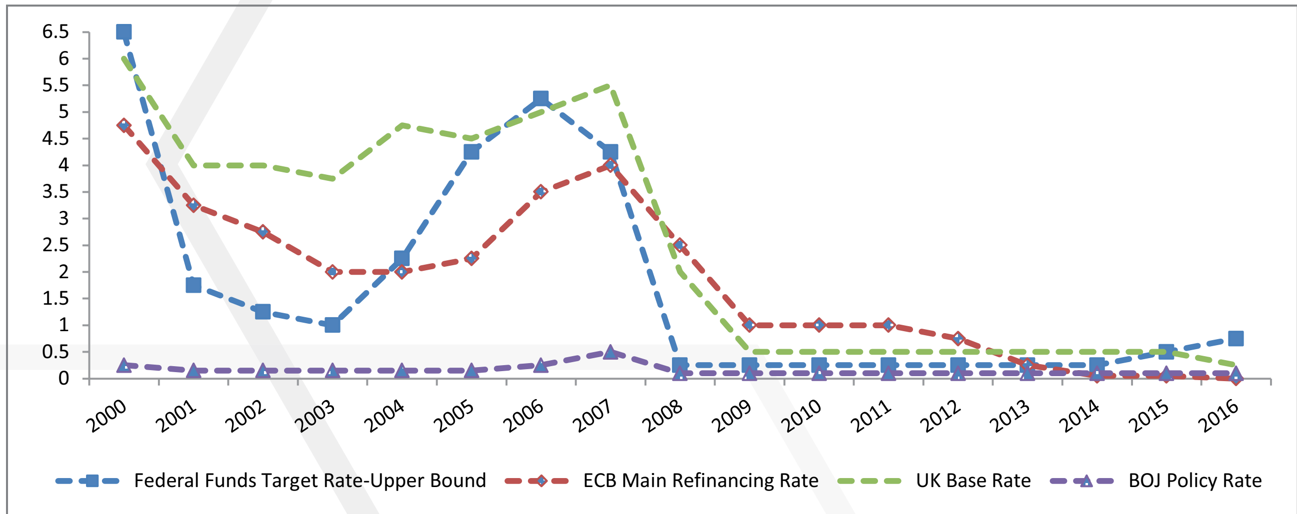
9. OECD, Economic Outlook, Volume 2016, Issue 2, December 2016.
10. IIF Database, December 2016.
11. IMF, WEO Update, January 2017 and October 2016.
12. IIF, Global Economic Monitor, December 2016.

1.3.1. Expansionary Monetary Policy and Central Banks' Balance Sheets

In a bid to revive growth and inflation, central banks in both the Euro area and Japan increased the size of their stimulus measures. By year-end 2016, the €80bn bond buying program by the ECB pushed the bank's total assets over $3.5 trillion, or about 35% of the Euro area GDP. It remained far behind Japan however, with the BOJ $4.1 trillion total assets which were equivalent to about 90% of the country's GDP. The Fed's total assets reached $4.5 trillion while that of China reached $5 trillion[13].

Figure 5: Major Central Banks Benchmarks (%)



Source: Bloomberg, December 2016.

Table 1 exhibit the level of short term interest rates pre and post the global financial crisis. The ECB refinancing rate fell by 5bps on March to 0.0% while the BOJ overnight rate fell by 10bps on January to (-0.10%). Rates remained unchanged afterwards in the Euro area, Japan, Canada and China but it fell in the UK. It increased however, in the US by 25bps on accelerating economic and earnings growth prospects as well as tightening labor markets conditions. By December 2016, policy rates ranged between 0.0% in the Euro area, (-0.1%) in Japan, 0.25% in the UK, 0.50% in Canada and 0.75% in the US.

13. Global Economic Briefing, Yardeni Research, January 2017.

Table 1: Short-Term Policy Rates (%)

Date	USA	Canada	Euro Area	UK	Japan	China*	India
2008 Q1	2.25	3.50	4.0	5.25	0.5	7.47	6.0
2008 Q2	2.00	3.00	4.0	5.00	0.5	7.47	6.0
2008 Q3	2.00	3.00	4.3	5.00	0.5	7.20	6.0
2008 Q4	0.25	1.50	2.5	2.00	0.1	5.31	5.0
2009 Q1	0.25	0.50	1.5	0.50	0.1	5.31	3.5
2009 Q2	0.25	0.25	1.0	0.50	0.1	5.31	3.3
2009 Q3	0.25	0.25	1.0	0.50	0.1	5.31	3.3
2009 Q4	0.25	0.25	1.0	0.50	0.1	5.31	3.3
2010 Q1	0.25	0.25	1.0	0.50	0.1	5.31	3.5
2010 Q2	0.25	0.50	1.0	0.50	0.1	5.31	3.8
2010 Q3	0.25	1.00	1.0	0.50	0.1	5.31	5.0
2010 Q4	0.25	1.00	1.0	0.50	0.1	5.81	5.3
2011 Q1	0.25	1.00	1.0	0.50	0.1	6.06	5.8
2011 Q2	0.25	1.00	1.3	0.50	0.1	6.31	6.5
2011 Q3	0.25	1.00	1.5	0.50	0.1	6.56	7.3
2011 Q4	0.25	1.00	1.0	0.50	0.1	6.56	7.5
2012 Q1	0.25	1.00	1.0	0.50	0.1	6.56	7.5
2012 Q2	0.25	1.00	1.0	0.50	0.1	6.31	7.0
2012 Q3	0.25	1.00	0.8	0.50	0.1	6.00	7.0
2012 Q4	0.25	1.00	0.8	0.50	0.1	6.00	7.0
2013 Q1	0.25	1.00	0.8	0.50	0.1	6.00	6.5
2013 Q2	0.25	1.00	0.5	0.50	0.1	6.00	6.3
2013 Q3	0.25	1.00	0.5	0.50	0.1	6.00	6.5
2013 Q4	0.25	1.00	0.3	0.50	0.1	6.00	6.8
2014 Q1	0.25	1.00	0.3	0.50	0.1	6.00	7.0
2014 Q2	0.25	1.00	0.2	0.50	0.1	6.00	7.0
2014 Q3	0.25	1.00	0.1	0.50	0.1	6.00	7.0
2014 Q4	0.25	1.00	0.1	0.50	0.1	5.60	7.0
2015 Q1	0.25	0.75	0.1	0.50	0.1	5.35	6.5
2015 Q2	0.25	0.75	0.1	0.50	0.1	4.85	6.3
2015 Q3	0.25	0.50	0.1	0.50	0.1	4.60	5.8
2015 Q4	0.50	0.50	0.1	0.50	0.1	4.35	5.8
2016Q1	0.50	0.50	0.0	0.50	-0.1	4.35	5.8
2016 Q2	0.50	0.50	0.0	0.50	-0.1	4.35	6.0
2016 Q3	0.50	0.50	0.0	0.25	-0.1	4.35	6.0
2016 Q4	0.75	0.50	0.0	0.25	-0.1	4.35	5.8

Source: Bloomberg, December 2016.

** China 1-year lending rate set by China's central bank.*

1.4. Exchange Rates and Capital Flows

1.4.1. Emerging Markets' Total Portfolio Flows

Exchange Rates Movements

The U.S. dollar appreciated in real effective terms by over 6% since August. Also, the currencies of advanced commodity exporters strengthened, reflecting the firming of commodity prices, whereas the Euro and especially the Japanese yen weakened. Several emerging market currencies depreciated substantially in 2016 - most notably the Turkish lira and the Mexican peso, while the currencies of several commodity exporters, most notably Russia, appreciated[14].

Total Portfolio Flows to Emerging Markets

Preliminary data point to sharp nonresident portfolio outflows from emerging markets in the wake of the U.S. election, following a few months of solid inflows. Higher yields and a stronger US dollar, amid the US election of Donald Trump, were the prime factors behind the reversal in EM Portfolio flows. In addition, a shift in market expectations towards a steeper path for Fed policy rates caused a turnaround in non-resident total portfolio flows from emerging markets to the extent that it registered only net inflows of $27.6bn in 2016.

Portfolio outflows are estimated to have been $33.8 billion in 2016, with all outflows concentrated in debt markets. Table 2 shows the evolution of portfolio flows for both equity and bond flows during the period from 2013 until 2016. Emerging Asia was the only region to see debt inflows (+$12.5bn). Middle East and African region (-$1.3bn) and Emerging Europe (-$5.4bn) saw modest debt outflows, whereas Latin America region (-$39.6bn) was hit by large debt outflows.

Overall, EM equities did better in 2016 with all portfolio inflows concentrated in equity markets. Equity flows were estimated to have been $61.4bn in 2016. Middle East and Africa region was the only region to see equity outflows (-$6.4bn) in contrast with modest equity inflows to Emerging Europe (+$4.1bn) and large equity inflows in both Emerging Asia and Latin American regions at ($45.8bn) and ($17.9bn) respectively[15].

Table 2: Non-Resident Portfolio Flows to Emerging Markets ($bn)

	Emerging Asia	Latin America	Emerging Europe	Middle East & Africa	Total
Equity Flows					
2013	30.14	17.43	4.57	-0.19	51.94
2014	47.53	16.57	4.39	0.73	69.22
2015	9.53	5.18	0.12	-0.97	13.86
2016	45.77	17.93	4.10	-6.41	61.39
Total	132.97	57.11	13.19	-6.84	196.42
Debt Flows					
2013	50.51	89.36	15.76	-7.04	148.59
2014	71.68	112.08	-7.67	-9.03	167.05
2015	37.98	32.86	-27.94	-8.78	34.12
2016	12.49	-39.59	-5.39	-1.28	-33.77
Total	172.66	194.71	-25.24	-26.13	316.00
Portfolio Flows (Equity and Debt)					
2013	80.66	106.78	20.33	-7.23	200.54
2014	119.21	128.65	-3.28	-8.30	236.28
2015	47.51	38.04	-27.82	-9.75	47.98
2016	58.26	-21.66	-1.29	-7.69	27.62
Total	**305.63**	**251.82**	**-12.06**	**-32.97**	**512.42**

Source: IIF.

Private capital flows to Emerging Markets increased to $639.7 billion in 2016 from lows of $263.4 billion in 2015. Emerging Asia and Latin American regions were the largest recipient of private capital flows at $277.7 billion and $236.3 billion respectively, following net outflows of $44.5 billion from Emerging Asia and $199.9 billion of inflows to Latin America in 2015. Private capital inflows to Emerging Europe and Middle East and Africa regions increased to $ 25.7 billion and $99.9 billion respectively[16].

14. IMF, WEO Update, January 2017 and October 2016.
15. IIF, Capital Flows Tracker, December 2016.
16. IIF, Capital Flows Report, December 2016.

Table 3: Private Capital Inflows to Emerging Markets ($bn)

Region	2013	2014	2015	2016
Latin America	283.1	288.2	199.9	236.3
Emerging Europe	220.6	44.3	14.7	25.7
Middle East / Africa	82.3	86.6	93.3	99.9
Emerging Asia	802.3	621.3	-44.5	277.7
Emerging Markets	1388.3	1040.3	263.4	639.7

Source: IIF.

1.5. Global Trade

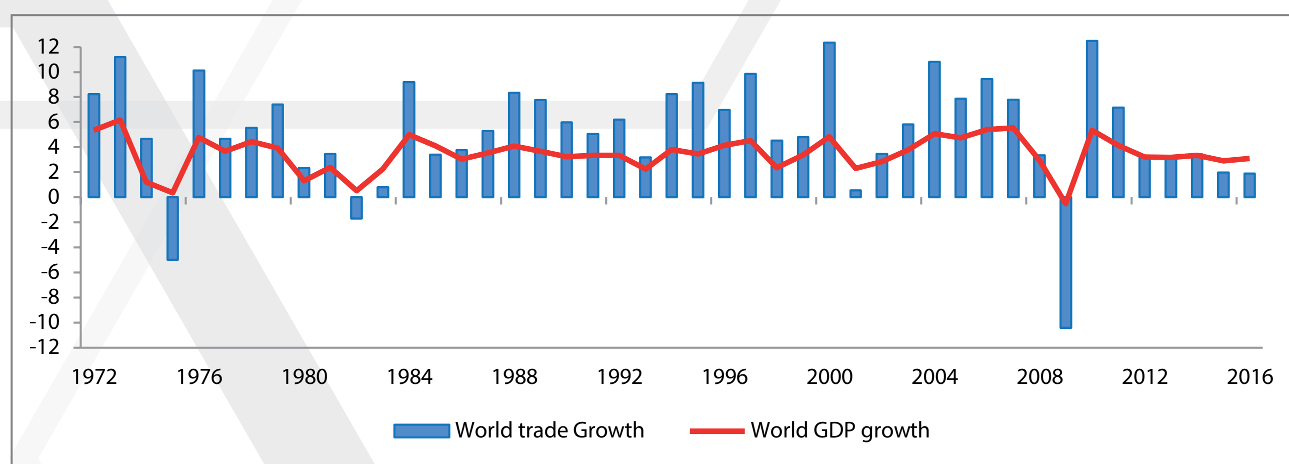
World trade volume (in goods and services) grew at 1.9% in 2016, especially in China, Brazil and North America, and down from 2.7% growth rate in 2015, the slowest pace since the global financial crisis of 2009. Volume of trade in advanced economies grew by 2% in 2016, down from 4.0% in 2015 in contrast with emerging market and developing economies where trade growth accelerated by 1.8%, up from 0.3% in 2015. Exports volume growth eased to 1.8% down from 3.6% in advanced economies but it accelerated by 2.9% in EMDEs, up from 1.3% in 2015. Likewise, import volume growth in advanced economies eased to 2.4%, down from 4.2% but it accelerated in EMDEs by 2.3% in 2016 following a 0.6% contraction in 2015[17].

Table 4: World Trade Volume (y-o-y, %)

World Trade Volume (%)	2015		2016		Average 2008-17	
	EXP	IMP	EXP	IMP	EXP	IMP
Advanced Economies	3.6	4.2	1.8	2.4	2.5	2.1
EM & Developing Economies	1.3	-0.6	2.9	2.3	3.7	4.5
World Trade Volume	2.7		1.9		2.9	

Source: IMF.

Figure 6: World GDP and Trade growth (y-o-y % change)



Source: OECD Statistics & IMF WEO Update, January 2017.

Table 5 shows world trade growth as well as regional contribution to trade growth during the period 2010-2016. In 2016, OECD trade grew by 2.3% in 2016, down from 4.3% in 2015 while its share in world trade fell to 1.5% down from 2.7%. However, Non-OECD trade grew by 1.1%, following 0.3% deceleration in 2015 while its share in world trade increased to 0.4% following a 0.1% fall in 2015. Trade growth deceleration centered on Non-OECD economies, mainly in Brazil, Russia, and other oil producers in contrast to China where its trade grew by 3.1% in 2016, up from 0.8% in 2015 while its share in world trade increased slightly to 0.3% in 2016, up from 0.1% in 2015.

17. IMF, WEO Update, January 2017 & October 2016.

Table 5: Contribution to World Trade Growth (Average of export and import volumes)

		2010	2011	2012	2013	2014	2015	2016
A. Trade Growth (%)								
Total OECD		11.4	6.0	2.1	2.4	4.2	4.3	2.3
Total non-OECD		14.4	9.5	4.9	5.0	3.4	-0.3	1.1
of which:	China	21.7	15.0	6.6	10.0	8.0	0.8	3.1
	Other industrialized Asia	17.4	7.8	4.2	3.7	3.2	-0.5	0.6
	Brazil	22.2	7.9	0.0	5.0	-1.0	-4.9	-1.9
	Russia	14.2	8.7	5.2	4.1	-3.3	-9.8	-1.7
	Other oil producers	3.7	6.9	5.9	2.2	1.7	-0.1	-0.3
	Rest of the World	9.4	9.3	3.7	3.8	1.8	2.3	1.5
World		12.5	7.3	3.1	3.4	3.9	2.6	1.9
B. Contribution to World Trade Growth (%)								
Total OECD		7.3	3.8	1.3	1.5	2.6	2.7	1.5
Total non-OECD		5.2	3.5	1.8	1.9	1.3	-0.1	0.4
of which:	China	1.6	1.2	0.6	0.9	0.8	0.1	0.3
	Other industrialized Asia	2.2	1.0	0.5	0.5	0.4	-0.1	0.1
	Brazil	0.3	0.1	0.0	0.1	0.0	-0.1	0.0
	Russia	0.3	0.2	0.1	0.1	-0.1	-0.2	0.0
	Other oil producers	0.2	0.4	0.4	0.1	0.1	0.0	0.0
	Rest of the World	0.6	0.6	0.2	0.2	0.1	0.1	0.1
World		12.5	7.3	3.1	3.4	3.9	2.6	1.9

Source: OECD Statistics Update, January 2017.

OECD share in World exports, in terms of value of goods and services, increased to 62.1% in 2016, up from 60.1% in 2015 whereas Non-OECD share in world exports fell to 37.9%, down from 39%. Shares in world imports showed similar pattern as it increased to 62.4% in 2016 up from 61.9% in 2015 for OECD while that of Non-OECD fell to 37.6%, down from 38.1%. China's share in world exports and imports fell to 11.1% and to 9.8% respectively[18].

18. OECD Statistics Update, January 2017.

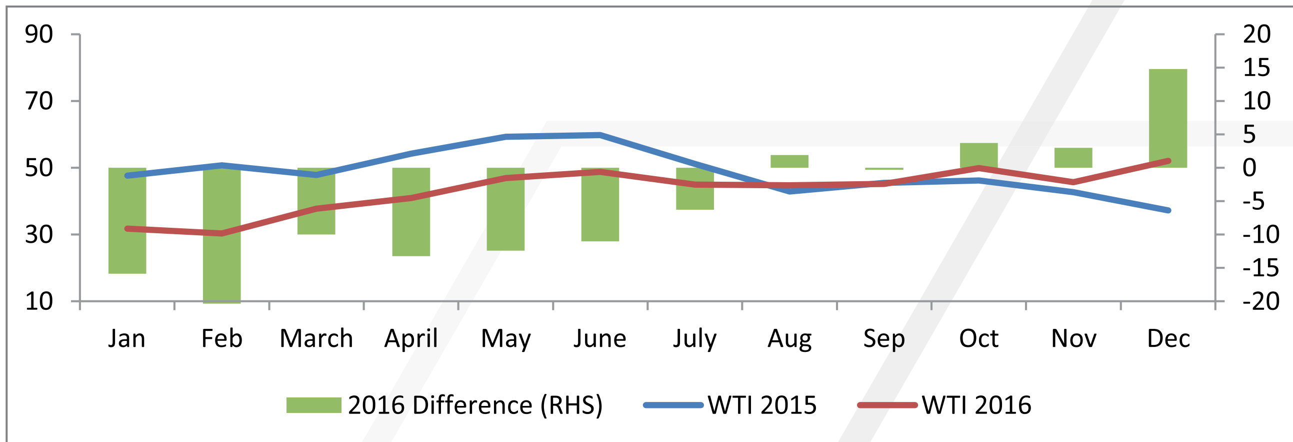
2. OIL DYNAMICS

The year started with a weak note as oil prices fell dramatically to their 2016 lows with Brent reaching $26.39 a barrel in January, and WTI reaching $26.21 a barrel in February. Since then, oil prices showed a modest recovery amid more vulnerability to geopolitical developments and economic challenges. Nonetheless, crude oil prices rebounded to their year-high by the end of 2016 as WTI reached $54.06 a barrel while Brent reached $55.57 a barrel on December 28th, and 29th respectively. On December 31st, Brent settled at $55.41 per barrel, while WTI closed at $47.03 a barrel[19].

The recovery of oil prices in the second half was mainly attributed to shrinking surpluses together with the agreement between OPEC and other major producers to cut oil production by January 2017.

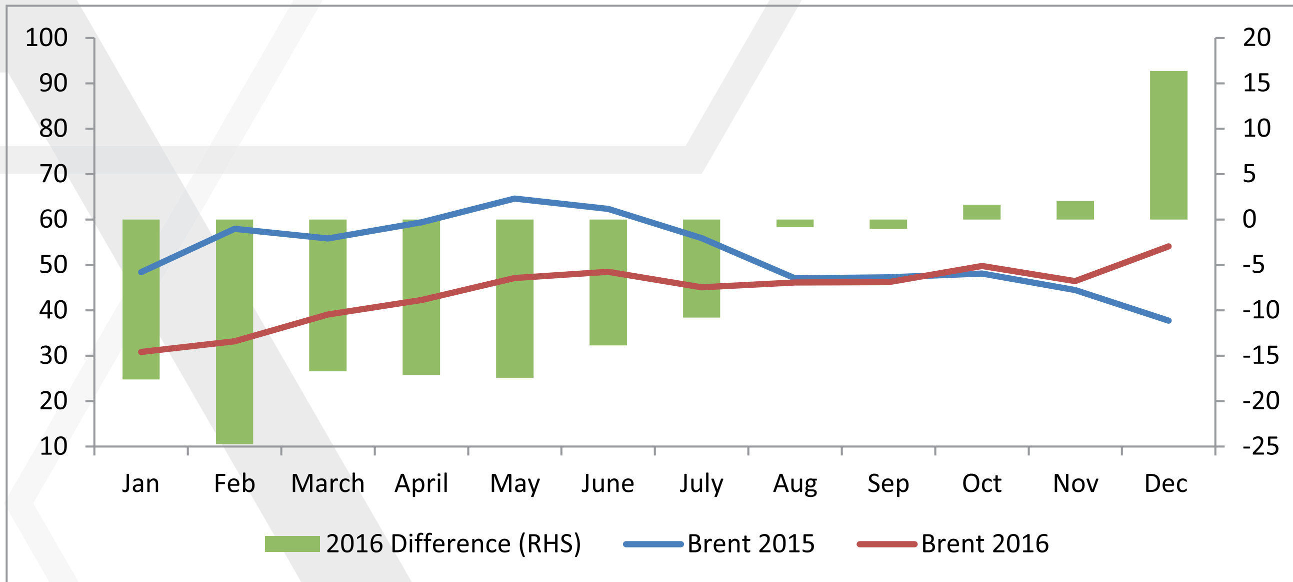
Similarly, WTI averaged $36.05 per barrel in the first half, $47.03 a barrel in the second half, and $43.28 per barrel for the whole year compared to 2015's average price of $49. This is slightly lower than Brent crude which averaged $40.25 per barrel in the first half, $47.93 per barrel in the second half, and $44.11 per barrel for the year, compared to an average of $52 in 2015.

Figure 7: WTI Average Monthly Prices in 2015 and 2016 ($/b)



Source: Bloomberg and GIC Research.

Figure 8: Brent Average Monthly Prices in 2015 and 2016 ($/b)



Source: Bloomberg and GIC Research.

Compared to the first half of the year, oil prices gained around 20% in the second half of 2016, bringing down the average volatility coefficients for the year to 3.95 for WTI, and 3.35 for Brent.

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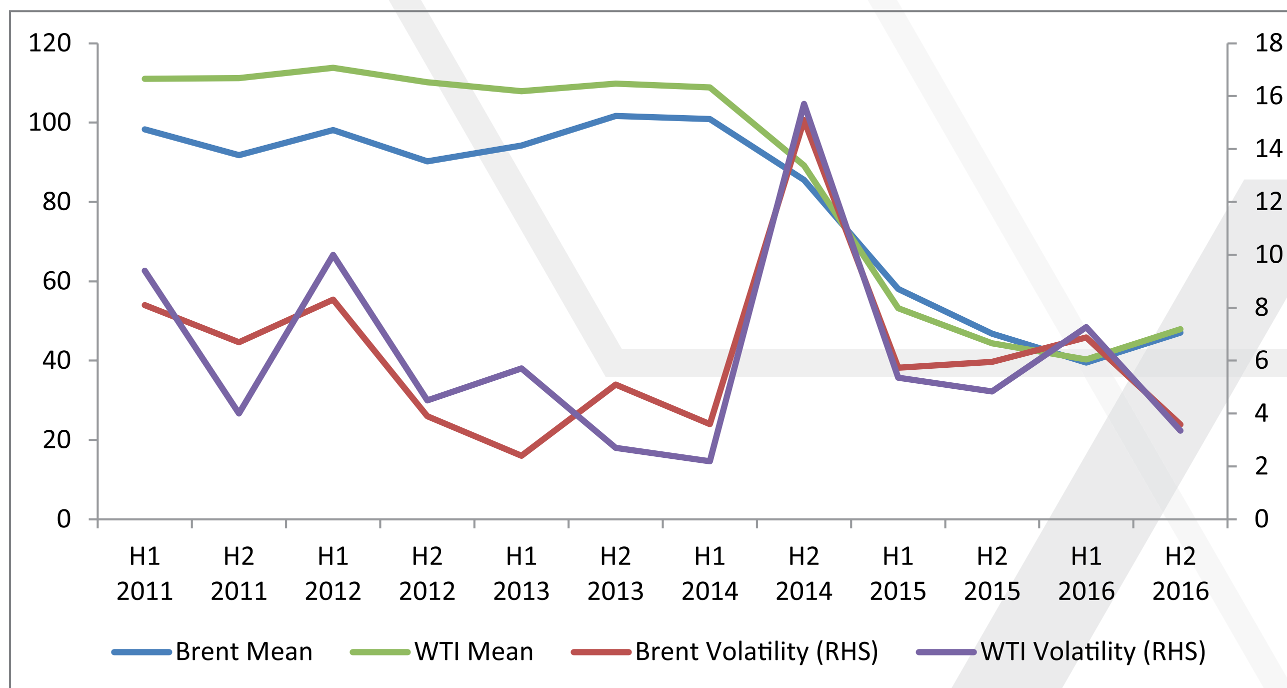
19. Bloomberg.

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

	WTI		Brent	
	Mean	**Volatility**	**Mean**	**Volatility**
H1 2011	98.3	8.1	111.0	9.4
H2 2011	91.8	6.7	111.2	4.0
H1 2012	98.1	8.3	113.8	10.0
H2 2012	90.2	3.9	110.2	4.5
H1 2013	94.2	2.4	107.9	5.7
H2 2013	101.7	5.1	109.8	2.7
H1 2014	100.9	3.6	108.9	2.2
H2 2014	85.5	15.1	89.2	15.7
H1 2015	58.10	5.73	53.23	5.35
H2 2015	46.81	5.95	44.33	4.84
H1 2016	39.50	6.88	40.25	7.27
H2 2016	47.03	3.59	47.93	3.35

Source: Bloomberg and GIC Research.

Figure 9: OPEC, WTI, and Brent Mean and Volatility ($/b)



Source: Bloomberg and GIC Research.

2.1. Oil Fundamentals and Prices

Excess oil supply and the consequent increase in inventories are among the main factors that placed downward pressures on oil prices during the year, forcing it to hover around below $50 a barrel. According to EIA estimates, the average inventory builds of global petroleum and other liquids in 2016 was 0.9 mb/d, thus recording the third year of inventory builds which created a cap on the price of crude oil.

Total oil production increased in 2016 compared to 2015 as a result of higher OPEC production which increased by an average 3.38% to reach 40.50 mb/d, as well as higher production of Non-OECD members which increased by 1.5%, to average around 71.15 mb/d in 2016[20].

Table 7: International Petroleum and Other Liquids Production (mb/d, 2016)

	Q1	Q2	Q3	Q4
OECD	26.97	25.88	26.27	26.69
US	14.96	14.88	14.68	14.82
Canada	4.73	3.98	4.69	4.72
Non-OECD	69.01	69.81	70.00	71.15
OPEC	38.85	39.38	39.64	40.50
Crude Oil Portion	32.24	32.79	32.95	33.59
Other Liquids	6.61	6.59	6.69	6.91
Eurasia	14.37	14.16	14.02	14.52
China	4.59	4.47	4.36	4.35
Other Non-OECD	11.20	11.80	11.99	11.77
Total World	**95.98**	**95.68**	**96.27**	**97.83**

Source: EIA, Short-Term Energy Outlook, January 2017.

Meanwhile, global consumption for the year grew on average by 1.8 mb/d to 95.57 mb/d compared to 93.76 mb/d in 2015. Oil demand increased modestly from 94.27 mb/d in the first quarter to 95.80 mb/d in the last quarter of 2016. Initially, the increase in consumption was due to rising demand from Non-OECD Europe and China. In the last quarter of 2016 however, oil demand eased in the US, Europe, and Other Non-OECD countries. Unexpectedly, China's demand increased slightly from 11.25 mb/d in the first quarter to 11.77 mb/d in the fourth quarter of 2016.

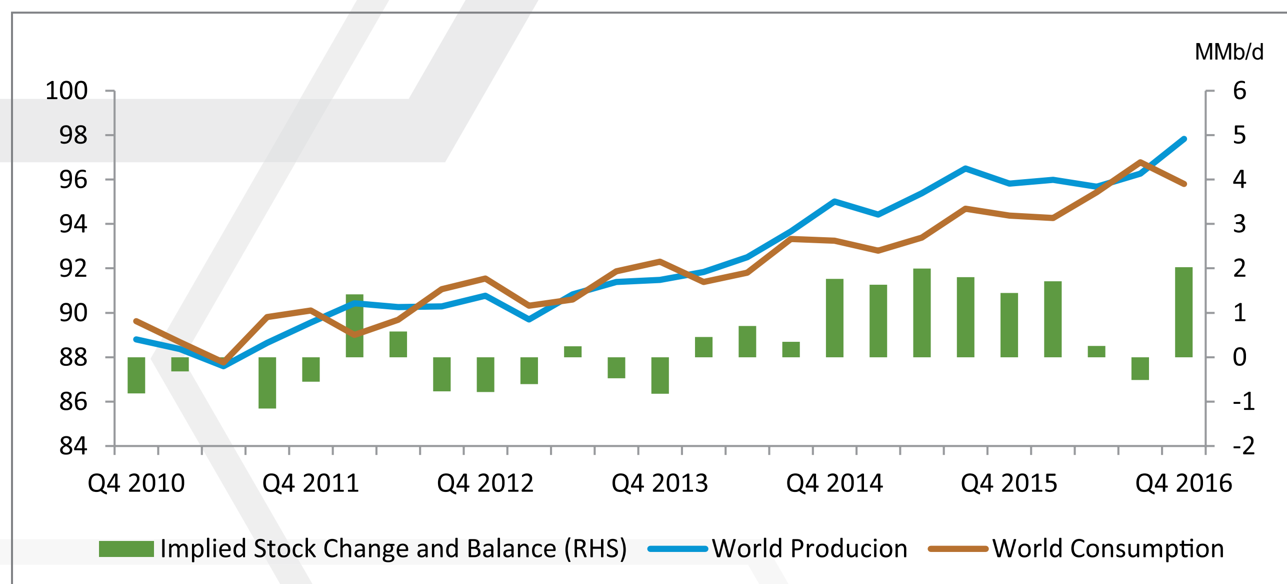
Table 8: International Petroleum and Other Liquids Consumption (mb/d, 2016)

	Q1	Q2	Q3	Q4
OECD	46.75	46.06	47.20	46.82
US	19.45	19.42	19.90	19.58
Canada	2.39	2.37	2.46	2.37
Europe	13.62	13.91	14.35	13.86
Japan	4.43	3.66	3.76	4.078
Non-OECD	47.51	49.37	49.58	48.98
Eurasia	4.73	4.66	4.93	4.92
China	11.25	11.87	11.72	11.77
Other Asia	12.80	13.00	12.50	12.87
Other Non-OECD	18.01	19.10	19.67	18.66
Total World	**94.27**	**95.43**	**96.78**	**95.80**

Source: EIA, Short-Term Energy Outlook, January 2017.

20. *EIA, Short-Term Energy Outlook, January 2017.*

Figure 10: World Liquid Fuels Production and Consumption Balance (mb/d)



Source: EIA, Short Term Energy Outlook, January 2017.

3. GCC Economies Review

GCC's real GDP is expected to grow at a slower rate than those realized in the past years, due to the impact of low oil prices. While Kuwait and Bahrain are expected to have realized the highest growth rates in 2016 at 3.7% and 3.2% respectively, other GCC economies slowed down significantly. Oman's GDP fell from 3.7% in 2015 to 1.3% in 2016, the UAE declined from 3.8% to 2.2% while Saudi Arabia's real GDP growth registered 1.4%, down from 4.1% in 2015. Qatar's real GDP growth fell also from 3.6% in 2015 to 2.4% in 2016.

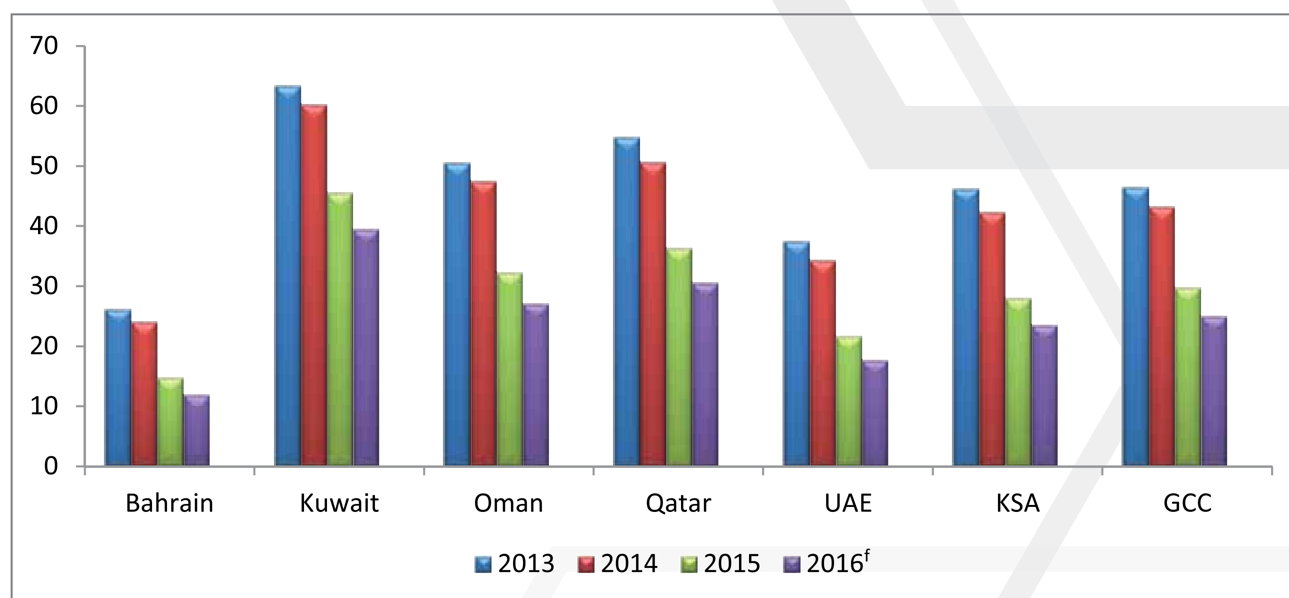
Table 9: Real GDP Growth (% Change)

Country	2011	2012	2013	2014	2015f	2016f
Bahrain	2.0	3.7	5.4	4.4	2.9	3.2
Kuwait	10.9	7.9	0.4	0.5	1.8	3.7
Oman	4.1	5.8	3.2	2.5	3.7	1.3
Qatar	13.4	4.9	4.6	4.0	3.6	2.4
Saudi Arabia	10.3	5.4	2.7	3.7	4.1	1.4
United Arab Emirates	4.9	7.1	4.7	3.1	3.8	2.2
GCC	8.9	5.9	3.1	3.2	3.5	1.9

f: IIF Forecast.
Source: IIF, MENA: Short-Term Pain, Long Term Gain, February 8, 2017.

The contribution of hydrocarbons to real GDP in the GCC accounted for an average of 26.28% in 2016 compared to 25% in 2015, with Kuwait being the most dependent on hydrocarbons as it comprised 40% of real GDP. Bahrain was the least hydrocarbons-dependent with 13%, followed by the UAE at 19%.

Figure 11: Hydrocarbon's Contribution to Real GDP in GCC (%)



f: IIF's Forecast.

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

Non-Hydrocarbon Real GDP for GCC economies registered an anemic growth of 1.6% in 2016 down from 3.9% in 2015 as a result of the implementation of fiscal austerity measures and reform policies. Qatar registered the highest real non-oil growth rate at 5.3%, followed by Kuwait at 3.7%, while Saudi Arabia's non-oil GDP is set to fell 0.1%.

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

Country	2011	2012	2013	2014	2015	2016f
Bahrain	1.6	7.1	3.1	5.4	3.6	3.3
Kuwait	4.2	4.0	4.0	3.2	5.4	3.7
Oman	6.4	7.7	5.8	5.4	3.4	0.1
Qatar	11.1	10.2	10.6	9.8	8.2	5.3
Saudi Arabia	8.1	5.5	6.4	4.9	3.2	-0.1
United Arab Emirates	4.1	6.9	5.6	4.1	3.2	2.3
GCC	7.0	6.2	6.3	5.1	3.9	1.6

f: IIF Forecast.

Source: IIF. "MENA: Short-Term Pain, Long Term Gain". February 8, 2017.

Moreover, the lower oil prices have elevated the GCC overall fiscal balance from a 3.3% surplus in 2014 to a deficit of 8.6% and 10.3% in 2015 and 2016 respectively. Oman registered the highest deficit at 20.8%, followed by Saudi Arabia with 16.8%, while Kuwait had the lowest deficit at 2%.

Table 11: GCC Overall Fiscal Balance (% GDP)

Country	**2013**	**2014**	**2015**	**2016[f]**
Bahrain	-5.4	-3.6	-13.0	-12.5
Kuwait	34.3	19.4	0.8	-2.0
Oman	4.7	-1.1	-15.1	-20.8
Qatar	22.2	15.3	5.5	-4.0
Saudi Arabia	5.8	-3.4	-16.5	-16.8
United Arab Emirates	10.4	5.0	-2.3	-3.2
GCC	**-5.4**	**3.3**	**-8.6**	**-10.3**

f: IIF Forecast.
Source: IIF. "MENA: Short-Term Pain, Long Term Gain". February 8, 2017.

On a positive note, the average GCC fiscal breakeven price fell from $79 in 2015 to $68 in 2016 due to the ongoing fiscal consolidation policies. Kuwait and Qatar kept the lowest breakeven price across the GCC at $53 a barrel each while Bahrain came with the highest breakeven price at $92 a barrel.

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

Country	**2013**	**2014**	**2015**	**2016[f]**
Bahrain	119	122	112	92
Kuwait	52	56	50	53
Oman	104	105	96	74
Qatar	50	54	58	53
Saudi Arabia	93	105	97	80
United Arab Emirates	68	76	58	56
GCC	**78**	**87**	**79**	**68**

f: IIF Forecast.
Source: IIF. "MENA: Short-Term Pain, Long Term Gain". February 8, 2017.

3.1. GCC Bond Issuance

2016 was marked as a record year for the GCC sovereign bond market, with issuance of more than $73 billion worth of bonds, compared to around $25 billion in 2015, and ahead of the previous record of $50 billion in 2005[21]. In October 2016, Saudi Arabia raised around $17.5 billion through its first sovereign bond issuance, followed by Qatar with $9 billion in May, Abu Dhabi's $5 billion in April, Oman with $2.5 billion in June, and Bahrain's $2 billion bond offering in October[22]. Of Note, the Saudi bond sale was met with an overwhelming response that generated subscriptions of approximately four time the amount offered; an indication that GCC bond issuance is well perceived by international investors.

3.2. Inflation

Inflation rates varied among the GCC members with a minimum of 1.1% in Oman and a maximum of 3.5% in Saudi Arabia. The region struggled through ups and downs as a result of the fluctuations in the price of oil which had its toll on the economic activity and performance levels. The average inflation rate for the region is estimated at 2.9% for 2016, slightly higher than the 2.6% level in 2015.

21. Hogan Lovells. "Investment Outlook 2017: Deal Trends in the GCC". January 2017.
22. Zawya. October 4, 2016.

Table 13: Average Consumer Prices (% Change)

Country	2012	2013	2014	2015	2016[f]
Bahrain	2.8	3.3	2.6	1.8	2.9
Kuwait	3.2	2.7	2.9	3.3	3.2
Oman	2.9	1.2	0.9	0.1	1.1
Qatar	2.3	3.2	3.3	1.6	2.9
Saudi Arabia	2.8	3.5	2.7	2.2	3.5
United Arab Emirates	0.7	1.1	2.3	4.1	1.8
GCC	**2.5**	**2.5**	**2.6**	**2.6**	**2.9**

f: IIF Forecast.

Source: IIF. "MENA: Short-Term Pain, Long Term Gain". February 8, 2017.

3.3. GCC's Competitiveness

According to the World Economic Forum (WEF), the competitiveness of the GCC economies remained fair as two GCC members are still ranked among the Top-20 while all of the others were ranked among the Top-50 except for Oman. UAE has outperformed the region as it advanced to the 16th. Qatar's performance has weakened compared to its peers as it retreated to the 18th place following the 14th place among global competitors in 2015.

Table 14: GCC's Global Competitiveness Index Rankings

	2015-2016	2016-2017
UAE	17	16
Qatar	14	18
Saudi Arabia	25	29
Kuwait	34	38
Bahrain	39	48
Oman	62	66

Source: The Global Competitiveness Report 2016-2017.

3.4. GCC Trade

GCC total exports continued to decline in 2016 due to the drastic fall in oil prices, with hydrocarbon exports constituting more than 50% of total exports. As a result, all the member's hydrocarbon exports were weighed down. Saudi Arabia's hydrocarbon exports were half their level of 2014 standing at $139.92 billion by the end of 2016. Qatar's hydrocarbon exports received the hardest hit with a drop of 18% y-o-y in 2016 while Oman exhibited the mildest decline among its peers accounting for 5% only. Furthermore, Qatar's non-hydrocarbon exports also slumped down by 20% along with a drop of 10% in Saudi Arabia. Conversely, both of Oman and UAE modestly increased their exports of non-hydrocarbon in 2016 by 7% and 3%, respectively.

On the other hand, changes in the level of total imports varied among member countries. Both of Kuwait and Qatar increased their imports by 2% while the UAE maintained the same level of imports of 2015. Imports of Saudi Arabia and Oman fell considerably by 17% and 14%, respectively, while Bahrain fell by 2%.

Table 15: GCC's Trade ($ bn)

	2012	2013	2014	2015	2016[f]
Hydrocarbon Exports					
Bahrain	15.19	15.29	14.50	7.74	6.73
Kuwait	112.92	108.58	97.50	48.81	41.89
Oman	36.33	34.48	34.24	30.95	29.50
Qatar	108.76	112.42	107.13	56.33	46.45
KSA	337.70	321.90	284.40	152.95	139.92
UAE	126.30	132.04	110.30	61.95	52.69
Non-Hydrocarbon Exports					
Bahrain	7.88	10.31	9.00	8.80	8.72
Kuwait	6.72	7.17	7.29	6.52	6.20
Oman	15.81	17.66	17.89	21.19	22.64
Qatar	24.20	20.92	19.83	20.97	16.77
KSA	50.67	53.99	58.06	50.59	45.36
UAE	230.10	238.20	235.70	228.90	236.65
Total Imports					
Bahrain	19.70	21.28	19.78	15.71	15.43
Kuwait	24.24	25.58	27.38	27.34	27.76
Oman	25.63	32.04	27.89	26.56	22.90
Qatar	30.79	31.47	31.15	28.50	29.04
KSA	141.80	153.40	158.46	159.27	132.52
UAE	218.20	231.20	236.30	225.75	225.64

f: IIF's Forecast.
Source: Institute of International Finance (IIF), Respective Country Database Q4 2016 and January 2017.

3.5. GCC Ease of Doing Business

On the other hand, GCC rankings on the Ease of Doing Business Index 2016 lagged behind significantly compared to the previous year. The UAE was the only member country ranked among the "Top-50" tier in 2016, while in 2015 three GCC countries were in that tier. Furthermore, Kuwait's performance deteriorated significantly from being ranked as the 86th in 2015 to being ranked as the 101st in 2016.

Table 16: GCC's Ease of Doing Business Ranking

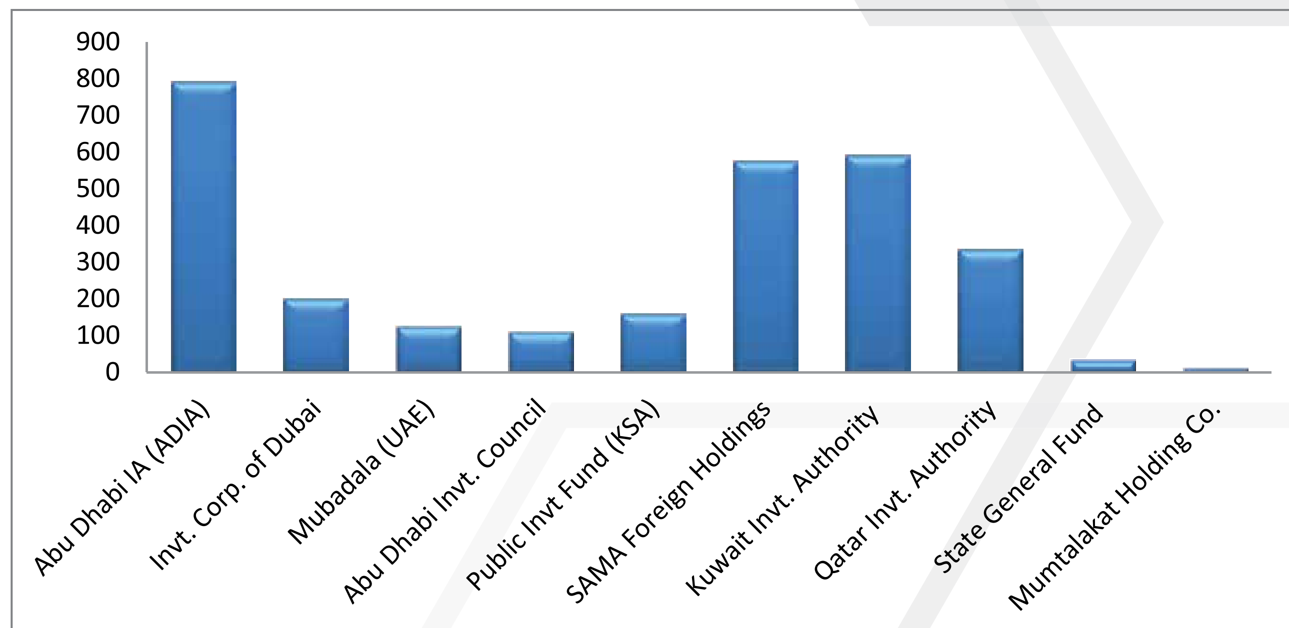
	2015	2016
UAE	22	31
Bahrain	53	65
Qatar	50	68
Oman	66	70
Saudi Arabia	49	82
Kuwait	86	101

Source: Doing Business 2015 and 2016.

3.6. Sovereign Wealth Funds

The GCC Sovereign Wealth Funds (SWFs) have witnessed remarkable growth during 2016, totaling around $2.9 trillion. The UAE accounted for 41% of the total GCC SWFs in 2016, followed by Saudi Arabia with 25% of the total.

Figure 12: Selected GCC Sovereign Wealth Funds ($bn)



Source: Sovereign Wealth Funds Institute.

3.7. Sovereign Credit Ratings

GCC's sovereign credit ratings remained in the upper tiers of investment grade and it were comparably competitive with most advanced economies. Within the GCC, Kuwait, Qatar, and Abu Dhabi have been upgraded by Moody's during May 2016, after being placed on negative watch following the previous review. Overall sovereign creditworthiness in the GCC region remained quite stable. However, the recent drops in oil prices placed a downward pressure on the ratings. Standard and Poor's Rating Services (S&P) placed Oman on negative watch whereas Saudi Arabia was upgraded from A+ to AA. Meanwhile, Moody's downgraded Bahrain from Ba1 to Ba2 with a negative outlook.

Table 17: GCC Sovereign Credit Ratings (Foreign Currency Long-Term Debt)

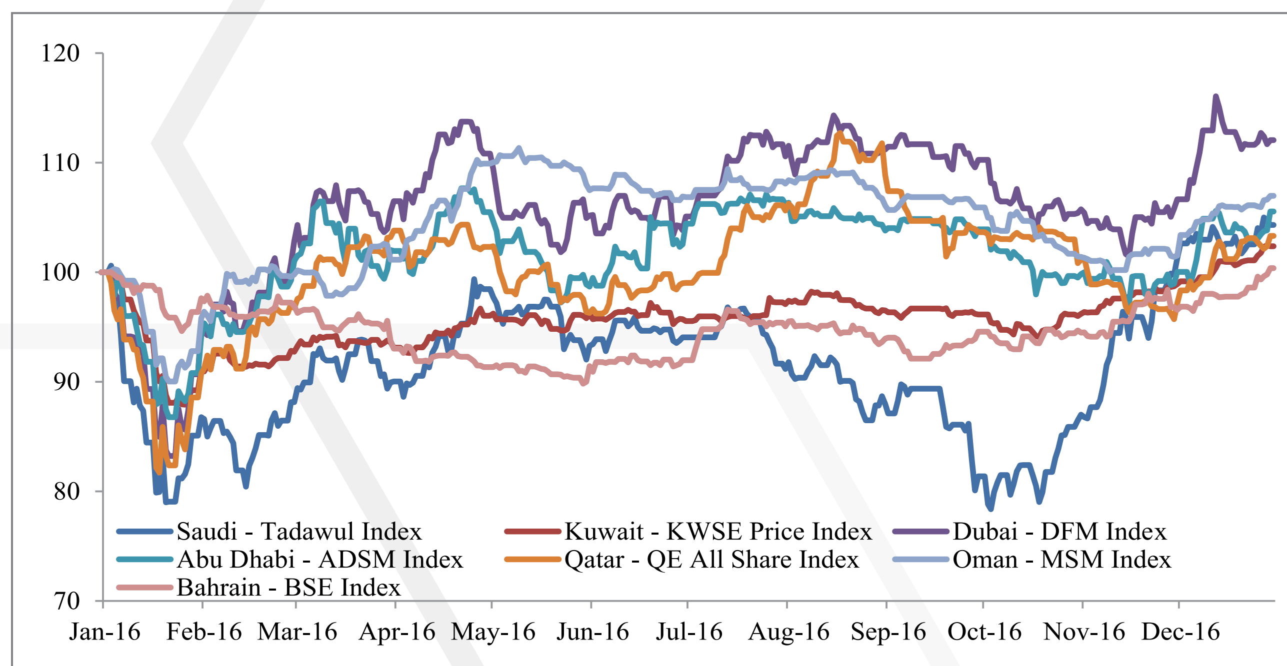
	Moody's		S&P	
	Rating	**Outlook**	**Rating**	**Outlook**
Bahrain	Ba2	Negative	BB-	Stable
Kuwait	Aa2	Negative	AA	Stable
Oman	Baa1	Stable	BBB-	Negative
Qatar	Aa2	Negative	AA	Stable
KSA	A1	Stable	AA	Negative
UAE - Abu Dhabi	Aa2	Negative	AA	Stable

4. Equity Markets Review

4.1 GCC Equity Markets Overview

2016 was a rather volatile year for GCC equity markets, with the markets driven by the effects of oil prices, geopolitical developments in the region, macroeconomic developments, and the influence of global financial markets. The year also witnessed wide-ranging economic reform measures across the GCC region that influenced market sentiment.

Figure 13: Performance of GCC indices, 2016



Source: Bloomberg, GIC Research.

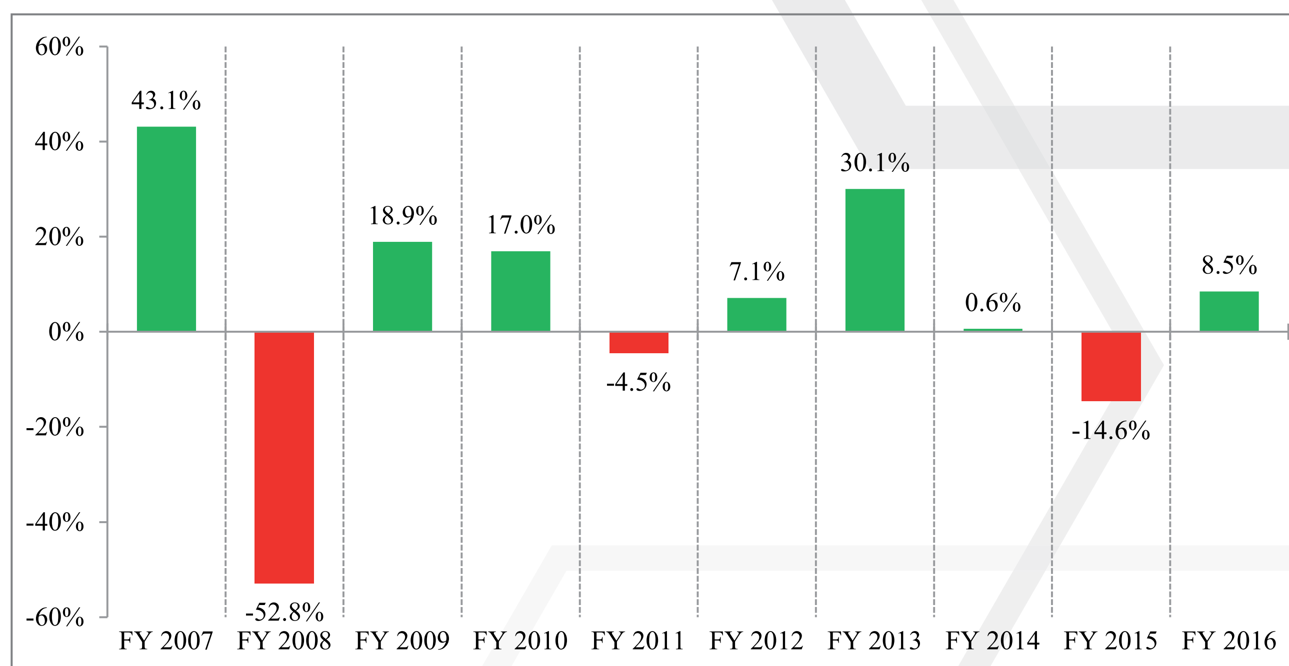
The first quarter of 2016 was marked by weakness in the oil markets, as prices slumped to multi-year lows. The quarter also witnessed the implementation of wider reform measures that served to temper the sentiment and investor appetite further. This caused weakness in the consumer segments, particularly in Saudi Arabia, as investors priced in the macroeconomic weakness and the consequent dampening of consumer purchasing power.

The start of a secular recovery in oil prices towards the end of the second quarter helped to push it above $50 a barrel for the first time in nearly nine months, and shored up investor sentiment in the markets, sparking a recovery that continued through much of the rest of the year. Markets were motivated by details of the “Vision 2030” program in Saudi Arabia, and similar initiatives across the region that reflected willingness for deeper structural reform among regional governments.

Though global financial markets were impacted by the unexpected result of the “Brexit” referendum in the UK, the GCC markets were largely unaffected. However, weak earnings led to lackluster performance in the markets during most of the third quarter. Rising prospects for an oil output agreement among OPEC producers lent much needed support to the oil markets during the middle of the quarter, but failed to motivate GCC investors and the equity markets.

It was the success of the Saudi bond issue in October that sparked a reversal in the Saudi markets during the fourth quarter, pulling the benchmark S&P GCC Composite Index away from negative YTD returns, towards a robust surplus at the end of the year. Continuing strength in oil prices, in addition to the recovery in US markets following the unexpected election results, a much-anticipated rate hike by the US Fed, as well as improving domestic sentiment supported GCC markets during most of the quarter.

Figure 14: Performance of S&P GCC Composite Index (2007-2016)



Source: Bloomberg, GIC Research.

At the end of the year, all of the benchmark market indices across the GCC had risen strongly from their yearly-lows, and registered net gains for the year. This led the S&P GCC Composite Index to add a net 8.5% for the year, its best performance during the past three years. The DFM Index in Dubai was the best performing index for the year with a net gain of 12.1%, followed by the MSM 30 Index in Oman with 7% net gain, while Bahrain's BHSE Index emerged as the least-performing among the GCC with a gain of only 0.4%.

4.2. GCC Markets Volatility

Weak investor sentiment caused the spillover of global and regional market to transmit to the GCC markets as well. Global volatility was largely linked to the volatility in oil prices and global financial markets. Key factors that influenced the GCC markets included the impact of ongoing structural reform across the GCC economies, the surprise "Brexit" vote, the success of the Saudi bond issue in October, the accord for production cuts among OPEC and non-OPEC members, and the rate hike from the US Fed, among others.

Table 18: Volatility of indices across the GCC markets, 2016

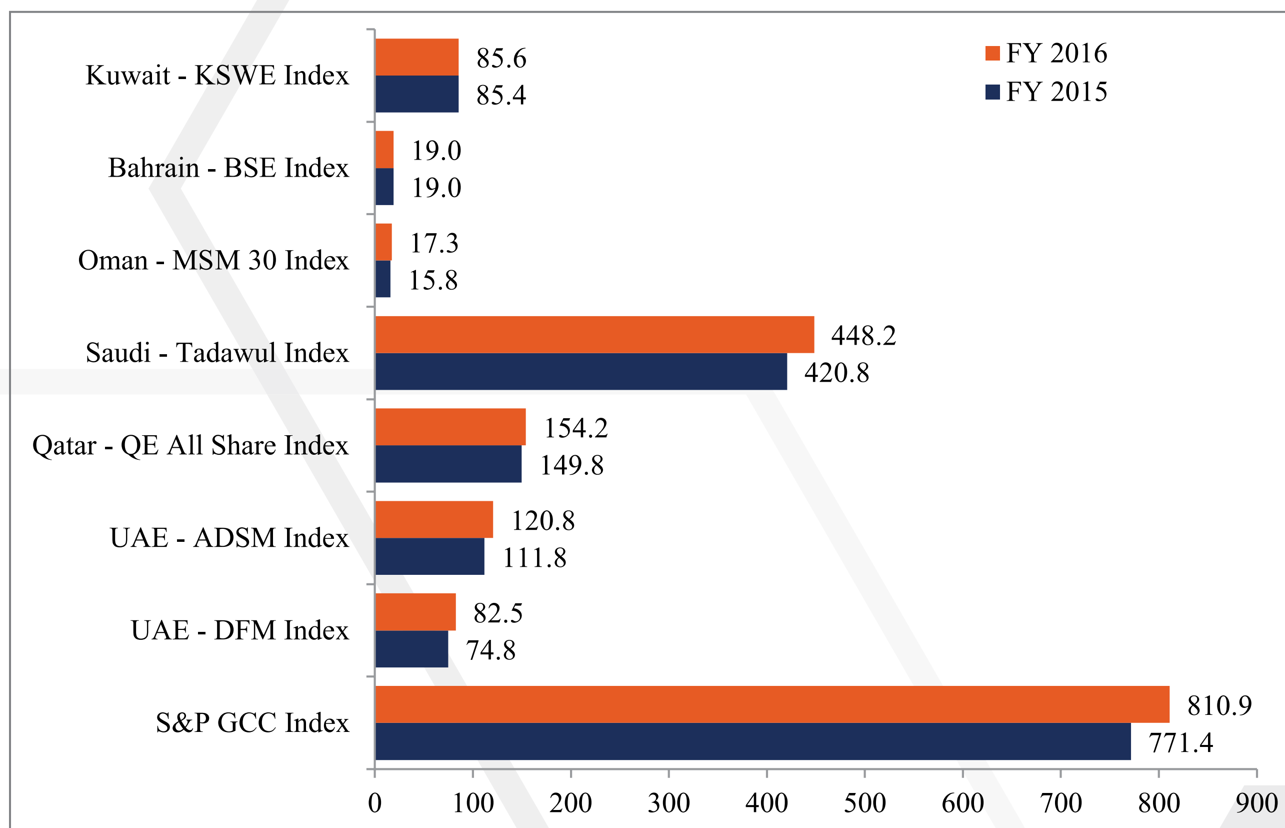
	Year Opening	Year Closing	Year High	Year Low	Index Volatility
S&P GCC Composite Index	162.24	138.56	150.39	112.93	15.5%
UAE - DFM Index	3774.00	3151.00	3657.11	2621.96	19.7%
UAE - ADSM Index	4528.93	4307.26	4636.75	3736.95	16.9%
Qatar - QE Index	3151.00	2776.78	3129.76	2269.16	17.5%
Saudi - Tadawul Index	8333.30	6911.76	7257.17	5416.47	21.2%
Oman - MSM 30 Index	6343.22	5406.22	6019.51	4867.00	9.6%
Bahrain - BSE Index	1426.57	1215.89	1220.45	1092.02	7.6%
Kuwait - KSWE Price Index	6535.72	5615.12	5753.36	4936.51	7.9%

Source: Bloomberg, GIC Research.

4.3. GCC Market Capitalization

The total market capitalization of the S&P GCC Composite Index grew by 5.1% to $810.9 billion at the end of 2016, compared to $771.4 billion at the end of 2015. The Saudi market, the biggest in the GCC, witnessed a growth of 6.5% in its market capitalization to $448.2 billion, while the biggest gain was seen on the Dubai bourse where the market capitalization grew by 10.2% to $82.5 billion.

Figure 15: GCC market capitalization for 2015 and 2016 ($ billion)



Source: Bloomberg, GIC Research.

4.4. Country Performances

At the end of the year, all of the benchmark market indices across the GCC had risen strongly from their yearly-lows, and registered net gains for the year.

Table 19: Index Returns for 2016

	31 December 2015	31 December 2016	% Change
S&P GCC Composite Index	138.56	150.33	8.5%
UAE - DFM Index	3,151.00	3,530.88	12.1%
UAE - ADSM Index	4,307.26	4,546.37	5.6%
Qatar - QE Index	2,776.78	2,869.16	3.3%
Saudi - Tadawul Index	6,911.76	7,210.43	4.3%
Oman - MSM 30 Index	5,406.22	5,782.71	7.0%
Bahrain - BSE Index	1,215.89	1,220.45	0.4%
Kuwait - KSWE Price Index	5,615.12	5,748.09	2.4%

Source: Bloomberg, GIC Research.

The Saudi market closed the year on a positive note, buoyed by firm oil prices and a 2017 budget statement that was well received. Market performance in December was helped by Non-OPEC oil production cuts and subsequent firmness in the oil prices, which helped to lift the Saudi Tadawul Index to a net gain of 4.3% for the year. The energy and petrochemicals sectors made sizeable advances of 41.0% and 25% respectively. The banks and telecom sectors were nearly flat and recorded changes of 1.9% up and 1.8% down respectively. Meanwhile, the retail sector was a notable laggard with a decline of 18.5%.

Oman's MSM 30 Index was the second-best performing index among the GCC, as it added 7% for the year. A strong advance of 18.4% in the banking sector, alongside gains of 9.4% in the industrials sector and 0.1% in the services sector, set the pace.

In Dubai, gains were recorded across all sectors in the market, which caused the DFM General Index to emerge as the best-performing index in the GCC, with a net gain of 12.1% for the year. The services and telecom sectors added 35.9% and 21.6% respectively, alongside the investments and financial Services sector with 19.2%. While the banks and insurance sectors lagged the others with gains of 2.5% and 2.4%, respectively.

In Abu Dhabi, the results were mixed, as net YTD losses on the industrial, financial services and consumer staples sectors tempered gains on the ADSM Index to only 5.55% for the year. The real estate sector was the best-performing with a net gain of 20.4%, while the telecom sector added 16.8%.

The Kuwait bourse witnessed a strong resurgence during the fourth quarter that helped to offset the weak performance during the other three quarters, and led the KWSE Price Index to add 2.4% for the year. While the industrials and consumer goods sectors notched up robust gains of 17.9% and 16.5%, the oil and gas, real estate and banks sectors closed with sizeable losses.

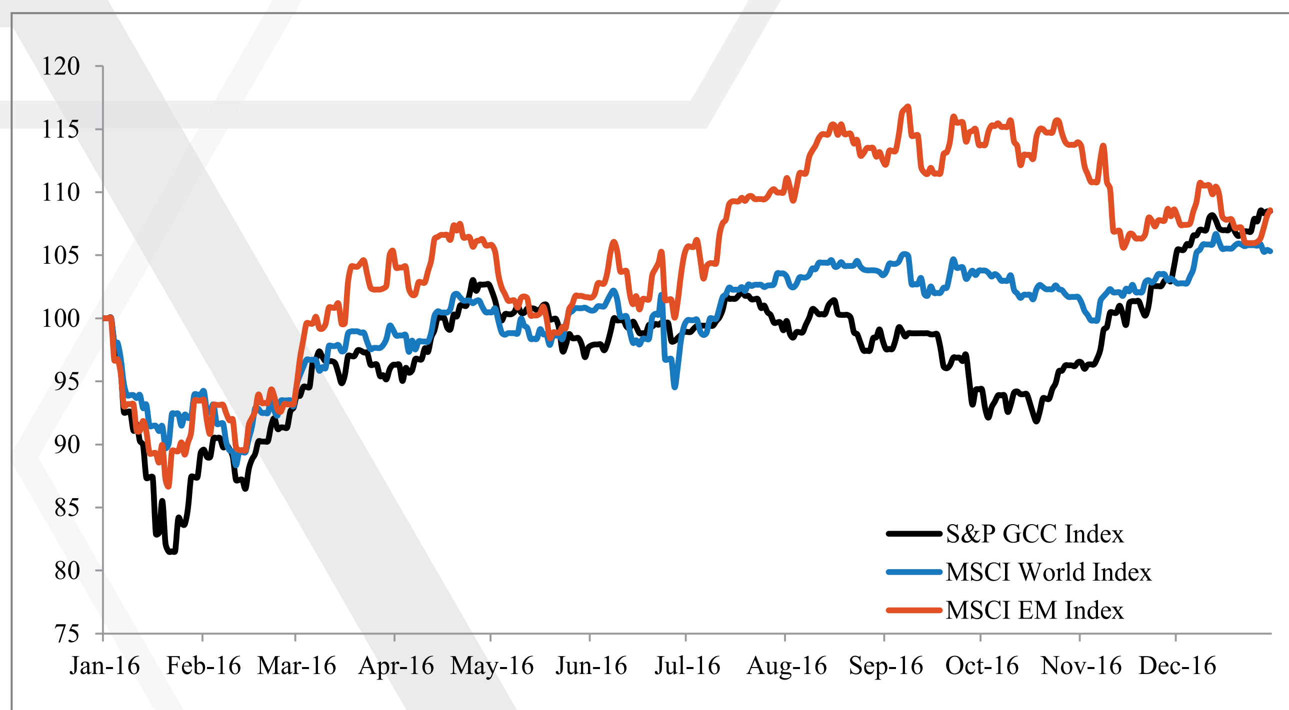
Qatar's QE Index closed with a net gain of 3.33%, driven by a strong advance in the telecom sector which added 22.3%. Other gainers included the insurance sector with 9.9%, even as the banks and financial services sector managed only 3.79%, and the real estate sector shed 3.77%.

Bahrain's BSE Index managed to close the year with a marginal gain of only 0.4%, as gains on the banking sector were offset by losses across all the other sectors. The hotels & tourism sector was the worst affected with a net loss of 14.3% for the year.

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

During the year, the S&P GCC Composite Index managed to out-perform the MSCI World Index, with a return of 8.5% compared to 5.3% for the latter. However, the returns on the GCC benchmark were mostly in line with that of the MSCI EM Index which added 8.6% for the year.

Figure 16: Relative Performance of S&P GCC Composite Index to Global Benchmarks, 2016

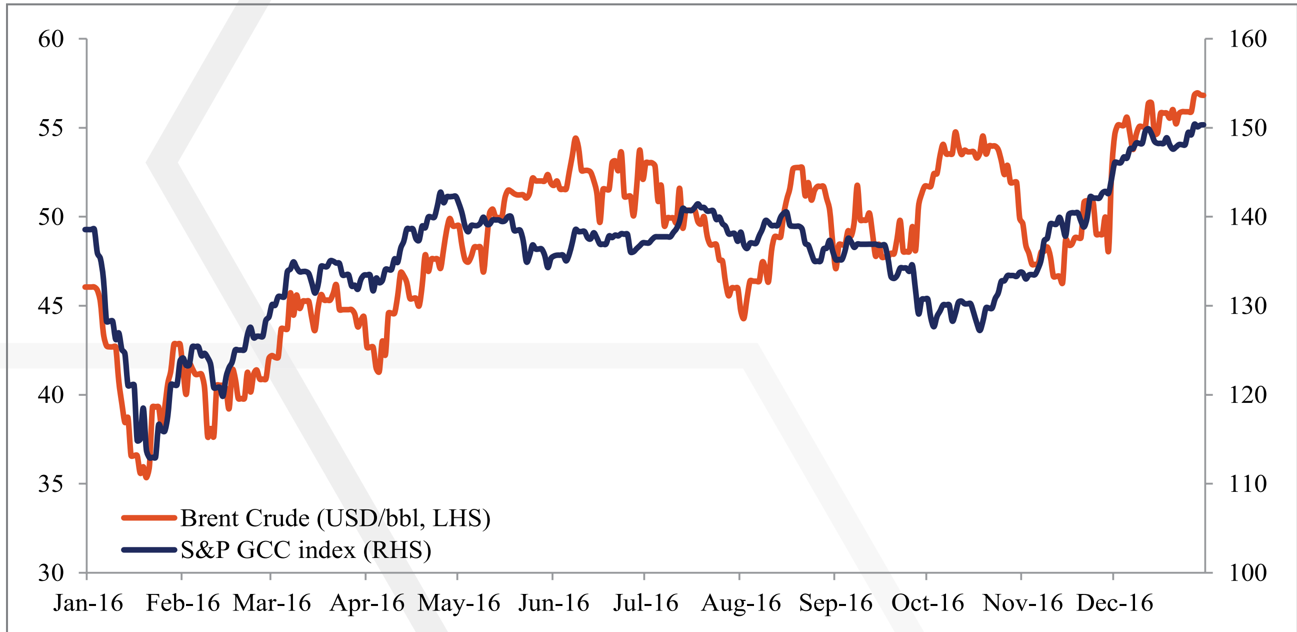


Source: Bloomberg, GIC Research.

4.6. Relative Performance of S&P GCC Composite Index to Oil prices

Oil prices remained the key driver for direction in GCC markets through most of the year with the GCC Composite Index moving largely in tandem with the movement in oil prices, save for a brief period during the third quarter of the year, when the strength in oil prices failed to correct the negative sentiment in the markets. However, the disconnect was soon remedied as the strength in oil prices during the second half has been the main catalyst for the recovery in GCC markets.

Figure 17: Relative Performance of S&P GCC Composite Index to Oil prices, 2016

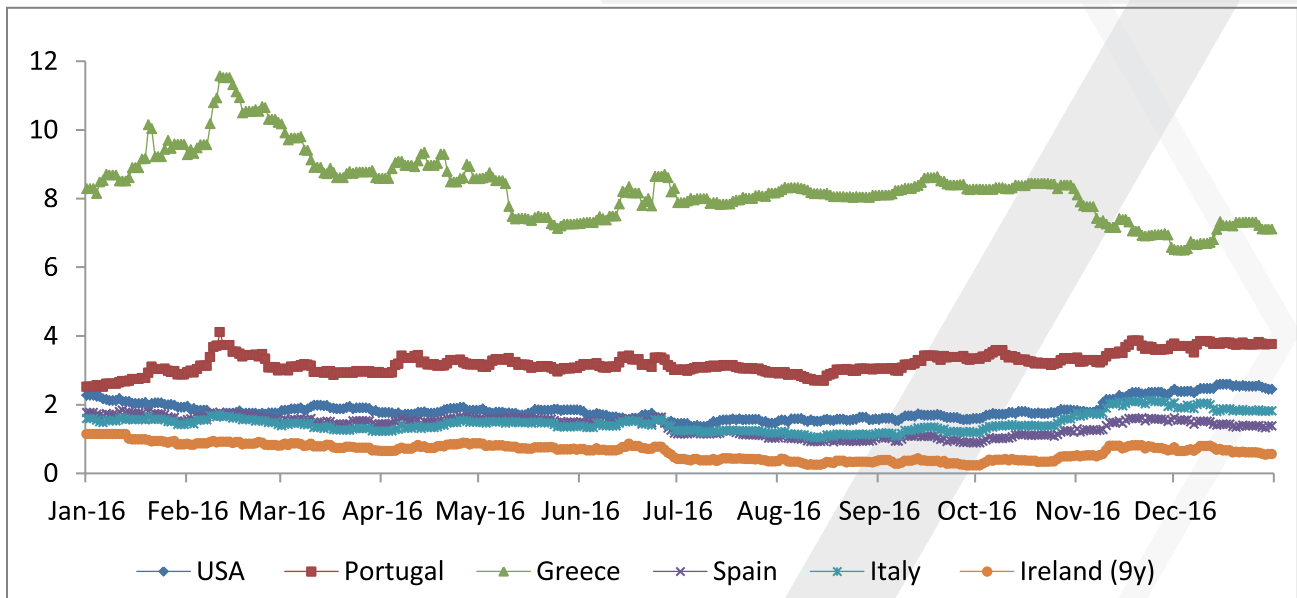


Source: Bloomberg, GIC Research.

4.6 Treasuries

As demonstrated below, most of the European economies witnessed a downfall in their 10-year government bond yields during 2016. Greece came with the highest yields in the Euro zone, with levels as high as 7.107%. Moreover, its lowest value, 6.494%, exceeded the highest level of other European countries' yields. Ireland closed the year at relatively low yields, dropping by 51% to settle at 0.552% at year-end. US yields started 2016 at 2.269% and closed the year at 2.444%.

Figure 18: PIIGS and US 10-year Government Bond Yields during 2016



Source: Bloomberg.

Table 20: Volatility of Spreads, 2016

	US	Portugal	Greece	Spain	Italy	Ireland
Opening Value (Jan. 1, 2016)	2.269	2.516	8.285	1.771	1.596	1.135
Closing Value (Dec. 31, 2016)	2.444	3.764	7.107	1.384	1.815	0.552
Average	1.837	3.205	8.329	1.378	1.458	0.634
Standard Deviation	0.288	0.300	0.966	0.260	0.255	0.232
Minimum Value	1.358	2.512	6.494	0.880	1.042	0.224
Maximum Value	2.597	4.107	11.573	1.833	2.131	1.135

Source: Bloomberg.

Table 21: Government Bond Yields (%), 2016

	US	Portugal	Greece	Spain	Italy	Ireland
Q1	1.769	2.943	8.588	1.437	1.221	0.656
Q2	1.470	3.006	8.293	1.163	1.258	0.461
Q3	1.594	3.330	8.280	0.880	1.188	0.224
Q4	2.444	3.764	7.107	1.384	1.815	0.552

Source: Bloomberg.

4.8. Credit Default Swaps (CDS)

CDS displayed realizable increases during the year in the Euro area. Spain, however, witnessed a 14% drop during 2016. The US also experienced noteworthy increases, from 21.23 bps in the beginning of the year to 29.98 bps at year end. The GCC region continues to face low oil price and regional political unrest. However with better than anticipated oil prices, CDS drops have been recorded. Bahrain remains the highest in the region in terms of CDS, closing the year at 312.46 bps. Dubai follows, dropping drastically, from 202.15 bps to 154.81 bps. Qatar, however, spiked by 25%, yet closed at below its average for the year.

Table 22: CDS Performance, 2016

	Portugal	Ireland	Greece	Spain	Italy	US	Bahrain	Abu Dhabi	Dubai	KSA	Qatar
Opening	177.770	44.420	1,177.010	93.580	100.770	21.230	375.540	95.080	202.150	160.800	67.540
Closing	280.858	68.623	1,126.230	80.732	162.332	29.980	312.460	64.450	154.810	118.420	85.280
Average	283.766	62.220	1,170.691	93.888	143.797	27.866	380.271	89.436	191.785	160.352	103.637
Minimum Value	177.787	44.430	958.200	69.224	116.399	23.230	294.380	63.000	144.000	117.610	80.000
Maximum Value	474.866	76.074	1,789.740	137.156	190.232	36.660	422.700	143.000	287.790	206.450	148.000

Source: Bloomberg.

FINANCIAL
REVIEW

Net Income Analysis

Gulf Investment Corporation (GIC) posted consolidated net profit of US$ 57 million for the year 2016 compared to US$ 112 million in 2015. This is after net impairment provisions of US$ 22 million (2015: US$ 40 million) which mainly relates to quoted investments in GCC markets and provision for other assets in a subsidiary. Net change in revaluation reserves of financial assets available for sale and share of increase in the revaluation reserves of associates totaling to US$ 105 million (2015: net decline of - US$ 243 million) taking the consolidated total comprehensive income to US$ 162 million (2015: loss of US$ 131 million).

Decline in profit compared to previous year was mainly due to the capital gain of US$ 157 million materialized in 2015 on sale of two associate companies. Except for two companies operating in cyclical industries, GIC's core business of project investments performed well and was well supported by the good 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, and the money market book.

Gross interest income for the year US$ 58 million is 16% higher than previous year. 91% of the interest income is contributed by securities. The gross interest income from securities increased due to increase in interest rates even after decline in average volume compared to last year by 12%. Redeployment of debt portfolio by sales and redemptions proceeds in an ideal mix of GCC bonds, emerging market bonds, high yield bonds and international corporate bonds contributed to enhance the spread considering the current trends in the securities market.

Net Gains from Investments

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

GIC recorded a net gain of US$ 75 million during 2016 (2015: US$ 208 million) comprise of realized gains US$ 10 million (2015: US$ 154 million) on sale of ownership in an associate company, US$ 42 million (2015: US$ 52 million) on financial assets available for sale, market loss of - US$ 2 million (2015 : gain of US$ 4 million) from financial assets at fair value through statement of income and gain on sale of a subsidiary company amounting to US$ 9 million (2015 : loss of - US$ 2 million) during the year. GIC also recorded bargain purchase gain of US$ 16 million on acquisition of an associate company during the year 2016.

Dividend Income

Dividend income of US$ 12 million (2015: US$ 23 million) comprises of receipts from equity participations, private equity funds, equities and managed funds. Dividends from principal investment portfolio amounted to US$ 6 million compared to US$ 19 million in 2015.The balance contribution is from quoted GCC equities portfolio and private equity funds.

Share of Results of Associates

Share of results from associates accounted during the year amounted to profit of US$ 32 million compared to prior year loss of - US$ 41 million. The major factor in the improved share of results compared to previous year was due to the recovery of major associate in Chemical sector from significant losses in previous 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 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$ 5 million (2015: US$ 7 million) declined from previous year mainly due to the termination of fee income from one of the associate.

Other Operating Income

Other operating income represents the income from consolidated subsidiaries amounting to US$ 8 million compared to US$ 16 million in previous year (note 17).

Interest Expense

Interest expense increased by 6% compared to prior year to reach US$ 57 million for the year, which can be attributed to the increase in interest rates mainly affecting the short term funding whereas the overall funding volume remained the same as last year.

Operating Expenses

Efficiency in operations and higher productivity was achieved with strict control over operating expenses which resulted in a decline of 5% compared to last year to reach US$ 54 million.

Provision for Impairments / Marked-to-Market Losses

Net charge for the year in impairment/marked-to-market losses totaled - US$ 22 million, compared to - US$ 40 million recorded in 2015. Provisions during 2016 relate mainly to exposures in quoted GCC equities and investment in a subsidiary company. The Corporation continues to adhere to its conservative provisioning policy, based on marked-to-market/fair valuations where ever possible. A detailed break down is provided in Note 18 to the Financial Statements.

Balance Sheet Analysis

Under the changing global scenario with declining business opportunities, emphasis is placed on risk adjusted return criterion in asset allocation focusing mainly on the GCC region. Initiatives were implemented both, on the assets and liabilities sides maintaining the asset base at US$ 4,619 million. Equity at US$ 2,553 million increased by US$ 56 million compared to last year.

The Corporation's strategic focus continues to be on the GCC states and their major trading partners in the industrialized world. Note 20 to the Financial Statements sets out the geographic distribution of the Corporation's credit risk exposure.

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

Financial Assets at Fair Value through Statement of Income

This category includes investments in Debt instruments of US$ 29 million, Hedge funds and other alternative investments of US$ 425 million. The portfolio increased by investing in existing and new funds amounting to US$ 58 million against liquidations of US$ 36 million.

Financial Assets Available for Sale

As at 31 December 2016, financial assets available for sale amounted to US$ 2,205 million declined 15% from the prior year mainly due to the reduction in international debt portfolio. Debt and other interest bearing securities, constituting 70% of the financial assets available for sale decreased by - US$ 385 million or 20% during the year. GIC reduced its investments in International bonds by US$ 511 million and increased its investment in GCC securities by US$ 165 million compared to previous year end. Exposure to Emerging market bonds and Structured debt instruments were reduced during the year. The change in geographic mix is in line with the strategy for achieving sustainable and enhanced risk adjusted return profile.

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

Financial assets available for sale also include investments in Equities and managed funds of US$195 million, Equity participation amounting to US$ 312 million and International & GCC private equity fund exposures of US$ 144 million. Investment in Equities and managed funds maintained at the same level by increasing exposure in global equities by US$ 18 million to compensate the reduction

in GCC quoted equity investments of US$ 30 million. Increase in Equity participations is due to increase in the market value of quoted projects partially offset by the sale of small portion of the quoted projects.

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

Investments in private equity funds are carried at fair value. An amount of - US$ 1 million was charged to income statement for marked-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. 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$ 1,280 million increased by US$ 157 million or 14%, which is mainly due to the investment in new associate companies and additional contributions to the existing companies, sale of an associate, dividend received, equity accounted income and share of net change in revaluation reserves.

Other Assets

Including property and fixed assets, total other assets amounted to US$ 301 million at 31 December 2016. Of this US$ 65 million related to property and other fixed assets and US$ 75 million relating to Margin money paid on derivative instruments. The remaining amount comprised of accrued income receivable, trade & accounts receivables, positive fair value of derivative instruments, prepaid expenses and other miscellaneous assets. Details are set out in Note 7 to the Financial Statements.

Liquidity and Funding

Total borrowings at US$ 1,838 million comprises of term finance US$ 1,268 million and deposits from banks and other financial institutions of US$ 570 million. Term finance increased by US$ 273 million compared to previous year end, due to the new issue of Term finance during the year. The long term funding offset by repayment of two tranches.

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$ 228 million other liabilities comprise of trade payables of subsidiaries, accrued interest, accrued expenses, margin money for derivative products and negative fair value of derivative instruments. Increase in other liabilities is mainly due to the increase negative fair value of derivative instruments entered mainly to hedge the currency exposure of term finance issues.

Equity

Equity at US$ 2,553 million increased by US$ 56 million mainly due to other comprehensive profit of US$ 105 million and net profit US$ 57 million offset by dividend payment of US$ 105 million.

RISK
MANAGEMENT

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

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

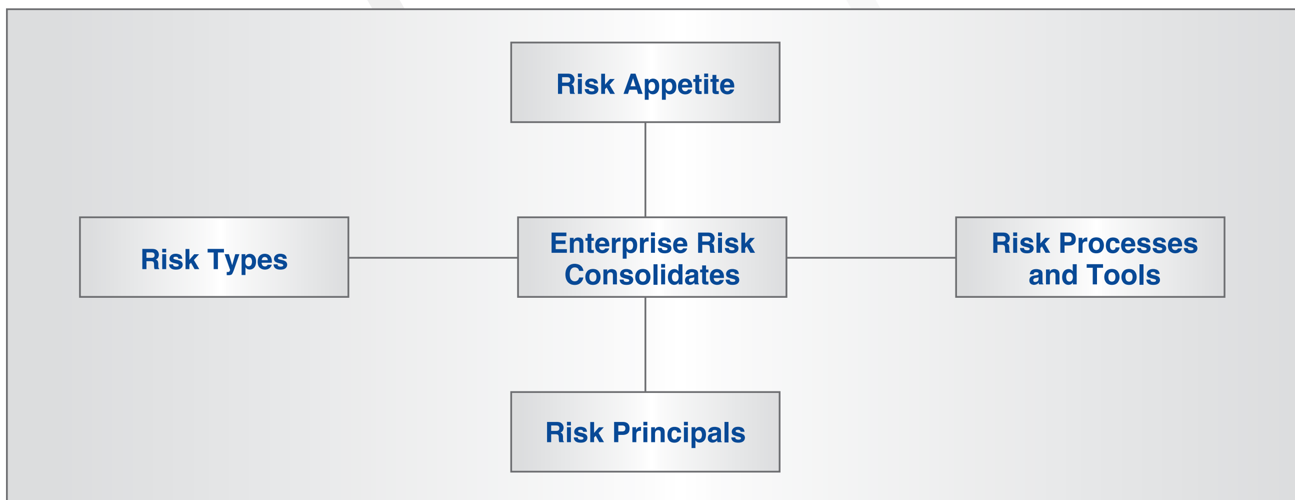
GIC's resilience during 2016, a challenging year in many respects, is testimony to strong business capabilities and a robust enterprise risk framework. Unequivocally, GIC remains a significantly resilient, measurably strong and stable financial institution. Risk management will continue to be an important aspect of corporate strategy and every effort will be made to ensure it is adaptive, effective and value adding.

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

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

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

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



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

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

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

a) Identifying and measuring the various risks generated,

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

c) Optimizing in relation to the return.

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

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

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

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

CREDIT RISK

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

The world credit markets during 2016 were marked by increased volatilities due to macro events like Brexit and US presidential elections and the debt markets adjusting to a higher rate environment. As we move into 2017, volatility in the market is expected to remain high as markets digest a new US policy of trade protectionism and global trade readjustment and its impact on export driven economies across the globe. Uncertainties surrounding Brexit and future of UK – European union partnership is an overhang on the Credit markets. GIC with its active portfolio management registered an impressive performance on the credit portfolios. GIC remained relatively unscathed during the year, registering nil credit losses, thanks to prudent proactive measures, stringent control frameworks and continuous monitoring. While the Corporation's credit portfolio, mainly made up of debt securities, constitutes a material portion of the overall asset base, strong internal risk guidelines and proactive portfolio management ensure that high quality is maintained at all times. Notwithstanding the Corporation's rigorous and prudent policies for provisioning, no material write-downs were required during 2016. This is a reflection of the good quality of the portfolio. Gains of approximately US$ 64.7 million were realized during the year in review within GIC's credit portfolios.

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

The Corporation continued to be flexible and ready to adapt rapidly to unforeseen events supported by the efficient utilization of conventional risk management tools, including mathematical and statistical models.

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

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

The Debt Capital Markets (DCM) portfolio which forms the largest asset class and constitutes approximately 36% of the balance sheet is monitored against a Credit Value at Risk (Credit VaR) limit, approved by the board. The US$ 255 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 2016 the market value of this portfolio was US$ 1,598.7 million. As of 1st Jan 2016, it was US$ 1,967.3 million. The average and year end Credit VaR were up as compared to previous year end. The increase in Credit VaR was in line with the increase in regional credit exposure under DCM Portfolios.

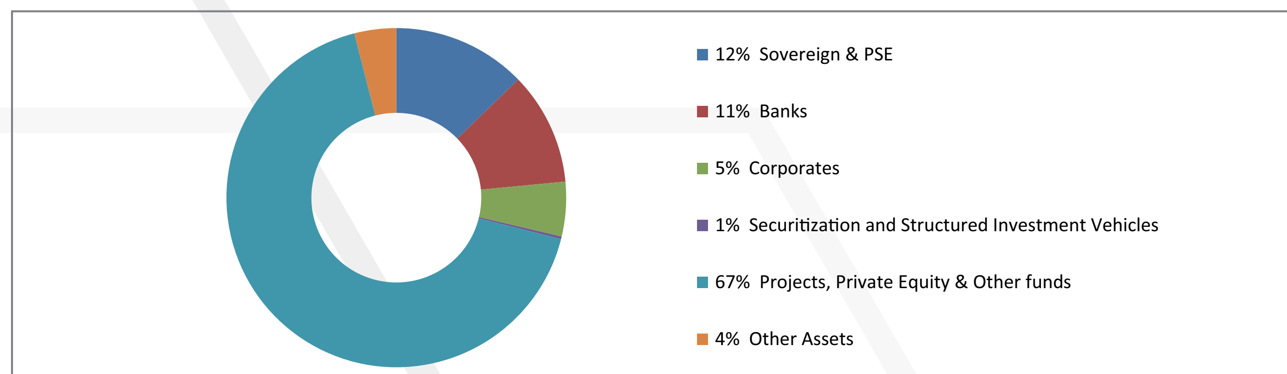
Table 1: 2016 Credit Value at Risk - 99.96% confidence level, 1 year holding period

US$ 000's	Average	Minimum	Maximum	31 Dec 2016
Debt Portfolios	212,378	154,537	250,514	213,776

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

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

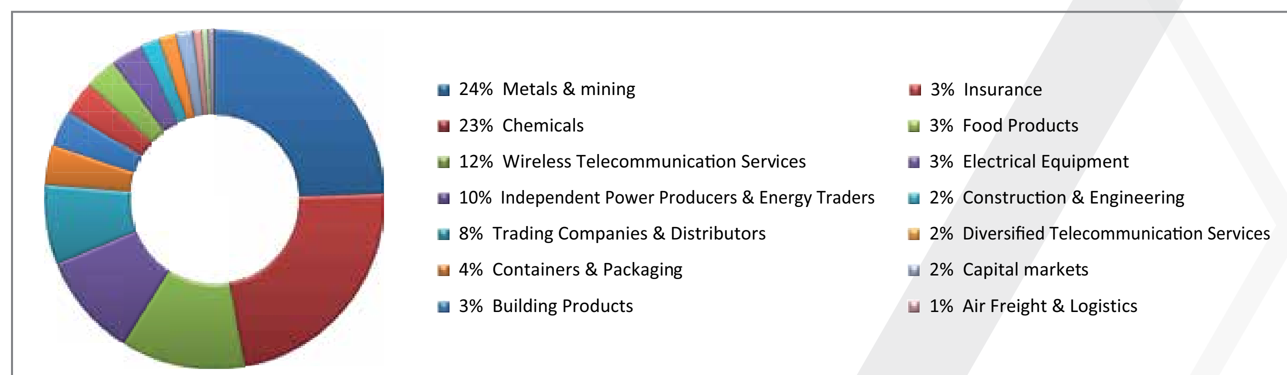
Chart 1: Sources of Credit Risk (Weighted Credit Risk Exposure)



Noteworthy, most of the realignment in the credit risk pie at the end of 2016, compared to the previous year-end, pertained to Banks, Corporates and Projects, Private Equity & other funds. Credit risk weighted exposure for Projects, Private Equity & other funds increased from 59% of total in 2015 to 67% at the 2016 year-end and for Banks decreased from 15% in 2015 to 11% at the 2016 year-end and for Corporates decreased from 10% of total in 2015 to 5% at the 2016 year-end. The two key components of total credit risk exposure were Projects, Private Equity & other funds, and debt securities of banks, sovereign & PSE and Corporates.

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

Chart 2: Principal Investing (Projects) by Industry



Off-balance Sheet Financial Instruments

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

In the case of derivatives and foreign exchange transactions, procedures similar to on balance sheet products are used for measuring and monitoring credit risk. Credit risk weighted exposure to off balance sheet products amounted to nearly 0.8% of total credit risk weighted exposure.

At the year-end 2016, there were no outstanding derivatives held for trading. Off balance sheet transactions also include credit-related contingent items designed to meet the financial requirement of the Corporation's customers. A detailed credit risk analysis of credit-related contingent items, derivatives and foreign exchange products is set in Notes 21 & 22 to the Consolidated Financial Statements.

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

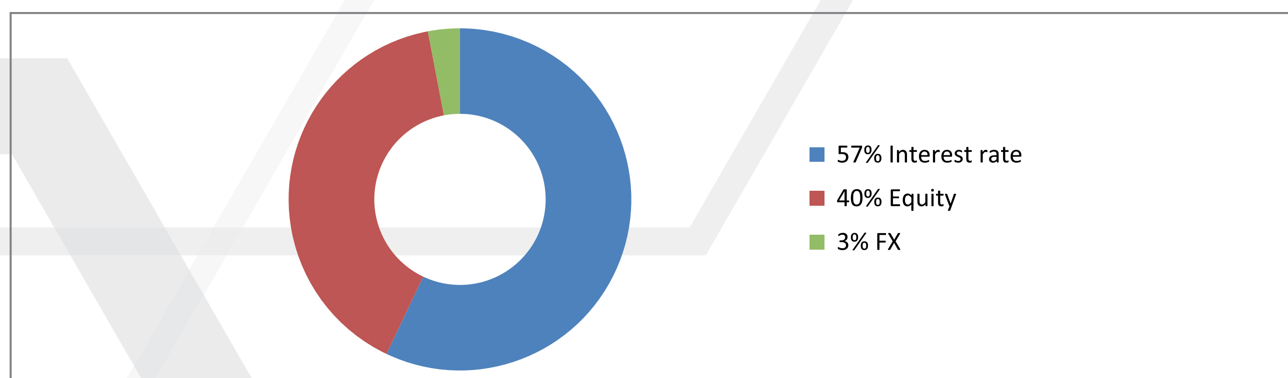
While the mechanism of risk monitoring and control has been fostered further, the risk management function is now more engaged with the business units, having been brought forward within the investment process. In addition to incorporating additional credit information, including Credit Default Swap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

MARKET RISK

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

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

Chart 3: Market Risk Constituents - Overall



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

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

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

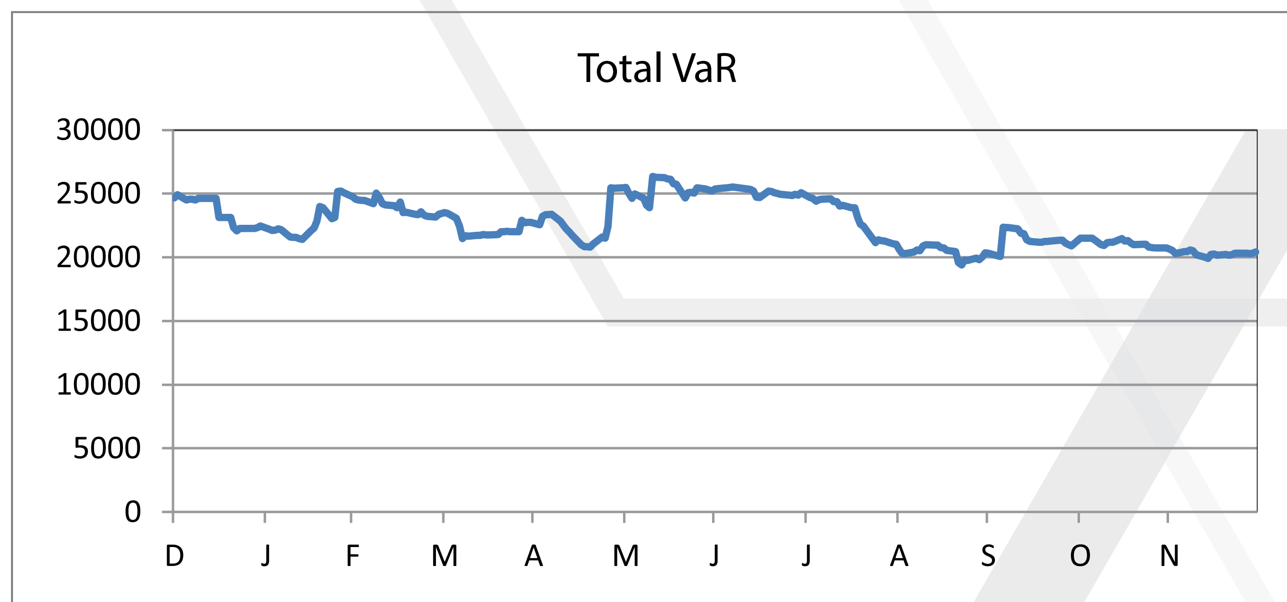
Table 2: Market Value at Risk for Global Markets Group alone - 25 day holding period, 95% confidence level

2016				
US$ 000's	Average	Minimum	Maximum	31-Dec-16
Interest rate	21,677	18,816	25,290	20,596
Equity	15,176	11,588	18,520	12,666
Foreign Exchange	1,140	266	4,211	532
Total*	22,660	19,394	26,369	20,420
2015				
US$ 000's	Average	Minimum	Maximum	31-Dec-15
Interest rate	21,342	13,835	25,345	22,119
Equity	13,306	5,973	17,686	16,335
Foreign Exchange	1,041	47	3,373	266
Total*	23,681	14,612	26,617	24,650

** Total VaR incorporates benefits of diversification*

On an average basis, VaR pertaining to market risk is approximately similar as compared to the previous year. 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. As at 31st December 2016, total market risk VaR reached US$ 20.4 million. Total market risk VaR remained within limits as approved by the Risk Management Committee and the Board of Directors. The Corporation will closely monitor the operating environment and seek to take on appropriate market risk at opportune times.

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



It should be noted that certain portfolios and positions are not included in the Market VaR analysis, where VaR is not the most suitable measure of risk. These include the principal project investments in the GCC and the portfolio of international private equity funds. The market risk relating to these investments are measured in terms of a 10% sensitivity measure - an estimated decline in asset values. The fair values of the underlying positions may be sensitive to changes in a number of factors, including but not limited to: the financial performance of the companies, projected timing and amount of future cash flows, discount rates, trends within sectors and underlying business models. The table below provides the sensitivity measure for 2016 and 2015. 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-16	31-Dec-15
Principal Investments	Underlying asset value	165,140	146,641
Private Equity Funds	Underlying asset value	14,410	18,572

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 2016 was 551%. This figure was determined taking into account the following basic criteria:

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

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

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

The Corporation's investment portfolio is managed so that the holdings of un-pledged, marketable securities that are comprised of strategic reserves are equivalent to approximately 50% of the projected maximum 30 day cumulative cash outflow. By the end of December 2016, investments in marketable securities tallied at approximately US$ 1.7 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 2016, the Corporation's term financing stood at US$ 1.3 billion.

Further, the Corporation was successful in enhancing the diversity of its depositor base, a reflection of increased market confidence. At year-end 2016 the Corporation's deposit base stood at about US$ 569.6 million, 100% of which is due to GCC depositors. GCC deposits have proven to be a stable source of funds over the years.

The table below provides the breakdown of the Corporation's funding source for the comparative years 2015 to 2016.

US$ Millions	2016 (US$)	2016 (%)	2015 (US$)	2015 (%)
GCC Deposits	570	13%	919	19%
International Deposits	0	0%	0	0%
Repo Financing	0	0%	321	6%
Term Financing	1, 260	28%	983	20%
Shareholder'sfunds andothers	2,654	59%	2,735	55%
Total	**4,483**	**100%**	**4,958**	**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, 2016 was 1,846 contracts, with an estimated VaR of US$ 1.1 million. This is higher than the levels of the previous year (31st December 2015: 292 contracts). This is excluding the impact of the fixed rate EMTN issuance.

Maturity profile of assets and liabilities

A detailed breakdown of the maturity profile by individual asset and liability category is provided in Note 20.1 to financial statements. At December 31st 2016, roughly 52% 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 17% of total liabilities were in the same time bucket. The sizable portfolio of high quality marketable securities contributed to the relatively high ratio of liquid assets. The Corporation's GCC retention record shows that short maturity deposits from GCC governments, central banks and other regional financial institutions have been regularly renewed over the past several years. With the success achieved in raising medium term finance, the Corporation was able to optimize the asset liability maturity gap, especially within the medium and long term buckets.

CREDIT RATING

In 2016, both rating agencies (Moody's & Fitch) reaffirmed GIC's credit ratings. GIC's strong financial indicators were acknowledged in the rating reports. As of end 2016, GIC's long term deposits were rated A2 by Moody's and A- by Fitch.

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

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

CAPITAL STRENGTH

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

The Corporation's capital base stood at US$ 2.6 billion at 2016 year end. GIC continues to be one of the best capitalized financial institutions in the region.

OPERATIONAL RISK

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

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

KEY AIMS:

The management of Operational Risk has the following key objectives:

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

OVERVIEW:

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

a) Risk and Control Self-Assessment framework;

b) Loss Event framework;

c) Corrective Action Plans framework; and

d) Operational Risk Reporting framework.

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

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

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

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

b) Loss Event Framework

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

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

c) Corrective Action Plans (CAPs) Framework

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

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

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

d) Operational Risk Reporting Framework

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

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

OPERATION RISK WEIGHTED EXPOSURE:

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

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

INSURANCE:

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

BUSINESS CONTINUITY AND DISASTER RECOVERY PLANNING:

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

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

LEGAL RISK MANAGEMENT:

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

INFORMATION SECURITY FRAMEWORK:

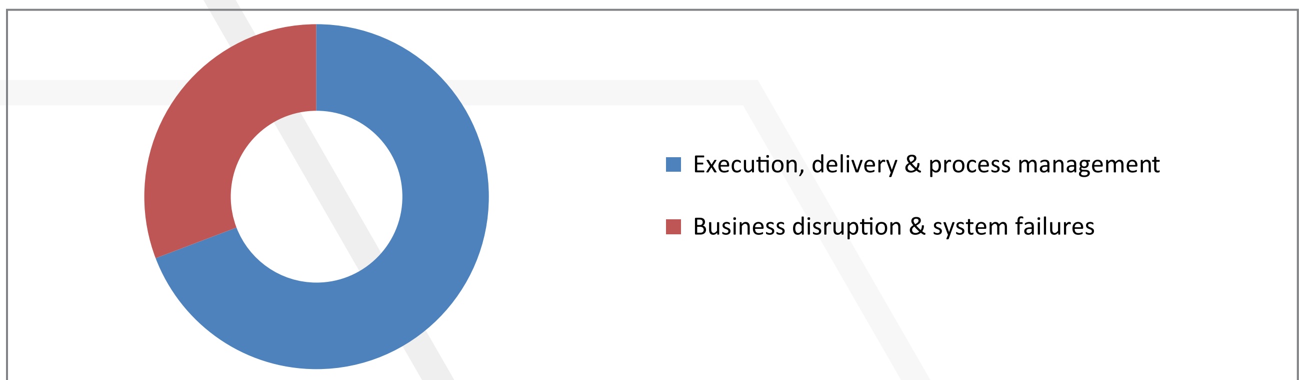
A secure information security framework is in place to identify the responsibilities at every level of information handling, i.e. from data ownership (encoding) to data access. Periodic audits are conducted to ensure compliance with the policies and standards set, by Internal Audit, Information Security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

OPERATIONAL LOSS EVENT PROFILE FOR 2016:

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 2016, the highest frequency of events occurred under the following categories:



BASEL III
DISCLOSURE

Basel III Rationale:

Aligning banking risk management with Capital Requirements

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

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

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

The Architecture of Basel III - Capital and Liquidity

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

The Three Pillars Defined

Pillar 1 - Minimum Capital Requirements

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

Pillar 2 - Risk Management and Supervision

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

Pillar 3 - Market Discipline

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

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

Market Disclosure

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

1. Capital Structure

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

Table 1 presents the Corporation's regulatory capital resources for the years ending December 2016 and December 2015. Basel III permits recognition of general provision (albeit subject to a maximum of 1.25% of credit risk weighted assets) as part of Tier 2 capital. Meanwhile, the portion of significant investments in financial and commercial entities that exceed a certain materiality threshold; and exposures to 'securitization' that fall below a cut-off risk grade are deducted 50% from Tier 1 and 50% from Tier 2 capital, respectively. For 2016, full deduction is made from Tier 1 capital due to negative fair value adjustment. Total eligible regulatory capital was US$ 1,874.2 million by year-end December 2016 compared to US$ 2,352.7 million recorded in December 2015. The Corporation has adopted a conservative policy for the treatment of net fair value reserve, wherein, if negative - the total amount is deducted from eligible capital, and if positive - only 45% of fair value reserve is included within eligible capital.

Table 1: Regulatory Capital Resources

In US$ millions	**31 December 2016**	**31 December 2015**
Paid-up capital	2,100.0	2,100.0
Disclosed reserves	571.0	620.1
Retained earnings	0.0	(1.0)
Less: Goodwill	38.8	38.8
Less: Deductions	604.7	69.5
Less: Adjustment for Fair value reserve	153.3	258.1
Total Tier 1 Capital	1,874.2	2,352.7
General Provision	-	1.4
Less: Deductions	-	1.4
Total Tier 2 Capital	-	-
Total eligible regulatory capital	1,874.2	2,352.7
In US$ millions	**31 December 2016**	**31 December 2015**
Common Equity Tier 1 (CET1)	1,874.2	2,352.7
Additional Tier 1 (AET 1)	-	-
Total Tier 1 Capital	1,874.2	2,352.7
Total Tier 2 Capital	-	-
Total eligible regulatory capital	1,874.2	2,352.7

2. Capital Adequacy Management

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

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

The annual dividend payout, meanwhile, is prudently determined and proposed by the Board of Directors, endeavoring to meet shareholder expectations while ensuring adequate retention of capital to support organic growth. Finally, the Corporation targets a credit risk rating of single 'A' or better. This would allow easy access to capital from the market at competitive pricing in the event additional funding needs to be appropriated. GIC is among a select few financial institutions in the region to maintain high ratings by both major international agencies (Moody's & Fitch). Details of the Corporation's ratings are provided on page 48 of this annual report.

Table 2: Capital Adequacy Ratios

In US$ millions	Risk-weighted assets	Capital requirement
Credit Risk	3,170.7	253.6
Market Risk	1,167.9	93.4
Operational Risk	488.2	39.1
Total	4,826.8	386.1
Capital Adequacy Ratios		
Total CAR	38.8%	
Common Equity Tier 1 (CET1)	38.8%	
Tier 1 Ratio	38.8%	
Leverage Ratio (Non risk based)	41.0%	

Table 2 details the risk-weighted assets together with their corresponding regulatory capital requirements as at 31 December 2016. 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$ 4,826.8 million, as at 31 December 2016, requires regulatory capital of US$ 386.1 million to meet the minimum Basel III CAR of 8%. Should the minimum CAR threshold be raised to GIC's internal target of 16%, the required regulatory capital increases to about US$ 772.3 million. The reported eligible regulatory capital of US$ 1,874.2 million still provides sufficient cushion to support business expansions.

Table 3: Risk Exposure Break-down

In US$ millions	31 December 2016
Credit Risk (RWA)	
Claims on sovereigns	284.0
Claims on Public Sector Entities	119.9
Claims on Banks	340.8
Claims on Corporates	164.5
Securitization and Structured Investment Vehicle	8.1
Venture Capital and Private Equity	153.6
Investments in Commercial Entities	1,780.3
Investments in Other Funds and Quoted Equities	193.3
Other Assets	126.2
Total	3,170.7
Market Risk (VaR)	
Interest rate risk position	1.1
Foreign exchange risk position	0.2
Equity risk position	17.6
(Total VaR + Stress VaR) x 3	57.1
Specific risk position	36.3
Total capital requirement	93.4
Total RWA (capital requirement x 12.5)	1,167.9
Operational Risk (RWA):	
Operational risk capital charge	39.1
Total RWA (capital charge x 12.5)	488.2

3. Risk Management Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

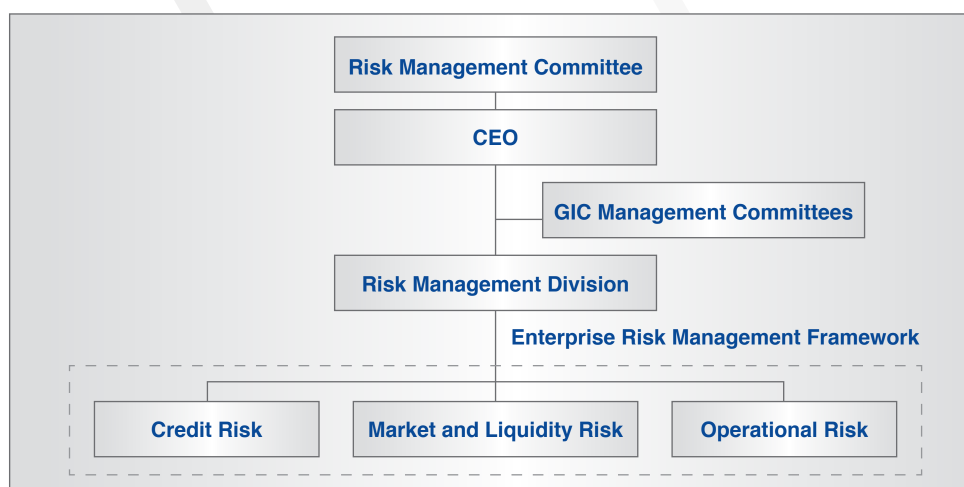
a) Evaluate and analyze the enterprise wide risk profile by developing risk monitoring techniques;

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

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

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

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



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

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

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

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

d) Human Resource Committee which reviews strategic HR issues;

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

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

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

4. Credit Risk Exposure

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

Portfolio Strategy and Planning

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

The Investment Committees

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

Investment Origination and Maintenance

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

Performance Assessment and Reporting

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

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

b) Generated Return On Capital Employed (ROCE);

c) Additional economic value created by individual projects;

d) Exceptions to risk acceptance criteria; and

e) Other policy exceptions.

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

Credit Risk as per Basel III Standardized Approach

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

Table 4: CQG Mapping

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

Table 4: serves as a sample of mapping notations of rating agencies into CQGs for claims on Corporates. At 31 December 2016, rated credit exposures accounted for about 29% of total credit exposures. Note that the numbers are after applying the equivalent risk- weights (credit conversion) as provided under the Basel III accord. Meanwhile, gross credit exposure to rated assets was recorded at approximately 46% of total gross credit exposure. Assets that are rated single 'A' or better comprised 60% of rated gross credit exposure.

Table 5: Credit Exposure (post-credit conversion)

	31 December 2016		
In US$ millions	**Rated**	**Unrated**	**Total**
Claims on Sovereigns	284.0	-	284.0
Claims on Public Sector Entities	119.9	-	119.9
Claims on Banks	340.8	-	340.8
Claims on Corporate	164.5	-	164.5
Securitization and SIVs	8.1	-	8.1
Venture Capital and Private Equity	-	153.6	153.6
Investments in Commercial Entities	-	1,780.3	1,780.3
Other Funds and Quoted Equities	-	193.3	193.3
Other Assets	-	126.2	126.2
Total	917.3	2,253.4	3,170.7
In Percent	28.9%	71.1%	100.0%

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

	31 December 2016		
In US$ millions	**Rated**	**Unrated**	**Total**
Claims on Sovereigns	482.6	-	482.6
Claims on Public Sector Entities	256.4	-	256.4
Claims on Banks	929.2	-	929.2
Claims on Corporate	247.5	-	247.5
Securitization and SIVs	28.5	-	28.5
Venture Capital and Private Equity	-	153.6	153.6
Investments in Commercial Entities	-	1,780.4	1,780.4
Other Funds and Quoted Equities	-	193.3	193.3
Other Assets	-	126.2	126.2
Total	1,944.2	2,253.5	4,197.7
In Percent	46.3%	53.7%	100.0%

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

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

	31 December 2016		
In US$ millions	**Funded**	**Unfunded**	**Total**
Claims on Sovereigns	482.6	-	482.6
Claims on Public Sector Entities	256.4	-	256.4
Claims on Banks	897.4	31.8	929.2
Claims on Corporate	247.5	-	247.5
Securitization and SIVs	28.5	-	28.5
Venture Capital and Private Equity	116.6	37.0	153.6
Investments in Commercial Entities	1,603.2	177.2	1,780.4
Other Funds and Quoted Equities	193.3	-	193.3
Other Assets	126.2	-	126.2
Total	3,951.7	246.0	4,197.7
In Percent	94.1%	5.9%	100.0%

In terms of facility type (Table 7), US$ 3,951.7 million or approximately 94% is funded. The balance is ascribed to guarantees issued and commitments made by the Corporation, as well as credit exposures on outstanding forward and swap transactions with banks.

Table 8: Gross Credit Exposure by Geographic Distribution

	31 December 2016				
In US$ millions	**GCC**	**Europe**	**Americas**	**Others**	**Total**
Claims on Sovereigns	472.2	-	-	10.4	482.6
Claims on Public Sector Entities	253.5	-	2.9	-	256.4
Claims on Banks	728.5	144.2	30.5	26.0	929.2
Claims on Corporate	206.9	10.1	27.5	3.0	247.5
Securitization and SIVs	-	17.8	10.7	-	28.5
Venture Capital and Private Equity	21.0	12.8	105.9	13.9	153.6
Investments in Commercial Entities	1,760.4	-	20.0	-	1,780.4
Other Funds and Quoted Equities	92.3	47.5	53.5	-	193.3
Other Assets	68.5	6.3	7.0	44.4	126.2
Total	3,603.3	238.7	258.0	97.7	4,197.7
In Percent	85.9%	5.7%	6.1%	2.3%	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$ 3,603.3 million or 85.9% of the total. Following suit are exposures to Americas and Europe, 6.1% and 5.7% respectively. These exposures are due in great part to investments in global securities and funds with varying investment themes.

Table 9: Gross Credit Exposure by Industry Sector

	31 December 2016					
In US$ millions	**Banks & Financial Institutions**	**Trading & Manufacturing**	**Energy &Utilities**	**Government Agencies**	**Others**	**Total**
Claims on Sovereigns	-	-	-	482.6	-	482.6
Claims on Public Sector Entities	-	-	231.7	-	24.7	256.4
Claims on Banks	929.2	-	-	-	-	929.2
Claims on Corporate	-	127.5	114.6	-	5.4	247.5
Securitization and SIVs	28.5	-	-	-	-	28.5
Venture Capital and Private Equity	153.6	-	-	-	-	153.6
Investments in Commercial Entities	77.1	1,305.9	383.5	-	13.9	1,780.4
Other Funds and Quoted Equities	193.3	-	-	-	-	193.3
Other Assets	62.2	52.0	2.5	3.2	6.3	126.2
Total	1,443.9	1,485.4	732.3	485.8	50.3	4,197.7
In Percent	34.4%	35.4%	17.4%	11.6%	1.2%	100.0%

The table on industry distribution (Table 9) of the gross credit exposure reveals a concentration on Trading & Manufacturing sector and Energy & Utilities, amounting to 52.8% of total exposure which, is in line with GIC's commitment to support the industrial growth within the GCC region.

Table 10: Credit Exposure by Residual Contractual Maturity

	31 December 2016				
In US$ millions	**Within 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Claims on Sovereigns	-	-	220.3	262.3	482.6
Claims on Public Sector Entities	20.1	5.2	94.5	136.6	256.4
Claims on Banks	362.9	64.5	484.7	17.1	929.2
Claims on Corporate	29.0	-	163.5	55.0	247.5
Securitization and SIVs	-	-	-	28.5	28.5
Venture Capital and Private Equity	-	-	-	153.6	153.6
Investments in Commercial Entities	-	-	-	1,780.4	1,780.4
Other Funds and Quoted Equities	-	-	-	193.3	193.3
Other Assets	13.2	8.7	22.4	81.9	126.2
Total	425.2	78.4	985.4	2,708.7	4,197.7
In Percent	10.1%	1.9%	23.5%	64.5%	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 III capital adequacy guidelines. As such, the external credit assessments provided by Moody's is considered when determining credit risk weights for securitization exposures.

Table 11: Credit Exposure on Securitization and SIVs

	31 December 2016	
In US$ millions	**Gross Exposure**	**Post-credit Conversion**
CQG 1	21.0	4.2
CQG 2	4.4	2.2
CQG 3	1.6	1.7
CQG 4	-	-
CQG 5	-	(deduction from capital)
CQG 6	-	
Unrated	-	
Total	27.0	8.1

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

6. Market Risk

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

The Corporation uses the ‘Risk Manager’ system, developed by MSCI Risk Metrics, and utilizes a parametric computational method based on the variance - covariance concept. In line with the capital accord, the parameters used in determining the VaR are a 10 day holding period and 99% confidence level. The computation utilizes an equally weighted historical data set going back one year. The computation ignores the correlation benefit amongst the three risk types (interest rate, equity and foreign exchange), with Total Market Risk VaR being equal to the arithmetic sum of the three components. The capital charge relating to market risk is determined for all portfolios categorized as trading (the trading book), which includes the following (Ref Notes 4 of 2016 consolidated financial statements):

(US$ million)	**2016**	**2015**
Quoted debt instruments	29	29
Hedge and Other unquoted alternative funds	425	406
	454	435

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 2016

In US$ millions	Interest Rate	Equity	FX	Total
Max	0.3	3.0	0.1	3.4
Min	0.2	2.7	0.1	3.0
Average	0.3	2.9	0.1	3.3
31-Dec-16	0.3	2.7	0.1	3.1
Stress VaR	0.8	14.9	0.1	15.8

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
Alternative Investments	Portfolio of investments in an array of different asset classes and managed funds	Hedge Funds, Real Estate, Managed Funds, MBSs, Private Equity, Global Equity
Treasury	Sales	Fixed Income, Equity, Foreign Exchanges, Commodities, Credit, Funding, Own Position Securities, Lending and Repos, Derivatives
	Market Making	
	Proprietary Positions	
	Advisory Services	
Asset Management	Discretionary Fund Management	Pooled, Segregated, Retail, Institutional, Closed, Open
	Non-Discretionary Fund Management	Pooled, Segregated, Retail, Institution, Closed, Open
Head-quarters	Income classified for Head-quarters as per internal FTP (Fund Transfer Pricing) method, and other income that cannot be classified in any other business line	Income from Free Capital, Rental Income, Other Income, etc

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

Table 14: Operational Risk Capital Charge

	31 December 2016		
In US$ millions	**3 year Average Gross Income**	**Beta Factor**	**Capital Charge**
Principal Investment	108.1	18%	19.5
Debt Capital Market	57.0	18%	10.3
Equities Investments	16.5	18%	3.0
Alternative Investments	29.3	18%	5.3
Treasury	2.0	18%	0.4
Asset management	0.1	12%	0.1
Head-quarters	4.0	18%	0.5
Total	217.0		39.1
Risk-weighted exposure			488.2

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

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

(1) Risk and Control Self-Assessment Framework;

(2) Loss Event Framework;

(3) Corrective Action Plans Framework; and

(4) Operational Risk Reporting Framework.

8. Equity Risk in the Banking Book

Equity investments in the banking book are classified at the time of acquisition into those acquired for realizing capital gains and to those purchased for strategic investments. The decision where to classify investments is arrived at after considering significant factors that include business and strategic advantages to the Corporation, and the amount of planned investments. All investment decisions require the approval of the Investment Committees, or the Executive Committee, depending on the amount of exposure. Investments acquired with a view to generating income and profits from capital appreciation are reviewed periodically and disposed of at opportune instances. Meanwhile, the strategic investment portfolios are reviewed based on the industry, market and economic developments, and the Corporation decides whether to liquidate or further consolidate its holdings in these investments. In accordance with International Financial Reporting Standards, equity positions in the banking book are classified as available for sale securities. These investments are fair valued periodically and revaluation gains/losses are accounted as cumulative changes in fair value in equity. Accounting treatment of equity investments can be found under 'Significant accounting judgments and estimates' in the notes to the consolidated financial statements.

Publicly traded investments represent quoted equities traded in the local and international stock exchanges. Privately held investments represent investments in unquoted entities and projects. The total value of equity investments in the banking book at the end of December 2016 is US$ 692.9 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$ 24.5 million, of which a significant portion is from privately held equity holdings. Meanwhile, the total un-realized gain recorded in equity is US$ 24.7 million.

Table 15: Equity Holdings in Banking Book

	31 December 2016		
In US$ millions	**Publicly Traded**	**Privately Held**	**Total**
Fair Value of Equity Investments	389.1	303.8	692.9
Realized gains recorded in P/L	9.7	14.8	24.5
Unrealized loss recorded in equity	67.4	(5.6)	61.8
Unrealized gain/loss in Tier 2 Capital	30.3	(5.6)	24.7

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, 2016 was 1,846 contracts, with an estimated VaR of US$ 1.1 million. This is higher than the levels of the previous year (31st December 2015: 292 contracts). This is excluding the impact of the fixed rate EMTN issuance.

10. Funding liquidity Assessment

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

Liquidity Coverage Ratio (LCR)

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

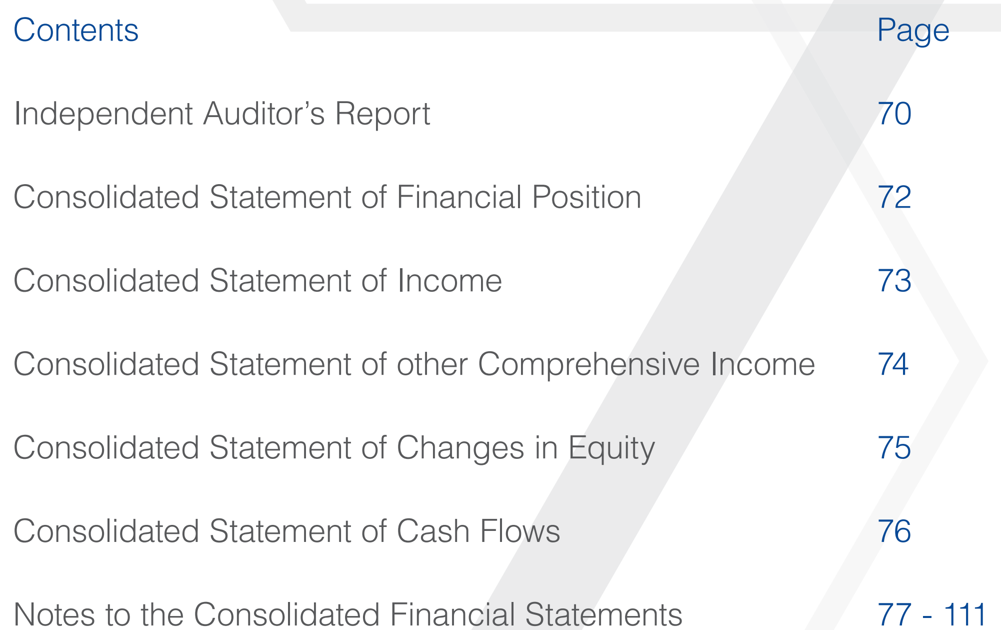
Against a prescribed minimum of 70%, GIC's LCR as of 31 December 2016 was 211%.

Table 16: Liquidity Coverage Ratio

In US$ millions	**31 December 2016**
Value of stock of High quality liquid assets (HQLA)	1,336.2
Total Net Cash outflow over the next 30 calendar days	633.7
Liquidity Coverage Ratio (LCR)	211%

CONSOLIDATED **FINANCIAL** STATEMENTS

31 December 2016



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The Shareholders
Gulf Investment Corporation G.S.C.
State of Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Gulf Investment Corporation G.S.C. ("the Corporation") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("the IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Corporation's Agreement of Incorporation and Articles of Association. In our opinion, proper books of account have been kept by the Corporation, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the Board of Directors' report agrees with the books of accounts of the Corporation. We have not become aware of any violation during the year ended 31 December 2016, of law or the Corporation's Agreement of Incorporation and Articles of Association during the financial year that might have had a material effect on the Corporation's activities or on its consolidated financial position.

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

Kuwait: 4 April, 2017

Consolidated statement of financial position

as at 31 December 2016

(All amounts in US$ millions)

	Note	**2016**	2015
Assets			
Cash and cash equivalents		**98**	39
Securities purchased under resale agreement		**-**	112
Placements with banks	3	**281**	334
Financial assets at fair value through statement of income	4	**454**	435
Financial assets available for sale	5	**2,205**	2,584
Investments in associates	6	**1,280**	1,123
Other assets	7	**301**	470
Total assets		**4,619**	5,097
Liabilities and equity			
Liabilities			
Deposits from banks and other financial institutions	8	**570**	919
Securities sold under repurchase agreements		**-**	321
Term finance	9	**1,268**	995
Other liabilities	10	**228**	365
Total liabilities		**2,066**	2,600
Equity			
Share capital	11	**2,100**	2,100
Reserves	11	**401**	400
Retained earnings /(accumulated losses)		**46**	(9)
Equity attributable to equity holders of the Corporation		**2,547**	2,491
Non-controlling interests		**6**	6
Total equity		**2,553**	2,497
Total liabilities and equity		**4,619**	5,097

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Shaikh Fahad Bin Faisal Al- Thani
Chairman

Ibrahim Ali AlQadhi
Chief Executive Officer

Consolidated Statement of Income

for the year ended 31 December 2016

(All amounts in US$ millions)

	Note	**2016**	2015
Interest income	12	**58**	50
Net gains from investments	13	**75**	208
Dividend income	14	**12**	23
Share of results of associates	6	**32**	(41)
Net fee, commission and other income	15	**5**	7
Total income		**182**	247
Interest expense	16	**(57)**	(54)
Other operating income	17	**8**	16
Net operating income		**133**	209
Staff costs		**(37)**	(39)
Premises costs		**(2)**	(3)
Other operating expenses		**(15)**	(15)
Impairment losses	18	**(22)**	(40)
Profit for the year		**57**	112
Attributable to:			
Equity holders of the Corporation		**57**	110
Non-controlling interests		**-**	2
		57	112

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Consolidated Statement of other Comprehensive Income

for the year ended 31 December 2016

(All amounts in US$ millions)

	Note	2016	2015
Profit for the year		**57**	112
Other comprehensive income / (loss) that may be re-classified to consolidated statement of income in subsequent periods:			
Financial assets available for sale:			
- Net unrealised gain / (loss) arising during the year		121	(218)
- Transferred to consolidated statement of income on sale	13	(42)	(52)
- Transferred to consolidated statement of income on impairment	18	8	39
Share of other comprehensive income / (loss) of associates		18	(12)
Other comprehensive income / (loss) for the year		**105**	(243)
Total comprehensive income / (loss) for the year		**162**	(131)
Attributable to:			
Equity holders of the Corporation		162	(133)
Non-controlling interests		-	2
		162	(131)

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

(All amounts in US$ millions)

		Reserves									
	Share capital	Compulsory reserve	Voluntary reserve	Investment revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	(Accumulated losses)/ retained earnings	Total	Non-controlling interests	Total equity
Balance as at 1 January 2015	2,100	383	256	258	(168)	(77)	(23)	2,729	21	2,750
Profit for the year	-	-	-	-	-	-	110	110	2	112
Other comprehensive (loss) / income	-	-	-	(234)	47	(56)	-	(243)	-	(243)
Total comprehensive (loss) / income	-	-	-	(234)	47	(56)	110	(133)	2	(131)
Transfer to compulsory reserve	-	11	-	-	-	-	(11)	-	-	-
Reversal of transfer of voluntary reserves	-	-	(20)	-	-	-	20	-	-	-
Dividend (note 11)	-	-	-	-	-	-	(105)	(105)	-	(105)
Sale of a subsidiary	-	-	-	-	-	-	-	-	(17)	(17)
Balance as at 31 December 2015	2,100	394	236	24	(121)	(133)	(9)	2,491	6	2,497
Balance as at 1 January 2016	2,100	394	236	24	(121)	(133)	(9)	2,491	6	2,497
Profit for the year	-	-	-	-	-	-	57	57	-	57
Other comprehensive income / (loss)	-	-	-	103	11	(9)	-	105	-	105
Total comprehensive income / (loss)	**-**	**-**	**-**	**103**	**11**	**(9)**	**57**	**162**	**-**	**162**
Transfer to reserves (note 11)	-	6	5	-	-	-	(11)	-	-	-
Transfer from voluntary reserve (note 11)	-	-	(9)	-	-	-	9	-	-	-
Dividend (note 11)	-	-	(105)	-	-	-	-	(105)	-	(105)
Accumulated rounding off adjustment	-	-	(2)	-	-	1	-	(1)	-	(1)
Balance as at 31 December 2016	**2,100**	**400**	**125**	**127**	**(110)**	**(141)**	**46**	**2,547**	**6**	**2,553**

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

(All amounts in US$ millions)

	Note	**2016**	2015
Cash flows from operating activities:			
Profit for the year		57	112
Non-cash and other adjustments to reconcile profit for the year to net cash flows:			
Impairment losses	18	22	40
Realised gain on financial assets available for sale	13	(42)	(52)
Realised (gain) / loss on sale of subsidiary	13	(9)	2
Realised gain on sale of associates	13	(10)	(154)
Gain on bargain purchase of an associate	13	(16)	-
Share of results of associates	6	(32)	41
Amortisation of net discount / premium on debt securities		7	9
		(23)	(2)
Changes in operating assets and liabilities:			
Placements with banks		53	(84)
Securities purchased under resale agreement		112	(112)
Financial assets at fair value through statement of income		(19)	14
Financial assets available for sale		492	(420)
Deposits from banks and other financial institutions		(349)	147
Movement in other assets and other liabilities		(12)	(115)
Net cash flows from / (used in) operating activities		**254**	(572)
Cash flows from investing activities:			
Proceeds from sale of a subsidiary		9	23
Dividends from associates		25	50
Proceeds from sale of investment in associates		51	440
Repayment of advances to associate		4	134
Additional contribution to associates		(138)	(2)
Net cash flows (used in) / from investing activities		**(49)**	645
Cash flows from financing activities:			
(Decrease) / increase in securities sold under repurchase agreements		(321)	321
Term finance repaid		(329)	(313)
Term finance issued		609	-
Dividend paid	11	(105)	(105)
Net cash flows used in financing activities		**(146)**	(97)
Net change in cash and cash equivalents		59	(24)
Cash and cash equivalents at 1 January		39	63
Cash and cash equivalents at 31 December		**98**	39

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

1 Incorporation and activity

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

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

The consolidated financial statements of the Corporation and its subsidiaries (collectively "the Group") for the year ended 31 December 2016 were approved by the Board of Directors on 2 March 2017. The Annual General Assembly of shareholders has the power to amend these consolidated financial statements after issuance.

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

2 Significant accounting policies

2.1 Statement of compliance

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

2.2 Basis of preparation

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

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

Changes in accounting policy and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the following new and amended IFRS effective as of 1 January 2016.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016, and have been applied in preparing these financial statements. The new standard relevant to the Corporation are discussed below:

- Disclosure initiatives (Amendments to IAS 1)

- Annual improvements to IFRSs 2012-2014 cycle-various standards

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

2.3 Basis of consolidation

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

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

- Exposure, or rights, to variable returns from its involvement with the investee, and;

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.3 Basis of consolidation (continued)

- The ability to use its power over the investee to affect its returns.

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

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

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

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

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Corporation and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies 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 its share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

2.4 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 the consolidated statement of income.

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.4 Business combination and goodwill (continued)

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

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

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

2.5 Cash and cash equivalents

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

2.6 Placements with banks

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

2.7 Financial assets

i. Recognition

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

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

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

ii. Classification and measurement

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

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.7 Financial assets (continued)

ii. Classification and measurement (continued)

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

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

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

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

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

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

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

iii. Impairment

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

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 asset 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.7 Financial assets (continued)

iii. Impairment (continued)

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

Financial assets available for sale

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

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

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

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 or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.8 Financial liabilities (continued)

ii. Classification and measurement

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

Loans and borrowings

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

Accounts payable and accruals

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

Deposits from banks and financial institutions

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

Term finance

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

Financial guarantees

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

iii. Derecognition

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

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

2.9 Offsetting

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

2.10 Fair value of financial instruments

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.10 Fair value of financial instruments (continued)

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

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

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

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

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

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

2.11 Impairment of non-financial assets

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

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

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

2.12 Repurchase and resale arrangements

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

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

Securities purchased under resale agreements are not recognised in the consolidated statement of financial position. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.13 Investment in associates

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

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

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

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

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

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

Associates of the Group are listed in note 28.

2.14 Other provisions

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

2.15 Property, plant and equipment

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

2.16 Hedge accounting

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.16 Hedge accounting (continued)

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 profit or loss.

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

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

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

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

2.17 Recognition of income and expenses

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

Interest income and expense

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

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

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.17 Recognition of income and expenses (continued)

Dividend income

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

Sale of goods

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

2.18 End of service benefits

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

2.19 Foreign currency

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

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

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

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

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

2.20 Segment reporting

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

2.21 Standards issued but not yet effective

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.21 Standards issued but not yet effective (continued)

IFRS 9: Financial Instruments

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

IFRS 15: Revenue from Contracts with Customers

IFRS 15 specifies how and when an entity recognises revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The standard was issued in May 2014 and applies to annual financial statements beginning on or after 1 January 2018. This new standard would remove inconsistencies and weaknesses in previous revenue requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets.

IFRS 16 – Leases

The IASB issued the new standard for accounting for leases, IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of income. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017.

The Corporation is in the process of quantifying the impact of this standards on the Corporation's financial statements, when adopted.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

2 Significant accounting policies (continued)

2.22 Significant accounting judgements and estimates (continued)

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.

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 Placements with banks

	2016	2015
Local banks	49	3
Other GCC banks	222	331
International bank	10	-
	281	334

Placements with banks carry an effective interest rate of 0.98 % per annum (2015: 0.37% per annum).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

4 Financial assets at fair value through statement of income

	2016	2015
Quoted debt instruments	29	29
Hedge and other unquoted alternative funds	425	406
	454	435

5 Financial assets available for sale

	2016	2015
Debt instruments		
International bonds	144	655
GCC and Islamic bonds	1,361	1,196
Emerging market bonds	21	26
Structured debt instruments	28	62
	1,554	1,939
Equities and managed funds		
Quoted equity investments and funds	195	206
Equity participations		
Quoted equity investments	194	134
Unquoted equity investments	118	119
	312	253
Private equity funds		
Managed funds portfolio	130	172
Real estate funds portfolio	14	14
	144	186
Total	**2,205**	2,584

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 value available for these investments.

Management has performed an analysis of financial assets available for sale and have concluded that the impairment losses of US$ 8 million (2015: US$ 39 million) recognized in the consolidated statement of income are adequate (note 18).

6 Investments in associates

The carrying amount of investments in associates includes goodwill amounting to US$ 39 million (2015: US$ 72 million).

The Group's investments in associates that are listed on a stock exchange have a carrying value of US$ 144 million (2015: US$ 23 million) and a market value of US$ 156 million (2015: US$ 56 million).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

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6 Investments in associates (continued)

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

	2016	2015
Share of assets	4,030	3,787
Share of liabilities	(2,740)	(2,652)
Share of net assets	**1,290**	1,135
Goodwill	39	72
Impairment losses	(49)	(84)
Carrying amount of investments	**1,280**	1,123
Share of revenue	1,558	1,375
Share of results for the year	32	(41)

List of associates is disclosed in note 28.

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

2016	**Foulath Holding B.S.C. (C)**	**The National Titanium Dioxide Co., Ltd. (Cristal)**	**Jeddah Cable Company Ltd.**	**Wataniya Telecom Algerie S.P.A.**	**Gulf Re Holdings Limited**	**Aviation Lease and Finance Company K.S.C.**
Assets	2,381	3,782	521	1,575	244	2,771
Liabilities	(1,261)	(2,842)	(295)	(827)	(195)	(1,912)
Non-controlling interests	(280)	(29)	-	-	-	-
Net assets	**840**	**911**	**226**	**748**	**49**	**859**
Revenue	794	1,737	519	1,025	63	255
Results for the year	(25)	(185)	13	254	-	53
Other comprehensive income / (loss) for the year	4	(28)	10	(15)	-	7

2015	Foulath Holding B.S.C. (C)	The National Titanium Dioxide Co., Ltd. (Cristal)	Jeddah Cable Company Ltd.	Wataniya Telecom Algerie S.P.A.	Gulf Re Holdings Limited	Aviation Lease and Finance Company K.S.C.
Assets	2,434	4,239	525	1,479	274	-
Liabilities	(1,241)	(3,138)	(322)	(970)	(225)	-
Non-controlling interests	(332)	(18)	-	-	-	-
Net assets	861	1,083	203	509	49	-
Revenue	790	1,701	462	1,105	42	-
Results for the year	18	(556)	5	67	-	-
Other comprehensive income / (loss) for the year	3	(167)	-	(115)	(1)	-

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

6 Investments in associates (continued)

The movement during the year is as follows:

2016	**Foulath Holding B.S.C. (C)**	**The National Titanium Dioxide Co., Ltd. (Cristal)**	**Jeddah Cable Company Ltd.**	**Wataniya Telecom Algerie S.P.A.**	**Gulf Re Holdings Limited**	**Aviation Lease and Finance Company K.S.C.**
Opening balance	861	1,083	203	509	49	716
Capital increase	-	-	-	-	-	98
Shareholders advance	-	41	-	-	-	-
Dividend/capital repayment	-	-	-	-	-	(15)
Results	(25)	(185)	13	254	-	53
Other comprehensive income / (loss)	4	(28)	10	(15)	-	7
Closing balance	**840**	**911**	**226**	**748**	**49**	**859**

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

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

	2016	2015
Assets	5,786	4,221
Liabilities	(3,820)	(3,137)
Net assets	**1,966**	1,084
Revenue	1,521	1,382
Results for the year	155	195
Other comprehensive income for the year	52	212

On 14 January 2016, the Corporation acquired 133,333,334 shares for US$ 99 million, resulting in a 14% voting interest, in Aviation Lease and Finance Company K.S.C. (“ALAFCO”), a company whose shares are listed on the Kuwait Stock Exchange. The fair value of the assets acquired was US$ 115 million resulting in a bargain purchase gain of US$ 16 million (note 13).

During the year, the Corporation has participated in the incorporation of two new companies and invested US$ 0.7 million for a 24% ownership and US$ 0.3 million for a 26.7% ownership in Bahrain LNG project and Osool Poultry Company S.A.O.C respectively. Both investments are classified as associates.

Notes to the Consolidated Financial Statements

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(All amounts in US$ millions)

7 Other assets

	2016	2015
Accrued interest, fees, commissions and dividends	16	47
Positive fair value of derivative instruments	1	2
Prepayments	4	14
Property, plant and equipment	65	78
Margin money paid on derivative instruments	75	195
Others, including trade receivable of subsidiaries	140	134
	301	470

8 Deposits from banks and other financial institutions

	2016	2015
Deposits from central banks	200	99
Deposits from other financial institutions	290	749
Other deposits	80	71
	570	919

At 31 December 2016, deposits from central banks and other institutions headquartered in the GCC states amounted to US$ 570 million (2015: US$ 919 million).

Deposits from banks and other financial institutions carry an effective interest rate of 1.54 % per annum (2015: 0.57% per annum).

9 Term finance

	Interest rate %	**2016**	2015
KWD medium term deposits maturing in 2018	3.00% per annum	98	-
USD medium term deposits maturing in 2018	2.25% per annum	300	-
USD medium term deposits maturing in 2021	6 months LIBOR plus 180 bps	100	-
AED bank loans (Subsidiary loans)	Floating rate ranging from 3% to 7%	8	11

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

9 Term finance (continued)

Medium Term Note Issues (EMTN):

MYR medium term fixed rate note due in 2016	5.25% per annum (semi annual)	-	140
MYR medium term fixed rate note due in 2016	4.90% per annum (semi annual)	-	175
USD medium term fixed rate note due in 2017	3.25% per annum (semi annual)	500	500
MYR medium term fixed rate note due in 2021	5.10% per annum (semi annual)	100	-
MYR medium term fixed rate note due in 2022	5.10% per annum (semi annual)	38	40
MYR medium term fixed rate note due in 2023	4.52% per annum (semi annual)	89	93
MYR medium term fixed rate note due in 2027	5.30% per annum (semi annual)	35	36
		1,268	995

10 Other liabilities

	2016	2015
Accrued interest	20	17
Negative fair value of derivative instruments	74	197
Others, including trade payable of subsidiaries and accrued expenses	134	151
	228	365

11 Equity

11.1 The authorised, issued and fully paid capital comprises of 2.1 million shares of US$ 1,000 each (2015: 2.1 million shares of US$ 1,000 each).

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

12 Interest income

	2016	2015
Placements with banks	5	2
Financial assets available for sale	52	47
Financial assets at fair value through statement of income	1	1
	58	50

13 Net gains from investments

	2016	2015
Realized gain from financial assets available for sale	42	52
Realized gain from financial assets at fair value through statement of income	1	1
Unrealized (loss) / gain from financial assets at fair value through statement of income	(3)	3
Gain on bargain purchase of an associate (note 6)	16	-
Realized gain / (loss) on sale of subsidiary	9	(2)
Realized gain on sale of associates (net)	10	154
	75	208

Gain from sale of associates

In May 2016, the Corporation entered into a sale purchase agreement for the sale of its 50% holding in Oman Investment Corporation SAOC and recognized a gain of US$ 10 million in the consolidated statement of income.

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

In 2015, the Corporation entered into a sale purchase agreement for the sale of 20% holding in Saudi Mechanical Industries Company Limited and recognized a gain of US$ 24 million in the consolidated statement of income.

Gain / loss from sale of subsidiaries

In November 2016, the Corporation entered into a sale purchase agreement for the sale of its 100% holding in Gulf Paramount for Electrical Services Company S.P.C and recognized a gain of US$ 9 million in the consolidated statement of income.

In 2015, the Corporation entered into a sale purchase agreement for the sale of its 58.7% holding in Crown Paper Mill FZC and recognized a loss of US$ 2 million in the consolidated statement of income.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

14 Dividend income

	2016	2015
Private equity funds	1	-
Quoted equity investments and funds	5	4
Equity participations available for sale	6	19
	12	23

15 Net fee, commission and other income

	2016	2015
Management, advisory and development fees	-	6
Other income	5	1
	5	7

16 Interest expense

	2016	2015
Deposits from banks and other financial institutions	(12)	(5)
Securities sold under repurchase agreements	(1)	(1)
Term finance	(44)	(48)
	(57)	(54)

17 Other operating income

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

	2016	2015
Sales	116	196
Cost of sales	(88)	(150)
Gross profit	**28**	46
Other income	1	1
Selling and distribution expenses	(4)	(6)
Administrative expenses	(17)	(25)
	8	16

No income was recognised in other operating income pertaining to discontinued operations (2015: US$ 3 million).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

18 Impairment losses

	2016	2015
Financial assets available for sale :		
Equity participations	-	(23)
Equities and manged funds	(13)	(13)
Private equity funds	(1)	(4)
Interest bearing securities	6	1
	(8)	(39)
Other assets	(14)	(1)
	(22)	(40)

19 Retirement and other terminal benefits

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

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

The total cost of retirement and other end of service benefits included in staff expenses for the year ended 31 December 2016 amounted to US$ 8 million (2015: US$ 7 million).

20 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.

20.1 Liquidity risk

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

20 Risk management (continued)

20.1 Liquidity risk (continued)

31 December 2016	**Within 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Deposits from banks and other financial institutions	314	259	-	-	573
Term finance	5	539	662	177	1,383
Gross settled derivative instruments:					
- Contractual amount payable	538	-	108	226	872
- Contractual amount receivable	(540)	-	(100)	(162)	(802)
Other liabilities	37	38	83	70	228
Total undiscounted financial liabilities	**354**	**836**	**753**	**311**	**2,254**
Commitments	-	32	88	-	120
Contingent liabilities	-	40	67	326	433

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

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

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for the year ended 31 December 2016

(All amounts in US$ millions)

20 Risk management (continued)

20.1 Liquidity risk (continued)

	Within 3 months	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
At 31 December 2016					
Assets					
Cash and cash equivalents	98	-	-	-	98
Placements with banks	281	-	-	-	281
Financial assets at fair value through statement of income	37	417	-	-	454
Financial assets available for sale	1,915	30	58	202	2,205
Investment in associates	-	-	-	1,280	1,280
Other assets	50	32	83	136	301
Total assets	**2,381**	**479**	**141**	**1,618**	**4,619**
Liabilities					
Deposits from banks and other financial institutions	314	256	-	-	570
Term finance	2	502	602	162	1,268
Other liabilities	36	38	86	68	228
Total liabilities	**352**	**796**	**688**	**230**	**2,066**
Net gap	**2,029**	**(317)**	**(547)**	**1,388**	

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

20 Risk management (continued)

20.2 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 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.

2016	***Average***	***Minimum***	***Maximum***	***31 December 2016***
Interest rate	22	19	25	21
Equity price	15	12	19	13
Foreign exchange	1	-	4	1
Total*	**23**	**19**	**26**	**20**

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

** Total VaR incorporates benefits of diversification.*

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

Market indices	*Change in equity price*	***Effect on equity***	
		2016	2015
Saudi Stock Exchange	+/-10	**21**	15
Other GCC indices	+/-10	**2**	3

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

20 Risk management (continued)

20.3 Credit risk

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

As at 31 December 2016 and 2015 the Group has not obtained any collateral on any of the financial assets.

20.3.1 Maximum exposure to credit risk

The maximum credit exposure of the Group is as follows:

	Maximum exposure	
	2016	2015
Cash and cash equivalents	98	39
Securities purchased under resale agreement	-	112
Placements with banks	281	334
Debt securities at fair value through statement of income	29	29
Debt securities available for sale	1,554	1,939
Other assets	199	348
Credit exposure on assets	**2,161**	2,801
Credit commitments	433	345
Total credit exposure	**2,594**	3,146

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$ 122 million (2015: US$ 75 million).

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

	GCC	**Europe**	**America**	**Asia / Africa**	**Total**
At 31 December 2016					
Cash and cash equivalents	33	65	-	-	98
Placements with banks	271	10	-	-	281
Debt securities at fair value through statement of income	-	7	8	14	29
Debt securities available for sale	1,362	61	112	19	1,554
Other assets	108	10	11	70	199
Credit exposure on assets	**1,774**	**153**	**131**	**103**	**2,161**
Credit commitments	414	-	-	19	433
Total credit exposure	**2,188**	**153**	**131**	**122**	**2,594**

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(All amounts in US$ millions)

20 Risk management (continued)

20.3 Credit risk (continued)

20.3.1 Maximum exposure to credit risk (continued)

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

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

	Banks & FIs.	**Trading & Mftg.**	**Energy & Utilities**	**Govt. agencies**	**Other**	**Total**
At 31 December 2016						
Cash and cash equivalents	98	-	-	-	-	98
Placements with banks	281	-	-	-	-	281
Debt securities at fair value through statement of income	-	3	3	23	-	29
Debt securities available for sale	706	-	308	443	97	1,554
Other assets	98	82	4	5	10	199
Credit exposure on assets	**1,183**	**85**	**315**	**471**	**107**	**2,161**
Credit commitments	-	58	297	78	-	433
Total credit exposure	**1,183**	**143**	**612**	**549**	**107**	**2,594**

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

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20 Risk management (continued)

20.3 Credit risk (continued)

20.3.2 Credit quality of financial assets

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

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

	Neither past due nor impaired		**Total**
	Investment grade	**Unrated**	
At 31 December 2016			
Cash and cash equivalents	98	-	98
Placements with banks	281	-	281
Debt securities at fair value through income statement	29	-	29
Debt securities available for sale	1,554	-	1,554
Other assets	92	107	199
Credit exposure on assets	**2,054**	**107**	**2,161**
Credit commitments	433	-	433
Total credit exposure	**2,487**	**107**	**2,594**

	Neither past due nor impaired		Total
	Investment grade	Unrated	
At 31 December 2015			
Cash and cash equivalents	39	-	39
Securities purchased under resale agreement	112	-	112
Placements with banks	334	-	334
Debt securities at fair value through income statement	29	-	29
Debt securities available for sale	1,939	-	1,939
Other assets	220	128	348
Credit exposure on assets	2,673	128	2,801
Credit commitments	345	-	345
Total credit exposure	3,018	128	3,146

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21 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	
	2016	2015
Credit Risk Amounts		
Transaction-related contingent items:		
- Letter of guarantees	**433**	345

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

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

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

	2016	2015
Undrawn commitments for investments in private equity funds	68	72
Undrawn commitments for investments in associates	39	-
Other commitments	13	30
	120	102

22 Derivatives

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

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

Hedge accounting

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

As at the reporting date, the notional amount of interest rate swaps and interest rate futures used to hedge interest rate risk amounted to US$ 32 million (2015: US$ 87 million) and its net fair value was a swap loss of US$ 2 million (2015: US$ 5 million).

Cross currency swaps are used to hedge non US$ term finance issued in fixed rate coupon. As at the reporting date, the notional amount of cross currency swaps amounted to US$ 334 million (2015: US$ 673 million) and its net fair value was a swap loss of US$ 72 million (2015: US$ 190 million).

For the year ended 31 December 2016, the Group recognised unrealised gain of US$ 3 million (2015: US$ 4 million) and realised loss of Nil (2015: Nil) on interest rate hedging instruments. The corresponding unrealised loss and realised gain on the hedged fixed income securities amounted to US$ 3 million (2015: US$ 4 million) and Nil (2015: US$ 1 million) respectively.

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22 Derivatives (continued)

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

	2016			2015		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount
Derivatives held for hedging						
- Interest rate swaps	-	(2)	32	-	(5)	87
- Cross currency swaps	-	(72)	334	-	(190)	673
- Forward foreign exchange contracts	1	(1)	872	2	(2)	1,635
Derivatives held for trading						
- Credit default swaps	-	-	-	-	-	13
	1	**(75)**	**1,238**	2	(197)	2,408

Maturity analysis

	Within 1 year	**Year 1 to 5**	**Above 5 years**	**Total**
At 31 December 2016				
Notional amounts				
Interest rate swaps	5	27	-	32
Cross currency swaps	-	108	226	334
Forward foreign exchange contracts	538	108	226	872
	543	**243**	**452**	**1,238**

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

23 Segmental information

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

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

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

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for the year ended 31 December 2016

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23 Segmental information (continued)

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

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

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

	Principal Investments	Debt Capital Markets	Equity and Alternative Investments	Treasury	Corporate and Other	Eliminations	Total
31 December 2016							
Interest income	2	56	-	49	-	(49)	58
Interest expense	(29)	(12)	(10)	(55)	-	49	(57)
Share of results from associates	32	-	-	-	-	-	32
Other operating income	53	22	20	-	5	-	100
Net operating income	**58**	**66**	**10**	**(6)**	**5**	**-**	**133**
Other operating expenses	(13)	(2)	(3)	(4)	(32)	-	(54)
Impairment losses	(14)	6	(15)	-	1	-	(22)
Profit for the year	**31**	**70**	**(8)**	**(10)**	**(26)**	**-**	**57**
Segment assets	1,795	1,597	776	4,275	15	(3,839)	4,619
Segment liabilities	1,676	1,511	784	1,921	13	(3,839)	2,066
Equity							2,553
Total liabilities and equity							4,619
Other information							
Investment in associates	1,280	-	-	-	-	-	1,280

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23 Segmental information (continued)

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

24 Fair value information

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Investment securities classified as 'Available for sale' and 'Fair value through statement of income' are stated at fair value 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 including the NAV of private equity funds where the underlying investments are unquoted private companies / real estate assets.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

24 Fair value information (continued)

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

	Level 1	Level 2	Level 3	Total
2016				
Assets measured at fair value				
Financial assets at fair value through statement of income				
Investment in quoted debt instruments	29	-	-	29
Hedge funds & other alternative funds	-	425	-	425
Financial assets available for sale				
Debt instruments	1,526	-	28	1,554
Equities and managed funds	195	-	-	195
Equity participations	194	-	-	194
Private equity funds	-	-	144	144
Other assets- derivative financial instruments				
Forward foreign exchange contracts	-	-	1	1
	1,944	**425**	**173**	**2,542**
Other liabilities –derivative financial instruments				
Interest rate swaps	-	2	-	2
Cross currency swaps	-	-	72	72
Forward foreign exchange Contracts	-	-	1	1
	-	**2**	**73**	**75**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

24 Fair value information (continued)

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

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

	At 1 January 2016	Gain / (loss) recorded in the consolidated statement of income	Gain / (loss) recorded in equity	Net purchases, sales, transfers and settlements	At 31 December 2016
31 December 2016					
Assets measured at fair value					
Financial assets available for sale					
Debt instruments	62	-	2	(36)	28
Private equity funds	186	13	(5)	(50)	144
Other assets – derivative financial instruments					
Forward foreign exchange contracts	2	(1)	-	-	1
Other liabilities – derivative financial instruments					
Cross currency swaps	190	(118)	-	-	72
Forward foreign exchange contracts	2	(1)	-	-	1

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

24 Fair value information (continued)

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

Measurement of Level 3 fair values

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

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

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

25 Related party transactions

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

Significant transactions with associates during the year are as follows:

	2016	2015
Net fee, commission and other income	-	6
Guarantees and commitments	355	271
Receivables from associates	7	30

Compensation of key management personnel

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

	2016	2015
Salaries and short-term employee benefits	10	12
Post-employment and termination benefits	2	2
	12	14

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

26 Capital management

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

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

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

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

	2016	2015
Interest-bearing deposits, term finance and other borrowings	1,838	2,235
Other liabilities	228	365
Less: Cash and cash equivalents, Securities purchased under resale agreement and placements with banks	(379)	(485)
Net debt	**1,687**	2,115
Equity attributable to equity holders of the Corporation	**2,547**	2,491
Gearing ratio (net debt /equity)	**0.7**	0.8

27 Subsequent event

Subsequent to 31 December 2016, National Titanium Dioxide Co. Ltd (Cristal), an associate company of the corporation has entered into a conditional transaction agreement to sell to Tronox Limited its titanium dioxide business for cash and new shares. The closing of the deal is expected to take place by May 2018, subject to the satisfaction of certain conditions precedent including governmental and regulatory approvals in relevant jurisdictions.

28 Principal subsidiaries and associates

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

Subsidiaries	**Country of incorporation**	**% of shareholding**		**Financial statements reporting date**	**Principal business activity**
		2016	**2015**		
Bituminous Products Company Limited (Bitumat)	Saudi Arabia	100	100	31 December 2016	Building material manufacturing
Gulf Paramount for Electrical Services Company WLL	Kuwait	-	100	31 December 2016	Electrical Services
Gulf Electronic Tawasul Company KSCC	Kuwait	86.8	86.8	31 December 2016	Information Technology
GIC Technologies Company WLL	Kuwait	80	80	31 December 2016	Technical Advisory
Gulf Jyoti International L.L.C	UAE	70	70	31 December 2016	Construction & Engineering

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

(All amounts in US$ millions)

28 Principal subsidiaries and associates (continued)

Associates	Country of incorporation	% of shareholding		Financial statements reporting date	Principal business activity
		2016	2015		
Gulf Re Holdings Limited	Channel Islands	50.0	50.0	31 December 2016	Re-insurance
Foulath Holding B.S.C (c)	Bahrain	50.0	50.0	31 December 2016	Holding company
Oman Investment Corporation SAOC	Oman	-	50.0	31 December 2016	Investing activities
Al Ezzel Power Company B.S.C. (c)	Bahrain	45.0	45.0	31 December 2016	Power & Water Utility project
Bahrain Industrial Pharmaceutical Co. W.L.L	Bahrain	40.0	40.0	31 December 2016	Pharmaceuticals
Orimix Concrete Products L.L.C	UAE	40.0	40.0	31 December 2016	Building Materials
Shuqaiq International Power and Water Company Limited	Saudi Arabia	33.3	33.3	31 December 2016	Power & Water Utility project
SGA Marafiq Holdings	Saudi Arabia	33.3	33.3	31 December 2016	Power & Water Utility project
Technical Supplies & Services Co. Ltd.	UAE	30.7	30.7	31 December 2016	Refrigeration & Cooling Services
Osool Poultry Company S.A.O.C	Oman	26.7	-	31 December 2016	Poultry & Dairy Products
Al Dur Holding Company Limited	UAE	25.0	25.0	31 December 2016	Power & Water Utility project
Jeddah Cable Company Ltd.	Saudi Arabia	25.0	25.0	31 December 2016	Manufacturing Cables
Moon Iron and Steel Company SAOC	Oman	25.0	25.0	31 December 2016	Iron and steel
Bahrain LNG W.L.L.	Bahrain	24.0	-	31 December 2016	Oil and Gas
Interplast Company Limited (L.L.C.)	UAE	23.5	23.5	31 December 2016	Plastic
Celtex Weaving Mills Co. Ltd.	Bahrain	23.0	23.0	31 December 2016	Textiles
Rawabi Emirates (PJSC)	UAE	22.5	22.5	31 December 2016	Dairy Products
Dubai Wellness Centre	UAE	21.6	21.6	31 December 2016	Medical services
Wataniya Telecom Algerie S.P.A.	Algeria	20.0	20.0	31 December 2016	Telecom service provider
Gulf Stone Company SAOG	Oman	20.0	20.0	31 December 2016	Building Materials
A'Saffa Foods SAOG	Oman	20.0	20.0	31 December 2016	Poultry & Dairy Products
The National Titanium Dioxide Co., Ltd. (Cristal)	Saudi Arabia	20.0	20.0	31 December 2016	Production of Titanium Dioxide
Aviation Leasing and Finance Co	Kuwait	14.0	-	30 September 2016	Aviation Leasing

Gulf Investment Corporation G.S.C.

Stand-alone Statement of Financial Position

as at 31 December 2016

(All amounts in US$ millions)

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

	2016	2015
Assets		
Cash and cash equivalents	83	15
Securities purchased under resale agreement	-	112
Placements with banks	277	330
Financial assets at fair value through statement of income	454	435
Financial assets available for sale	2,205	2,584
Investments in associates	1,272	1,113
Investment in subsidiaries	67	101
Other assets	126	268
Total assets	**4,484**	4,958
Liabilities and equity		
Liabilities		
Deposits from banks and other financial institutions	570	919
Securities sold under repurchase agreements	-	321
Term finance	1,260	983
Other liabilities	107	244
Total liabilities	**1,937**	2,467
Equity		
Share capital	2,100	2,100
Reserves	390	400
Retained earnings /(accumulated losses)	57	(9)
Total equity	**2,547**	2,491
Total liabilities and equity	**4,484**	4,958

Principal Investing

Projects and Equity Participation

As of 31 December 2016

	Name of the Project	Location	Paid up Share Capital -USD Million	GIC Effective holding %	GIC holding type
	Subsidiaries and Associates of GIC				
1	G.I.Corporation for General Trading & Contracting Co. W.L.L	Kuwait	0.82	100.00%	Direct
2	Bituminous Products Company Limited (Bitumat)	Saudi Arabia	15.98	100.00%	Direct
3	GIC Financial Services Limited	Cayman Islands	0.05	100.00%	Direct
4	Kuwait Bituminous Products for Building Material and Equipment Trading Co.*	Kuwait	0.49	100.00%	Indirect
5	Gulf Electronic Tawasul Company KSCC	Kuwait	17.64	90.83%	Direct
6	GIC Technologies Co. (W.L.L)	Kuwait	4.94	80.00%	Direct
7	Gulf Jyoti International L.L.C	UAE	11.73	70.00%	Direct
8	Gulf Re Holdings Limited **	Channel Islands	70.00	50.00%	Indirect
9	Foulath Holding B.S.C (c)	Bahrain	566.36	50.00%	Direct
10	Al Ezzel Power Company B.S.C. (c)	Bahrain	55.98	45.00%	Direct
11	Orimix Concrete Products L.L.C. *	UAE	8.17	40.00%	Indirect
12	Technical Supplies & Services Co. Ltd.	UAE	27.23	30.67%	Direct
13	Osool Poultry Co.	Oman	1.30	26.68%	Direct
14	Jeddah Cable Company Ltd & Energya Group	Saudi Arabia	131.86	25.00%	Direct
15	Al Dur Power & Water Co. B.S.C. (c)	Bahrain	66.30	25.00%	Indirect
16	Moon Iron and Steel Company S.A.O.C	Oman	60.10	25.00%	Direct
17	Bahrain LNG (W.L.L)	Bahrain	264.00	24.00%	Direct
18	Interplast Company Limited - (L.L.C.)	UAE	27.23	23.50%	Direct
19	Celtex Weaving Mills Co. Ltd.	Bahrain	0.00	23.00%	Direct
20	Rawabi Emirates (PJSC)	UAE	59.17	22.54%	Direct
21	The Dubai Wellness Center Limited (L.L.C)	UAE	68.79	21.63%	Direct
22	A'Saffa Foods Co. SAOG	Oman	31.17	20.01%	Direct
23	The National Titanium Dioxide Co., Ltd. (CRISTAL)	Saudi Arabia	629.35	20.00%	Direct
24	Gulf Stone Company SAOG *	Oman	9.43	20.00%	Indirect
25	Wataniya Telecom Algerie S.P.A. InvesTel	Algeria	613.38	20.00%	Indirect
26	Marafiq - Jubail Water & Power Co.	Saudi Arabia	1.33	20.00%	Indirect
27	Shuqaiq Water & Electricity Co.	Saudi Arabia	298.67	20.00%	Indirect
28	Aviation Lease And Finance Co. K.S.C.P (ALAFCO)	Kuwait	311.88	14.00%	Direct

Principal Investing

Projects and Equity Participation

As of 31 December 2016

	Name of the Project	Location	Paid up Share Capital -USD Million	GIC Effective holding %	GIC holding type
	Equity Participations				
1	Moobility Telecom International Holding Ltd.	British Virgin Islands	-	17.25%	Direct
2	TMK Gulf International Pipe Industry L.L.C	Oman	68.17	14.20%	Direct
3	Tatweer Infrastructure Company (Q.P.S.C.)	Qatar	168.64	11.64%	Direct
4	Ras Laffan Power Company Limited (Q.S.C.)	Qatar	138.90	10.00%	Direct
5	Gulf Bridge International Inc.	Virgin Island	345.50	9.00%	Direct
6	KGL Logistics Company K.S.C. (Closed)	Kuwait	199.68	8.88%	Direct
7	Securities and Investment Company B.S.C.	Bahrain	113.63	7.70%	Direct
8	Gulf Aluminium Rolling Mill Co. B.S.C.	Bahrain	102.58	5.90%	Direct
9	National Industrialization Co. (TASNEE) (Saudi Joint Stock Co.)	Saudi Arabia	5,969.43	5.70%	Direct
10	United Power Company SAOG	Oman	18.11	2.27%	Direct
11	Arabian Industrial Fibers Company (IBN RUSHD) (Closed Joint Stock Company)	Saudi Arabia	2,266.98	1.95%	Direct
12	Thuraya Satellite Telecommunications Company PJSC	UAE	653.85	1.65%	Direct

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

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

Corporate Directory 2016

Senior Management Team

Mr. Ibrahim Ali AlQadhi
Chief Executive Officer

Mr. Shafic Ali
Group Head of Principal Investment

Mr. Talal Al-Tawari
Group Head of Global Markets

Mr. Hani Al-Shakhs
Group Head of Support

Global Markets Group

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

Mr. Osama Al-Musallam
Head of Treasury Div.

Mr. Fahad Al-Bader
Acting Head of Managed Funds Div.

Mr. Raffaele Bertoni
Head of Debt Capital Markets Div.

Principal Investment Group

Mr. Fadi Twainy
Head of Light Industry Projects Div.

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

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

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

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

Mr. Muthuswamy Chandrasekaran
Advisor to Group Head of Principal Investment

Support Group

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

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

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

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

Corporate Office

Mr. Fahad Al-Abdulkader
Head of BOD Secretariat Div.

Mr. Malek Al-Ajeel
Advisor to CEO

Mr. Pervaz Akthar
Acting Head of Risk Management Div.

Mr. Hazem El-Rafie
Head of Finance Div.

Dr. Khaled Bukhamseen
Head of Internal Audit Div.

Dr. Mohamed Elliwa
Head of Legal & Compliance Div.

Dr. Mohammad Al-Omar
Head of Research Div.

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