



Global and the International Financial Crisis

2008-2009



Global, like many companies and banks in the region and worldwide, was affected by the worldwide financial crisis and the company defaulted on a syndicated debt in December 2008. The company's management immediately sprung into action and assigned an international financial advisor and started the process of its debt rescheduling with its creditors.

Since then, **Global** has worked very hard with its creditors and continued to service all coupon and interest payments on a timely basis. The company's full cooperation and transparency with its lenders have been well recognized by the banks, placed **Global** apart from other borrowers in default and set precedents for other restructurings in the region.

The International Financial Crisis

The year 2008 was a turbulent year for the entire world and Gulf Co-operation Council (GCC) countries were no exception to that. In fact, the year started on a buoyant note for the GCC on the back of skyrocketing oil prices and booming banking and real-estate sectors. The GCC countries entered 2008 on a confident note after recording spectacular growth in 2007. The major concern for GCC economies during the first half of 2008 was not the lack of economic growth or business and consumer confidence, but inflation stemming from overheating in the economy and depreciation of the US Dollar (to which most GCC currencies are pegged) against major currencies of the world. The impact of spectacular growth in the economy was visible across all sectors in the region, most notably in financial services, real estate and construction sectors.

During the first half of the year, banks in the region had broad access to funding from foreign financial institutions and saw an inflow of money into the region through speculation on the revaluation of currencies. Imported inflation in the region on account of depreciation of the US Dollar had created an impression that GCC countries might de-peg/revalue their currencies against the US Dollar. Steps taken by Kuwait to de-peg the Kuwaiti Dinar from the US Dollar in mid-2007 had only strengthened this impression.

On the asset side, banks had many investment opportunities with a slew of projects announced across the region and most of the banks were recording high double-digit growth rates every quarter. GCC governments, flushed with funds from high oil prices, continued to announce mega-projects in the region, which led to unprecedented growth in sectors like real estate, construction and infrastructure.

However, things started to deteriorate in the later part of 2008. Although it was initially expected that GCC markets might remain insulated from adverse developments in the rest of the world, this proved not to be the case. By September 2008, most of the stock markets in the GCC and broader MENA region along

with the rest of the world were in a severe bearish phase. The global crisis saw foreign investors exiting emerging markets en masse and GCC markets were no different. Banks, which earlier had access to international funds, were grappling with a liquidity crunch as foreign funds were hard to come by. There was almost no fresh lending by the banks in the region towards the end of the year, which aggravated the problem. The liquidity crisis in the region had a wider impact across all sectors in the region most notably in financial services, real estate and construction. These sectors, which were riding high on the back of ample liquidity in the first half of the year, came to a screeching halt in the fourth quarter of the year.

In April 2009, the government of Kuwait passed a decree law and its implementation guidelines on State Financial Stability to tackle challenges of the global financial meltdown. The law provides a provision of a state guarantee to the extent of 50% of the new finances to be granted to the eligible investment companies by the banks regulated by the Central Bank of Kuwait. It also permits issuance of convertible debt and preference shares and provides creditors protection for the companies seeking restructuring of their debt.

The Effect on Global

A weak macroeconomic environment negatively impacted **Global's** operations, particularly the Principal Investment and Real Estate businesses. Reduced credit appetite and a lack of liquidity prevented the Company from refinancing as principal payments became due. As a result, **Global** defaulted on a syndicated debt amounting to USD 200 million on 15th December 2008 and reported the first loss in its history for 2008.

Global's Initiative

The company's management acted promptly, and appointed HSBC as International Financial Advisor to assist in restructuring its debt in default. On 21st December 2008, less than a week after **Global** defaulted, a meeting was held with the lending banks and a Steering Committee representing the banks was formed. Three days later headline terms of a standstill arrangement were proposed to the Steering Committee, which approved these terms on 14th January 2009.

Global's Restructuring

Global then proceeded to implement its restructuring plan and achieved the following:

- **Reduced operational costs**
- **Released an independent valuation report of its principal investments and real estate assets, prepared by a third party appointed by the Steering Committee, to all lending banks**
- **Introduced a new organizational structure**

By 20th October 2009, Global had received approval by the overwhelming majority of the company's creditors to the proposed terms of the restructuring.

The level of cooperation and professionalism Global demonstrated during the restructuring process has been commended by the Steering Committee on several occasions. Since the beginning of the rescheduling process, the Steering Committee has been confident that an agreement favourable to all parties would be reached. In March 2009, The Chair of the Steering Committee, said: "The Steering Committee is encouraged by the progress that Global has made and by the proposals that have been put forward. The Steering Committee will, taking into consideration the interests of the wider banking group, continue to constructively work with the company to ensure a swift resolution to this matter."

Recognitions

Throughout that period, Global continued to service all coupon and interest payments on a timely basis. Our full cooperation and transparency earned us the trust and support of the lending banks. In October 2009, the Chair of the Steering Committee praised Global's interaction with its lenders, saying that the company stands out from other borrowers in default in the region, setting precedents for other restructurings in the region.

"**Global** has been praised for its interaction with its lenders, making it stand out from other defaulted borrowers in the region."

Euroweek - 30 October 2009

"**Global** has been highly professional and transparent throughout this process setting precedents for other restructurings in the region."

David Pepper from WestLB and Chair of the Banks' Steering Committee

Euroweek - 30 October 2009

"Unlike many other Kuwaiti investment companies, **Global's** saving grace has been the recurring fee income from its asset management, investment banking and broking businesses."

David Pepper from WestLB and Chair of the Banks' Steering Committee

Euroweek - 30 October 2009

"Unlike many institutions in the region, Global has continued to service its debts and intends to fully repay its loans."

Financial Times - 29 July 2009

"Global has taken a very co-operative approach to the restructuring process."

A banker to Financial Times - 29 July 2009

Restructuring Milestones

15 December 2008	Global announced the default on USD 200 million syndicate loan
18 December 2008	Appointment of HSBC as International Financial Advisor
21 December 2008	Meeting with the lending banks and forming the Steering Committee representing the banks
24 December 2008	Heads of Terms for a 'standstill agreement' provided to Steering Committee
11 January 2009	Initial meeting with regulators
14 January 2009	Bondholders meeting held in Kuwait and Heads of Terms for standstill agreement signed
15 January 2009	Completion of legal due diligence of liabilities by an international law firm
28 January 2009	Global announces redundancies and cost savings
4 February 2009	Independent valuation report released to all participating banks
22 & 23 February 2009	Restructuring proposal presented to all banks
10 March 2009	Global announces new organizational structure
27 April 2009	Global announces the financial results for 2008
14 May 2009	Global announces the financial results for Q1 2009
4 & 5 June 2009	Amended restructuring proposal submitted to all banks
12 June 2009	Draft term sheet of the proposed restructured facility submitted to the Steering Committee of the banks
14 June 2009	KD20 million Bondholders approved to extend the maturity for 6 months
15 June 2009	Overwhelming shareholders' support during the AGM and EGM; announcement of the future strategy and shareholders' approval for capital increase
17 July 2009	Term sheet agreed with the Steering Committee circulated to all banks
9 August 2009	Global announces the financial results for Q2 2009
19 & 20 October 2009	Global proposes a timeline for completion of the restructuring to the bank creditors
9 November 2009	Global announces the financial results for Q3 2009, announcing a decline of 83% in losses compared to the previous quarter
15 November 2009	Global offers collateral to its bondholders and the bondholders agree to sign the relevant restructuring agreements
10 December 2009	Signing of the Debt Rescheduling with all 53 banks

The key terms of restructuring

- The full repayment of the outstanding debt
- The equal treatment of the financiers
- The continued full servicing of interest
- Security over the principal investments and real estate of Global through a ring-fenced security structure. The assets will be disposed of in an orderly manner and all the proceeds used to repay lenders
- Other than the grant of security referred to above, the terms of the three bond issues of KD 115 million (USD 0.4 billion) by Global remain unchanged
- Multi-currency (USD, KD and AED) and multi-tranche (conventional, Islamic and bilateral) facility
- A three year facility with an initial pricing of benchmark plus 150 bps stepping up by 1% each year

Commitment to Clients

Despite the turbulence of the last few months, we continued to focus on our clients' needs. Our efforts to enhance our products and services have not wavered throughout this period. Some of our achievements in 2009 included:

- **Global** Buyout Fund distributed USD 16 million cash dividends, **Global** Opportunistic Fund I distributed USD 15.7 million and distributions from other funds making total distributions of more than USD 50 million to clients.
- **Global** hired two experienced professionals to head the Brokerage and Alternative Asset Management groups to continue strengthening its business sectors.
- Most of the funds managed by **Global** outperformed their respective

benchmarks and peers (**Global** Energy, Petrochemical and Downstream Industries Fund is the best performing fund in the region reporting 44.7% YTD October 2009).

- **Global** continued to receive awards and recognitions on various levels (last two awards received in November 2009 were "The Leading Islamic Fund manager in the Middle East" and "Best Real Estate Fund Manager in the Middle East" by Naseba and ICG - London respectively).
- **Global** Capital Management Limited, the alternative asset management arm of **Global** was ranked as the 126th private equity firm in the world by Private Equity International (PEI).
- **Global** continued to enhance the level of service offered to its clients and has introduced a new Account Statement designed to provide clients with easier to read and more comprehensive information on their portfolio with the company.

Commitment to the Community

Our commitment to be a good corporate citizen was unaffected by the restructuring process. Some of the events we organized/sponsored during 2009, in accordance with the company's social responsibility program, included:

- Participated at the Student Career Fair held at The Australian College of Kuwait (ACK) in April 2009.
- Sponsored the College for Business Administration - Kuwait University Graduation event in April 2009.
- Participated in The 5th Annual AUK Career Fair in April 2009.

- Hosted American University of Kuwait students in May 2009 to introduce them to the services **Global** offers and update them on the causes and implications of the world's financial crisis.
- Held a blood donation day, in collaboration with the Central Blood Bank in Kuwait, in November 2009.
- Participated in lectures through many campuses such as Kuwait University's College of Business and Administration in October 2009, American University of Kuwait in November 2009 and Kuwait University College of Social Science in November 2009
- Supported initiatives that help protect the environment by sponsoring "Reuse 3.0" event held in Kuwait in December 2009

Commitment to Shareholders

Global enhanced its corporate governance by introducing a new organizational structure, forming various committees and reviewing its processes and procedures. Throughout the process, we kept our shareholders informed of major milestones achieved.

Our shareholder register by and large remained the same with no significant changes in ownership of the major shareholders. Their support was reflected at the AGM when the overwhelming majority approved all the agenda items. In addition, the shareholders approved **Global's** plan to increase its capital by KWD 150 million and delegated authority to the Board to allow it to complete a preemptive equity offering in the future. The authority gave the Board flexibility to take advantage of market conditions and to complete the capital raise to strengthen **Global's** capital base and deleverage the company at the appropriate time. There is no set time frame for this.

Appreciations

This achievement would not have been possible without the support of all our stakeholders. Special thanks go to our clients and shareholders for their trust and loyalty, the regulators for their support, the creditors for their understanding and the employees for their dedication and hard work.

Moving Forward

Our business model has been revised to reduce our Principal Investment book, which consists of well diversified assets, in the coming years as we focus our efforts on enhancing our product offering to our clients through our three main business pillars; Asset Management, Investment Banking & Brokerage.

Our experienced and loyal team, which consists of professionals in various areas and branches, will remain the company's main drive to move forward and overcome any challenges and be a stronger company offering the best products and services to its clients.