الخليج للتأمين
GULF INSURANCE

Half Century of Excellence

Annual Report 2011

H.H. Sheikh Sabah
Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

H.H. Sheikh Nawaf
Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of the State of Kuwait

Company Brief

Gulf Insurance Company K.S.C. (GIC) was established in 1962. GIC is a public shareholding company listed on the Kuwait Stock Exchange and a market leader in Kuwait in terms of premiums written, both in life and nonlife insurance.

With operations in both life and non-life insurance segments, GIC is currently the largest insurance company in Kuwait in terms of written and retained premiums, its activities are further supported by first class reinsurance security and the company maintained its S&P (Standard & Poor's) Financial Strength Rating BBB+ with Positive outlook. A.M. Best Europe – Rating Services Limited has also assigned a financial strength rating of A- (Excellent) and issuer credit rating of "A-" to Gulf Insurance Company K.S.C. (GIC) (Kuwait). The outlook assigned to both ratings is stable. The ratings of GIC reflect its strong regional business profile, good profitability and adequate level of risk-adjusted capitalization.

GIC provides innovative and comprehensive insurance solutions and covers a variety of risks related to Motor, Marine & Aviation, Property & Casualty, and Life & Health Insurance both in conventional and takaful (Islamic insurance based on Shariah principles) basis. The company prides itself in its distinguished quality of products and superior customer service. GIC enjoys lending utmost professional and personalized attention to both individual and corporate clients in their current and future insurance needs.

GIC's Main Shareholders:

• **Kuwait Projects Co. (KIPCO)** Group is one of the largest diversified holding companies in the Middle East and North Africa. KIPCO has significant ownership interests in a portfolio of over 70 companies operating across 26 countries. The company's main business sectors are financial services and media. Through the subsidiaries and affiliates of its core companies, KIPCO also has interests in the real estate, industrial, education and the management & advisory sectors.

• **Fairfax Financial Holdings Limited** is a financial services holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and investment management. Fairfax subsidiaries provide a full range of property and casualty products, maintaining a diversified portfolio of risks across all classes of business, geographic regions, and types of insured. Fairfax's corporate objective is to achieve a high rate of return on invested capital and build long-term shareholder value. The company has been under present management since 1985 and is headquartered in Toronto, Canada. Its common shares are listed on the Toronto Stock Exchange under the symbol FFH and in U.S. dollars under the symbol FFH.U.

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Insurer of choice

By cultivating a team of over 150 life and non-life insurance consultants trained to offer clients the most practical advice and dedicated attention and with a growing network of over 18 branches accessible throughout Kuwait, the company has been able to realize its pledge to be the “insurer of choice”.

Over the years, GIC has grown from being a leading personal and commercial insurer in Kuwait into a regional insurance solutions provider in Middle East and North Africa.

Its subsidiaries include:
• **AMIG**: Arab Misr Insurance Group – Egypt
• **AOIC**: Arab Orient Insurance Company– Jordan
• **BKIC:** Bahrain Kuwait Insurance Company - Bahrain
• **DAIC:** Dar Assalam Insurance Company- Iraq
• **ELTIC:** Egyptian Life Takaful Insurance Company- Egypt
• **FAG:** Fajr Al-Gulf Insurance & Reinsurance Company – Lebanon
• **GLIC:** Gulf Life Insurance Company - Kuwait
• **SKIC:** Syrian Kuwaiti Insurance Company - Syria
• **Globe**-Med Kuwait - Kuwait

And its affiliate includes:
• **BURUJ:** Buruj Cooperative Insurance Company - KSA
• **KIPCO** Private Equity Fund - Cayman Islands.

Technology edge
GIC’s state-of-the art internet based information technology system links of all its operations and that of subsidiaries to a mainframe. This process has immensely contributed to the company’s efficiency in issuing policies, handling claims, keeping financial accounts, allowing online access to its overseas subsidiaries and reinsurers and thus renders comprehensive insurance solutions beyond boundaries. A complete database of clients has been built allowing improved customer relationship management, which is a crucial step in customer retention. GIC is the first insurance company in Kuwait and in the region to commence online sale of Motor, Marine, Travel and Domestic Helper policies via www.clickgic.com.
GIC was the first insurance company in Kuwait and the region awarded the ISO 27001 Certification in Information Security Management Systems by the British Standards Institution (BSI). Most recently, GIC was awarded as the “Insurance Company for the year-Middle East’ by World Finance, London and it also won the “International Quality Crown” award from Business Initiative Directions, Spain. Arabian Business Award 2011 was also handed to GIC as Kuwaits Insurance Market Leader.
For the Third year in a row GIC obtained the leading Brand in Kuwait SuperBrands 2011 certificate after it passed the selection criteria developed by the Council of brands, and announced by Superbrands Organization.

Mission and vision

GIC is the first insurance company y to partner with Metal & Recycling Co. (MRC) on a waste management program called “Newair” by recycling paper and plastic bottles by promoting environmental awareness within the company as an initiative in Corporate Social Responsibility “CSR”. GIC built a recycling structure committed to Go Green and to lead the way in such concept

The journey ahead
GIC intends to implement many ambitious and futuristic projects in order to meet the ever-changing customer needs and exceed their expectations. Its dynamic leadership continuously strives to train and support human resources in order to develop the technical and administrative capabilities within the its group of companies. Apart from being committed to the advancement of insurance industry both in Kuwait and in the Middle East region, GIC plans to continue the regional expansion strategy towards establishing itself as a major player in the regional insurance markets and increasing its business portfolio. In this concern, GIC intends to strengthen its presence in the regional markets, emerge as a consolidator of businesses and develop a unified branding strategy.

Mission – Our Corporate Ambition
To protect the lifestyles of our personal customers and their families and protect the assets, liabilities and employees of our corporate customers, now and in the future.

Vision – what do we wish to be known for?
We will be the insurer of choice and the leader in our chosen markets.

We will achieve this by:
Providing solutions that consistently meet or exceed the need and aspirations of our customers
Setting standards for service delivery and value creation amongst insurers in Kuwait and the MENA region
Being influential in enhancing the development of our industry.

“We AIM to be valued by our Customers, our shareholders and our staff alike.”

Gulf Insurance Co. Timeline Achievements

2011

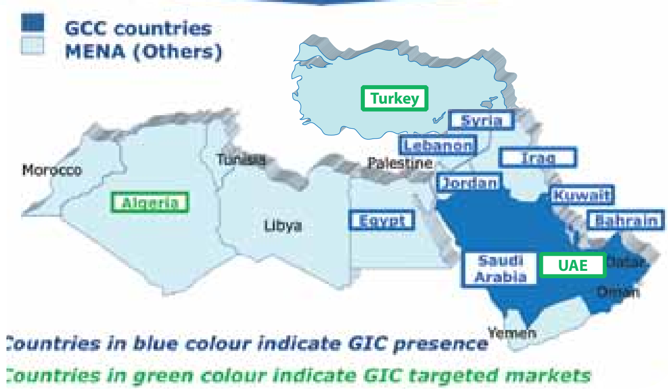
1962	• Commenced operations; 2nd private insurance company in Kuwait.
1977	• Government acquired 82% stake from share capital of Gulf Insurance Company
1996	• Government of Kuwait divested 82% stake • KIPCO acquired majority stake.
2000	• Acquired majority stake by 90% in Saudi Pearl Insurance (SPI) • Acquired majority stake by 61.3% in International Trust Insurance (ITI).
2003	• Formed Fajr Al-Gulf Insurance and Reinsurance Company by merger of ITI with Al-Fajr Insurance and Reinsurance Company. GIC holds 51% stake post-merger.
2005	• Acquired majority stake by 54.33% in Egypt's Arab Misr Insurance Group (AMIG).
2006	• Acquired majority stake in Bahrain Kuwait Insurance Company (BKIC) to 42% from 21.4%. • Increased stake in SPI to be 100%. • Established Syrian Kuwaiti Insurance Company (SKIC) with 44.4% direct stake.
2007	• Increased its stake in BKIC to 50.22% from 42%. Increased stake in AMIG to 85.34%. • Established Gulf Life Insurance Company (GLIC) with 98.6% stake. • Established Takaful Insurance Unit at GIC, Kuwait.
2008	• Increased stake in BKIC to 51.22%. • Obtained official approval for Buruj Cooperative Insurance Company (BCIC) , Saudi Arabia with 22.5% stake.
2009	• Acquired the majority stake in Arab Orient Insurance Company (Jordan) by 55% • Increase stakes in AMIG to 94.84%, • SKIC to 53.79% and FAG to 54.70%
2010	• Fairfax acquired a significant stake in GIC 41.26%. • Acquired Egyptian Life Takaful Insurance Company through GLIC with direct & indirect stake of 59.5%. • Increase Stakes in AOIC to 88.67%, BKIC to 56.12% and GIC Life to 99.80%, Buruj to 27.25%, and AMIG to 94.85%.
2011	• Acquired majority stake by 51% in the Iraqi Composite insurer DAIC "Dar Assalam Insurance Company", listed in Baghdad Stock Exchange • Established a Globe-Med , Kuwait, with majority stake by 51% • Increased stake in SKIC to be 54.29% % from 53.79 %

Region & Local Branches Network

17 Branches in Kuwait

MENA	Country	Business Line: M&A	P	G&M	L	H	T
GCC	Bahrain	Existing	Existing	Existing	Existing	Existing	
	Kuwait	Existing	Existing	Existing	Existing	Existing	Existing
	KSA	Existing	Existing	Existing	Existing	Existing	Existing
	UAE	Target	Target	Target	Target	Target	Target
Non-GCC	Egypt	Existing	Existing	Existing	Existing	Existing	Existing
	Jordan	Existing	Existing	Existing	Target	Existing	
	Lebanon	Existing	Existing	Existing	Existing	Existing	
	Syria	Existing	Existing	Existing	Existing	Existing	
	Iraq	Existing	Existing	Existing	Existing	Existing	
	Turkey	Target	Target	Target	Target	Target	Target
	Algeria	Target	Target	Target	Target	Target	Target

Presence Across the MENA Region



● Existing Operations	M&A Marine And Aviation	P Property	G & M General Accidents & Motor
● Target Operations	L Life	H Health	T Takaful

More than 1,200 insurance Experts & More than 50 Banches across MENA region

Corporate Governance

The company and subsidiary companies (The Group) adhere to the concept of "Corporate Governance" following the best practice and to be in compliance with the domestic regulations and applicable laws in each country the group operates in.

Corporate culture

Transparency, accountability and fairness are the three cornerstones of the GIC corporate culture. Responsibilities of the Board, Management, shareholders and other stakeholders are clearly outlined
One of the core values communicated within the group is a belief that the highest standard of integrity is essential in business. The governance of the group remains under continuous review and improvements, in order to enhance compliance levels according to international standards and best practice. The direct responsibility of the Board of directors is to endeavor to be in line with policies of regulatory requirements and different governmental bodies; beyond that in certain countries.

NAME	number of shares	Percentage	country
KIPCO	78,449,553	44.04%	KUWAIT
Fairfax Financial Holdings Limited (Fairfax - Middle East)	73,800,295	41.43%	Toronto,Canada
Treasury Shares	3,215,273	1.80%	KUWAIT
Al Raed Investment Fund	2,455,000	1.38%	KUWAIT
CAMCO / Clients Account	1,622,317	0.91%	KUWAIT
Heba Gulf Holding	1,555,312	0.87%	KUWAIT
Kuwait Foundation for advancement of science	1,484,437	0.83%	KUWAIT
Others	15,550,313	8.74%	-

BOD roles
"Tone at the Top"

The board's main roles include but not limited for the following:

• Ratify company strategy and the annual Budget and Long range business plans
• Monitoring operational and financial & non-financial performance
• Oversight the internal control system, Risk mitigations & controls and compliance matters
• Ratifying acquisitions, expansions, investment strategy and the divestments as well
• Ensuring that appropriate management development and succession plans are in place;
• Ensuring that a satisfactory dialogue takes place with Stakeholders.
• Review the Risk Appetite for the group with the agreed limits, and monitor the operations according to the tolerance
• Ratification of interim & Annual financial reports

Board composition & meetings*:

GIC has Ten directors in its board; formed as 3 executives & 7 Non-executive directors (including 2 independents); GIC BOD members are professionals with proven history of managing companies and possessing a board range of skills, expertise and industry knowledge.

*During 2011, the BOD has been re-formed to be 10 members instead of 8. Mr. Al Wazzan" was a board member till the first meeting of 2011 numbered 331.

Half Century of Excellence

continued

The directors are elected by shareholders in General Assembly every 3 years. The board, which meets at least four times a year and if required, has a schedule of matters reserved for its approval. During the year 2011, the Board of Directors held five meetings attended by directors as follows:

BOD Members/ Meetings	Annual Serial			1	2	3	4	5
	Accumulated Serial			331	332	333	334	335
	Position/Date	Dependency	Executive/Non	14-Feb	6-Apr	4-May	25-Jul	1-Nov
Farqad Al Sane	Chairman	KIPCO	Executive	√	√	√	√	√
Faisal Al Ayyar	Vice-Chairman	KIPCO	Executive	√	√	□	√	√
Khalid Al-Hasan	MD & CEO	KIPCO	Executive	√	√	√	√	√
Abdulaziz Al Fulaij	Member	KIPCO	Non-Exec	√	√	√	√	√
Abd Al-Ilah Marafie	Member	KIPCO	Non-Exec	√	√	√	√	√
Chandran Rantnasawmi	Member	Fairfax	Non-Exec	√	□	□	√	√
Jean Cloutier	Member	Fairfax	Non-Exec	√	□	□	√	√
Bijan Khosrowshai	Member	Fairfax	Non-Exec	√	□	√	√	√
Abdullah Mansour	Member	Independent	Non-Exec	√	□	√	□	√
Mahmoud Al Sane	Member	Independent	Non-Exec	√	√	√	□	□
Rafat Al Salamony	DGM & Secretary of the board		Executive	√	√	√	√	√

Roles of Chairman and CEO:

Roles of the chairman and CEO are distinct and separate:

- •The chairman is responsible for running an effective Board and company's overall strategy
- •The CEO has executive responsibility of administering the company's business operations

Code of Conduct

The Company's Code of Conduct covers the conduct of the Company's directors and executive management. The Code binds the signatories to the highest standards of professionalism and due diligence in performance of their duties. It also covers conflicts of interest, disclosure and confidentiality of insider information & Insider trading Policies

Board Committees:

The Board has set up four committees

- •Executive Committee
- •Audit Committee
- •Risk Management Committee
- •Investment committee

These committees are with full terms of references and mandates to carry out the assigned functions.

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Executive Committee

The Board has delegated the following responsibilities to the Executive Committee, and this committee meets regularly and whenever it's necessary to be held. The committee comprises three members: The Chairman, Vice Chairman and MD/CEO. The main roles of the committee are as followed:

- The development and recommendation of strategic plans for consideration by the Board that reflect the long-term objectives and priorities established by the Board
- Implementation of the strategies and policies of the Company as determined by the Board;
- Monitoring of the operating and financial results against plans and budgets;
- Monitoring the quality and effectiveness of the investment process against objectives and guidelines;
- Prioritizing allocation of capital, technical and human resources;
- Ensure efficient & effective management
- Oversight the implementation of the strategies and policies of the company as determined by the Board.
- Monitoring the markets shares, trends and penetration.
- Overseeing monthly the surrender, lapsed ,persistency and combined ratio , to take the corrective actions on time
- Monitoring the implementation of group expansion.

The committee met 4 times during 2011 as following:

Executive Committee					
Commitee Members / Meetings	Annual Serial	1	2	3	4
	Accumulated Serial	38	39	40	41
	Position/Date	14-Feb	4-May	13-Jun	25-Jul
Farqad Al Sane	Committee head	√	√	√	√
Faisal Al Ayyar	Member	√	√	√	√
Khalid Al-Hasan	Member	√	√	√	√
Bijan Khosrowshahi	Member	□	√	√	√
Rafat Al Salamony	DGM & Secretary of the board	√	√	√	√

Audit Committee

The Audit Committee of the Board is responsible to oversee on behalf of the Board and to report to the Board on:
(a) the quality and integrity of financial reporting,

(b) the audit thereof,

(c) the soundness of the internal controls of GIC,

(d) the measurement system of risk assessment and relating these to GIC's capital, and

(e) the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

The Committee shall be appointed by the Board and shall consist of not less than three members of non-executive Directors. The Internal Audit Manager should normally be in attendance at meetings and other Board members, executive and non-executive, should have the right to attend. The Head of Accounts and Finance and a representative of external auditors shall attend as necessary.
Since the committee has oversight on behalf of the board of audit matters, it has a responsibility to satisfy itself that internal audit is being conducted with proper professionalism and that its scope of work is appropriate.
Board Audit Committee meetings should be held so as to allow the timely consideration of financial reporting by GIC to external parties .Meetings shall be held not less than four times a year.

The Committee's Duties

1.To assist the Board of Directors to ensure that financial reports to external parties, in particular the annual financial statements, are balanced and fair and conform to accounting standards.
2.To review the un-audited quarterly and draft annual financial statements before submission to the Board, focusing particularly on:
•Any changes in accounting policies.
•Major judgmental areas.
•Significant adjustments resulting from audit, if any.
•Compliance with International Accounting Standards.
•Compliance with guidelines and regulations of regulatory bodies.
3.To satisfy the Board that there is a sufficient, systematic review of the internal control arrangements of the business, both operational (relating to effectiveness, efficiency and economy) and financial reporting controls.

4.To satisfy the Board that weaknesses in control are being corrected and recommend the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of such internal controls to monitor specific industry risks, expose any payments, transactions or procedures that might be deemed illegal or otherwise improper.

5.To consider the External Auditors' Management Letter.

6.To commission special investigations of matters of particular concern relating to internal control.

7.To learn from the Internal Audit Manager of any major audit findings where management has decided to assume the risk because of cost or other considerations.

8.To receive and consider activity reports from the Internal Audit Manager explaining (a) progress of internal audit work against plan, reasons for variances and corrective action being taken, and (b) major findings relating to control weaknesses detected during audit work - especially those which have not been adequately actioned by executive management.

9.To satisfy the Board that the Internal Audit Department is sufficiently resourced.

10.To satisfy the Board that GIC is getting good value for money from its external auditors.

11.To recommend to the Board the reappointment or otherwise of the external auditors.

The committee met 4 times during 2011 as following:

Audit Committee					
Commitee Members / Meetings	Annual Serial	1	2	3	4
	Accumulated Serial	19	20	21	22
	Designation/Date	31- Jan	14-Feb	4-May	11-Nov
Mahmoud Al Sane	Committee head	√	√	√	√
Abd Al-Ilah Marafie	Member	□	√	√	√
Jean Cloutier	Member	□	□	□	√
Abdullah Mansour	Member	√	√	√	√
Essam Farag	Internal Audit Manager	√	√	√	√

Risk Committee

Purpose: The purpose of the Risk Committee of the Board of Directors of GIC is of oversight recognizing that management is responsible for executing the Company's risk management framework policy and conducting risk management activities.
The main purpose of the Risk Committee is to assist the Board in fulfilling its oversight responsibilities relating to:

1.Review and approval of GIC Risk Management Strategy:
2.Review and approval of the Risk Management guidelines and policies & procedures;
3.Review of risk limits and risk reports and make recommendations to the Board of Directors.
4.Review the adequacy of the Company's capital (economic, regulatory and rating agency) and its allocation;
5.Review and assessment of the integrity and adequacy of the Risk Management Function;

Duties and Responsibilities
The Risk Committee shall

1.Review and assess the integrity and adequacy of the Risk Management function of GIC including processes and organizational structure.
2.Review and assess the adequacy of the Company's liquidity and funding.
3.Review and assess the Company's investment and market risk.
4.Review and assess the Company's technical risk.
5.Review and assess the Company's counterparty default risk.
6.Review and assess the Company's operational risk.
7.Review the adequacy of the Company's capital (economic, regulatory and rating agency) and its allocation to the Company's subsidiaries.
8.Review and assess the adequacy of the risk measurement methodologies.
9.Review and approve limits with respect to liquidity, investment, market, underwriting, counterparty default and operational risks.
10.Review any major risks as deemed appropriate.
11.Exercise oversight over any outsourced risk management project and review of its scope and comprehensiveness; in addition to ensuring the coordination between the external consultants and GIC.
12.Provide guidance to the Chief Risk Officer in terms of providing summaries of significant reports and significant identified risk management issues.
13.Report its activities to the GIC Board of Directors on a regular basis and to make such recommendations with respect to the above and other matters as the Committee may deem necessary or appropriate.

The committee met 3 times during 2011 as following:

Risk Committee				
Commitee Members / Meetings	Annual Serial	1	2	3
	Accumulated Serial	1	2	3
	Designation/Date	4-May	25-Nov	1-Nov
Mahmoud Al Sane	Committee head	√	√	√
Abd Al-Ilah Marafie	Member	□	√	√
Jean Cloutier	Member	□	□	□
Abdullah Mansour	Member	√	√	√
Hatem Selim	Regional CFO/CRO	√	√	√

Investment Committee

The committee comprises four members; and met 2 times during 2011 as following:

Duties and Responsibilities

The Investment Committee responsible for and not limited to:

1. Reviewing the general position and performance of the company's investments in relation to the designated and non-designated investments and its strategic investments in relation to investments in subsidiaries and associates.

2.Reviewing and monitoring the movements in the investment portfolio.

3.Reviewing the distribution and allocation of the investment portfolio in light of the company's investment strategy.

4.Discussing the proposals and recommendations presented by the company's investment function in light of the company's investment strategy and raising its feedback to the Board Executive Committee and the Board for the necessary actions and approvals.

Committee meetings:

Investment Committee			
Commitee Members / Meetings	Annual Serial	1	2
	Accumulated Serial	1	2
	Designation/Date	25-July	1-Nov
Farqad Al Sane	Committee head	√	√
Faisal Al Ayar	Member	√	√
Khalid Al-Hasan	Member	√	√
Chandran Rantnasawmi	Member	√	√
Rafat Al Salamony	DGM & Secretary of the board	√	√

ERM: Enterprise Risk Management

ERM Framework

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial & nonfinancial performance objectives, including failing to exploit opportunities.
Key management recognizes the critical importance of having efficient and effective enterprise risk management systems in place.

The Group has established a risk management function with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organizational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. GIC has identifying its risk universe on regular basis through a comprehensive risk and control identification and assessment that is both bottom up from all business and support units of GIC and top down of the executive management of GIC.

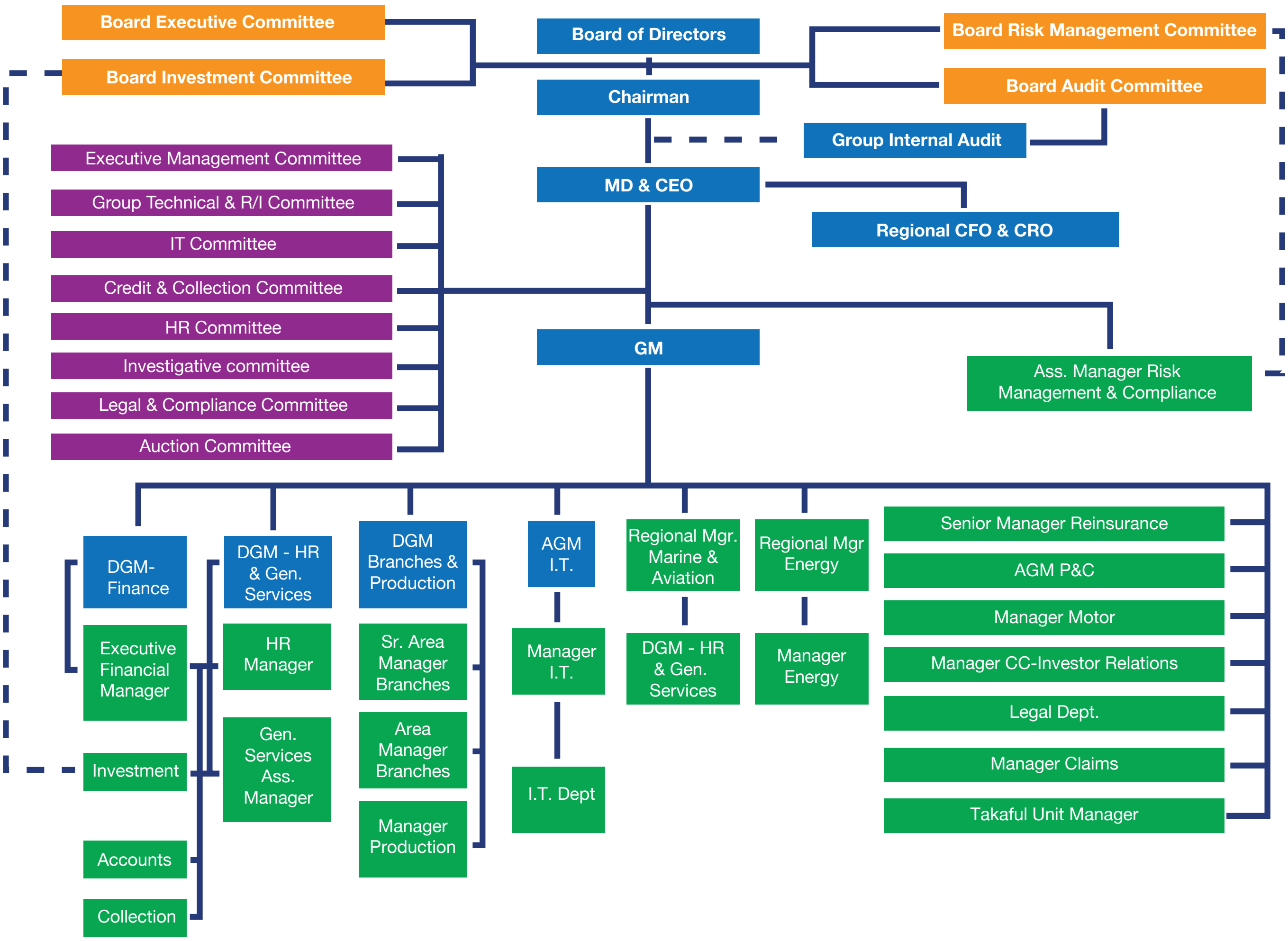
The risk and control identification and assessment process consists of identification of risks, measurement and assessment of risks in terms of likelihood and impact, control assessment, risk mitigation plan, priorities and timeline to mitigate the risks along with the key personnel responsible for each risk.
GIC group has also determined its risk appetite and tolerance through various sessions with the board and the group is monitoring closely the adhesion to the appetite and tolerance of the board of directors. GIC is also have an internal economic capital model to measure the capital adequacy, assist in capital allocation and to be used as a monitoring tool for any breaching of the risk appetite and as an assist to the decision making process.

GIC group risk management framework is established with clear identified policies and procedures that are being developed for the group.

GIC Risk Management Function oversees the ERM process of the group and provide them with reports & guidance on regular basis.

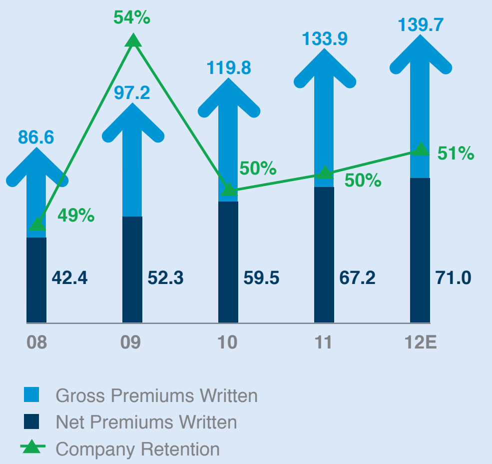
The Risk Management function generates risk management info pack of reports that are covering all type of risks with analysis and proposed mitigation plans. The risk management info pack is distributed to all stakeholders and used in the decision making process.

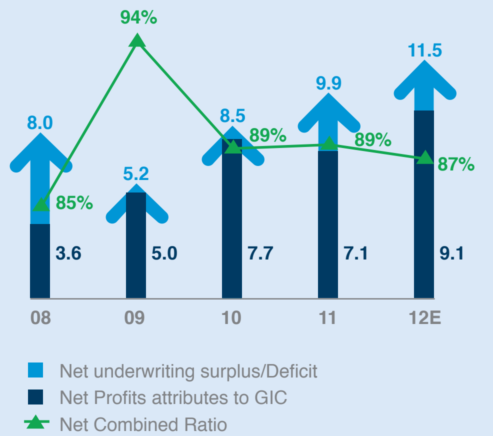
Organizational Structure

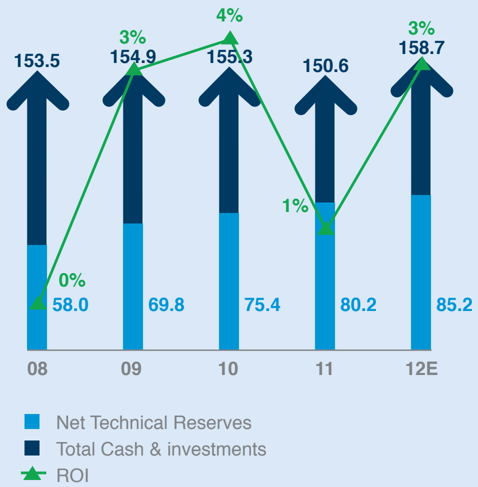


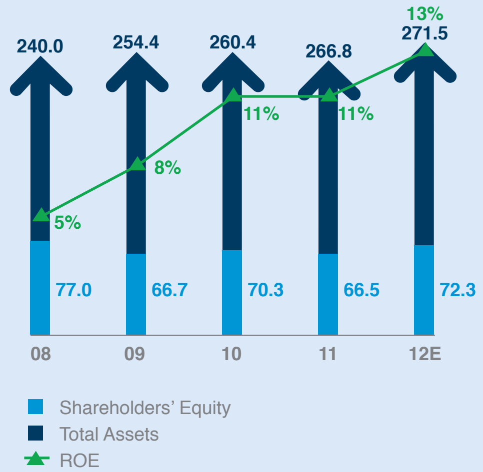
Financial Statements Highlights

KD Million









Company's KPIs	2008	2009	2010	2011	2012E
Profitability Ratio	9%	5%	7%	7%	8%
U/W leverage	47%	46%	72%	82%	80%

+ **15 %** Growth in underwriting results

+ **12 %** Growth in Gross Premiums Written

+ **10 %** Growth in Revenues

+ **6 %** Growth in net Technical reserves

+ **2 %** Growth in Total Assets

Business Strategy

• To develop Gulf Insurance to be recognized in the Arab insurance world as the ideal one to follow.

• Maintain the most primary position in Kuwait market.

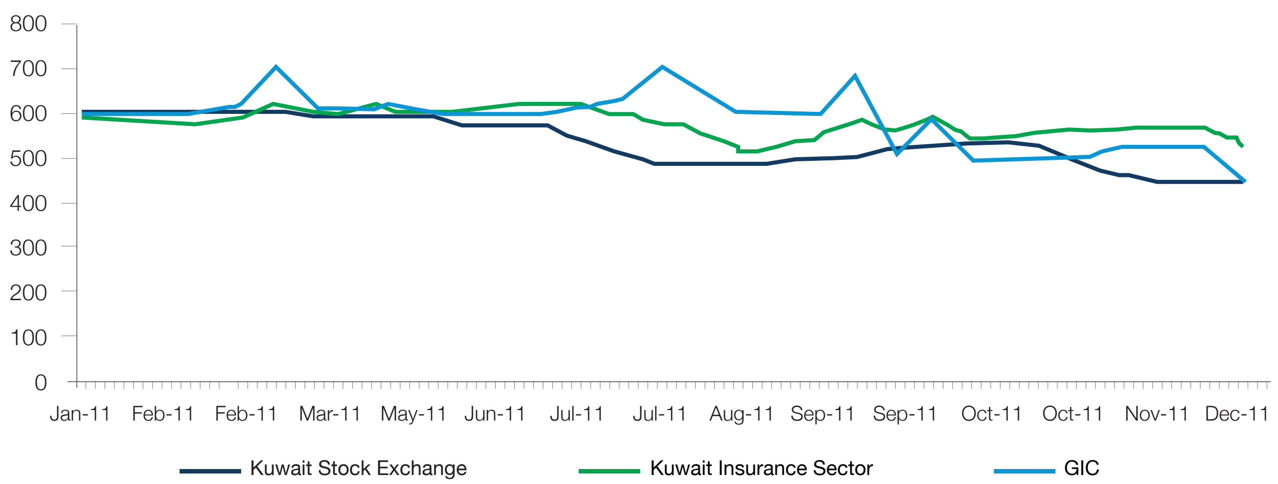
• Continuously strive to achieve the top position in the Middle East and to prepare distinct and innovative insurance products and programs to meet the customers needs actively supported by top level service by using vibrant marketing techniques.

In addition to the deep study and analysis of strong and weaker areas in the company and its subsidiaries, continuous efforts are on to know the real needs of the local and regional markets, efficient plans and programs to develop human resources and marketing capabilities.

Monitoring changes in the international insurance industry and competition levels in the local and regional markets in order to position the company to tackle the same effectively. Constantly reviewing company's investment policy and fine tune it in such a manner to realize best use of assets and at the same time decrease the risk exposures in such a manner that complies with the international standards of the insurance industry.

2011…Stock market performance

GIC Share price Performance, Sector & Market Index



- **GIC share price does not commensurate with the operating insurance sector & market conditions (taking into consideration the cash dividends to shareholders amounted KD 4.2 million, KD 0.8 million bonus shares (5% of the nominal value) paid in April-2011)**

Dear shareholders,

On behalf of the Board of Directors, I would like to welcome you and express my pleasure to be presenting to you the 48th Annual Report of Gulf Insurance Company. The Annual Report includes an overview of some of the important achievements that were made during the financial year ended December 31, 2011, as well as the local and international events that influenced the company's operations.

The year 2011 was a year of change and brought with it many surprising economic and political events in the Arab and Western worlds, where a wave of strikes and political protests waged through many Arab countries, synchronizing with a drop in the US credit rating, and the sovereign debt crisis in Europe from which many international stock markets suffered.

We commenced the year 2011 in a position of recovery and hope, although it was well-known that economic recovery was generally weak and imbalanced. Matters seemed easier to manage in terms of tackling excessive real estate debt in the US, correcting the financial standing of countries in the Eurozone, handling the capital flow migrating to emerging economies, or improving the regulation of the financial sector. However, as the year came closer to its close, economic recovery reached a period of stagnation in many developed economies, and some investors discovered the repercussions of a possible disintegration of the Eurozone that would make matters much worse than they were in 2008. As such, international stock markets lost around US$ 6.3 trillion in 2011, while talk of a financial crisis in the Eurozone echoed in the second half of the year, raising questions about the future of the world's youngest common currency. The capital value of international stock markets dropped 12.1% to US$ 45.7 trillion, and the euro ended the year with the worse performance among the leading currencies after it began surrendering to the continent's economic and financial problems in December. The euro had shown resilience throughout most of the year, disappointing hedge funds that had placed their bets on a sharper drop. However, it dropped to its lowest level in ten years against the yen and came close to its lowest level against the US dollar last year. Although the 'S&P 500' index remained stable in the past year, the 'FTSE 100' index fell 5.5% and the 'FTSEurofirst 300' index grouping Europe's largest companies shed 11% due to losses in French and Italian shares. The 'Morgan Stanley' index for the five emerging markets also showed a drop, despite the strong growth in China and other emerging markets, while the Asian markets suffered the greatest blow after the Japanese 'Nikkei' index lost 17.3% throughout the year, the 'Hang Seng' index in Hong Kong lost 20%, and the Chinese 'Shanghai' stock exchange index lost 22%. Meanwhile, the German 'DAX' index saw losses of 15.4%, and in Paris, the 'CAC' index saw a drop of 17.8%. The two main indices trading in the Russian ruble and the US dollar fell 17% and 22% respectively. In the main European stock markets, the British 'Financial Times' index closed for the year with a loss of 5.7%.

In the Arabian Gulf, 2011 trading closed at Kuwait Stock Exchange (KSE) after outstanding events that led to record numbers that KSE had not witnessed in ten years, with the general index dropping to 5764 points, the lowest since August 2004 with loss of 16.4%. The overall value of daily trade dropped to KD 4.2 million in August, and by the end of year the capital value of KSE-listed companies came to KD 29.4 billion, at a drop of KD 7 billion or 19.2% from the previous year. KSE performance of the year could be described as one of great action for speculations, synchronizing with an absence of investment activity given the local and international pressures.

In financial markets of the member states of the Gulf Cooperation Council, the Bahrain Stock Exchange saw a sharp drop of 20.15%, followed by the Dubai Financial Market which shed 17%. The Muscat Securities Market fell 15.6%, while the Abu Dhabi Securities Exchange and the Saudi Stock Exchange lost 11.68% and 3.06% respectively. The Qatar Stock Exchange took a different track and registered a record increase at the beginning of the year after winning the bid as host for the World Cup 2022, and its index ended the year with an increase of 1.12%.

As for countries affected by the Arab Spring, the Egyptian Exchange closed the final trading session of the Revolution Year with capital losses of EGP 194.4 billion (US$ 32.24 billion), with its main index losing 49.3% amidst an unclear view of Egypt's political and economic outlook after the January 25 revolution.

In terms of precious metals and oil, the price of gold ended the year with a gain of 10%, continuing its upward trend for the 11th consecutive year as demand for precious metals continued from investors who viewed precious metals as a safe investment. Given the European debt crisis and concerns over global growth, gold emerged as one of the best players in the basic commodities market. On the other hand, silver ended the year with its first loss in three years, dropping 9.5% after its price had almost doubled in 2010.

Long-term contracts for US oil ended the year with a gain of US$ 7.45 or 8.2%, making this its third consecutive year on the upward trend, although the gains in 2010 came to 15%.

Meanwhile, the year saw some devastating natural disasters. An earthquake measuring 8.9 on the Richter scale shook the eastern coasts of Japan on March 11, 2011, triggering a tsunami in the Pacific Ocean. The destructive force left more than 1000 people dead or missing. The Sendai Airport was destructed, and the highest level of property damages was reported, where the infrastructure of oil and nuclear plants sustained damages and halted operations. A nuclear plant close to the area hit by the earthquake was closed down. The earthquake is the strongest to hit Japan since these natural disasters began being recorded 140 years ago.

Chairman's Message

For GIC, the year 2011 came to build on the achievements of previous years, bringing positive impact on the company's track record and its results. Some of the developments of 2011 are:

- Continuing to place emphasis on training by organizing training courses for employees in order to hone their technical, administrative and marketing skills
- Improving GIC's Standard & Poor's rating to BBB+ with Positive Outlook, instead of Stable Outlook
- Obtaining financial and credit ratings from A.M. Best – the international ratings company – as follows:
  GIC (Parent) A-, Stable Outlook
  BKIC A-, Stable Outlook
  GLIC A-, Stable Outlook
  AMIG B++, Stable Outlook
  AOIC B++, Stable Outlook
- Acquiring a 51% stake in Dar Es-Salam Insurance – Iraq, thereby creating presence in the Iraqi market which has high population density and anticipated infrastructure operations
- Signing a contract with an international agency for placing a unified brand and corporate identity strategy for the GIC Group companies, with the aim of designing a trademark for the parent company and its subsidiaries
- Restructuring the company's investments following the best practice worldwide, thereby focusing on stable revenue tools with low risks

Our dear shareholders,

The positive results that your company has made this year clearly reflect our good achievements, namely the following:

• Growth in Gross Written Premiums by 11.8% to reach KD 133,872,324
• Growth in net technical reserves by 6.5% to reach KD 80,243,766
• Growth in underwriting results by 15.4% to reach KD 9,847,438
• Growth in the consolidated assets by 2.7% to reach KD 266,773,209

And as a result of the drop in stock market indices:

• Slide Down in net investment income by 31.6% to reach KD 2,758,479

• Slide Down in total cash & investments by 3.15% to reach KD 135,888,452

• Slide Down in shareholders' equity by 5.4% to reach KD 66,515,265

• Slide Down in net profit by 7.5% to reach KD 7,115,046

The following is a detailed look at the company's business results in 2011.

First: Non-Life Insurance Operations

• Marine and Aviation Insurance Operations

Premiums written slide down by 5.3% equivalent to KD 534,127 to reach KD 9,543,783 because the fleet of Wataniya Airways was not renewed due to the halt of the company's operations. The underwriting results of KD 1,353,688 was made, dropping by 8.5% or KD 124,962 from the previous year.

• Property Insurance Operations

Premiums written for property operations increased by KD 2,189,225 or 12.2% to stand at KD 20,201,180, while underwriting results came to KD 829,546 at Growth of KD 540,285 or 186.8% over the previous year.

• Motor Insurance Operations

Performance in Motor operations showed relative stability in 2011, with Gross Written Premiums increasing KD 148,851 or 0.5% over the previous year to stand at KD 28,583,366, recording underwriting results of KD 1,234,551. This is a drop of KD 257,594 or 17.25% from the previous year.

• Engineering Insurance Operations

These operations made results in 2011 that are almost equal to what was achieved in 2010, with Written Premiums coming to KD 11,389,002 with Growth of KD 3,123 from the previous year. Underwriting results increased to KD 712,922 with 28% Growth of KD 156.650 over the previous year.

• General Accident Insurance Operations

This showed stability during the year, with Premiums written increasing 4.2% or KD 360,860 to reach KD 8,998,247. Underwriting results increased to KD 1,971,682 at Growth of KD 148,646 or 8.2% from the previous year.

Second: Life and Medical Insurance Operations

• Life Insurance Operations

Gross Written Premiums increased by KD 2,212,323 to reach KD 12,760,364 compared to KD 10,548,041. However, underwriting results dropped by KD 2,572,521 or 94.1% to reach KD 162,379 due to the bad results of some contracts, which had a negative impact on these operations.

• Medical Insurance Operations

These operations had some positive results at all levels, as the Gross Written

Chairman's Message

Premiums increased to KD 42,396,379 at Growth of KD 9,717,522 or 29.7% over the previous year. Underwriting results reached KD 3,582,670, a huge growth of 2118% or KD 3,421,163.

GIC's Financial Position and Investment Activities

The year 2011 began with the revolution in Tunisia, which ended the rule of Bin Ali and ignited Arab revolutions that followed in Egypt, Libya, Yemen and Syria. It also saw losses in Arab financial markets of approximately US$ 96 billion, including US$ 56 million suffered by the Gulf markets of which Kuwait alone lost US$ 26 billion. This was just part of the losses of the international financial markets, estimated at US$ 6.3 trillion. This is notwithstanding the financial crisis of the Eurozone and the unprecedented natural disasters of which the 8.9 quake that hit Japan was the most devastating, generating a tsunami in the Pacific Ocean and causing damages of approximately US$ 350 billion. Despite all of this, GIC's financial postion and investment activities remained solid, where the consolidated assets increased by KD 6.4 million to reach KD 266.8 million. GIC supported policyholders rights by KD 4.9 million to reach KD 80.2 million. The drop in value of securities was of limited impact, where GIC's investments and liquidity slide down only 3.1% to stand at KD 135.9 million, while total shareholder equity decreased slightly by 1% to reach KD 81.8 million. GIC continued to strengthen its financial Position by adding KD 752,568 to its statutory reserve, and the same amount to its voluntary reserve, so the total of both reserves being KD 31.5 million, which is equivalent to 177% of the company's capital. GIC also continued to implement its regional expansion plans, by acquiring a 51% stake of Dar Al-Salam Insurance company - Iraq, thereby creating presence for GIC in this market.

Recommendations

It is with pleasure that the Board of Directors recommend to the General Assembly for the distribution profits for the financial year which stand at KD 19,010,349 as follows:

KD 752,568	10% for statutory reserve
KD 752,568	10% for volantry reserve
KD 3,500,545	cash dividends to shareholders at 20 fils per share
KD 890,663	Bonus shares to shareholders at 5 shares for every 100 shares

The remaining KD 13,114,005 is to be brought forward to the next year.

To conclude, and on behalf of the Members of the Board of Directors and the Executive Management, I would like to express sincere appreciation to H.H. the Amir, H.H. the Crown Prince, and to H.H. the Prime Minister for their wise guidance of the State towards greater advancement, prosperity and stability. We would also like to take this opportunity to congratulate you and the Kuwaiti people on the National Celebrations of Independence, Liberation and Accession to the Throne. We also express our thanks and appreciation to the Ministry of Commerce and Industry and its Department of Insurance Companies for understanding the situation of the local market and for seeking its best interests. A thank you also goes to the Ministry of Interior, represented by the General Traffic Department, for their constant efforts to improve the compulsory traffic accident insurance sector. We also thank the Capital Markets Authority (CMA). Of course, we cannot forget to thank our great clients, as well as local and international reinsurers and insurance brokers for giving us their trust and constant support and cooperation. We also thank our management and employees for their great effort and dedication which contributed to achieving the targeted goals. And finally, we thank Kuwait Projects Company (Holding), our largest shareholder, and Fairfax Financial Holdings Limited, our second largest shareholder, for their constant cooperation and support. We hope that 2012 will see the achievement of the goals for which we aspire.

Farqad Al Sane
Chairman

- GWP increased from KD 119.77 Million to KD 133.87 Million, with increase of KD 14.1 Million and growth rate of 11.8%. Also, with growth rate of 2% than the forecast. GIC stand alone share of GWP is KD 24.89 Million with increase of 4% than previous year but, with decrease of 0.1% than the forecast. Subsidiaries share of GWP is KD 108.98 Million with increase of 14% than previous year and 3% than the forecast.

- Net underwriting results increased from KD 8.54 Million to reach KD 9.85 Million, with increase of KD 1.31 and growth rate of 15.4% but, it was decreased with 5.4% than the forecast. GIC stand alone share of Net Underwriting results is KD 2.14 Million with growth rate of 2.5% than previous year but, with decrease of 16.8% than the forecast. Subsidiaries share of Net underwriting results is KD 7.71 Million with growth rate of 19.5% than previous year but, with decrease of 2.6% than the forecast.

- Decrease in investments return and other income from KD 4,182,377 to KD 2,986,180 with decrease of KD 1,196,197 and with percentage of 28.6% than the previous year; as a result for the decline of equities' fair value in both of regional and global markets and also, the inability of some issuing bonds companies to pay its value on the due date and accordingly, creating provisions.

- Increase in the net technical reserves of the group from KD 75,380,785 as on 31 Dec. 2010 to reach KD 80,243,766 by the end of Dec. 2011 with increase of KD 4,862,981 and growth rate of 6.5%.

- Decrease in total shareholders equity from KD 70,279,885 as on 31 Dec. 2010 to KD 66,515,265 by the end of Dec. 2011, with decrease of KD 3,764,620 with percentage of -5.4%, the reason of the decrease arises from the decrease in the cumulative changes in faire value of available for sale investments with KD 3,795,968 and the cash dividends distributed to the shareholders of 25% (KD 4,241,250) from share capital and also, decrease of foreign currency translation difference as a result of the decrease in the exchange rates of the original currencies of most of our subsidiaries (KD 1,201,737) and also, purchasing treasury shares of KD 1,561,429.

- Increase in total assets from KD 260 Million as on 31 Dec. 2010 to KD 267 Million by the end of Dec. 2011 with increase of KD 7 Million and growth rate of 2.7%.

- Net profit decreased to reach KD 7,115,046 by the end of Dec. 2011 with comparison of KD 7,692,395 by end of Dec. 2010 with decrease of KD 577,349 with percentage of -7.5% and with decrease of -4.1% than the forecast since it was expected in forecast to achieve KD 7,418,644 while noticing that the fourth quarter of 2011 achieved KD 1,317,429 with comparison to KD 1,119,589 for the same period last year with increase of KD 197,840 and growth rate of 17.7%.

- Book value per share reached 382.2 Fils with comparison to 414.3 Fils as at 31 Dec. 2010.

- The group's net investments portfolio and cash (net of balances due to banks) reached KD 135.9 Million with comparison to KD 140.3 Million as at 31 Dec. 2010, with decrease of KD 4.4 Million and percentage of -3.15% and this refers to the decrease in fair value of available for sale listed equities with KD 3.8 Million and the cash dividends distributed to the shareholders of KD 4.2 Million and also, the new acquisition of 51% of Dar Es Salam Insurance Company in Iraq during December 2011 with cost of about one Million KD and which was classified under the item "Other Debit Balances" in the Financial Position. Also, purchasing treasury shares with cost of KD 1.6 Million.

- Earnings per share reached 40.06 Fils with comparison to 43.96 Fils as at 31 Dec. 2010 with decrease of -8.9%, EPS for the fourth quarter 2011 reached 7.5 Fils with comparison to 6.3 Fils for the same period last year.

Financials Year Ending on Dec 31, 2011

a Review

Following are the Consolidated Performance Ratios for Each Line of Business Year 2011 & 2010:

2011 KPIs "Segmental"	Marine & Aviation	Property	Motor	Engineering	General Accident	Life	Medical
Retention	18%	11%	94%	12%	83%	83%	47%
Loss Ratio	30%	50%	71%	33%	31%	81%	71%
Expense Ratio	-3%	20%	30%	33%	28%	17%	14%
Combined Ratio	27%	70%	101%	48%	59%	98%	85%

2010 KPIs "Segmental"	Marine & Aviation	Property	Motor	Engineering	General Accident	Life	Medical
Retention	16%	11%	92%	10%	44%	49%	82%
Loss Ratio	11%	88%	69%	60%	20%	94%	68%
Expense Ratio	0%	-2%	31%	-28%	33%	8%	4%
Combined Ratio	11%	86%	100%	32%	53%	102%	72%

Financial Ratios for Group Operations:

	31/12/2011	31/12/2010
Insurance:		
• GWP/Total Equity	163.75%	145%
• NPW/Total Equity	82.2%	72%
Liquidity:		
• Current Assets/Current Liabilities	225.28%	224.26%
• Liabilities/Cash & Cash Equivalents	96.3%	103.5%
• Technical Reserves/Cash & Cash Equivalents	160.2%	164.4%
Solvency Margin:		
• Technical Reserves/Total Equity	98.15%	91.28%
• Technical Reserves/NPW	119.4%	126.7%
• Investments/Technical Reserves	169.3%	186.13%

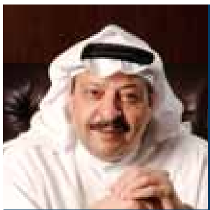
Board of Directors

Farqad Al Sane (KIPCO)
Chairman

Mr. Al-Sanea holds a Bachelor of Commerce in Accounting, his professional career is characterized by immense diversity in various business sectors. Starting as an Internal Auditor in KOC, Mr. Al Sanea has previously held various management and board level positions such as, DGM of Wafra Real Estate Company, General Manager of Commercial Real Estate Company, Board Member of KIPCO group, Board member of United Real Estate Company, and Chairman of Commercial Markets Complexes Company.

Faisal Al Ayar (KIPCO)
Vice Chairman

Mr. Faisal Al-Ayyar is a sucessful entrepreneur in Kuwait, he's the MD & CEO of KIPCO group. He has a pioneering attitude. He was the chairman of number of companies like NMTC "Watanyia" Telecom - Kuwait, United Gulf Bank - Bahrain, United Broadcasting Company- Cayman Islands, Saudi Pearl Insurance Cmpany - KSA. Also he's the vice chairman food Gulf Insurance Company - Kuwait, Kuwait Jordanian Bank - Jordan, and he was a board member of Kuwait Stock Exchange, Saudi Dairy & Foodstuffs Company - KSA, United Assets Management Company - Luxembourg, Gulf Egyptian Company for Hotels & Tourism - Egypt, Swiss Premium Food Company - Egyp. He's also a board of trustees of American University of Kuwait, Kuwait.



Khalid Al Hassan (KIPCO)
Managing Director and CEO

Mr. Al- Hassan holds a Bachelor degree of Arts degree in Economics and Political Science from Kuwait University, with a practical experience of more than 30 years in different executive positions, he joined GIC in 1987. He's the chairman of many shareholding companies like Syrian Kuwaiti Insurance Company - Syria, Fajr Al- Gulf Insurance & Reinsurance Company - Lebanon, Arab Orient Insurance Company - Jordan. Also he's the Vice Chairman of Arab Misr Insurance Group - Egypt, Bahrain Kuwait Insurance Company - Bahrain, Arabian Reinsurance Company - Lebanon, Egyptian Life Takaful Insurance Company - Egypt, Egyptian Takaful Insurance Company - Egypt, MD of Buruj Cooperative Insurance Company -KSA, and member of Technical Committee of Arabi War Risks Insurance Syndicate - Bahrain.

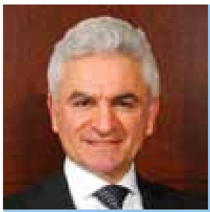
Mohmoud Al Sane (KIPCO)
Board Member

Mr. Mahmoud Al- Sanea holds a Bachelor degree of Business Administration and he earned a Master degree in the same field. Over 3 decades of professional experience, he was Head of External Accounting & General Manager - Planning in Ministry of Communication, a member and secretary of Operating Board of Mobile Telecommunication Company, Vice Chairman & MD of Communication & Information Group, Director of Commercial & SupportDivisions of Mobile Telecommunication Company MTC.

Abdull vlah Marafie (KIPCO)
Member

Holds Diploma in Computer Science. Mr. Marafie is Managing Director of the successful Marafie Group. He held several positions in Mohammed Rafie Husain Marafie Sons Company from 1977 to 1998. He was also the Managing Director of Wara Real Estate Company from 1978 to 1999; Chairman & Managing Director of NMTC from May to October 1998, and a Board Member of Al-Bab Holding Company from 1999 to 2001

Board of Directors

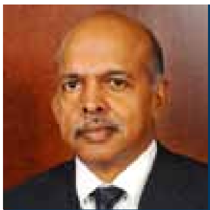


Mr. Bijan Khosrowshahi (Fairfax)
Member

Mr. Bijan holds MBA in Mechanical Engineering from Drexel University. He's President & CEO of FairFax international, Chairman of the Insurance committee of the American Chamber of Commerce in Korea, Vice Chairman and MD of AIG Sigorta - Istanbul Turkey, Board member in many companies such like Alliance Insurance - Dubai UAE, Kuwait Jordanian Bank - Jordan, Arab Misr Insurance Group - Egypt, Bahrain Kuwait Insurance Company - Bahrain, Arab Orient Insurance Company - Jordan, Fajr Al- Gulf Insurance & reinsurance Company - Lebanon, USO - Korea, President & CEO of Fuji Fire & Marine Insurance Company Limited - Japan, the Chairman of the insurance committee of the American Chamber of Commerce - Korea, regional vice president of AIG's domestic brokerage property & Casualty operations of the Mid- Atlantic region, America

Mr. Jean Cloutier (Fairfax)
Member

Mr. Cloutier received his bachelor's degree in actuarial sciences from Laval University. He is a fellow of the Casualty Actuarial Society and a member of .the Canadian Institute of Actuaries
joined Fairfax in 1999 as Vice President and Chief Actuary, becoming Vice President, International Operations in 2009. From 1990 – 1999, he was Vice President Actuarial Services of Lombard Canada Limited, a Canadian property and casualty insurance company. From 1987 – 1990, Mr. Cloutier was an actuarial analyst at Halifax Insurance and from 1986-1987 he was an .actuarial assistant at Dominion of Canada Insurance Company



Mr. Chandran Rantnasawmi (Fairfax)
Member

MBA from University of Toronto, Toronto, Canada, Indian Institute of Technology (IIT), Madras, India, Bachelor of Technology (B.Tech), Northwood ,(University, Michigan, U.S., Associates in Advertising (AA
Managing Director, Hamblin Watsa Investment Counsel Limited. ICICI Lombard General Insurance Company Ltd. Mumbai, India, Fairfax JV with ICICI Bank, India's largest private general Insurance Company, Founding Director and Chairman of Investment Committee, BOD member First Capital Insurance Limited, subsidiary of Fairfax Financial Holdings Limited, BOD member of ZoomerMedia Limited, TSX Venture Exchange

Mr. Abdulaziz Al Fulaij (Independent)
Member

Mr. Al- Fulaij is a prominent businessperson in Kuwait, running his own company called "And ALAZIZ Saud Al-Fulaij Establishment" he's actively involved in the social and community services and activities in Kuwait

Abdullah Al Mansour (Independent)
Board Member

Mr. Al-Mansour Holds bachelor degree in Accounting from Cairo University-Egypt, he played a managerial roles in several banks like Commercial Bank of Kuwait CBK, Kuwait Finance House KFH and was a board member of several leading companies such as External Investents Company (1987-1994) National Investments Company (1990-1994), and Hotels Company (1998-2000)

Executive Management

Khalid Saoud Al Hassan
Managing Director & CEO

Qualification: Bachelor of Political Science. Faculty of Commerce, Economics & Political Science-Kuwait University

Professional Experience: Mr. Al-Hassan joined GIC in November 1978. He took over as Managing Director & CEO in February 2002. He was Assistant Manager – Fire and General Accident Department from 1979 to 1981, Manager – Fire and General Accident Department from 1981 to 1983, Deputy General Manager – Fire and General Accident Department from 1983 to 1991 and General Manager from 1991 to 2002.

Tareq Abdulwahab Al Sahhaf
General Manager

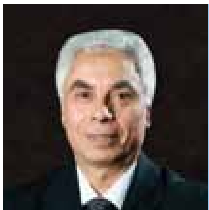
Qualification: Bachelor of Business Administration. College of Insurance - New York City.

Professional Experience: Mr. Al-Sahhaf joined GIC in January 1979. He was appointed General Manager in July 2007. Prior to that he was Assistant Manager – Marine &Aviation in 1981, Manager – Marine & Aviation Department in 1987, AGM – Marine & Aviation Department in 1991 and Deputy General Manager – Marine & Aviation in 1998.

Adnan Ahmad Al Baghli
DGM-HR and General Services

Qualification: Bachelor of Social Service – Egypt Master of Business Administration - USA

Professional Experience: Mr. Al-Baghli joined GIC in September 1978. He appointed as DGM P&C in 1998 till 2011. He was Assistant Manager – FGA from 1981 to 1987, Manager – FGA from 1987 to 1991 and Assistant General Manager – Fire and General Accident Department from 1991 to 1998.



Mr. Rafat Al Salamony
DGM- Finance

Qualification: Bachelor of Commerce (Accounting) Class of 1971. Alexandria University– Egypt

Professional Experience: Mr. Al-Salamony joined GIC in September 1975. He is in his current position since March 1998. He was Manager – Finance & Accounts from 1986 to 1998.

Executive Management

Mr. Anwar Salim Al Rufaidi
DGM - Branches

Qualification: Bachelor of Arts – Administration (Finance). California State University - USA

Professional Experience: Mr. Al-Rufaidi joined GIC in February 1989. He is in his current position since July 2006. He was Section Head – Fire and General Accident Department, Assistant Manager – Fire and General Accident Department, Manager – Fire and General Accident Department and AGM – Branches before his current position.

Mr. Hatem Selim
Regional CFO & CRO

Qualification: Bachelor of Business Administration from Ain Shams University - Egypt. Advanced & Modern Diplomas in Accounting & Finance from American University of Cairo. Certified Risk Analyst "CRA". he's also Certified Management Accountant "CMA" candidate.

Professional Experience: Mr. Selim joined GIC in July 2005 and is responsible to oversee the regional operations and the expansion plans of GIC group companies as well as the risk management function of GIC group. Prior to joining GIC, Mr. Selim worked as the Financial Controller, Chief Compliance Officer as well as Board Secretary for the Egyptian operations of ACE Group of Insurance & Reinsurance Companies "Bermuda"; Financial Controller at Orascom Touristic Establishments and many various positions in other well known companies in Egypt.

Thamer Arab
AGM IT

Qualification: Bachelor of Science– Computer Science. California State University – Sacrament, USA

Professional Experience: Mr. Arab joined GIC in December 2006 as the Information Technology Department Manager. Mr. Arab is responsible to oversee the entire company Information Technology setup and operations. Prior to joining GIC, Mr. Arab's main experience was focused in the banking sector. He had worked for Burgan Bank as the Systems Development Manager. He also worked for Industrial Bank of Kuwait for 10 years starting as a Systems Analyst and worked his way up to be the IT Manager as his last position in the bank. Mr. Arab had also worked abroad with Lockheed Martin –Information Technology Division in the U.S. where he was part of the California Statewide welfare automation system.

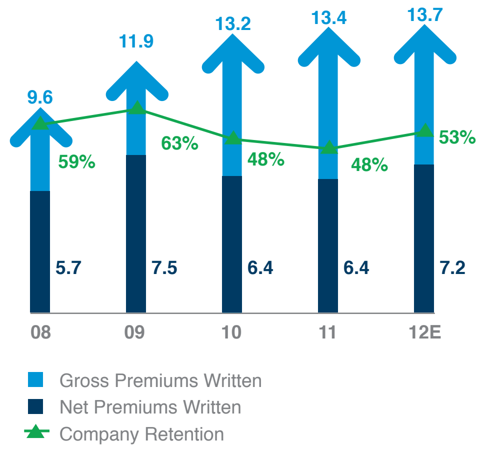
شركة المجموعة العربية المصرية للتأمين
Arab Misr Insurance Group

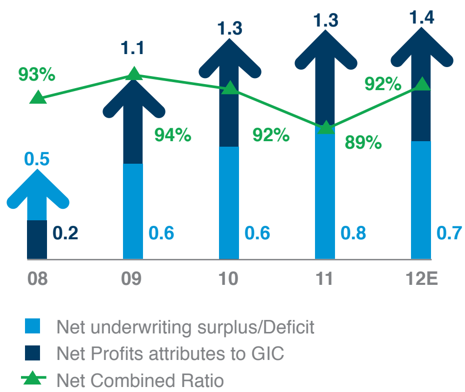
Alaa El Zoheiry
Managing Director

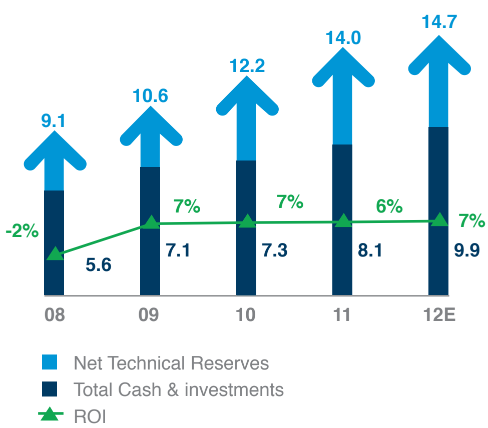
1993 Arab Misr Insurance Group (AMIG) was established as an Egyptian non-life insurance company; where its issued capital is EGP 500 million and paid-up capital is EGP 90 million. The company practices all lines of non-life insurance business through 12 branches covering most of Egypt and employing around 216.
The company ranked as market Leader in underwriting result & number 3 in terms of gross written premiums in the Egyptian insurance non-life private sector.

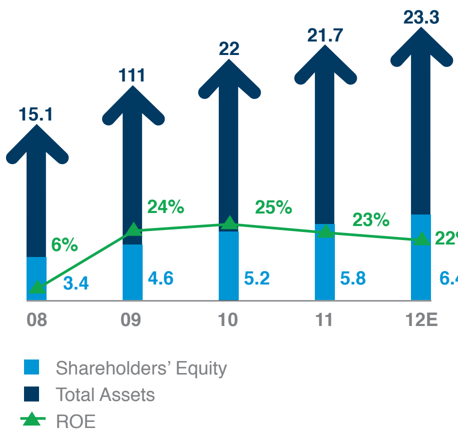
GIC's stake in AMIG is 94.85%
Tel: +202 4517620
Website: www.amig.com.eg

KD Million









Company's KPIs	2008	2009	2010	2011	2012E
Profitability Ratio	6.0%	5%	5%	6%	5%
U/W leverage	167%	165%	122%	109%	113%

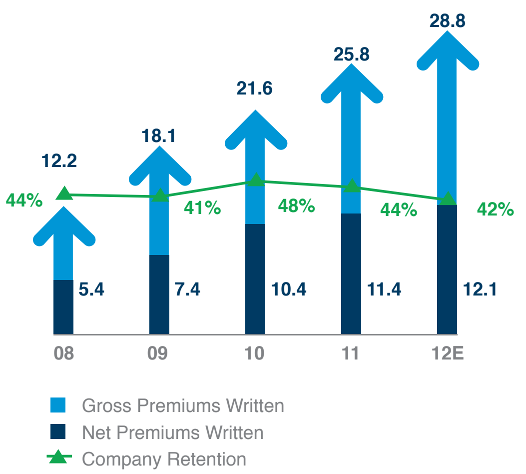
شركة الشرق العربي للتأمين
Arab Orient Insurance Company
Global Knowledge .. Local Approach معرفة عالمية بمنظور محلي

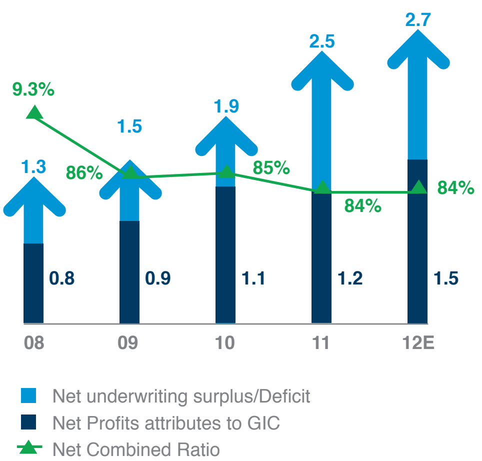
Isam Abdel Khaliq
Chief Executive Officer
Board Secretary

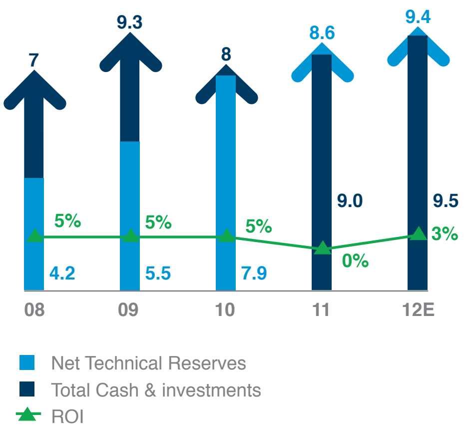
1996 Arab Orient Insurance Company was established and licensed to write general insurance business. Its earned reputation of speedy settlement of legitimate claims and its strong market positioning coupled with excellent reinsurance security placed the company in a unique that enabled it to earn upgraded rating as B++ (Good) from A.M. Best in 2010. The paid up capital is Jordanian Dinars 15 million and the company's shareholders are both local and regional investors. AOIC employees are about 209.
The company ranked as the Jordanian market Leader in terms of gross written premiums.

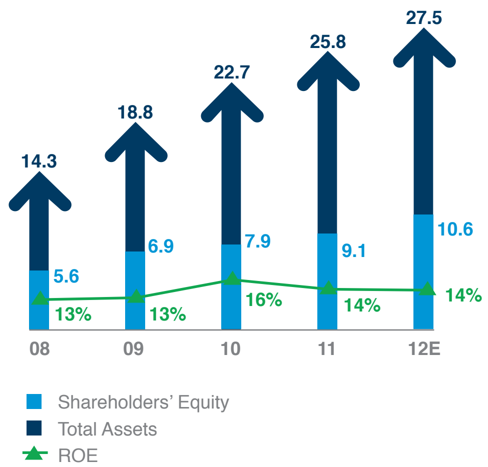
GIC's stake in AOIC is 88.67%
Tel: +962 6 5654550
Website: www.araborient.com

KD Million









Company's KPIs	2008	2009	2010	2011	2012E
Profitability Ratio	11%	8%	9%	10%	9%
U/W leverage	95%	108%	131%	126%	113%

Subsidiaries

2011

البحـرينـية الكويتــية للتـأمـين
BAHRAIN KUWAIT INSURANCE

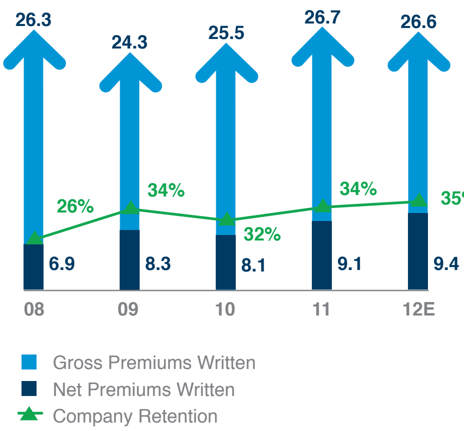
Ebrahim Al-Rayes
Chief Executive Officer

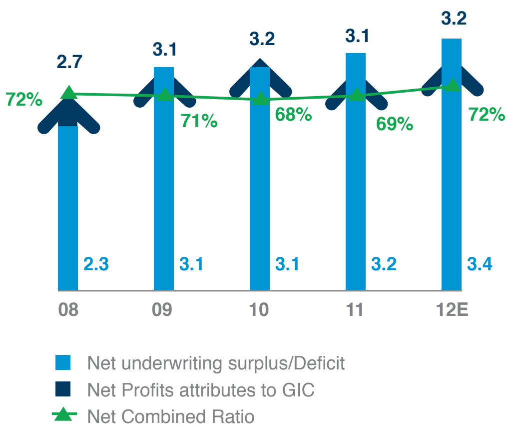
1975 Bahrain Kuwait Insurance Company (BKIC) was established. By virtue of its shareholding structure, BKIC is allowed to operate as a national insurance company both in Bahrain and Kuwait, the only company to enjoy such a privilege. Its authorized capital is Bahraini Dinars 10 million and issued capital and paid up is Bahraini Dinars 6.5 million.
BKIC has 3 branches in Bahrain and 1 branch in Kuwait. BKIC is involved in all classes of insurance. It has grown to occupy a leading position in the Bahrain insurance market.
BKIC has been a leader in community service and it prides itself on being in the forefront of training and manpower development activity. The company employs around 164 people in its various operations.
The company is currently listed on both Bahrain Stock Exchange and Kuwait Stock Exchange.

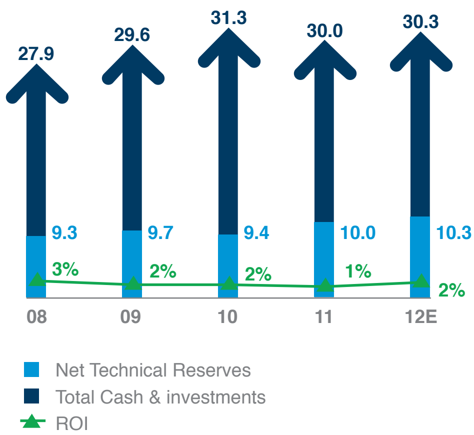
The company ranked as the Bahraini market Leader in terms of gross written premiums & technical results as well.

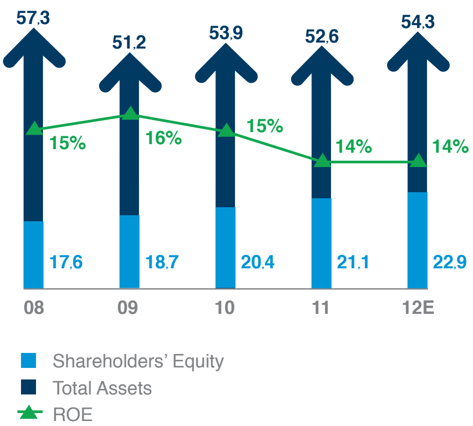
GIC's stake in BKIC is 56.12%
Tel: +973 17542222
Website: www.bkic.com

KD Million









Company's KPIs	2008	2009	2010	2011	2012E
Profitability Ratio	9%	13%	12%	12%	13%
U/W leverage	39%	44%	40%	43%	41%

Subsidiaries

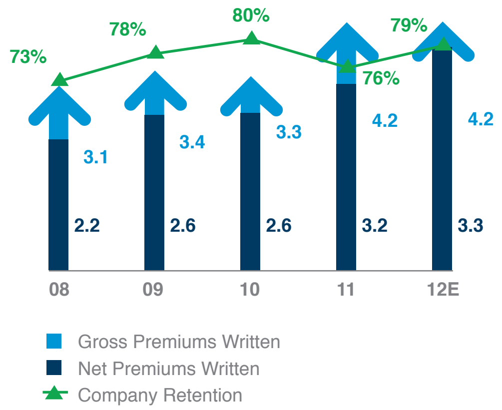
2011

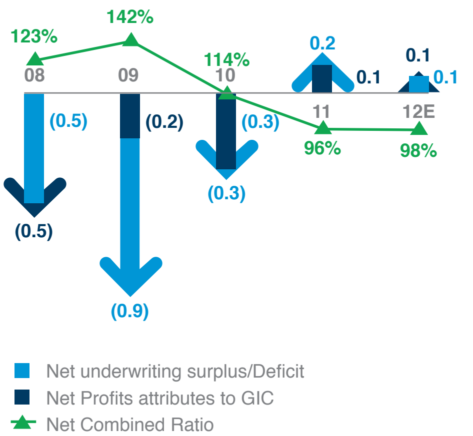
Khalid Saoud Al Hassan
Chairman

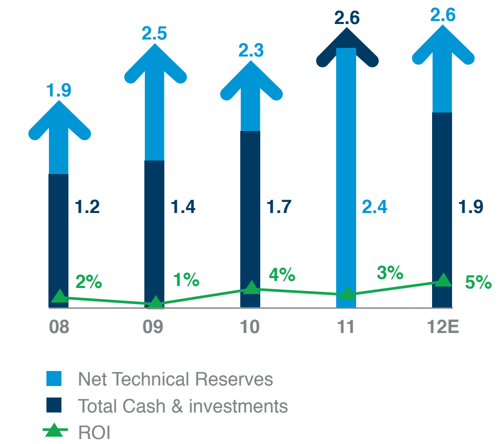
1991 AL fajr insurance & reinsurance company (FAG) was established as a Lebanese shareholding company by a group of internationally known businessmen, and since then has enjoyed remarkable growth and success in specialist areas of Insurance & Reinsurance.
On August 18th 2003 we officially merged efforts with International Trust Insurance Co (member of Gulf Insurance- Kuwait), and are now operating under the new name of Fajr Al-Gulf Insurance and Reinsurance Co. with an increased capital of LL 7 billion.
The merger brought Gulf Insurance Co KSC-Kuwait as major partner to the new enlarged company (54.70%) share.
The company practices all lines of business through 7 branches in Lebanon. The Company employs around 58 people in its various operations, and has an extensive network of consultants.

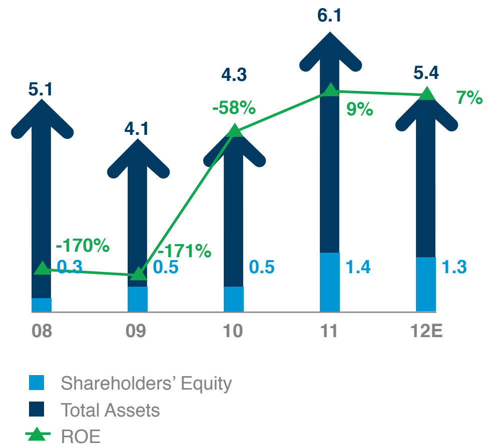
GIC's stake in FAG is 54.70%
Tel: +9611 817222
Website: www.fajralgulf.com

KD Million









Company's KPIs	2008	2009	2010	2011	2012E
Profitability Ratio	-15%	-26%	-11%	4%	2%
U/W leverage	722%	494%	480%	234%	253%

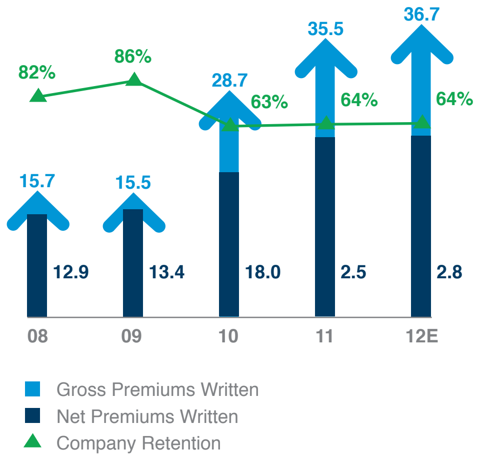
الخليج لتأمينات الحياة
GULF LIFE INSURANCE

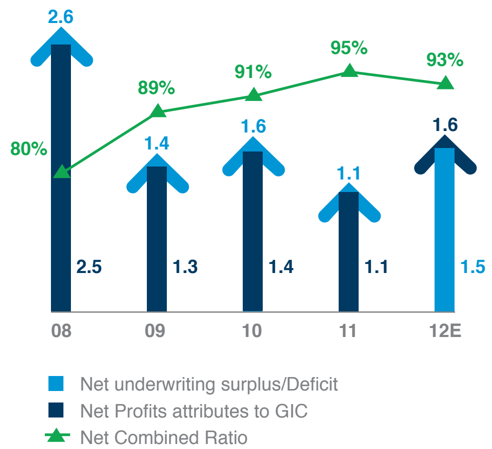
Tareq Al Sahhaf
Chairman

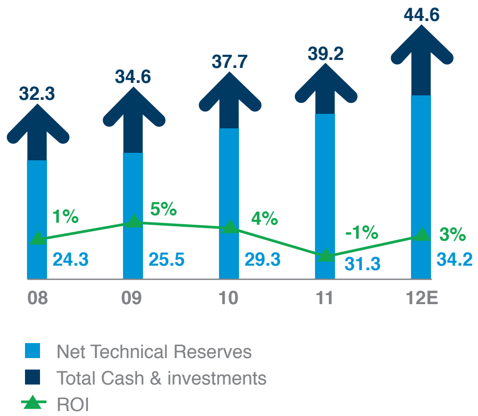
(GLIC) was established as a subsidiary of Gulf Insurance Company (GIC) in line with the global practice of separating life insurance business from other general insurance businesses, with paid-up capital of KD 5 million, GLIC offers life and health insurance solutions to individual customers and corporate entities. Company's headcount are 79 employees The Company ranked as the market Leader in terms of gross written premiums.

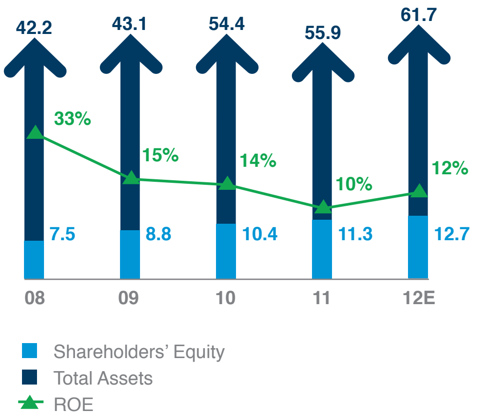
GIC's stake in GLIC is 99.80%
Tel: +965 22961777
Website: www.gulfins.com.kw

KD Million









Company's KPIs	2008	2009	2010	2011	2012E
Profitability Ratio	17%	9%	6%	3%	4%
U/W leverage	153%	173%	234%	201%	185%

Subsidiaries

2011

الشـركة السورية الكويتية للتأمين

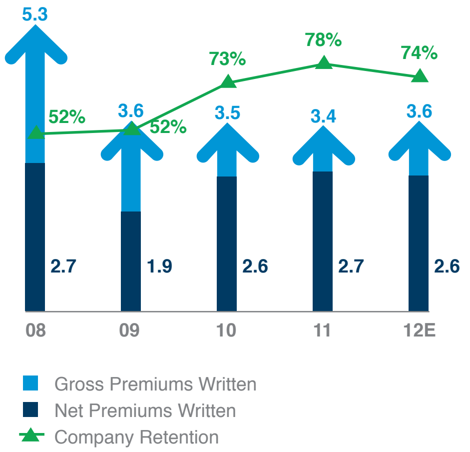
Syrian Kuwaiti Insurance Company

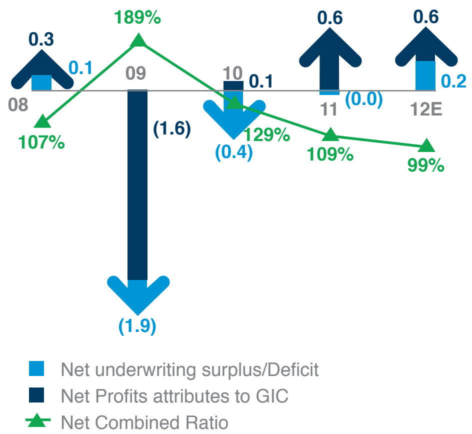
Samer Bakdash
General Manager

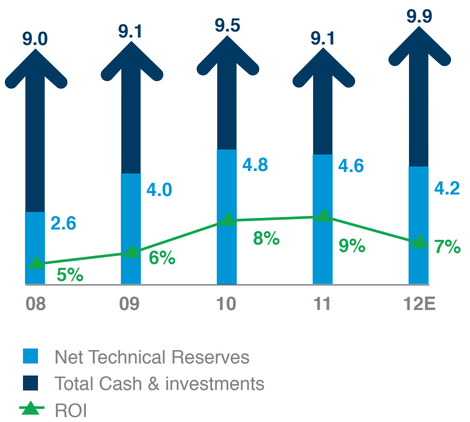
2006 Syrian Kuwaiti Insurance Company (SKIC) was established as a Syrian joint stock company; following the Ministerial decree number 13.
Currently SKIC have been listed in Damascus stock exchange.
SKIC received its operating license number 44/100 from the Syrian Insurance Supervisory Commission On October 10, 2006, and it started officially its operations. The company's authorized and fully paid up capital amounts to SYP 850 Million.
SKIC rely on the deep-rooted experience of its main founder and shareholder, the Gulf Insurance Company (GIC) which current stake stands at 53.79% of total capital.
Currently the number of full time employees stands at 111.
SKIC is considered as a major player in the Syrian market, the company is ranked 5th among the thirteen insurance companies operating in Syria.

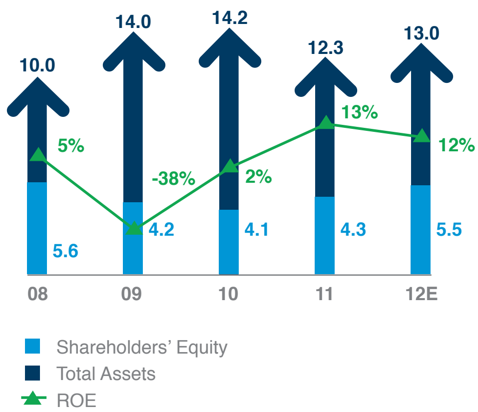
GIC's stake in SKIC is 53.78%
Tel: +963 11 9276
Website: www.skicins.com

KD Million









Company's KPIs	2008	2009	2010	2011	2012E
Profitability Ratio	2%	-52%	-12%	0%	7%
U/W leverage	49%	46%	62%	61%	48%

Subsidiaries

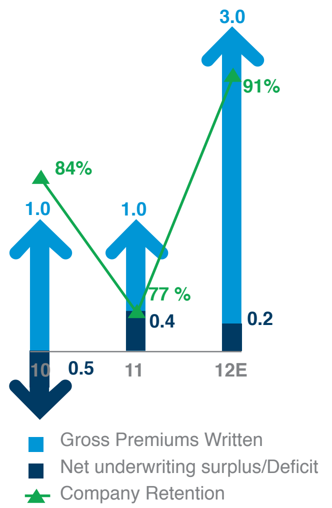
Egyptian Takaful - Life
المصرية للتأمين التكافلى-حياة

Hesham Abd El Shakour
Managing Director

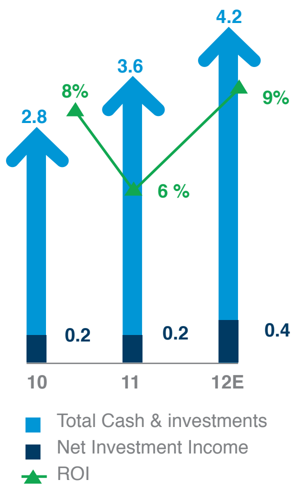
2007 Egyptian Takaful Insurance Company – Life- as a steppingstone to create a valuable Takaful industry in the Egyptian Life Insurance Market, with authorized capital EGP 500 million, the issued and paid up capital is EGP 100 million
During 2011 GIC acquired 59.5% in ELTIC through Gulf Life Insurance Company as direct and indirect stake.

GIC's stake in GLIC is 59.5 %
Tel: +2 16825
Website: www.takeg.com

Policyholders Financial Highlights (KD Million)



Financial Highlights- Shareholders' Statements (KD Million)



Subsidiaries

شركة دار السلام للتامين (ش.م)
Dar al Salam Ins.co.

June 2000 Dar Alsalam Insurance Company has been established as first privately owned Insurance Company in Iraq under license number 1/2000 and started its operations at October of the same year, licensed to operate in all insurance types, its paid up capital is 2.4 Billion Iraqi Dinars.
The company's head office located in Baghdad and has two branches in Al-Hella & Karbela'a plus an agent in AL-Mossel as well as many producers in Iraq.
The company ranked as market leader of Iraq Insurance Company in terms of Gross Written Premiums and in the 2nd position in terms of Paid-Up Capital, with 27% market share at 2010
in December 2011 GIC acquired a majority stake in DAIC by 51%, the company listed in Baghdad Stock Exchange.

GIC's stake in SKIC is 51%
Tel: +964 7708856522

Auditors’ Report to the Shareholders

ERNST & YOUNG
Al Aiban, Al Osaimi & Partners
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Safat Square
Ahmed Al Jaber Street

Tel : 2245 2880 / 2295 5000
Fax: 2245 6419
Email: kuwait@kw.ey.com

BAKER TILLY
KUWAIT
Dr. Saud Al-humaidi & Partners
Public Accountants
P.O.Box 1486 Safat,13015 Kuwait
Sharq Area, Omar Bin Khattab Street
Shawafat Bldg, Block No. 5, 1st Floor
Tel : +965 1 82 82 83
Fax : +965 22 46 12 25
Email: info@bakertillykuwait.com
www.bakertillykuwait.com

Auditors' Report to the Shareholders

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GULF INSURANCE COMPANY - K.S.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Gulf Insurance Company K.S.C. (the Parent Company) and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Auditors' Report to the Shareholders

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GULF INSURANCE COMPANY - K.S.C. (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Parent Company's articles of association, and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2011 that might have had a material effect on the business of the Parent Company or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG

DR. SAUD AL-HUMAIDI
LICENSE NO. 51 A
DR. SAUD AL-HUMAIDI & PARTNERS
MEMBER OF BAKER TILLY INTERNATIONAL

7 February 2011
Kuwait

Gulf Insurance Comapny - K.S.C. and Subsidiaries

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	**2011 KD**	2010 KD
Revenue:			
Premiums written		**133,872,324**	119,774,544
Reinsurance premiums ceded		**(66,661,202)**	(60,300,594)
Net premiums written		**67,211,122**	59,473,950
Movement in unearned premiums reserve		**(1,792,769)**	(5,561,859)
Movement in life mathematical reserve		**(1,394,848)**	1,186,548
Net premiums earned		**64,023,505**	55,098,639
Commission received on ceded reinsurance		**9,291,004**	9,425,352
Policy issuance fees		**2,684,407**	2,726,729
Net investment (loss) income from life insurance	3	**(530,341)**	1,691,038
		75,468,575	68,941,758
Expenses:			
Claims incurred		**43,177,984**	38,531,379
Commission and discounts		**7,908,355**	7,981,990
Increase in incurred but not reported reserve		**26,764**	360,967
Maturity and cancellations of life insurance policies		**1,129,996**	1,139,305
General and administrative expenses		**13,378,038**	12,392,346
		65,621,137	60,405,987
Net underwriting income	21	**9,847,438**	8,535,771
Net investment income	3	**2,758,479**	4,032,843
Net sundry income		**227,701**	149,534
		12,833,618	12,718,148
Other charges:			
Unallocated general and administrative expenses		**(3,373,373)**	(2,747,040)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT TAX AND DIRECTORS' FEES		**9,460,245**	9,971,108
Contribution to KFAS		**(84,613)**	(80,435)
NLST		**(142,331)**	(213,051)
Zakat tax		**(83,690)**	(79,768)
Directors' fees		**(100,000)**	(80,000)
PROFIT FOR THE YEAR		**9,049,611**	9,517,854
Attributable to:			
Equity holders of the Parent Company		**7,115,046**	7,692,395
Non-controlling interests		**1,934,565**	1,825,459
		9,049,611	9,517,854
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	4	**40.07 fils**	43.96 fils

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 KD	2010 KD
Profit for the year		**9,049,611**	9,517,854
Other comprehensive income			
Net unrealised (loss) gain on investments available for sale		**(5,442,398)**	3,817,534
Net realised gain transferred to income statement on disposal of investments available for sale	3	**(1,598,351)**	(135,250)
Transfer to income statement on impairment of investments available for sale	3	**3,244,781**	323,420
Exchange differences on translation of foreign operations		**(1,281,019)**	(819,970)
Other comprehensive (loss) income for the year		**(5,076,987)**	3,185,734
Total comprehensive income for the year		**3,972,624**	12,703,588
ATTRIBUTABLE TO:			
Equity holders of the Parent Company		**2,038,059**	10,878,129
Non-controlling interests		**1,934,565**	1,825,459
		3,972,624	12,703,588

The attached notes 1 to 30 form part of these consolidated financial statements.

Gulf Insurance Comapny - K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 KD	2010 KD
ASSETS			
Property and equipment	5	**11,473,415**	7,353,257
Investment in associates	6	**13,299,616**	3,196,778
Goodwill	7	**8,466,184**	8,304,567
Financial instruments:			
Investments held to maturity		**17,389,892**	11,265,318
Debt securities (loans)		**7,758,269**	9,013,959
Investments available for sale	8	**32,247,322**	50,056,948
Investments carried at fair value through income statement	9	**14,033,180**	19,780,806
Loans secured by life insurance policies		**832,348**	911,311
Premiums and insurance balances receivable	10	**42,112,326**	39,994,795
Reinsurance recoverable on outstanding claims	11	**41,801,433**	39,993,142
Property held for sale		**234,663**	222,811
Other assets	12	**12,300,885**	9,450,760
Time deposits	13	**33,951,697**	33,609,525
Cash and cash equivalents	14	**30,871,979**	27,212,735
TOTAL ASSETS		**266,773,209**	260,366,712
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities arising from insurance contracts:	11		
Outstanding claims reserve (gross)		**75,179,568**	71,515,959
Unearned premiums reserve (net)		**24,100,850**	22,698,314
Life mathematical reserve (net)		**18,672,420**	17,280,733
Incurred but not reported reserve (net)		**4,092,361**	3,878,920
Total liabilities arising from insurance contracts		**122,045,199**	115,373,926
Premiums received in advance		**276,511**	1,241,204
Insurance payable	15	**33,273,082**	33,140,724
Other liabilities	16	**14,692,035**	13,070,561
Bank overdrafts	14	**14,730,513**	14,961,726
TOTAL LIABILITIES		**185,017,340**	177,788,141
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY			
Share capital	17	**17,813,250**	16,965,000
Share premium		**3,600,000**	3,600,000
Treasury shares	18	(1,561,429)	-
Treasury shares reserve		2,051,215	2,051,215
Statutory reserve	19	13,791,001	13,038,433
Voluntary reserve	20	17,744,414	16,991,846
Other reserve		(3,010,734)	(3,010,734)
Cumulative changes in fair value		828,658	4,624,626
Foreign currency translation adjustments		(2,246,323)	(965,304)
Retained earnings		17,505,213	16,984,803
		66,515,265	70,279,885
Non-controlling interests		15,240,604	12,298,686
Total equity		81,755,869	82,578,571
TOTAL LIABILITIES AND EQUITY		266,773,209	260,366,712

Farqad A. Al-Sane
Chairman

The attached notes 1 to 30 form part of these consolidated financial statements.

Gulf Insurance Comapny - K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Attributable to equity holders of the Parent Comapny													
	Share Capital	Share premium	Treasury shares	Treasury share reserve	Employees' share option reserve	Statutory reserve	Voluntary reserve	Other reserve	Cumulative changes in fair values	Foreign currency translation adjustments	Retained earnings	Sub total	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2011	16,965,000	3,600,000	-	2,051,215	-	13,038,433	16,991,846	(3,010,734)	4,624,626	(965,304)	16,984,803	70,279,885	12,298,686	82,578,571
Profit for the year	-	-	-	-	-	-	-	-	-	-	7,115,046	7,115,046	1,934,565	9,049,611
Other comprehensive loss	-	-	-	-	-	-	-	-	(3,795,968)	(1,281,019)	-	(5,076,987)	-	(5,076,987)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	-	-	(3,795,968)	(1,281,019)	7,115,046	2,038,059	1,934,565	3,972,624
Issue of bonus shares (Note 17)	848,250	-	-	-	-	-	-	-	-	-	(848,250)	-	-	-
Dividend for 2010 (Note 17)	-	-	-	-	-	-	-	-	-	-	(4,241,250)	(4,241,250)	-	(4,241,250)
Purchase of treasury shares	-	-	(1,561,429)	-	-			-	-	-	-	(1,561,429)	-	(1,561,429)
Transfer to reserves	-	-	-	-	-	752,568	752,568	-	-	-	(1,505,136)	-	-	-
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	1,007,353	1,007,353
Balance at 31 December 2011	**17,813,250**	**3,600,000**	**(1,561,429)**	**2,051,215**	**-**	**13,791,001**	**17,744,414**	**(3,010,734)**	**828,658**	**(2,246,323)**	**17,505,213**	**66,515,265**	**15,240,604**	**81,755,869**
Balance at 1 January 2010	16,965,000	3,600,000	(1,757,348)	1,493,072	-	12,223,868	16,177,281	-	618,922	(145,334)	17,535,787	66,711,248	14,731,239	81,442,487
Profit for the year	-	-	-	-	-	-	-	-	-	-	7,692,395	7,692,395	1,825,459	9,517,854
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	4,005,704	(819,970)	-	3,185,734	-	3,185,734
Total comprehensive income (loss) for the year	-	-	-	-	-	-	-	-	4,005,704	(819,970)	7,692,395	10,878,129	1,825,459	12,703,588
Dividend for 2009 (Note 17)	-	-	-	-	-	-	-	-	-	-	(6,614,249)	(6,614,249)	-	(6,614,249)
Cost of share based payment	-	-	-	-	43,423	-	-	-	-	-	-	43,423	-	43,423
Purchase of treasury shares	-	-	(231,000)	-	-	-	-	-	-	-	-	(231,000)	-	(231,000)
Sale of treasury share	-	-	1,988,348	558,143	(43,423)	-	-	-	-	-	-	2,503,068	-	2,503,068
Change in ownership of subsidiaries	-	-	-	-	-	-	-	(3,010,734)	-	-	-	(3,010,734)	(3,653,365)	(6,664,099)
Transfer to reserves	-	-	-	-	-	814,565	814,565	-	-	-	(1,629,130)	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(604,647)	(604,647)
Balance at 31 December 2010	16,965,000	3,600,000	-	2,051,215	-	13,038,433	16,991,846	(3,010,734)	4,624,626	(965,304)	16,984,803	70,279,885	12,298,686	82,578,571

The attached notes 1 to 30 form part of these consolidated financial statements.

Gulf Insurance Comapny - K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 KD	2010 KD
OPERATING ACTIVITIES			
Profit before contribution to KFAS, NLST, Zakat tax and directors' fees		**9,460,245**	9,971,108
Depreciation	5	**699,571**	587,013
Net investment income		**(4,878,569)**	(6,047,301)
Impairment of investments available for sale	3	**3,244,781**	323,420
Share of results of associates	6	**(520,360)**	-
Gain arising on associates	6	**(985,170)**	-
		7,020,498	4,834,240
Changes in operating assets and liabilities:			
Investments carried at fair value through income statement		**5,892,479**	(2,330,229)
Premiums and insurance balances receivable		**(2,117,531)**	(2,753,019)
Reinsurance recoverable on outstanding claims		**(1,808,291)**	(1,940,221)
Purchase of property held for sale		**(11,852)**	(46,840)
Other assets		**(2,904,768)**	902,178
Liabilities arising from insurance contracts		**6,671,273**	7,506,500
Premiums received in advance		**(964,693)**	(24,122)
Insurance payable		**74,294**	(2,937,942)
Other liabilities		**1,545,396**	2,352,766
Cash from operations		**13,396,805**	5,563,311
Paid to KFAS		**(80,435)**	(53,406)
Paid to NLST		**(133,831)**	(113,670)
Paid to Zakat		**(87,936)**	(51,720)
Paid to directors		**(80,000)**	(80,000)
Net cash from operating activities		**13,014,603**	5,264,515
INVESTING ACTIVITIES			
Purchase of property and equipment	5	**(4,639,328)**	(2,681,632)
Proceeds from sale of property and equipment		**17,498**	176,273
Purchase of investment in a subsidiary	27	**(541,511)**	(6,664,099)
Purchase of investment in associates	6	**-**	(924,521)
Return of capital of associates		**243,588**	-
Purchase of investment held to maturity		**(5,107,984)**	(220,047)
Movement in debt securities (loans)		**1,255,690**	(2,192,850)
Net movement on investments available for sale		**408,353**	(4,666,547)
Movement in loans secured by life insurance policies		**78,963**	(49,591)
Time deposits		**166,034**	(33,609,525)
Interest received		**3,767,484**	1,733,158
Dividends received		**1,276,211**	1,374,411
Other investment income received		**-**	174,750
Net cash used in investing activities		**(3,075,002)**	(47,550,220)
FINANCING ACTIVITIES			
Dividends paid		**(4,272,129)**	(6,164,249)
Net movement of treasury shares		**(1,561,429)**	2,272,068
Dividends paid to non-controlling interests		**-**	(604,647)
Net movement in non-controlling interests		**1,007,353**	-
Net cash used in financing activities		**(4,826,205)**	(4,496,828)
Foreign currency translation adjustments		**(1,222,939)**	(819,970)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**3,890,457**	(47,602,503)
Cash and cash equivalents at beginning of the year		**12,251,009**	59,853,512
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	14	**16,141,466**	12,251,009

The attached notes 1 to 30 form part of these consolidated financial statements.

1. CORPORATE INFORMATION

The consolidated financial statements of Gulf Insurance Company K.S.C. (the "Parent Company") and subsidiaries (the "Group") for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 7 February 2012. The Shareholders' General Assembly has the power to amend the consolidated financial statements after issuance.

The Parent Company was incorporated as a Kuwaiti Shareholding Company in accordance with the Amiri Decree No. 25 of 9 April 1962, and is listed on the Kuwait Stock Exchange. The Parent Company's objectives include all types of insurance, indemnities, compensations and investing its capital and assets in various financial and real estate investments, both locally and abroad.

The Parent Company is 44.04% (31 December 2010: 43.87%) owned by Kuwait Projects Company Holding K.S.C. (previously the "Ultimate Parent Company" and 41.43% (31 December 2010: 41.26%) by Fairfax Middle East Limited Company.

The address of the Parent Company's registered office is at Ahmed Al Jaber Street, Sharq, Kuwait City P.O. Box 1040 Safat, 13011 State of Kuwait.

The Group employs 1,208 employees for the year ended 31 December 2011 (31 December 2010: 1,038 employees).

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPERATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Ministerial Order No. 18 of 1990.

The consolidated financial statements have been prepared on a historical cost convention modified to include the measurement at fair value of investments carried at fair value through income statement and investments available for sale. The consolidated financial statements are presented in Kuwaiti Dinars which is the functional and reporting currency of the Parent Company.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable 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 liability simultaneously. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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

2.2 BASIS OF CONSOLIDATION (continued)

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Product classification

Insurance contracts

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

Investment contracts

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or the other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception if insurance risk becomes significant.

Basis of combinations and goodwill

Business combinations are accounted for using the acquisition 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 Group elects whether it 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 general and administrative expenses.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be re-measured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of combinations and goodwill (continued)
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 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 and part of the operation 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-generating unit retained.

Revenue recognition

Premiums earned
Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premiums is taken to the consolidated income statement in order that revenue is recognised over the period of risk.

Commissions earned and paid
Commissions earned and paid are recognised at the time of recognition of the related premiums.

Policy issuance fees
Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognized over those future periods.

Interest income
Interest income is recognised using the effective interest rate method.

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

Rental income
Rental income is recognised on a straight line basis over the term of the lease.

Realised gains and losses
Realised gains and losses include gain and loss on financial assets and are calculated as the difference between net sales proceeds and the carrying value, and are recorded on occurrence of the sale transactions.

Claims
Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to consolidated income statement as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Group and those not reported at the reporting date.

The Group generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. In addition, a provision based on management's judgement and the Group's prior experience is maintained for the cost of settling claims incurred but not reported at the reporting date. Any difference between the provisions at the reporting date and settlements and provisions for the following year is included in the underwriting account of that year.

Policy acquisition costs
Commissions paid to intermediaries and other (incremental) direct costs incurred in relation to the acquisition and renewal of insurance contracts are capitalised as an intangible asset. The deferred policy acquisition costs (DAC) are subsequently amortised over the term of the insurance contracts to which they relate as premiums are earned.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Policy acquisition costs (continued)
An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amounts is less than the carrying value an impairment loss is recognised in the consolidated income statement. DAC is also considered in the liability adequacy test for each reporting period.

DAC are derecognised when the related contracts are settled or disposed of.

Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Liability adequacy test
At each reporting date the Group assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred policy acquisition costs) is inadequate in light of estimated future cash flows, the entire deficiency is immediately recognised in the consolidated income statement and an unexpired risk provision is created.

The Group does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

Reinsurance contracts held
In order to minimise financial exposure from large claims the Group enters into agreements with other parties for reinsurance purposes. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. These amounts are shown as "reinsurance recoverable on outstanding claims" in the consolidated statement of financial position until the claim is paid by the Group. Once the claim is paid the amount due from the reinsurers in connection with the paid claim is transferred to "receivables arising from insurance contracts".

Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business.

At each reporting date, the Group assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Taxation
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat represent levies/taxes imposed on the entity at the flat percentage of net profits less permitted deductions under the prevalent respective fiscal regulations of the State of Kuwait. Under prevalent taxation/levy regulations no carry forward of losses is permitted and there are no significant differences between the tax /levy bases of assets and liabilities and their carrying amount for financial reporting purposes.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Tax/statutory levy	**Rate**
Contribution to KFAS	1.0% of net profit less permitted deductions
NLST	2.5% of net profit less permitted deductions
Zakat	1.0% of net profit less permitted deductions

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

Depreciation is provided on a straight line basis over the useful lives of the following classes of assets:

Building	20 – 50	Years
Furniture and fixtures	1 – 2	Years
Motor vehicles	1 – 4	Years
Leasehold improvements	Up to 7	Years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year the asset is derecognized.

Investments in associates

The Group's investment in associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in associates is carried in the consolidated statement of financial position at cost plus post acquisition charges in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated income statement reflects the Group's share of the results of operations of the associates. When there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The Group's share of profit of associates is shown on the face of the consolidated income statement. This is the profit attributable to equity holders of the associates and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associates are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

Upon loss of significant influence over the associates, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associates upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, financial asset available for sale, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

Investments held to maturity
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the intention and ability to hold until maturity. After initial measurement, held to maturity financial assets are measured at amortized cost, using the effective interest rate, less impairment. The effective interest rate, amortization is included in 'net investment income' in the consolidated income statement. Gains and losses are recognised in the consolidated income statement when the investments are derecognized or impaired, as well as through the amortisation process.

Loans and other receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the effective interest rate, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in 'net investment income' in the consolidated income statement. Gains and losses are recognised in the consolidated income statement when the investments are derecognized or impaired, as well as through the amortisation process.

Investments available for sale
Investments available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as "loans and receivables". After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in other comprehensive income, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated income statement. Financial assets available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Investments carried at fair value through income statement
Investment carried at fair value through income statement include financial assets held for trading and those designated at fair value through income statement at inception. Investments typically bought for the purpose of selling in the near term are classified as held for trading. For investments designated as at fair value through income statement, the following criteria must be met:

- 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 a different basis, or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)
Subsequent measurement (continued)
Investments carried at fair value through income statement (continued)
These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value.

Fair value adjustments and realised gain and loss are recognised in the consolidated income statement.

Receivables
Accounts receivable are stated at their face value less impairment losses or provision for doubtful accounts.

Cash and cash equivalents
Cash includes cash on hand and at banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of placement and that are subject to an insignificant risk of change in value. Cash and cash equivalents in the consolidated statement of cash flows are presented net of bank overdrafts.

De-recognition of financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:
a) The rights to receive cash flows from the asset have expired;
b) The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
c) The Group has transferred its rights to receive cash flows from the asset and either has transferred all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset 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.

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.

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.

Impairment of financial assets
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 re-organization 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.

Investments available for sale
For investments 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 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 recognized in the consolidated income statement - is removed from other comprehensive income and recognized in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognized directly in other comprehensive income.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)
Fair values
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 29.

Financial liabilities
Financial liabilities consist of insurance payable and certain items under other payables are derecognised when the obligation under the liability is discharged, cancelled or expired.

Initial recognition and measurement
Financial liabilities are initially recognized at fair value.

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

Insurance payables
Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

De-recognition of financial liabilities
A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires. When 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 income statement.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

Outstanding claims reserve
Outstanding claims comprise the estimated cost of claims incurred and reported but not settled at the reporting date. Provisions for reported claims not paid as at the reporting date are made on the basis of individual case estimates.

Any difference between the provisions at the reporting date and settlements and provisions in the following year is included in the underwriting account for that year.

Unearned premium reserve
The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

Life mathematical reserve
The reserve for the life business at the reporting date represents the mathematical liability of policies in force at that date as determined by the Group's actuaries.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Incurred but not reported reserve
The incurred but not reported reserve includes amounts reserved for claims incurred but not reported at the financial position date in addition to other contingencies and any differences that may arise. Provision based on management's judgement and the Group's prior experience is maintained for the cost of settling claims incurred but not reported at the consolidated statement of financial position date.

End of service indemnity
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, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on reporting date.

Treasury shares
Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (Treasury shares reserve) which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Employees' share option reserve
Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

Equity-settled transactions
The cost of equity-settled transactions with employees is measured under the intrinsic value method. Under this method, the cost is determined by comparing the market value of the Parent Company's shares at each reporting date and the date of final settlement to the exercise price with any change in intrinsic value recognised in the consolidated income statement.

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees exercise their rights. The cumulative expense recognised for equity-settled transactions at each reporting date until the exercise date reflects the extent to which the exercise period has expired and the number of awards that, in the opinion of the directors at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

Foreign currency transactions
The Group's consolidated financial statements are presented in Kuwaiti Dinars, which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

i) Transactions and balances
Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions (continued)

i) Transactions and balances (continued)
All differences arising on settlement or translation of monetary items are taken to the consolidated income statement with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the consolidated income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

ii) Group companies
On consolidation, assets and liabilities of foreign operations are translated into Kuwati dinars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

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 operation and translated at the closing rate.

Other reserve
Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control.

Contingencies
Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

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:

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 characte istics; or
- other valuation models.

Non-life insurance contract liabilities
For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date, provision for outstanding claims (OCR) and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty (continued)

Non-life insurance contract liabilities (continued)
The main assumption underlying these techniques is that the Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types.

Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

Life insurance contract liabilities (Life mathematical reserve)
The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group base mortality and morbidity tables on standard industry and national tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

Reinsurance
The Group is exposed to disputes with, and possibility of defaults by, its reinsurers. The Group monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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

Classification of investments
Management decides on acquisition of an investment whether it should be classified as available for sale or investments carried at fair value through income statement or held to maturity investments. The Group classifies investments as carried at fair value through income statement if the fair value can be reliably determined. The Group classifies investment as "held to maturity" if they meet the relevant criteria for each classification. All other investments are classified as available for sale.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgement (continued)

Impairment of investments
The Group treats investments available for sale 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 unquoted equities.

Goodwill impairment testing
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which goodwill is allocated.

2.4 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2011:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- IFRIC 19 Extinguishing Financial Liabilities with Equity instruments effective 1 July 2010
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The amendment of the interpretation has no effect on the financial position nor performance of the Group.

IFRIC 19 Extinguishing financial liabilities with equity instruments
The IFRIC clarified that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instrument issued. If the fair value of the equity instrument issued is not reliably determinable, the equity instrument should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. Any difference between the carrying amount of the financial liability estinguished and the fair value of the equity issued is recognized in profit or loss. This interpretation is effective prospectively for financial years beginning on or after 1 July 2010. The adoption of this interpretation has no effect on profit or loss nor equity of the Group as the Group has not entered into such debt for equity swap.

2.4 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- IFRS 3 Business Combinations: The measurement options available for non-controlling interests (NCI) were amened. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionat share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011. The Group however, expects no impact from the adoption of the amendments on its financial position or performance.
- IFRS 7 Financial Instruments — Disclosures: The amendment was to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of eac component of other comprehensive income maybe either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements.

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

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adotion of IFRS 3 (as revised in 2008)).
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements

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

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Amendment)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The group had made a voluntary change in accounting policy to recognise actuarial gains and losses in OCI in the current period (see note 2.4). The Group is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

2.4 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3.NET INVESTMENT INCOME

Net investment (loss) income for **life insurance** analysed by category for the year, is as follows:

	Debt securities (loans)	Investments carried at fair value through income statement	Time and call deposits	Other investment income	**2011 Total**	2010 Total
	KD	KD	KD	KD	**KD**	KD
Realised (loss) gain	-	(201,770)	-	-	**(201,770)**	554,133
Unrealised (loss) gain	-	(1,359,386)	-	-	**(1,359,386)**	85,600
Dividend income	-	83,896	-	-	**83,896**	283,961
Interest income	595,104	-	293,219	-	**888,323**	776,507
Gain (loss) on financial instruments	595,104	(1,477,260)	293,219	-	**(588,937)**	1,700,201
Other investment income	-	-	-	70,343	**70,343**	-
Total investment income (loss)	595,104	(1,477,260)	293,219	70,343	**(518,594)**	1,700,201
Financial charges and other expenses	(10,041)	(1,706)	-	-	**(11,747)**	(9,163)
Total investment expense	(10,041)	(1,706)	-	-	**(11,747)**	(9,163)
Net investment income (loss)	585,063	(1,478,966)	293,219	70,343	**(530,341)**	1,691,038

3.NET INVESTMENT INCOME (continued)

Net investment income for **non-life insurance**, analysed by category for the year, is as follows:

	Investment in associates	Investments held to maturity	Debt securities (loan)	Investments available for sale	Investments carried at fair value through income statement	Property held for sale	Time and call deposits	Other investment income (expense)	**2011 Total**	2010 Total
	KD	KD	KD	KD	KD	KD	KD	KD	**KD**	KD
Realised gain (loss)	-	-	-	1,598,351	(246,545)	-	-	-	**1,351,806**	716,589
Unrealised (loss) gain	-	-	-	-	(405,320)	-	-	-	**(405,320)**	936,735
Dividends income	-	-	-	1,161,939	30,376	-	-	-	**1,192,315**	1,207,038
Interest income	-	1,127,986	1,297	-	-	-	1,957,763	-	**3,087,046**	2,689,686
Gain on financial instruments	-	1,127,986	1,297	2,760,290	(621,489)	-	1,957,763	-	**5,225,847**	5,550,048
Share of result from associates	520,360	-	-	-	-	-	-	-	**520,360**	-
Gain arising on associates	985,170	-	-	-	-	-	-	-	**985,170**	-
Rental income	-	-	-	-	-	93,323	-	-	**93,323**	92,534
Other investment income	-	-	-	-	-	-	-	77,993	**77,993**	184,707
Total investment income	1,505,530	1,127,986	1,297	2,760,290	(621,489)	93,323	1,957,763	77,993	**6,902,693**	5,827,289
Financial charges	-	-	-	-	-	-	-	(624,501)	**(624,501)**	(619,264)
Impairment loss	-	-	-	(3,244,781)	-	-	-	-	**(3,244,781)**	(323,420)
Other investment expenses	-	-	-	-	(24,055)	-	-	(250,877)	**(274,932)**	(851,762)
Total investment expense	-	-	-	(3,244,781)	(24,055)	-	-	(875,378)	**(4,144,214)**	(1,794,446)
Net investment income	1,505,530	1,127,986	1,297	(484,491)	(645,544)	93,323	1,957,763	(797,385)	**2,758,479**	4,032,843

4. BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

- Basic earnings per share are calculated by dividing profit for the year attributable to equity holders of the Parent Company by the weighted average number of shares, less weighted average number of treasury shares outstanding during the year. Diluted earnings per share are calculated by dividing profit for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares, less weighted average number of treasury shares, outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares which is reserved from employees' share option scheme.

- There are no dilutive potential ordinary shares. The information necessary to calculate basic and diluted earnings per share based on weighted average number of share outstanding during the year is as follow:

	2011	2010
Profit for the year attributable to equity holders of the Parent Company (KD)	**7,115,046**	7,692,395
Number of shares outstanding at the beginning of the year	**178,132,500**	178,132,500
Weighted average number of treasury shares	**(548,243)**	(3,165,342)
Weighted average number of shares outstanding during the year	**177,584,257**	174,967,158
Basic and diluted earnings per share	**40.07 Fils**	43.96 Fils

The comparative of basic and diluted earnings per share have been restated due to the issuance of bonus shares (see Note 17).

5 PROPERTY AND EQUIPMENT

	Land	Buildings	Leasehold improve-ments	Computer	Furniture and fixtures	Motor vehicles	Total
	KD	KD	KD	KD	KD	KD	KD
Cost:							
At 1 January 2011	2,846,737	6,408,457	739,992	3,585,670	2,558,311	448,989	16,588,156
Additions	170,893	3,073,048	420,632	474,293	326,529	173,933	4,639,328
Disposals	-	-	(819)	(71,458)	(23,743)	(77,609)	(173,629)
Arising on acquisition of a subsidiary (Note 28)	-	341,780	10,545	31,607	14,970	15,137	414,039
Foreign currency translation differences	(16,425)	(109,569)	(12,110)	(45,581)	(27,715)	(10,795)	(222,195)
At 31 December 2011	**3,001,205**	**9,713,716**	**1,158,240**	**3,974,531**	**2,848,352**	**549,655**	**21,245,699**
Accumulated Depreciation:							
At 1 January 2011	-	3,127,028	567,985	3,142,093	2,131,519	266,274	9,234,899
Charge for the year	-	109,976	108,942	257,422	143,682	79,549	699,571
On disposals	-	-	(447)	(70,938)	(14,760)	(69,986)	(156,131)
Arising on acquisition of a subsidiary (Note 28)	-	-	21,305	36,108	8,344	15,809	81,566
Foreign currency translation differences	-	(19,969)	(7,645)	(33,894)	(20,553)	(5,560)	(87,621)
At 31 December 2011	**-**	**3,217,035**	**690,140**	**3,330,791**	**2,248,232**	**286,086**	**9,772,284**
Net carrying amount:							
At 31 December 2011	**3,001,205**	**6,496,681**	**468,100**	**643,740**	**600,120**	**263,569**	**11,473,415**

Part of the Parent Company's premises with net carrying amount of KD 1,260,000 (31 December 2010: KD 1,260,000) have been mortgaged with the Ministry of Commerce and Industry.

5 PROPERTY AND EQUIPMENT (CONTINUED)

	Land	Buildings	Leasehold improve-ments	Computer	Furniture and fixtures	Motor vehicles	Total
	KD	KD	KD	KD	KD	KD	KD
Cost:							
At 1 January 2010	2,215,600	5,081,006	708,053	3,448,643	2,481,856	516,513	14,451,671
Additions	635,786	1,473,299	65,558	288,467	152,562	65,960	2,681,632
Disposals	-	(56,302)	(25,324)	(101,971)	(39,440)	(119,687)	(342,724)
Foreign currency translation differences	(4,649)	(89,546)	(8,295)	(49,469)	(36,667)	(13,797)	(202,423)
At 31 December 2010	2,846,737	6,408,457	739,992	3,585,670	2,558,311	448,989	16,588,156
Accumulated Depreciation:							
At 1 January 2010	-	3,079,091	512,835	3,023,807	2,038,725	268,784	8,923,242
Charge for the year	-	78,175	73,567	226,617	135,968	72,686	587,013
On disposals	-	(10,987)	(12,710)	(69,585)	(14,822)	(69,334)	(177,438)
Foreign currency translation differences	-	(19,251)	(5,707)	(38,746)	(28,352)	(5,862)	(97,918)
At 31 December 2010	-	3,127,028	567,985	3,142,093	2,131,519	266,274	9,234,899
Net carrying amount:							
At 31 December 2010	2,846,737	3,281,429	172,007	443,577	426,792	182,715	7,353,257

6 Investment in associates

The Group has the following investment in associates:

	Country of incorporation	Percentage of ownership		Principal Activity
		2011	2010	
Al-Brouj Co-Operative Insurance Company (A Saudi Joint Stock Company)	Kingdom of Saudi Arabia	**27.25%**	27.25%	Insurance activities
Kipco Private Equity Company *	Kuwait	**38.78%**	Nil	Investment activities

* This investment was previously accounted for as investment available for sale as the Group did not have significant influence over the investee company. During the current year, the Group was able to exercise significant influence by way of representation on board of directors, and accordingly, this investment has been accounted for as an associate in accordance with International Accounting Standard 28 ("Investments in associates"). As a result of this classification, an amount of KD 985,170 which represents the previously recognized changes in fair values within "cumulative changes in fair values" at the reclassification date, was recycled to the consolidated income statement.

Carrying amount of investment in associates

The movement of the investment in associates during the year is as follows:

	2011	2010
	KD	KD
Carrying value at 1 January	**3,196,778**	2,272,257
Additions	**-**	924,521
Return of capital	**(243,588)**	-
Share of results of associates (Note 3)	**520,360**	-
Transfers from investments available for sale	**8,840,896**	-
Gain arising on associates (Note 3)	**985,170**	-
Carrying value at 31 December	**13,299,616**	3,196,778

Goodwill included in the carrying value of the investment in associates amounts to KD 640,169 (31 December 2010: KD 640,169).

	2011	2010
	KD	KD
Share of associates' financial position:		
Assets	**13,386,307**	3,196,778
Liabilities	**(86,691)**	-
Net assets	**13,299,616**	3,196,778
Share of associates' revenues and profit:		
Revenues	**520,674**	-
Net profit	**520,360**	-

Investment in associates include quoted associate with a carrying value of KD 3,196,778 (31 December 2010: KD 3,196,778) having a market value of KD 15,537,618 (31 December 2010: KD 7,592,584).

7 GOODWILL

Goodwill has been allocated to five individual cash-generating units. The carrying amount of goodwill allocated to each of the cash-generating units is shown below:

	2011	2010
	KD	KD
Arab Misr Insurance Group Company S.A.E.	**308,340**	308,340
Bahrain Kuwaiti Insurance Company (B.S.C.)	**2,625,935**	2,625,935
Arab Orient Insurance Company J.S.C.	**5,292,099**	5,292,099
Held through subsidiaries:		
Egypt Life Takaful Insurance Company (S.A.E.)	**167,904**	-
Syrian Kuwait Insurance Company (S.S.C.)	**71,906**	78,193
At 31 December	**8,466,184**	8,304,567

Movement on goodwill during the year is as follows:

	2011	2010
	KD	KD
At I January	**8,304,567**	8,307,165
On acquisition of a subsidiary company (Note 28)	**167,904**	-
Foreign currency translation adjustment	**(6,287)**	(2,598)
At 31 December	**8,466,184**	8,304,567

The carrying value of goodwill is tested for impairment on an annual basis (or more frequently if evidence exists that goodwill might be impaired) by considering fair market values of listed subsidiaries and/or estimating the recoverable amount of the cash generating unit (CGU) to which these items are allocated using value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management over a five years period and a relevant terminal growth rate. These cash flows were then discounted to derive a net present value which is compared to the carrying value. The discount rate used reflects specific risks relating to the relevant cash generating unit.

A discount rate applied to cash flow projections beyond the five year period are extrapolated using a projected growth rate. The calculation of value in use for each segment unit is sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share assumptions
- Projected growth rates used to extrapolate cash flows beyond the budget period; and
- Inflation rates.

Interest margins
Interest margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated market conditions.

Discount rates
Discount rates reflect management's estimate of return on capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC).

Market share assumptions
These assumptions are important because, as well as using industry data for growth rates, management assess how the unit's relative position to its competitors might change over the budget period.

7 GOODWILL (continued)

Projected growth rates and local inflation rates
Assumptions are based on published industry research.

Inflation rates
Estimates are obtained from published indices for countries where the Group operates.

The Group has also performed a sensitivity analysis by varying these input factors by a reasonable possible margin. Based on such analysis, there are no indications that goodwill is impaired.

8 INVESTMENTS AVAILABLE FOR SALE

	2011 **KD**	2010 KD
Quoted equity securities	**10,937,392**	16,352,165
Unquoted equity securities	**20,190,548**	23,180,573
Unquoted managed funds	**1,119,382**	10,524,210
	32,247,322	50,056,948

Included in investments available for sale are unquoted equity securities with a value of KD 1,467,090 (31 December 2010: KD 7,408,277) which are carried at cost as the fair value could not be reliably measured. Information for such investments is usually restricted to periodic investment performance reports from the investment managers. Management has performed a review of its unquoted investments to assess whether impairment has occurred in the value of these investments. Based on the latest financial information available in respect of these investments and their operations, management is of the view that the value of these investments is not impaired.

Impairment loss of KD 3,244,781 (31 December 2010: KD 323,420) has been made against quoted securities on which there has been a significant or prolonged decline in fair value below cost.

9 INVESTMENTS CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

	2011 **KD**	2010 KD
Held for trading:		
Quoted securities	**3,074,559**	3,263,754
Designated upon initial recognition:		
Managed funds of quoted securities	**10,958,621**	16,517,052
	14,033,180	19,780,806

10. PREMIUMS AND INSURANCE BALANCES RECEIVABLE

	2011 KD	2010 KD
Policyholders' accounts receivable		
Premiums receivable	**39,993,756**	38,142,671
Insured debts receivable	**733,943**	621,097
	40,727,699	38,763,768
Provision for doubtful debts	**(5,029,496)**	(4,644,287)
Net policyholders' accounts receivable	**35,698,203**	34,119,481

	2011 KD	2010 KD
Insurance and reinsurers accounts receivable		
Reinsurers receivable	**6,880,250**	6,789,927
Provision for doubtful debts	**(466,127)**	(914,613)
Net insurance and reinsures' accounts receivable	**6,414,123**	5,875,314
Total premiums and insurance balances receivable	**42,112,326**	39,994,795

The Group's terms of business require amounts to be paid within the underwriting year and as such these receivables are remeasured at cost. Arrangements with the reinsurance companies normally require settlement on a quarterly basis.

Movements in the allowance for impairment of policyholders' accounts receivable were as follows:

	2011 KD	2010 KD
At 1 January	**4,644,287**	4,703,480
Charge for the year	**626,454**	242,070
Amounts written off	**(241,245)**	(301,263)
At 31 December	**5,029,496**	4,644,287

Movements in the allowance for insurance and reinsurers' accounts receivable were as follows:

	2011 KD	2010 KD
At 1 January	**914,613**	879,490
Charge for the year	**-**	35,123
Amounts written off	**(448,486)**	-
At 31 December	**466,127**	914,613

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

11 LIABILITIES AND ASSETS ARISING FROM INSURANCE CONTRACTS

31 December 2011	Marine and aviation KD	Motor vehicles KD	Property KD	Engineering KD	General accidents KD	Life KD	Medical KD	Total KD
OUTSTANDING CLAIMS RESERVE:								
Gross balance at beginning of the year	4,197,867	22,213,798	13,006,496	7,419,261	6,789,447	12,676,363	5,212,727	71,515,959
Reinsurance recoverable on outstanding claims	(3,749,324)	(6,186,622)	(11,702,465)	(6,846,381)	(2,740,481)	(6,847,893)	(1,919,976)	(39,993,142)
Net balance at beginning of the year	448,543	16,027,176	1,304,031	572,880	4,048,966	5,828,470	3,292,751	31,522,817
Foreign currency translation difference	(6,489)	(397,434)	(12,563)	(10,154)	(30,111)	(795)	(5,442)	(462,988)
Incurred during the year (net)	504,397	18,587,906	1,091,598	417,443	1,277,839	7,830,312	13,468,489	43,177,984
Paid during the year (net)	(376,853)	(17,800,539)	(1,147,397)	(437,982)	(912,344)	(6,689,716)	(13,494,847)	(40,859,678)
NET BALANCE AT END OF THE YEAR	569,598	16,417,109	1,235,669	542,187	4,384,350	6,968,271	3,260,951	33,378,135
Represented in:								
Gross balance at end of the year	4,808,634	22,457,804	14,202,601	8,495,133	6,986,408	11,127,757	7,101,231	**75,179,568**
Reinsurance recoverable	(4,239,036)	(6,040,695)	(12,966,932)	(7,952,946)	(2,602,058)	(4,159,486)	(3,840,280)	**(41,801,433)**
NET BALANCE AT END OF THE YEAR	569,598	16,417,109	1,235,669	542,187	4,384,350	6,968,271	3,260,951	**33,378,135**
Unearned premiums reserve (net)	480,064	12,996,581	1,088,303	587,388	2,297,411	162,640	6,488,463	**24,100,850**
Life mathematical reserve (net)	-	-	-	-	-	16,645,219	2,027,201	**18,672,420**
Incurred but not reported reserve (net)	694,886	825,227	432,295	226,249	1,036,369	-	877,335	**4,092,361**

There are no material claims for which the amounts and timing of claims are not settled within one year of the consolidated statement of financial position date.

11 LIABILITIES AND ASSETS ARISING FROM INSURANCE CONTRACTS (continued)

31 December 2010	Marine and aviation	Motor vehicles	Property	Engineering	General accidents	Life	Medical	Total
	KD	KD	KD	KD	KD	KD	KD	KD
OUTSTANDING CLAIMS RESERVE:								
Gross balance at beginning of the year	6,975,889	21,387,507	10,869,823	5,586,109	8,844,715	10,439,264	3,104,986	67,208,293
Reinsurance recoverable on outstanding claims	(6,277,955)	(5,282,335)	(10,407,396)	(5,031,399)	(4,337,707)	(5,021,417)	(1,694,713)	(38,052,922)
Net balance at beginning of the year	697,934	16,105,172	462,427	554,710	4,507,008	5,417,847	1,410,273	29,155,371
Foreign currency translation difference	(160,102)	(917,896)	(60,688)	(26,596)	(284,471)	123,675	(11,375)	(1,337,453)
Incurred during the year (net)	176,457	17,673,316	1,329,983	466,442	702,160	6,546,050	11,636,971	38,531,379
Paid during the year (net)	(265,746)	(16,833,416)	(427,691)	(421,676)	(875,731)	(6,259,102)	(9,743,118)	(34,826,480)
NET BALANCE AT END OF THE YEAR	448,543	16,027,176	1,304,031	572,880	4,048,966	5,828,470	3,292,751	31,522,817
Represented in:								
Gross balance at end of the year	4,197,867	22,213,798	13,006,496	7,419,261	6,789,447	12,676,363	5,212,727	71,515,959
Reinsurance recoverable	(3,749,324)	(6,186,622)	(11,702,465)	(6,846,381)	(2,740,481)	(6,847,893)	(1,919,976)	(39,993,142)
NET BALANCE AT END OF THE YEAR	448,543	16,027,176	1,304,031	572,880	4,048,966	5,828,470	3,292,751	31,522,817
Unearned premiums reserve (net)	450,554	12,300,202	1,038,824	536,653	1,931,311	451,953	5,988,817	22,698,314
Life mathematical reserve (net)	-	-	-	-	-	15,439,928	1,840,805	17,280,733
Incurred but not reported reserve (net)	696,757	717,239	370,987	189,822	1,034,767	850,000	19,348	3,878,920

12 OTHER ASSETS

	2011 KD	2010 KD
Accrued interest income	**787,683**	986,564
Inward reinsurance retentions	**54,806**	50,040
Refundable claims	**105,659**	375,939
Amounts due from related parties (Note 26)	**2,714,432**	1,715,323
Prepaid expenses and others	**8,638,305**	6,322,894
	12,300,885	9,450,760

13 TIME DEPOSITS

Time deposits of KD 33,951,697 (31 December 2010: KD 33,609,525) are placed with local and foreign banks and carry an average effective interest rate of 2.14% (31 December 2010: 2.25% per annum). Time deposits mature within one year.

14 CASH AND CASH EQUIVALENTS

	2011 KD	2010 KD
Cash on hand and at banks	**7,226,003**	5,535,475
Short term deposits and call accounts	**23,645,976**	21,677,260
Cash and cash equivalents in the consolidated statement of financial position	**30,871,979**	27,212,735
Bank overdrafts	**(14,730,513)**	(14,961,726)
Cash and cash equivalents in the consolidated statement of cash flows	**16,141,466**	12,251,009

15 INSURANCE PAYABLE

	2011 KD	2010 KD
Policyholders and agencies payables	**9,529,481**	9,902,385
Insurance and reinsurance payables	**23,596,840**	23,007,374
Amount due to policyholders of Takaful unit (Note 29)	**146,761**	230,965
	33,273,082	33,140,724

16 OTHER LIABILITIES

	2011 KD	2010 KD
Accrued expenses and others	**7,870,614**	7,052,569
Reserve for reinsurance premiums	**1,460,736**	1,334,144
KFAS, NLST and Zakat payables	**310,634**	373,254
Provision for end of service indemnity	**4,950,051**	4,230,594
Proposed directors' fees	**100,000**	80,000
	14,692,035	13,070,561

17 SHARE CAPITAL

Authorised, issued and fully paid capital consists of 178,132,500 shares of 100 fils each (31 December 2010: 169,650,000 shares).

17 SHARE CAPITAL (CONTINUED)

Cash dividends and bonus shares
The Ordinary Annual General Assembly of the Parent Company's shareholders held on 6 April 2011 approved the payment of cash dividends amounting to KD 4,241,250 for the year ended 31 December 2010 which represents 25% of paid up share capital (31 December 2009: 40%) and the increase of authorised, issued and paid up share capital from KD 16,965,000 to KD 17,813,250 through issuance of 84,825,000 bonus shares of 100 fils each which is equivalent to 5% of paid up share capital (31 December 2009: Nil).

On 7 February 2012, the Board of Directors of the Parent Company have proposed cash dividend of 20 fils per share (31 December 2010: 25 fils) and 5% bonus shares of paid up share capital (31 December 2010: 5%) in respect of the year ended 31 December 2011. This proposal is subject to the approval by annual general meeting of the shareholders of the Parent Company.

18 TREASURY SHARES

	2011	2010
Number of shares (share)	**3,105,273**	-
Percentage of issued shares (%)	**1.74%**	-
Market value (KD)	**1,614,742**	-

19 STATUTORY RESERVE

As required by the commercial company's law and the Parent Company's articles of association, 10% of profit attributable to the equity holders of the Parent Company before contribution to KFAS, NLST, Zakat tax and directors' fees has been transferred to the statutory reserve. The Parent Company may resolve to discontinue such annual transfers since the reserve exceeds 50% of the share capital.

There are no restrictions on distribution of amounts in excess of 50% of the share capital. Distribution of the remaining balance of the reserve is limited to the amount required to enable the payment of a dividend of 5% of the share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of this amount.

20 VOLUANTRY RESERVE

In accordance with the Parent Company's Articles of Association, 10% of the profit attributable to the equity holder of the Parent Company before contribution to KFAS, NLST, Zakat tax and directors' fees has been transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of shareholders' General Assembly upon a recommendation by the board of directors.

21 SEGMENT INFORMATION

a) Segmental consolidated income statement
The Group operates in two segments, general risk insurance and life and medical insurance; there are no inter-segment transactions. Following are the details of those two primary segments:

- The general risk insurance segment offers general insurance to individuals and businesses. General insurance products offered include marine and aviation, motor vehicles, property, engineering and general accidents. These products offer protection of policyholder's assets and indemnification of other parties that have suffered damage as a result of policyholder's accident.
- The life and medical insurance segment offers savings, protection products and other long-term contracts. It comprises a wide range of whole life insurance, term insurance, unitized pensions (Misk individual policies), pure endowment pensions, group life and disability, credit life (banks), group medical including third party administration (TPA), preferred global health and Balsam products. Revenue from this segment is derived primarily from insurance premium, fees, commission income, investment income and fair value gains and losses on investments.

21 SEGMENT INFORMATION

a) Segmental consolidated income statement (continued)

	General risk insurance						Life and medical insurance			
Year ended 31 December 2011:	Marine and aviation	Motor vehicles	Property	Engineering	General accidents	***Total general risk insurance***	Life	Medical	***Total life and medical insurance***	***Total***
	KD	KD	KD	KD	KD	***KD***	KD	KD	***KD***	***KD***
Revenue:										
Premiums written	9,543,784	28,583,366	20,201,181	11,389,003	8,998,247	**78,715,581**	12,760,364	42,396,379	**55,156,743**	**133,872,324**
Reinsurance premiums ceded	(7,801,978)	(1,587,312)	(17,923,568)	(10,055,861)	(4,408,307)	**(41,777,026)**	(2,216,918)	(22,667,258)	**(24,884,176)**	**(66,661,202)**
Net premiums written	1,741,806	26,996,054	2,277,613	1,333,142	4,589,940	**36,938,555**	10,543,446	19,729,121	**30,272,567**	**67,211,122**
Movement in unearned premiums	(39,267)	(953,870)	(74,594)	(63,440)	(400,977)	**(1,532,148)**	287,506	(548,127)	**(260,621)**	**(1,792,769)**
Movement in life mathematical reserve	-	-	-	-	-	**-**	(1,208,452)	(186,396)	**(1,394,848)**	**(1,394,848)**
Net premiums earned	1,702,539	26,042,184	2,203,019	1,269,702	4,188,963	**35,406,407**	9,622,500	18,994,598	**28,617,098**	**64,023,505**
Commission received on ceded reinsurance	1,835,139	16,430	2,554,878	1,935,906	697,447	**7,039,800**	478,671	1,772,533	**2,251,204**	**9,291,004**
Policy issuance fees	135,005	1,497,643	59,863	46,132	84,802	**1,823,445**	32,792	828,170	**860,962**	**2,684,407**
Net investment loss from life insurance	-	-	-	-	-	**-**	(462,789)	(67,552)	**(530,341)**	**(530,341)**
Total Revenue	3,672,683	27,556,257	4,817,760	3,251,740	4,971,212	**44,269,652**	9,671,174	21,527,749	**31,198,923**	**75,468,575**
Expenses:										
Claims incurred	504,397	18,587,906	1,091,598	417,443	1,277,839	**21,879,183**	7,830,312	13,468,489	**21,298,801**	**43,177,984**
Commission and discounts	659,160	3,325,198	1,192,697	1,023,550	684,350	**6,884,955**	421,713	601,687	**1,023,400**	**7,908,355**
Movement in incurred but not reported Reserve	2,703	(100,411)	65,165	41,210	29,991	**38,658**	(850,000)	838,106	**(11,894)**	**26,764**
Maturity and cancellations of life insurance Policies	-	-	-	-	-	**-**	1,129,996	-	**1,129,996**	**1,129,996**
General and administrative expenses	1,152,735	4,509,013	1,638,754	1,056,615	1,007,350	**9,364,467**	976,774	3,036,797	**4,013,571**	**13,378,038**
Total Expenses	2,318,995	26,321,706	3,988,214	2,538,818	2,999,530	**38,167,263**	9,508,795	17,945,079	**27,453,874**	**65,621,137**
Net underwriting income	1,353,688	1,234,551	829,546	712,922	1,971,682	**6,102,389**	162,379	3,582,670	**3,745,049**	**9,847,438**
Net investment income						**2,758,479**			**-**	**2,758,479**
Net sundry income						**221,868**			**5,833**	**227,701**
Depreciation						**(583,168)**			**(168,782)**	**(751,950)**
Unallocated general and administrative expenses						**(2,621,423)**			**-**	**(2,621,423)**
Profit for the year before contribution to KFAS, NLST, Zakat tax and Directors' fees						**5,878,145**			**3,582,100**	**9,460,245**

21 SEGMENT INFORMATION (continued)

a) Segmental consolidated income statement (continued)

Year ended 31 December 2010:	General risk insurance						Life and medical insurance			
	Marine and aviation	Motor vehicles	Property	Engineering	General accidents	Total general risk insurance	Life	Medical	Total life and medical insurance	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Revenue:										
Premiums written	10,077,910	28,434,515	18,011,955	11,385,879	8,637,387	76,547,646	10,548,041	32,678,857	43,226,898	119,774,544
Reinsurance premiums ceded	(8,502,721)	(2,191,957)	(16,011,119)	(10,241,744)	(4,803,052)	(41,750,593)	(1,937,185)	(16,612,816)	(18,550,001)	(60,300,594)
Net premiums written	1,575,189	26,242,558	2,000,836	1,144,135	3,834,335	34,797,053	8,610,856	16,066,041	24,676,897	59,473,950
Movement in unearned premiums	(7,021)	(612,625)	(493,372)	(367,128)	(289,793)	(1,769,939)	55,314	(3,847,234)	(3,791,920)	(5,561,859)
Movement in life mathematical reserve	-	-	-	-	-	-	964,604	221,944	1,186,548	1,186,548
Net premiums earned	1,568,168	25,629,933	1,507,464	777,007	3,544,542	33,027,114	9,630,774	12,440,751	22,071,525	55,098,639
Commission received on ceded reinsurance	1,793,960	69,031	2,546,333	2,334,771	722,743	7,466,838	615,789	1,342,725	1,958,514	9,425,352
Policy issuance fees	150,269	1,650,199	62,642	30,017	82,350	1,975,477	37,964	713,288	751,252	2,726,729
Net investment income from life insurance	-	-	-	-	-	-	1,401,746	289,292	1,691,038	1,691,038
Total Revenue	3,512,397	27,349,163	4,116,439	3,141,795	4,349,635	42,469,429	11,686,273	14,786,056	26,472,329	68,941,758
Expenses:										
Claims incurred	176,457	17,673,316	1,329,983	466,442	702,160	20,348,358	6,546,050	11,636,971	18,183,021	38,531,379
Commission and discounts	801,805	3,474,620	1,119,166	940,061	702,161	7,037,813	333,728	610,449	944,177	7,981,990
Movement in incurred but not reported reserve	(26,690)	156,007	41,365	55,988	134,297	360,967	-	-	-	360,967
Maturity and cancellations of life insurance policies	-	-	-	-	-	-	1,139,305	-	1,139,305	1,139,305
General and administrative expenses	1,082,175	4,553,075	1,336,664	1,123,032	987,982	9,082,928	932,289	2,377,129	3,309,418	12,392,346
Total Expenses	2,033,747	25,857,018	3,827,178	2,585,523	2,526,599	36,830,065	8,951,373	14,624,549	23,575,922	60,405,987
Net underwriting income	1,478,650	1,492,145	289,261	556,272	1,823,036	5,639,364	2,734,900	161,507	2,896,407	8,535,771
Net investment income						4,032,843			-	4,032,843
Net sundry income						149,534			-	149,534
Depreciation						(523,268)			(75,378)	(598,646)
Unallocated general and administrative expenses						(2,148,394)			-	(2,148,394)
Profit for the year before contribution to KFAS, NLST, Zakat tax and Directors' fees						7,150,079			2,821,029	9,971,108

21 SEGMENT INFORMATION (continued)

b) Segment consolidated statement of financial position (continued)

31 December 2011	General risk insurance KD	Life and medical insurance KD	**Total KD**
Assets			
Property and equipment	8,795,844	2,677,571	**11,473,415**
Investment in associated companies	13,299,616	-	**13,299,616**
Goodwill	8,294,467	171,717	**8,466,184**
Financial instruments:			
Investments held to maturity	14,957,280	2,432,612	**17,389,892**
Debt securities (loan)	-	7,758,269	**7,758,269**
Investments available for sale	31,239,020	1,008,302	**32,247,322**
Investments carried at fair value through income statement	1,381,164	12,652,016	**14,033,180**
Loans secured by insurance policies	-	832,348	**832,348**
Premium and insurance balance receivable	25,125,852	16,986,474	**42,112,326**
Reinsurers recoverable on outstanding claims	33,064,879	8,736,554	**41,801,433**
Property held for sale	204,619	30,044	**234,663**
Other assets	9,664,998	2,635,887	**12,300,885**
Time deposits	19,681,201	14,270,496	**33,951,697**
Cash and cash equivalents	20,024,828	10,847,151	**30,871,979**
Total assets	**185,733,768**	**81,039,441**	**266,773,209**
Liabilities			
Liabilities arising from insurance contracts:			
Outstanding claims reserve (gross)	56,212,453	18,967,115	**75,179,568**
Unearned Premium reserve (net)	17,450,344	6,650,506	**24,100,850**
Life Mathematical reserve (net)	-	18,672,420	**18,672,420**
Incurred but not reported (net)	3,215,026	877,335	**4,092,361**
Total liabilities arising from insurance contracts	76,877,823	45,167,376	**122,045,199**
Bank Overdrafts	14,640,572	89,941	**14,730,513**
Premiums received in advance	223,242	53,269	**276,511**
Insurance payable	22,573,005	10,700,077	**33,273,082**
Other liabilities	12,996,251	1,695,784	**14,692,035**
Total liabilities	**127,310,893**	**57,706,447**	**185,017,340**
Other disclosures:			
Capital expenditure	**4,540,957**	**98,371**	**4,639,328**

21 SEGMENT INFORMATION (CONTINUED)

b) Segment consolidated statement of financial position

31 December 2010	General risk insurance KD	Life and medical insurance KD	Total KD
Assets			
Property and equipment	6,240,806	1,112,451	7,353,257
Investment in an associate	3,196,778	-	3,196,778
Goodwill	8,303,392	1,175	8,304,567
Financial instruments:			
Investments held to maturity	11,265,318	-	11,265,318
Debt securities (loan)	50,000	8,963,959	9,013,959
Investments available for sale	48,031,226	2,025,722	50,056,948
Investments carried at fair value through income statement	5,305,313	14,475,493	19,780,806
Loans secured by insurance policies	-	911,311	911,311
Premium and insurance balance receivable	29,317,494	10,677,301	39,994,795
Reinsurers recoverable on outstanding claims	32,378,332	7,614,810	39,993,142
Property held for sale	197,161	25,650	222,811
Other assets	7,894,792	1,555,968	9,450,760
Time deposits	19,307,344	14,302,181	33,609,525
Cash and cash equivalents	17,086,226	10,126,509	27,212,735
Total assets	188,574,182	71,792,530	260,366,712
Liabilities			
Liabilities arising from insurance contracts:			
Outstanding claims reserve (gross)	52,442,946	19,073,013	71,515,959
Unearned Premium reserve (net)	16,256,425	6,441,889	22,698,314
Life Mathematical reserve (net)	-	17,280,733	17,280,733
Incurred but not reported (net)	3,009,573	869,347	3,878,920
Total liabilities arising from insurance contracts	71,708,944	43,664,982	115,373,926
Bank Overdrafts	14,924,857	36,869	14,961,726
Premiums received in advance	1,034,668	206,536	1,241,204
Insurance payable	22,089,598	11,051,126	33,140,724
Other liabilities	11,752,468	1,318,093	13,070,561
Total liabilities	121,510,535	56,277,606	177,788,141
Other disclosures:			
Capital expenditure	2,609,963	71,669	2,681,632

21 SEGMENT INFORMATION (continued)

c) Geographic information

	Kuwait		*GCC Countries*		*Other ME Countries*		*Total*	
	KD	KD	**KD**	KD	**KD**	KD	**KD**	KD
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Segment revenue	**40,839,579**	36,790,881	**6,468,078**	7,140,548	**28,160,918**	25,010,329	**75,468,575**	68,941,758
Segment results (net underwriting income)	**4,673,837**	4,735,402	**1,724,641**	2,043,932	**3,448,960**	1,756,437	**9,847,438**	8,535,771
Profit for the year attributable to equity holders of the Parent Company	**3,554,881**	4,641,191	**816,978**	1,146,663	**2,743,187**	1,904,541	**7,115,046**	7,692,395
Total assets	**169,568,550**	159,135,612	**30,552,772**	39,462,867	**66,651,887**	61,768,233	**266,773,209**	260,366,712
Total liabilities	**123,239,812**	114,766,837	**16,235,838**	19,043,337	**45,541,690**	43,977,967	**185,017,340**	177,788,141

22 STATUTORY GUARANTEES

The following amounts are held in Kuwait as security for the order of the Minister of Commerce and Industry in accordance with the Ministerial Decree No. 27 of 1966 and its amendments:

	2011	2010
	KD	KD
Current accounts and deposits at banks	**17,417,829**	16,560,985
Loans secured by life insurance policies	**832,348**	911,311
	18,250,177	17,472,296

Foreign deposits of KD 25,565,616 (31 December 2010: KD 20,999,890) held outside the State of Kuwait as security for the subsidiary companies' activities.

23 CONTINGENT LIABILITIES

At the reporting date, the Group is contingently liable in respect of letters of guarantee and other guarantees amounting to KD 2,553,841 (31 December 2010: KD 1,968,555).

24 COMMITMENTS

At the reporting date, the Group had future commitments with respect to purchase financial instruments amounting to KD 4,774,032 (31 December 2010: KD 6,686,048).

25 RISK MANAGEMENT

(a) Governance framework

The Group's risk and financial management objective is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Risk management also protects policyholders fund by ensuring that all liabilities towards the policyholders are fulfilled in duly matter. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

The Group established a risk management function with clear terms of reference from the Parent Company's board of directors, its committees and the associated executive management committees. The risk management function will support the Parent Company as well as the subsidiaries in all risk management practices. This supplemented with a clear organisational structure that document delegated authorities and responsibilities from the board of directors to executive and senior managers. Also, a Group policy framework including risk profiles for the Group, risk management, control and business conduct standards for the Group's operations is being established.

25 RISK MANAGEMENT (continued)

(b) Regulatory framework
Law No. 24 of 1961, Law No.13 of 1962 and Decree No. 5 of 1989, and the rules and regulations issued by the Ministry of Commerce provide the regulatory framework for the insurance industry in Kuwait. All insurance companies operating in Kuwait are required to follow these rules and regulations.

The following are the key regulations governing the operation of the Group:

- For the life and capital insurance contracts issued in Kuwait, the full mathematical reserves are to be retained in Kuwait.
- For marine insurance contracts, at least 15% of the premiums collected in the previous year are to be retained in Kuwait.
- For all other types of insurance, at least 30% of the premiums collected in the previous year are to be retained in Kuwait.
- The funds retained in Kuwait should be invested as follows:
  - A minimum of 40% of the funds are to be in the form of cash deposits in a bank operating in Kuwait
  - A maximum of 25% may be invested in foreign securities (foreign government bonds or foreign securities - bonds and shareholding companies)
  - A maximum of 30% should be invested in Kuwaiti companies' shares or bonds
  - A maximum of 15% should be in a current account with a bank operating in Kuwait.

The residual value may be invested in bonds issued or guaranteed by the Government of Kuwait, properties based in Kuwait or loans secured by first mortgage of properties based in Kuwait.

The Group's internal audit and quality control department is responsible for monitoring compliance with the above regulations and has delegated authorities and responsibilities from the board of directors to ensure compliance.

(c) Capital management objectives, policies and approach

The Group has established the following capital management objectives, policies and approach to managing the risks that affect its capital position.

Capital management objectives
The capital management objectives are:

- To maintain the required level of financial stability of the Group thereby providing a degree of security to policyholders
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets
- To align the profile of assets and liabilities taking account of risks inherent in the business
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and shareholders
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value.
- To allocate capital towards the regional expansion where the ultimate goal is to spread the risk and maximize the shareholders returns through obtaining the best return on capital.

The operations of the Group are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

In reporting financial strength, capital and solvency is measured using the rules prescribed by the Ministry of Commerce (MOC). These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written.

25 RISK MANAGEMENT (continued)

(c) Capital management objectives, policies and approach (continued)

Capital management policies

The Group's capital management policy for its insurance and non-insurance business is to hold sufficient capital to cover the statutory requirements based on the Ministry of commerce, including any additional amounts required by the regulator as well as keeping a capital buffer above the minimum regulatory requirements, where the Group operates to maintain a high economic capital for the unforeseen risks.

Capital management approach

The Group seeks to optimize the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and secure the policyholders fund.

The Group's approach to managing capital involves managing assets, liabilities and risks in a co-ordinated way, assessing shortfalls between reported and required capital levels (by each regulated entity) on a regular basis and taking appropriate actions to influence the capital position of the Group in the light of changes in economic conditions and risk characteristics. An important aspect of the Group's overall capital management process is the setting of target risk adjusted rates of return which are aligned to performance objectives and ensure that the Group is focused on the creation of value for shareholders.

The capital requirements are routinely forecasted on a periodic basis, and assessed against both the forecasted available capital and the expected internal rate of return including risk and sensitivity analyses. The process is ultimately subject to approval by the board.

The Group has had no significant changes in its policies and processes to its capital structure during the current year from previous years.

(d) Insurance risk

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, underwriting discipline, prudent claims management practices as well as the use of reinsurance arrangements.

The majority of insurance business ceded is placed on a reinsurance program covering the Group to benefit from high commission income derived from economy of scale in a portfolio which is well balanced and to spread the risk in which the Group is exposed.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 5% of total reinsurance assets at the reporting date.

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)
Insurance risk is divided into risk of life insurance contracts and risk of non-life insurance contracts as follows:

(1) Life insurance contracts
Life insurance contracts offered by the Group include whole life insurance, term insurance, unitized pensions (Misk individual policies), pure endowment pensions, group life and disability, credit life (banks), group medical including third party administration (TPA), preferred global health and Balsam.

Whole life and term assurance are conventional regular premium products when lump sum benefits are payable on death or permanent disability. Few contracts have a surrender value.

Pensions are contracts when retirement benefits are expressed in the form of an annuity payable at retirement age. If death occurs before retirement, contracts generally return the higher value of the fund accumulated or sum assured. Most contracts give the policyholder the option at retirement to take a cash sum at guaranteed conversion rates allowing the policyholders the option of taking the more valuable of the two. Under unitized pensions, a percentage of the premium is applied towards the purchase of accumulation units in one or more of the linked funds. Provision of additional death benefits may be provided by cancellation of units or through supplementary term assurance contracts. Certain personal pension plans also include contribution protection benefits that provide for payment of contributions on behalf of policyholders in periods of total disability. For contracts with discretionary participation features (DPF), changes in the level of pensions are based on the rate of return declared annually by the insurer which is not guaranteed.

Guaranteed annuities are single premium products which pay a specified payment to the policyholder whilst they and/or their spouse are still alive. Payments are generally either fixed or increased each year at a specified rate or in line with the rate of inflation. Most contracts guarantee an income for a minimum period usually of five years, irrespective of death.

Death benefits of endowment products are subject to a guaranteed minimum amount. The maturity value usually depends on the investment performance of the underlying assets. For contracts with DPF the guaranteed minimum may be increased by the addition of bonuses. These are set at a level that takes account of expected market fluctuations, such that the cost of the guarantee is generally met by the investment performance of the assets backing the liability. However in circumstances when there has been a significant fall in investment markets, the guaranteed maturity benefits may exceed investment performance and these guarantees become valuable to the policyholder. Certain pure endowment pensions contain the option to apply the proceeds towards the purchase of an annuity earlier than the date shown on the contract or to convert the contract to ‘paid up’ on guaranteed terms. The majority of the mortgage endowment contracts offered by the Group have minimum maturity values subject to certain conditions being satisfied.

For healthcare contracts the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

The main risks that the Group is exposed to are as follows.

- Mortality risk - risk of loss arising due to policyholder death experience being different than expected.
- Morbidity risk - risk of loss arising due to policyholder health experience being different than expected.
- Longevity risk - risk of loss arising due to the annuitant living longer than expected.
- Investment return risk - risk of loss arising from actual returns being different than expected.
- Expense risk - risk of loss arising from expense experience being different than expected.
- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life insurance contracts (continued)

The Group's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs. The Group further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

For contracts where death or disability are the insured risks the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected.

The Group reinsures its annuity contracts to mitigate its risk, the reinsurers participating in the treaty are highly rated and the risk is spread with a number of reinsurers to minimize the risk of default.

The insurance risks described above are also affected by the contract holders' right to pay reduced or no future premiums, to terminate the contract completely or to exercise guaranteed annuity options. As a result, the amount of insurance risk is also subject to contract holder behaviour.

The table below sets out the concentration of life insurance and investment contracts by type of contract.

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)
(1) Life insurance contracts (continued)

	2011			2010		
	Gross liabilities	**Reinsurers' share of liabilities**	**Net liabilities**	Gross liabilities	Reinsurers' share of liabilities	Net liabilities
Type of contract	**KD**	**KD**	**KD**	KD	KD	KD
Whole life insurance	**4,000**	**-**	**4,000**	4,000	-	4,000
Term insurance	**47,012,385**	**46,860,727**	**151,658**	15,021,875	14,902,654	119,221
Pure endowment	**2,603,262**	**927,719**	**1,675,543**	4,005,296	2,289,310	1,715,986
Group life and disability	**588,785**	**347,858**	**240,927**	668,961	424,864	244,097
Group medical including TPA	**1,694,249**	**-**	**1,694,249**	1,514,674	-	1,514,674
Credit life (Banks)	**9,213,860**	**6,295,835**	**2,918,025**	11,320,086	7,429,250	3,890,836
Preferred global health	**67,692**	**-**	**67,692**	66,452	-	66,452
Balsam	**265,263**	**-**	**265,263**	259,679	-	259,679
Misk individual policies	**8,007,714**	**4,185,470**	**3,822,244**	7,964,745	6,029,330	1,935,415
Total life insurance contract	**69,457,210**	**58,617,609**	**10,839,601**	40,825,768	31,075,408	9,750,360
Unitised pensions (Misk individual policies)	**7,832,819**	**-**	**7,832,819**	7,530,373	-	7,530,373
Total investments contracts	**7,832,819**	**-**	**7,832,819**	7,530,373	-	7,530,373
Total life insurance and investment contracts	**77,290,029**	**58,617,609**	**18,672,420**	48,356,141	31,075,408	17,280,733
Other life insurance contract liabilities	**31,019,326**	**13,261,666**	**17,757,660**	28,162,350	11,731,011	16,431,339

The geographical concentration of the Group's life insurance and investment contracts with Discretionary Participation Feature (DPF) liabilities is noted below. The disclosure is based on the countries where the business is written.

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life insurance contracts (continued)

	2011			2010		
	Gross liabilities	**Reinsurers' share of liabilities**	**Net Liabilities**	Gross liabilities	Reinsurers' share of liabilities	Net liabilities
	KD	**KD**	**KD**	KD	KD	KD
Kuwait	**69,457,210**	**58,617,609**	**10,839,601**	40,825,768	31,075,408	9,750,360

Investment contracts

	2011			2010		
	Gross liabilities	**Reinsurers' share of liabilities**	**Net Liabilities**	Gross liabilities	Reinsurers' share of liabilities	Net Liabilities
	KD	**KD**	**KD**	KD	KD	KD
Kuwait	**298,491**	**-**	**298,491**	360,909	-	360,909
Europe	**7,534,328**	**-**	**7,534,328**	7,169,464	-	7,169,464
Total	**7,832,819**	**-**	**7,832,819**	7,530,373	-	7,530,373

The assumptions that have been provided by an external independent actuarial are as follows:

Key assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

Life insurance contract estimates are either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included. Assumptions are made in relation to future deaths, voluntary terminations, investment returns and administration expenses. If the liabilities are not adequate, the assumptions are altered to reflect the current estimates.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

• ***Mortality and morbidity rates***

Assumptions are based on standard industry and national tables, according to the type of contract written and the territory in which the insured person resides, reflecting recent historical experience and are adjusted when appropriate to reflect the Group's own experiences. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by gender, underwriting class and contract type.

An increase in rates will lead to a larger number of claims and claims could occur sooner than anticipated, which will increase the expenditure and reduce profits for the shareholders.

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life insurance contracts (continued)

• Longevity
Assumptions are based on standard industry and national tables, adjusted when appropriate to reflect the Group's own risk experience. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by gender, underwriting class and contract type.

An increase in longevity rates will lead to an increase in the number of annuity payments made, which will increase the expenditure and reduce profits for the shareholders.

• Investment return
The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments.

An increase in investment return would lead to a reduction in expenditure and an increase in profits for the shareholders.

• Expenses
Operating expenses assumptions reflect the projected costs of maintaining and servicing in-force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate.

An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

• Lapse and surrender rates
Lapses relate to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Group's experience and vary by product type, policy duration and sales trends.

An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

• Discount rate
Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on Central Bank of Kuwait rate, adjusted for the Group's own risk exposure.

A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life insurance contracts (continued)

The assumptions that have the maximum effect on the consolidated financial position and consolidated income statement of the Group are listed below.

Portfolio assumptions by type of business impacting net liabilities	*Mortality and morbidity rates*		*Investment return*		*Lapse and surrender rates*		*Discount rates*		*Renewal expenses*		*Inflation rate*	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Investment contracts:												
With fixed and guaranteed terms	**A49/52**	A49/52	**3%**	4%	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Non guaranteed terms	**A49/52**	A49/52	**N/A**	N/A	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Life term assurance:												
Males	**49**	49	**4%**	4%	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Females	**52**	52	**4%**	4%	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life insurance contracts (continued)

Sensitivities

The analysis below is performed, by an independent third party actuarial with experience and qualifications, for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and profit if significant. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist they are the main reason for the asymmetry of sensitivities.

Life insurance contracts

31 December 2011

	Change in assumptions	**Impact on gross liabilities**	**Impact on net liabilities**	**Impact on profit**
Mortality/morbidity	**N/A**	**N/A**	**N/A**	**N/A**
Investment return	**-1%**	**78,328**	**78,328**	**78,328**
Expenses	**10%**	**135,000**	**135,000**	**(135,000)**
Discount rate	**-1%**	**45,000**	**45,000**	**(45,000)**
Longevity	**N/A**	**N/A**	**N/A**	**N/A**
Lapse and surrenders rate	**N/A**	**N/A**	**N/A**	**N/A**

31 December 2010

	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit
Mortality/morbidity	N/A	N/A	N/A	N/A
Investment return	-1%	Covered by contingency reserve of KD 867,517		N/A
Expenses	+10%			N/A
Discount rate	-1%			N/A
Longevity	N/A	N/A	N/A	N/A
Lapse and surrenders rate	N/A	N/A	N/A	N/A

Investment contracts

31 December 2011

	Change in assumptions	**Impact on gross liabilities**	**Impact on net liabilities**	**Impact on profit**
Mortality/morbidity	**N/A**	**N/A**	**N/A**	**N/A**
Investment return	**-1%**	**78,328**	**78,328**	**78,328**
Expenses	**+10%**	**45,000**	**45,000**	**(45,000)**
Discount rate	**-1%**	**70,000**	**70,000**	**(70,000)**
Longevity	**N/A**	**N/A**	**N/A**	**N/A**
Lapse and surrenders rate	**N/A**	**N/A**	**N/A**	**N/A**

31 December 2010

	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit
Mortality/morbidity	N/A	N/A	N/A	N/A
Investment return	-1%	Covered by contingency reserve of KD 867,517		N/A
Expenses	+10%			N/A
Discount rate	-1%			N/A
Longevity	N/A	N/A	N/A	N/A
Lapse and surrenders rate	N/A	N/A	N/A	N/A

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts

The Group principally issues the following types of general insurance contracts: marine and aviation, property, motor, and general accidents. Risks under non-life insurance policies usually cover twelve month duration.

For general insurance contracts the most significant risks arise from climate changes, natural disasters and terrorist activities which are only covered in fire line of business.

Insurance contracts at times also cover risk for single incidents that expose the Group to multiple insurance risks. The Group has adequately reinsured for insurance risk that may involve significant litigation.

These risks vary in relation to the type of risk insured, location of the risk insured and by industry.

These risks do not vary significantly in relation to the location of the risk insured by the Group, type of risk insured and by industry.

The below risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Group. The Group further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (i.e. fire line of business). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a pre-determined maximum amount based on the Group's risk appetite as decided by management.

In additions; the Group also have an excess of loss agreements which cover both of the catastrophic and risk excess of loss, also the Group is under final negotiation to obtain a stop loss cover for the Group.

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

The table below sets out the concentration of non-life insurance contract liabilities by type of contract.

Concentration of insurance contract liabilities by type of contract:	**2011** *Gross liabilities*	**2011** *Reinsurer's share of liabilities*	**2011** *Net liabilities*	2010 *Gross liabilities*	2010 *Reinsurer's share of liabilities*	2010 *Net liabilities*
	KD	**KD**	**KD**	KD	KD	KD
Marine and Aviation	**7,501,691**	**5,757,317**	**1,744,374**	6,142,267	4,546,413	1,595,854
Motor vehicles	**36,510,540**	**6,274,631**	**30,235,909**	35,120,208	6,075,591	29,044,617
Property	**21,751,029**	**18,994,459**	**2,756,570**	15,605,792	12,891,950	2,713,842
Engineering	**13,995,814**	**12,638,102**	**1,357,712**	8,993,355	7,694,001	1,299,354
General Accidents	**11,754,795**	**4,035,674**	**7,719,121**	10,732,751	3,717,705	7,015,046
Total	**91,513,869**	**47,700,183**	**43,813,686**	76,594,373	34,925,660	41,668,713

The geographical concentration of the Group's non-life insurance contract liabilities is noted below. The disclosure is based on the countries where the business is written.

Geographical concentration of insurance contract liabilities:	**2011** *Gross liabilities*	**2011** *Reinsurer's share of liabilities*	**2011** *Net liabilities*	2010 *Gross liabilities*	2010 *Reinsurer's share of liabilities*	2010 *Net liabilities*
	KD	**KD**	**KD**	KD	KD	KD
Kuwait	**47,525,548**	**28,240,945**	**19,284,603**	37,875,089	19,993,248	17,881,841
GCC and Middle East countries	**43,988,321**	**19,459,238**	**24,529,083**	38,719,284	14,932,412	23,786,872
Total	**91,513,869**	**47,700,183**	**43,813,686**	76,594,373	34,925,660	41,668,713

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

Key assumptions

The principal assumption underlying the estimates is the Group's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example once-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

The non-life insurance claims provision is sensitive to the above key assumptions. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and profit before tax.

31 December 2011	**Change in assumption**	**Impact on gross liabilities KD**	**Impact on net liabilities KD**	**Impact on profit KD**
Average claim cost	±15%	**6,140,774**	**2,763,348**	**2,763,348**
Average number of claim	±15%	**919,023**	**413,560**	**413,560**
Average claim settlement paid	Reduce from 18 months to 12 months	**5,337,763**	**2,401,993**	**120,099**

31 December 2010	Change in assumption	Impact on gross liabilities KD	Impact on net liabilities KD	Impact on profit KD
Average claim cost	±15%	3,844,874	2,537,616	2,537,616
Average number of claim	±15%	2,786	1,838	1,838
Average claim settlement paid	Reduce from 18 months to 12 months	2,384,050	1,573,474	78,674

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

Claims development table

The following tables show the estimate of cumulative incurred claims, including claims notified for each successive accident year at each statement of financial position date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to the presentation currency at average exchange rates of the current financial year.

The table below shows gross insurance contracts' outstanding claims provision for 31 December 2011.

	2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	***Total***
	KD	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*	***KD***
At end of accident year	20,320,483	24,655,703	24,702,693	36,293,687	36,620,134	32,963,069	47,192,837	**222,748,606**
One year later	17,282,066	18,794,246	25,613,447	30,250,806	33,263,884	26,566,061	-	**151,770,510**
Two years later	14,243,999	14,494,708	20,235,380	28,707,167	27,616,649	-	-	**105,297,903**
Three years later	14,716,242	13,008,944	19,524,845	23,490,719	-	-	-	**70,740,750**
Four years later	14,637,491	11,663,819	21,779,198	-	-	-	-	**48,080,508**
Five years later	15,137,155	11,854,661	-	-	-	-	-	**26,991,816**
Six years later	16,321,821	-	-	-	-	-	-	**16,321,821**
Current estimate of cumulative claims incurred	16,321,821	11,854,661	21,779,198	23,490,719	27,616,649	26,566,061	47,192,837	**174,821,946**
Cumulative payments to date	(14,484,268)	(9,931,970)	(16,812,605)	(17,495,113)	(16,370,897)	(14,321,229)	(14,145,152)	**(103,561,234)**
Liability recognised in the consolidated statement of financial position	1,837,553	1,922,691	4,966,593	5,995,606	11,245,752	12,244,832	33,047,685	**71,260,712**
Liability in respect of years prior to 2005								**3,918,856**
Total liability included in the consolidated statement of financial position								**75,179,568**

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

Claims development table (continued)

The table below shows net life insurance contracts' outstanding claims provision for 31 December 2011.

	2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	***Total***
	KD	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*	***KD***
At end of accident year	7,995,587	10,587,092	11,750,911	12,901,454	17,164,997	18,653,743	22,697,908	**101,751,692**
One year later	6,080,217	7,426,113	8,956,823	11,099,935	12,013,949	14,810,480	-	**60,387,517**
Two years later	4,615,837	5,680,534	7,350,861	9,364,269	11,468,737	-	-	**38,480,238**
Three years later	4,771,449	5,219,779	6,941,706	10,694,142	-	-	-	**27,627,076**
Four years later	4,655,084	4,623,373	10,032,282	-	-	-	-	**19,310,739**
Five years later	4,710,514	6,028,259	-	-	-	-	-	**10,738,773**
Six years later	4,541,424	-	-	-	-	-	-	**4,541,424**
Current estimate of cumulative claims incurred	4,541,424	6,028,259	10,032,282	10,694,142	11,468,737	14,810,480	22,697,908	**80,273,232**
Cumulative payments to date	(2,380,822)	(5,319,448)	(6,669,408)	(6,720,370)	(7,011,390)	(8,571,424)	(11,461,214)	**(48,134,076)**
Liability recognised in the consolidated statement of financial position	2,160,602	708,811	3,362,874	3,973,772	4,457,347	6,239,056	11,236,694	**32,139,156**
Liability in respect of years prior to 2005								**1,238,979**
Total liability including in the consolidated statement of financial position								**33,378,135**

25 RISK MANAGEMENT (continued)

(e) Financial risks

(1) Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

- A Group credit risk policy setting out the assessment and determination of what constitutes credit risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Board Audit Committee (BAC).
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- The credit risk in respect of customer balances, incurred on non-payment of premiums will only persist during the grace period specified in the policy document until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position.

	31 December 2011			
Exposure to credit risk by classifying financial assets according to type of insurance	***General***	***Life***	***Unit linked***	***Total***
	KD	***KD***	***KD***	***KD***
Investments held to maturity	**14,957,280**	**2,432,612**	**-**	**17,389,892**
Debt securities (loans)	**-**	**7,758,269**	**-**	**7,758,269**
Loans secured by life insurance policies	**-**	**832,348**	**-**	**832,348**
Policyholders' accounts receivable (gross)	**29,722,517**	**11,005,182**	**-**	**40,727,699**
Reinsurers' accounts receivable (gross)	**5,621,253**	**406,162**	**852,835**	**6,880,250**
Reinsurance recoverable on outstanding claims	**33,064,879**	**8,736,554**	**-**	**41,801,433**
Other assets	**4,234,865**	**-**	**-**	**4,234,865**
Time deposits	**19,681,201**	**8,604,447**	**5,666,049**	**33,951,697**
Cash and cash equivalents	**20,024,828**	**6,540,329**	**4,306,822**	**30,871,979**
Total credit risk exposure	**127,306,823**	**46,315,903**	**10,825,706**	**184,448,432**

	31 December 2010			
Exposure to credit risk by classifying financial assets according to type of insurance	*General*	*Life*	*Unit linked*	*Total*
	KD	*KD*	*KD*	*KD*
Investments held to maturity	11,265,318	-	-	11,265,318
Debt securities (loans)	50,000	8,963,959	-	9,013,959
Loans secured by life insurance policies	-	911,311	-	911,311
Policyholders' accounts receivable (gross)	28,793,962	9,969,806	-	38,763,768
Reinsurers' accounts receivable (gross)	5,435,724	672,606	681,597	6,789,927
Reinsurance recoverable on outstanding claims	32,378,332	7,614,810	-	39,993,142
Other assets	3,865,554	-	-	3,865,554
Time deposits	19,307,344	8,623,552	5,678,629	33,609,525
Cash and cash equivalents	17,086,226	5,528,675	4,597,834	27,212,735
Total credit risk exposure	118,182,460	42,284,719	10,958,060	171,425,239

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(1) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the financial assets at 31 December 2011 by classifying assets according to International credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as not rated.

Exposure to credit risk by classifying financial assets according to international credit rating agencies	***AAA KD***	***AA KD***	***A KD***	***BBB KD***	***Not rated KD***	***Total KD***
31 December 2011						
Investments held to maturity	-	1,134,542	1,470,052	14,785,298	-	**17,389,892**
Debt securities (loans)	-	-	-	7,758,269	-	**7,758,269**
Loans secured by life insurance policies	-	-	-	-	832,348	**832,348**
Policyholders' accounts receivable (gross)	-	6,235,214	756,521	4,134,329	29,601,635	**40,727,699**
Reinsurers accounts receivable (gross)	-	238,759	737,462	881,343	5,022,686	**6,880,250**
Reinsurance recoverable on outstanding claims	620,188	8,147,071	4,396,699	13,699,259	14,938,216	**41,801,433**
Other assets	-	-	-	-	4,234,865	**4,234,865**
Time Deposits	180,342	387,598	11,761,370	21,622,387	-	**33,951,697**
Cash and cash equivalents	-	-	-	30,871,979	-	**30,871,979**
Total credit risk exposure	**800,530**	**16,143,184**	**19,122,104**	**93,752,864**	**54,629,750**	**184,448,432**

Unrated responses are classified as follows using internal credit ratings.

	Neither past due nor impaired		***Past due or***	
	High grade	***Standard grade***	***impaired***	***Total***
	2011	***2011***	***2011***	***2011***
31 December 2011	*KD*	*KD*	*KD*	***KD***
Loan secured by life insurance policy	-	832,348	-	**832,348**
Policyholders' accounts receivable (gross)	20,427,564	4,144,575	5,029,496	**29,601,635**
Reinsurance accounts receivable (gross)	4,555,736	823	466,127	**5,022,686**
Reinsurance recoverable on outstanding claims	14,832,032	106,184	-	**14,938,216**
Other assets	-	4,234,865	-	**4,234,865**
	39,815,332	**9,318,795**	**5,495,623**	**54,629,750**

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(1) Credit risk (continued)

Exposure to credit risk by classifying financial assets according to international credit rating agencies	*AAA* *KD*	*AA* *KD*	*A* *KD*	*BBB* *KD*	*Not rated* *KD*	*Total* *KD*
31 December 2010						
Investments held to maturity	-	1,289,309	1,860,110	8,115,899	-	11,265,318
Debt securities (loans)	-	-	-	9,013,959	-	9,013,959
Loans secured by life insurance policies	-	-	-	-	911,311	911,311
Policyholders' accounts receivable (gross)	-	6,111,829	345,210	3,688,494	28,618,235	38,763,768
Reinsurers' account receivable (gross)	-	239,489	531,132	2,619,288	3,400,018	6,789,927
Reinsurance recoverable on outstanding claims	259,304	8,765,431	11,460,830	9,969,262	9,538,315	39,993,142
Other assets	-	-	-	-	3,865,554	3,865,554
Time Deposits	1,237,624	597,345	14,796,520	16,978,036	-	33,609,525
Cash and cash equivalents	-	-	-	27,212,735	-	27,212,735
Total credit risk exposure	1,496,928	17,003,403	28,993,802	77,597,673	46,333,433	171,425,239

Unrated responses are classified as follows using internal credit ratings.

	Neither past due nor impaired		Past due or	
	High grade 2010 KD	Standard grade 2010 KD	impaired 2010 KD	Total 2010 KD
31 December 2010				
Loan secured by life insurance policy	-	911,311	-	911,311
Policyholders' accounts receivable (gross)	19,498,414	4,475,534	4,644,287	28,618,235
Reinsurers accounts receivable (gross)	2,484,855	550	914,613	3,400,018
Reinsurance recoverable on outstanding claims	9,424,886	113,429	-	9,538,315
Other assets	-	3,865,554	-	3,865,554
	31,408,155	9,366,378	5,558,900	46,333,433

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(1) Credit risk (continued)
The following table represents the aging analysis of premiums and insurance balance receivable that are not past due nor impaired:

	Up to 1 month	***Within 1-3 months***	***Within 3-12 months***	***More than 1 year***	***Total***
	KD	***KD***	***KD***	***KD***	***KD***
31 December 2011:					
Policyholders' accounts receivable (net)	**7,703,343**	**9,459,078**	**17,135,147**	**1,400,635**	**35,698,203**
Reinsurance receivables (net)	**1,139,658**	**1,602,282**	**2,204,963**	**1,467,220**	**6,414,123**
Total	**8,843,001**	**11,061,360**	**19,340,110**	**2,867,855**	**42,112,326**

	Up to 1 month	*Within 1-3 months*	*Within 3-12 months*	*More than 1 year*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*
31 December 2010:					
Policyholders' accounts receivable (net)	5,087,895	8,680,366	17,886,455	2,464,765	34,119,481
Reinsurance receivables (net)	1,308,399	1,340,274	2,227,393	999,248	5,875,314
Total	6,396,294	10,020,640	20,113,848	3,464,013	39,994,795

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(2) Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Management monitors liquidity requirements on a daily basis and ensures that sufficient funds are available. The Group has sufficient liquidity and, therefore, does not resort to borrowings in the normal course of business.

The Group is developing its policies and procedures to enhance the Group's mitigation of liquidity risk.

The table below summarises the maturity of the financial liabilities of the Group based on remaining undiscounted contractual obligations for 31 December. As the Group does not have any interest bearing liabilities (except bank overdrafts), the figures below agree directly to the consolidated statement of financial position.

	Up to 1 month	*Within 1-3 months*	*Within 3-12 months*	*Within 1-5 years*	*Within 5-10 years*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*	*KD*
31 December 2011						
Premiums received in advance	174,037	-	4,677	97,797	-	**276,511**
Insurance payable	6,081,299	11,554,994	9,863,359	5,773,430	-	**33,273,082**
Other liabilities	1,813,193	1,547,905	5,887,331	5,443,606	-	**14,692,035**
Bank overdrafts	-	371,331	14,359,182	-	-	**14,730,513**
	8,068,529	**13,474,230**	**30,114,549**	**11,314,833**	**-**	**62,972,141**

	Up to 1 month	*Within 1-3 months*	*Within 3-12 months*	*Within 1-5 years*	*Within 5-10 years*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*	*KD*
31 December 2010						
Premiums received in advance	959,965	15,288	45,863	220,088	-	1,241,204
Insurance payable	13,567,043	3,059,692	10,408,745	6,089,366	15,878	33,140,724
Other liabilities	723,557	1,635,907	5,756,564	4,394,365	560,168	13,070,561
Bank overdrafts	-	-	14,961,726	-	-	14,961,726
	15,250,565	4,710,887	31,172,898	10,703,819	576,046	62,414,215

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises three types of risk: currency risk, interest rate risk and commodity and equity rate price risk.

The Group is developing its policies and procedures to enhance the Group's mitigation of market risk.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's principal transactions are carried out in KD and its exposure to foreign exchange risk arises primarily with respect to US dollar, Bahraini dinar, Egyptian pound, Jordanian dinar, Euro, and Pound sterling.

The Group's financial assets are primarily denominated in the same currencies as its insurance and investment contract liabilities, which mitigate the foreign currency exchange rate risk. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment contract liabilities are expected to be settled. The currency risk is effectively managed by the Group through financial instruments.

The table below summarises the Group's exposure to foreign currency exchange rate risk at reporting date by categorising assets and liabilities by major currencies.

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2011:	*Local currency*	*USD*	*BD*	*EGP*	*JD*	*Euro*	*GBP*	*Other*	***Total***
ASSETS	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	***KD***
Property and equipment	2,999,889	1,035,271	2,866,538	1,958,570	2,283,715	-	-	329,432	**11,473,415**
Investments in associates	-	10,102,838	-	-	-	-	-	3,196,778	**13,299,616**
Goodwill	-	-	2,625,935	476,244	5,292,099	-	-	71,906	**8,466,184**
Investments held to maturity	-	1,952,127	1,285,860	13,497,265	654,640	-	-	-	**17,389,892**
Debt securities (loans)	1,750,000	6,008,269	-	-	-	-	-	-	**7,758,269**
Investments available for sale	25,341,844	2,220,459	2,549,284	849,973	143,783	414,513	97,466	630,000	**32,247,322**
Investments carried at fair value thorough income statement	4,972,710	403,142	-	734,804	-	298,952	-	7,623,572	**14,033,180**
Loans secured by insurance policies	832,348	-	-	-	-	-	-	-	**832,348**
Premium and insurance balance receivable	17,578,009	4,356,903	6,209,613	2,635,611	10,378,243	139,005	27,059	787,883	**42,112,326**
Reinsurance recoverable on outstanding claims	20,446,985	11,367,423	3,290,257	2,457,272	2,239,482	222,453	67,915	1,709,646	**41,801,433**
Property held for sale	-	54,965	95,709	65,166	-	-	-	18,823	**234,663**
Other assets	3,232,089	592,185	292,597	1,236,506	2,286,563	-	-	4,660,945	**12,300,885**
Cash and cash equivalents and time deposits	33,171,570	6,808,550	4,420,418	2,626,276	7,826,678	365,385	19,945	9,584,854	**64,823,676**
Total assets	**110,325,444**	**44,902,132**	**23,636,211**	**26,537,687**	**31,105,203**	**1,440,308**	**212,385**	**28,613,839**	**266,773,209**

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2011	*Local currency*	*USD*	*BD*	*EGP*	*JD*	*Euro*	*GBP*	*Other*	*Total*
LIABILITIES	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD*
Liabilities arising from insurance contracts									
Outstanding claims reserve (gross)	48,665,818	2,266,150	6,616,370	5,406,867	5,389,410	205,423	40,265	6,589,265	**75,179,568**
Unearned premium reserve (net)	10,062,484	169,082	2,224,429	3,375,927	5,879,563	51,402	-	2,337,963	**24,100,850**
Life mathematical reserve (net)	11,099,925	-	-	-	-	-	-	7,572,495	**18,672,420**
Incurred but not reported reserve (net)	2,500,000	-	-	1,487,180	-	-	-	105,181	**4,092,361**
Total liabilities arising from insurance contracts	72,328,227	2,435,232	8,840,799	10,269,974	11,268,973	256,825	40,265	16,604,904	**122,045,199**
Premiums received in advance	74,962	94,733	99,075	-	-	-	-	7,741	**276,511**
Insurance and reinsurance payable	14,753,683	6,751,871	3,329,730	2,322,994	4,665,350	248,978	43,552	1,156,924	**33,273,082**
Other liabilities	9,976,920	569,508	1,170,346	1,573,484	813,138	1,072	37	587,530	**14,692,035**
Bank overdrafts	14,359,182	258,107	-	-	-	-	-	113,224	**14,730,513**
Total liabilities	**111,492,974**	**10,109,451**	**13,439,950**	**14,166,452**	**16,747,461**	**506,875**	**83,854**	**18,470,323**	**185,017,340**

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2010:	*Local currency*	*USD*	*BD*	*EGP*	*JD*	*Euro*	*GBP*	*Other*	*Total*
ASSETS	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD equivalent*	*KD*
Property and equipment	3,027,982	453,297	447,507	1,163,541	2,021,940	-	-	238,990	7,353,257
Investments in an associate	-	-	-	-	-	-	-	3,196,778	3,196,778
Goodwill	-	-	2,625,935	308,340	5,292,099	-	-	78,193	8,304,567
Investments held to maturity	-	2,444,922	1,074,240	7,241,966	504,190	-	-	-	11,265,318
Debt securities (loans)	2,800,000	6,213,959	-	-	-	-	-	-	9,013,959
Investments available for sale	31,759,019	11,129,943	2,634,753	2,629,257	616,038	600,653	102,167	585,118	50,056,948
Investments carried at fair value thorough income statement	10,281,255	836,098	-	884,420	-	263,240	-	7,515,793	19,780,806
Loans secured by insurance policies	911,311	-	-	-	-	-	-	-	911,311
Premium and insurance balance receivable	17,052,610	5,113,407	6,380,791	2,054,319	8,530,660	182,061	47,125	633,822	39,994,795
Reinsurance recoverable on outstanding claims	18,522,286	8,403,660	5,347,549	2,622,413	2,273,681	172,308	20,087	2,631,158	39,993,142
Property held for sale	-	56,302	96,616	69,893	-	-	-	-	222,811
Other assets	2,964,392	544,860	526,308	593,382	1,899,563	24,757	-	2,897,498	9,450,760
Cash and cash equivalents and time deposits	32,064,315	3,434,349	4,595,859	3,777,948	6,888,818	140,607	33,484	9,886,880	60,822,260
Total assets	119,383,170	38,630,797	23,729,558	21,345,479	28,026,989	1,383,626	202,863	27,664,230	260,366,712

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2010 LIABILITIES	*Local currency KD equivalent*	*USD KD equivalent*	*BD KD equivalent*	*EGP KD equivalent*	*JD KD equivalent*	*Euro KD equivalent*	*GBP KD equivalent*	*Other KD equivalent*	Total KD
Liabilities arising from insurance contracts									
Outstanding claims reserve (gross)	43,215,027	3,513,585	8,430,333	4,695,521	5,141,953	276,207	30,999	6,212,334	71,515,959
Unearned premium reserve (net)	9,495,947	1,509,182	2,319,275	3,054,902	5,026,768	179,700	-	1,112,540	22,698,314
Life mathematical reserve (net)	9,751,332	977	-	-	-	10	-	7,528,414	17,280,733
Incurred but not reported reserve (net)	2,500,000	123,427	-	1,049,125	-	61,713	-	144,655	3,878,920
Total liabilities arising from insurance contracts	64,962,306	5,147,171	10,749,608	8,799,548	10,168,721	517,630	30,999	14,997,943	115,373,926
Premiums received in advance	843,197	129,753	112,181	-	-	-	-	156,073	1,241,204
Insurance payable	15,233,062	3,432,522	7,211,470	2,085,078	3,916,008	30,592	2,684	1,229,308	33,140,724
Other liabilities	8,999,860	174,317	970,080	1,781,489	722,376	-	-	422,439	13,070,561
Bank overdrafts	14,659,257	93,435	-	-	-	-	-	209,034	14,961,726
Total liabilities	104,697,682	8,977,198	19,043,339	12,666,115	14,807,105	548,222	33,683	17,014,797	177,788,141

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit (due to changes in fair value of currency sensitive monetary assets and liabilities).

		2011		*2010*	
	Change in variables	**Impact on profit**	Impact on equity	Impact on profit	Impact on equity
		KD	KD	KD	KD
USD	±5%	**1,072,161**	505,142	1,482,679	-
BD	±5%	**545,348**	592,626	234,310	572,992
EGP	±5%	**478,758**	425,262	433,968	246,522
JD	±5%	**1,028,775**	401,711	660,995	351,263

(ii) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Group to cash flow interest rate risk, whereas fixed interest rate instruments expose the Group to fair value risk.

The Group's interest rate risk guideline requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The guideline also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. The Group is not exposed to interest rate risk with respect of its term deposits carrying fixed interest rates.

The Group has no significant concentration of interest rate risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	2011		*2010*	
Currency	**Change in variables**	**Impact on profit before tax**	Change in variables	Impact on profit before tax
		KD		KD
KD	**±50 basis**	**73,671**	±50 basis	35,270
USD	**±50 basis**	**-**	±50 basis	3,434
BD	**±50 basis**	**-**	±50 basis	6,434
Others	**±50 basis**	**1,857**	±50 basis	57,812

The method used for deriving sensitivity information and significant variables did not change from the previous year.

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(iii) Equity price risk

The Group is exposed to equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through income statement (including trading securities) or available for sale investments.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group management.

The equity price risk sensitivity is determined on the following assumptions:

	2011	*2010*
	%	*%*
Kuwait market	**5 %**	4 %
Rest of GCC market	**6 %**	5 %
MENA	**8 %**	9 %
Other international markets	**19 %**	21%

The above percentages have been determined based on basis of the average market movements over a 90 days period from October to December 2010 and 2011. The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date. The analysis reflects the impact of positive changes to equity prices in accordance with the above-mentioned equity price risk sensitivity assumptions.

	Profit for the year		*Equity*	
	2011	*2010*	***2011***	*2010*
	KD	*KD*	***KD***	*KD*
Investment carried at fair value through income statement	**1,895,751**	2,263,369	**-**	-
Investments available for sale	**-**	-	**1,821,558**	4,258,646

The table below indicates that the geographical concentration of financial instruments which are as follows:

31 December 2011	*GCC*	*MENA*	*Europe*	*America*	*Others*	*Total*
	KD	KD	KD	KD	KD	KD
Investments available for sale	29,175,785	2,332,984	698,136	29,722	10,695	32,247,322
Investments carried at fair value through income statements	5,375,852	824,048	7,833,280	-	-	14,033,180
	34,551,637	**3,157,032**	**8,531,416**	**29,722**	**10,695**	**46,280,502**

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(iii) Equity price risk (continued)

31 December 2010	*GCC*	*MENA*	*Europe*	*America*	*Others*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*	*KD*
Investments available for sale	35,298,811	5,045,843	1,187,084	8,461,270	63,940	50,056,948
Investments carried at fair value through income statements	11,117,353	931,854	7,731,599	-	-	19,780,806
	46,416,164	5,977,697	8,918,683	8,461,270	63,940	69,837,754

26 RELATED PARTY TRANSACTIONS

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

	2011		*2010*	
	Premiums	***Claims***	*Premiums*	*Claims*
	KD	***KD***	*KD*	*KD*
Directors and key management personnel	**299,098**	**114,606**	714,408	285,887
Other related parties	**2,680,913**	**369,508**	3,865,355	609,705
	2,980,011	**484,114**	4,579,762	895,592

Balances with related parties included in the consolidated statement of financial position are as follows:

	2011		*2010*	
	Amounts owed by related parties	***Amounts owed to related parties***	*Amounts owed by related parties*	*Amounts owed to related parties*
	KD	***KD***	*KD*	*KD*
Directors and key management personnel	**189,691**	**-**	360,257	89,003
Other related parties (Note 12)	**2,714,432**	**41,022**	1,715,323	84,999
	2,904,123	**41,022**	2,075,580	174,002

In addition to the above balances, the Group has also engaged with related parties in its investment activities as follows:

a) Most of the Group's investment transactions are made through portfolios managed by Kuwait Projects Company Holding Company (previously "the Ultimate Parent Company"). The losses of these transactions amounted to KD 292,167 (31 December 2010: gain of KD 2,351,433). The portfolios include shares in Kuwait Projects Company Holding Company and other related parties.

26 RELATED PARTY TRANSACTIONS (continued)

b) The Group holds certain deposits and call accounts with related entities under common control amounting to KD 3,629,918. The Group also holds bonds issued by Kuwait Projects Company Holding Company and other related entity amounting to KD 7,008,269 (2010: KD 7,942,466).
c) Loan granted to an entity under common control amounting to KD 1,402,689 (31 December 2010: KD 1,402,689). This loan is repayable on demand. The interest rate is applicable based on prevailing discount rate of the Central Bank of Kuwait.
d) During the year, the Parent Company acquired additional interest in Syrian Kuwait Insurance Company (SKIC) from a related party for an amount of KD 23,715 (Note 28).
e) During the year, a subsidiary "Gulf Life Insurance Company K.S.C." acquired additional interest in Egypt Life Takaful Insurance Company from the Parent Company for an amount of KD 517,796 (Note 28).

Key management personnel compensation

	2011	*2010*
	KD	*KD*
Salaries and other short term benefits	**880,270**	857,890
Employees' end of service benefits	**2,511,188**	2,244,435
	3,391,458	3,102,325

27 SUBSIDIARIES COMPANIES

The consolidated financial statements include the following subsidiaries:

Entity	*Country of incorporation*	*% ownership*		*Nature of operation*
		2011	2010	
Gulf Life Insurance Company K.S.C.	Kuwait	**99.80%**	99.80%	Life and medical insurance
Fajr Al Gulf Insurance and Reinsurance Company S.A.L.	Lebanon	**54.70%**	54.70%	General risk and life insurance and Reinsurance
Arab Misr Insurance Group Company S.A.E.	Egypt	**94.85%**	94.85%	General risk insurance
Syrian Kuwait Insurance Company (S.S.C.)	Syria	**54.29%**	53.79%	General risk and life insurance
Bahrain Kuwaiti Insurance Company (B.S.C.)	Bahrain	**56.12%**	56.12%	General risk insurance
Arab Orient Insurance Company J.S.C.	Jordan	**88.67%**	88.67%	General risk and life insurance
Egypt Life Takaful Insurance Company (S.A.E.)	Egypt	**59.5%**	Nil	Life Takaful

Acquisition of subsidiaries

Syrian Kuwait Insurance Company S.S.C.
On 27 December 2011, the Parent Company acquired additional equity interest in "Syrian Kuwait Insurance Company S.S.C." for KD 23,715 from a related party (Note 26). Accordingly, the Group's equity holding increased from 53.786% to 54.286% as at 31 December 2011.

27 SUBSIDIARIES COMPANIES (continued)

Egypt Life Takaful Insurance Company S.A.E.
On 1 January 2011, a subsidiary company "Gulf Life Insurance Company K.S.C." acquired additional equity interest in "Egypt Life Takaful Insurance Company (S.A.E.)", previously accounted for as investment available for sale, for KD 517,796 from a related party (Note 26). Accordingly, the Group's equity holding increased to 59.5% as at 31 December 2011. The excess of the consideration paid over the fair value of net identifiable assets acquired of KD 167,904 has been recognized as a provisional goodwill (Note 6). The Group stated to consolidate the subsidiary from the date of obtaining significant control.

28 TAKAFUL INSURANCE - POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND

The Group (Manager of Takaful Fund) conducts business on behalf of the policyholders and advances funds to the policyholders' operations as and when required. The Manager of Takaful Fund is responsible for liabilities incurred by policyholders in the event the policyholders' fund is in deficit and the operations are liquidated. The Manager holds the physical custody and title of all assets related to the policyholders' operations however such assets and liabilities together with the results of policyholders' lines of business are presented as due to policyholders of Takaful unit in the Parent Company's statement of financial position and the details are disclosed in this note.

Takaful business in the Group consists of the Takaful Insurance Unit established by the Parent Company and the Takaful fund of its subsidiary Egyptian Takaful Life Insurance Company.

Policyholders' result by line of business:

The following tables summarise the consolidated policyholders' results by line of business and fund:

For the year ended 31 December 2011

	Marine and Aviation	***Property***	***Motor***	***Engineering***	***General Accidents***	***Life and Medical***	***Total***
	KD	***KD***	***KD***	***KD***	***KD***	***KD***	***KD***
Premium written	278,322	431,123	215,056	29,038	155,535	1,554,296	**2,663,370**
Surplus (deficit) from insurance operations	138,527	29,697	31,084	7,896	49,428	(262,519)	**(5,887)**

For the year ended 31 December 2010

	Marine and aviation	*Property*	*Motor*	*Engineering*	*General Accidents*	*Life and Medical*	*Total*
	KD	KD	KD	KD	KD	KD	KD
Premium written	331,031	380,131	195,557	17,411	121,618	528,626	1,574,374
Surplus (deficit) from insurance operations	140,078	90,214	72,531	8,459	(29,022)	90,557	372,817

	2011	2010
	KD	KD
Amounts due to policyholders (Note 15)	**146,761**	230,965

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of investments held to maturity, debt securities (loans), investments available for sale, investments carried at fair value through income statement and cash and cash equivalent. Financial liabilities consist of bank overdrafts, insurance payable and other liabilities.

The fair values of financial instruments, with the exception of certain available for sale investments carried at cost (Note 8), are not materially different from their carrying values. The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities:

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

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 fair value*
31 December 2011	*KD*	*KD*	*KD*	*KD*
Financial instruments:				
Investments available for sale:				
Quoted equity securities	**10,937,392**	**-**	**-**	**10,937,392**
Unquoted equity securities	**-**	**-**	**18,723,458**	**18,723,458**
Unquoted managed funds	**-**	**-**	**1,119,382**	**1,119,382**
Investments carried at fair value through income statements:				
Held for Trading:				
Quoted securities	**3,074,559**	**-**	**-**	**3,074,559**
Designated upon initial recognition: Managed funds of quoted securities	**10,958,621**	**-**	**-**	**10,958,621**
Total	**24,970,572**	**-**	**19,842,840**	**44,813,412**

	Level: 1	*Level: 2*	*Level: 3*	*Total fair value*
31 December 2010	*KD*	*KD*	*KD*	*KD*
Financial instruments:				
Investments available for sale:				
Quoted equity securities	16,352,165	-	-	16,352,165
Unquoted equity securities	-	-	15,772,296	15,772,296
Unquoted managed funds	-	-	10,524,210	10,524,210
Investments carried at fair value through income statements:				
Held for Trading:				
Quoted securities	3,263,754	-	-	3,263,754
Designated upon initial recognition: Managed funds of quoted securities	16,517,052	-	-	16,517,052
Total	36,132,971	-	26,296,506	62,429,477

29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets which are recorded at fair value.

	At 1 January 2011	***Gain / (loss) recorded in the consolidated statement of comprehensive income***	***Net purchases and disposals***	***At 31 December 2011***
	KD	***KD***	***KD***	***KD***
Financial assets available for sale:				
Unquoted equity securities	15,772,296	(1,347,584)	4,298,746	18,723,458
Unquoted managed funds	10,524,210	(979,485)	(8,425,343)	1,119,382
	26,296,506	(2,327,069)	(4,126,597)	19,842,840

	At 1 January 2010	*Gain / (loss) recorded in the consolidated statement of comprehensive income*	*Net purchases and disposals*	*At 31 December 2010*
	KD	*KD*	*KD*	*KD*
Financial assets available for sale:				
Unquoted equity securities	19,154,998	3,643,831	(7,026,533)	15,772,296
Unquoted managed funds	6,459,144	708,104	3,356,962	10,524,210
	25,614,142	4,351,935	(3,669,571)	26,296,506

During the year ended 31 December 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The calculation of fair value of level 3 financial instruments is not materially sensitive to changes in assumptions.

30 COMPARATIVE INFORMATION

The Group has changed the classification of the life mathematical reserve in the consolidated income statements to be included within the net premiums earned instead of being part of the expenses.

Management of the Parent Company believes that the current classification is more appropriate due to the nature of the life business, where the majority of the premiums relate to one year group medical policies. The change in the classification had no impact on the net underwriting income or the profit before taxes for both years.

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