Annual Report and Accounts 2011

مؤسسة الخليج للإستثمار
Gulf Investment Corporation

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Financial highlig

(US$ million)	2009	2010	2011
For the year			
Gross Operating and Other Income	153	223	292
Operating Expenses	46	50	61
Net Profit / (Loss)	91	151	181
At year end			
Total Assets	6,113	5,776	5,881
Interest Bearing Securities and Funds	2,604	2,143	1,771
Equities and Managed Funds	458	556	577
Projects and Equity Participations	1,428	1,825	2,192
Deposits	1,360	1,429	1,424
Shareholders' Equity	1,750	2,117	2,389
Selected Ratios (%)			
Profitability			
Return on Paid-up Capital	5.3	7.2	8.6
Return on Adjusted Shareholders' Equity	6.3	7.7	8.5
Capital			
BIS Ratios			
– Total	27.7	30.0	30.6
– Tier 1	27.7	30.0	30.6
Shareholders' Equity as a % of Total Assets	28.6	36.7	40.6
Asset Quality			
Marketable Securites as a % of Total Assets	43.2	39.1	33.2
GCC and OECD Country Risk as a % of Total Assets	100.0	100.0	100.0
Liquidity			
Liquid Assets Ratio	73.0	65.6	60.7
Productivity			
Operating Income as Multiple of Operating Expenses	3.3	4.5	4.8

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Net Profit

US$ 181 million

Total Assets

US$ 5.9 billion

Mission state

Gulf Investment Corporation (GIC) is a leading financial institution offering a comprehensive range of financial services to promote private enterprise and support economic growth in the Gulf Cooperation Council (GCC) region.

To become a 'world-class' organization, GIC is dedicated to realizing its clients' objectives, to maximizing shareholder value through earning competitive rates of return and to the professional development of its people.

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Board of director

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Kingdom of Bahrain

H.E. Dr. Zakaria Ahmed Hejres * ****
Chairman of the Board
Chief Executive Officer
Al Watan for Publishing & Distribution BSC

H.E. Mr. Khalid A. Al-Bassam ** ***
Chairman
Bahrain Islamic Bank

Kingdom of Saudi Arabia

H.E. Mr. Khalid S. Al-Khattaf * ***
Vice Chairman of the Board
& Chairman of the Executive Committee
Chief Executive Officer & Managing Director
Nomura Saudi Arabia

H.E. Mr. Turki Bin Ibrahim Al-Malek ** ****
Chairman of the Audit Committee
Chief Operations Officer
Saudi Arabian Investment Co. (Saudi Sanabil)

Sultanate of Oman

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

H.E. Mr. Abdul Kader Askalan ** ***
Chief Executive Officer
Oman Arab Bank

State of Qatar

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

H.E. Dr. Hussain Al-Abdulla ** ***
Board Member - Executive
Qatar Investment Authority

State of Kuwait

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

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

United Arab Emirates

H.E. Mr. Faisal Al-Mansouri * ***
Director of Revenues Department
Ministry of Finance

H.E. Mr. Saeed Rashid Al-Yateem ** ****
Chairman of Remuneration and
Human Resources Committee
Assistant Undersecretary of Budget and Revenue
Ministry of Finance

Senior Management Team

Mr. Hisham Abdulrazzaq Al-Razzuqi
Chief Executive Officer

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

Mr. Rashid Bin Rasheed
Deputy Chief Executive Officer
& Head of Finance & Administration

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

Chairman's stateme

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To the Shareholders of Gulf Investment Corporation:

On behalf of the Board of Directors, it is my privilege to present the Annual Report on the Corporation's activities and its financial results for the year ended 31 December 2011.

GIC had another good year in 2011, with net profits growing by 20% to US$ 181 million. GIC's strong performance in a challenging business environment is a reflection of its resilience and strength. It is further gratifying to note that the steady progress made in financial strength and risk profile, continues to be in tandem with its business expansion and revenue growth. A significant increase in earnings from principal investments, GIC's core business, was the prime driver of income growth. With shareholders' equity growing to US$ 2.4 billion at the end of 2011, the Corporation remains one of the most strongly capitalized financial institutions in the region. The moderate expansion in overall balance sheet to US$ 5.9 billion resulted in a conservative leverage of about 2.4 times.

net profits growing by 20%

GIC's commitment to the GCC region is reflected in the 22% growth in GCC-based project investments, which at US$ 2.3 billion, constitutes 40% of the total assets. This is a clear testimony of GIC's vital role in promoting private enterprise and contributing to the development of the GCC economies through participation in major projects in the fields of infrastructure, power and utilities, metals and petrochemicals. Our knowledge and understanding of the regional business environment and our strong networking capabilities have helped GIC achieve new milestones.

Some of the project companies within the principal investments portfolio have emerged not just as regional leaders but also as major global players in their respective sectors. Improved operating efficiencies, life cycle progression, strategic global technological tie-ups and take-overs, combined with region specific natural advantages, have contributed to this success.

GIC continues to enhance its role in the economic and financial development of the GCC with investments in the region's capital markets, venture capital and other diversified funds. These investments provide adequate diversification of assets in the GCC region as well.

GIC's exposure to the GCC region is well balanced by investments in the global markets, spread across a wide array of asset classes and investment strategies, providing diversification of GIC's total assets and contributing to the Corporation's revenue sources. With the access and expertise of global markets, GIC aims to become a world class financial institution catering to the region's requirements of international investments.

Positive rating action, during 2011, by international rating agencies is an indication of enhanced financial strength and consistently strong performance. Moody's upgraded GIC's stand alone (BFSR) rating, while reaffirming its long term rating. Earlier in 2011, to US$ 181 million

Fitch too upgraded the Corporation's individual rating and reaffirmed its long term rating. Rating Agency Malaysia (RAM) also reaffirmed the long term rating during 2011. All ratings carried a "Stable" outlook. Given the current global economic scenario fraught with uncertainties, the above action by rating agencies indicates uptrend in Corporation's future prospects as well.

GIC's strong track record, resilience to economic adversities, solid capital position and excellent human resources have established GIC as a regional leader in its chosen fields of business and is well positioned to capitalize on the emerging opportunities.

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

I would like to express my appreciation to all the members of executive, audit and risk management committees, as well as to the management and staff for their commitment and effort during the year in achieving the Corporation's goals.

Dr. Zakaria Ahmed Hejres
Chairman

CEO's review

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Gulf Investment Corporation continued to record growth in profitability during 2011 with net profit reaching US$ 181 million, an increase of US$ 30 million or 20% compared to the prior year. It is pleasing to note that the core businesses contributed to this robust performance. In addition to registered profit growth, total comprehensive income, which include valuation gains of US$ 91 million reflected directly at the equity level, grew by US$ 272 million. GIC's strong performance despite a challenging business environment resulted from revenue growth, increased operating efficiency and optimal risk profile.

increase in net operating

income by 31%

Increase in net operating income by 31% to US$ 292 million was driven primarily by superior earnings from project investments, though the global markets business performed reasonably well, considering the volatility and turmoil in financial markets throughout the year. Initiatives taken to attract expertise and talent in existing and new areas of business resulted in many key-level appointments during the year. Well planned and proactive investment in human resources reflects management's long term vision and strategy aimed at enhancing the Corporation's future earnings and profile. Adhering to the conservative provisioning policy, a charge of US$ 49 million was taken for impairment of available for sale assets mainly on private equity funds and project participations. Valuation gains and retained earnings contributed to the 13% growth in Shareholders' equity which reached US$ 2.4 billion as at 31st December 2011. Comparatively, the moderate growth in total assets, primarily driven by an increase in principal investments, resulted in a healthy leverage level of about 2.4 times. A combination of improved risk profile, moderate leverage levels and solid capitalization resulted in extremely robust capital adequacy ratios. As at 31st December 2011, Tier 1 capital ratio, computed as per Basel 2 guidelines, stood at 30.6%.

Projects and Equity Participations

Principal investments which cover projects and equity participations in the region continue to be the Corporation's focus business, growing by almost 22% year-on-year. The overall portfolio of such investments reached US$ 2.3 billion at the 2011 year end.

Progress across the life-cycle of key projects in the portfolio resulted in revenue growth, significantly contributing to GIC's earning in 2011. The portfolio comprises of projects in vital sectors including steel, chemicals, power & utilities, building materials and petrochemicals, spread across the GCC region.

During the year GIC expanded its investment in iron and steel industry in the GCC region by acquiring United Gulf Steel Mill Company Ltd. (UGS) based in Kingdom of Saudi Arabia. The acquisition was made through GIC's major associate company Gulf United Steel Holding Company ("Foulath"), a leading global steel investment vehicle and the world's first fully integrated steel producer.

Driven by its main mandate of providing support to the economic development of the GCC region, GIC has made significant contributions by making direct equity investments in new projects, acquiring projects facing difficulties and turning them around into profitable companies and nurturing green-field projects to maturity. Critical to the principal investment strategy are the exit plans that unlock value in a timely fashion and enable redeployment of resources on an ongoing basis. The Corporation's efforts over the years have borne fruit, placing GIC as a leading player and prime mover of projects in its chosen sectors.

Going forward, GIC plans to leverage its expertise and regional profile to expand into fresh sectors like food and agri-based industries, education and health care. GIC also plans to structure private equity funds in specific sectors facilitating larger participation of small investors, thereby channelizing resources for the growth of the region. Over a period, GIC intends to unlock the enterprise value of many of its existing project investments which will serve the dual purpose of providing an opportunity to private investors to participate in the growth, while at the same time creating resources for the development of new sectors.

Global Markets

Global Markets Group manages assets both for GIC's own account and for third party investors. Investments are made in a wide range of asset classes across regional and international markets in diverse investment strategies, executed by internal investment teams as well as external specialists, with the object of achieving target risk adjusted returns. Investments include plain vanilla debt instruments, equity investments, private equity, structured products, hedge funds, managed futures and derivatives. Treasury activities for the Corporation are also managed by this group. GIC's long-term, less liquid core investment in projects is balanced by capital market and treasury activities providing the required liquidity and diversified risk-return profile.

During 2011 interest bearing securities and funds recorded a growth of approximately 49% in gross income compared to prior year and also exceeded the set targets, whereas returns from equity based portfolios and funds were in line with the market averages. Income from private equity funds was up by appoximately 16% compared to the prior year. Restructuring and reallocation exercise resulted in reduction of market risk exposure of interest bearing securities by appoximately 17%. New investments in emerging market bonds and funds were also initiated.

Strengthened by new hiring of expertise in various areas of global markets, GIC plans to expand into new products for investments and funding to take advantage of the opportunities in financial markets. The Corporation's strategy is to be the pan-GCC international financial institution serving as a conduit between international and GCC investors to diversify investments across their respective regions. With the objective of securing steady fee based income, GIC looks to grow the third party asset management activity in the coming years.

Liability management is a vital component of GIC's business strategy. Over the years and during several challenging and critical phases GIC managed its funding and liquidity extremely well, in line with business requirements, by setting prudent targets across various sources, tenor and geographic diversification, with the ultimate objective of optimizing the risk return profile.

During the year under review, GIC successfully raised MYR 1.35 billion (US$ 426 million) through issuance of two Sukuk under its existing 20 year MYR3.50 billion (USD1.10billion) Sukuk Wakalah bi Istithmar Medium Term Notes Programme (the "GIC Sukuk"). In light of the challenging environment, success of the above issues is a testimony of the investors' confidence in GIC. These Sukuk meet the Shari'ah requirements of both Malaysia and investors in the GCC. Our initiative and continued efforts were well recognized when GIC was honored by Kuala Lumpur Islamic Finance Forum with the award for "The Most Outstanding Sukuk Product – for the year 2011". GIC will continue to develop and introduce to the market innovative products and services.

Positive rating action by the international rating agencies is a result of consistent year on year enhancement of all key financial performance indicators. The growth in profitability was achieved alongside improvements in capital strength, liquidity and liability structure, leverage levels and risk profile. During 2011, Moody's upgraded GIC's stand alone BFSR rating to D from D-, while reaffirming its Baa2 long term rating. Fitch upgraded the individual rating to D from D/E and reaffirmed GIC's BBB long term rating. Rating Agency Malaysia (RAM) reaffirmed its AAA long term rating of GIC. All ratings carry a "Stable" outlook.

While the new initiatives that GIC embarks on will be guided by inherent capabilities, arising opportunities and business strategy, it will also be governed by sound risk management principles. Steps taken to further enhance the overall risk control framework have proved beneficial. Maintaining a sound enterprise risk management infrastructure will continue to be a part of GIC's strategic goal. We will constantly enhance our systems and processes, adopting market best practice standards and in line with an evolving and dynamic operating environment.

I would like to take this opportunity to thank the shareholders, the board of directors and its sub-committees for their strategic guidance. I would also like to express my appreciation of the efforts, commitment and dedication of GIC staff. I am proud of what we achieved in 2011 and even more excited about the opportunities that lie ahead. The strong foundation we have built, combined with the goodwill we have established, will enable us expand our business and regional franchise. We will continue, as a team, to strive towards achieving our corporate goals of contributing to the development of private enterprise in the region and creating value for our shareholders.

Hisham Abdulrazzaq Al-Razzuqi
Chief Executive Officer

Economic review

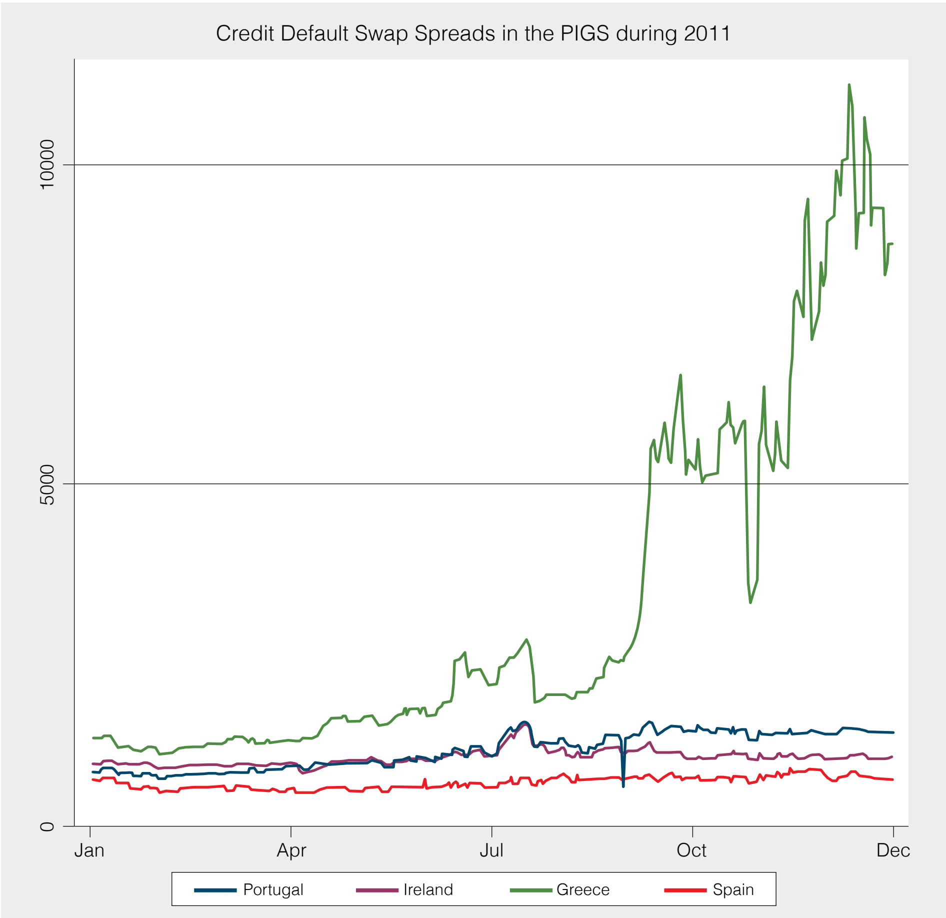
Global Economy

During 2011, the global economic landscape was subjected to four major shocks that decelerated the pace of global economic recovery and contributed to market anxiety and widespread uncertainty. The first was the March dual catastrophe of earthquake and tsunami in Japan that spewed radiation and caused damage to social infrastructure, housing and private firms' fixed capital in the range of 3.3% to 5.2% of 2010 GDP. To reverse these damages, the Japanese government will exert substantial reconstruction effort, gauged at 5.6 trillion Yen, 1.1% of GDP.

The second was the "frustratingly slow" US economic recovery due to a compendium of factors including the highly polarized incomes, wealth, and urban distributions, highly leveraged private sector along with US debt jitters and policy deadlock which triggered the "Great American Downgrade" by S&P's, combined with a negative outlook. The third was the EU sovereign debt crisis which was an "economic killer" par excellence that triggered rising yields on the debts of the peripheral economies, the PIGS, in the EU region and begot the expectation of an eventual EURO collapse. The debt troubles of Greece especially seemed slowly spreading to other countries including Italy and dramatically pushed the financing costs of Greece to unmanageable levels.

The Eurozone sovereign debts and economic turbulences were vital forces that drove the credit default swaps, CDS, to spiral throughout 2011. Greece experienced highest increases, 10700 bps at one point. Although levels gradually declined towards the end of December 2011, they nonetheless remained much higher than levels at the beginning of the year. Y-O-Y changes were sharpest for Greece which increased by nearly 10-folds, while Portugal rose by 152%, and Ireland and Spain by 24% and 52% respectively.

Figure 1: EU Peripheral Economies Credit Default Swaps, Jan-Dec 2011



Source: Bloomberg.

The fourth and final shock was the political instability and massive demonstrations that came to be dubbed "Arab Spring" which accolade Arab demonstrators "The Man of the Year" achievement by the Time Magazine[1] and which ultimately led to regime changes in Egypt and Tunisia and which later triggered outright conflict in Libya and Yemen, two oil producing countries and demonstrations in Bahrain. These geopolitical developments caused markets to contract, capital to outflow from MENA along with work and production stoppages. Fears of oil supply cuts caused oil prices to firm up and remain within the vicinity of $100 to the barrel.

The aforementioned factors and forces besieged the global economy with great uncertainties that dragged its ability to achieve sustainable recovery during the year.

These uncertainties, together with policy uncertainty, led to negative transmissions from the global economy to global markets that were manifested by rising market volatility and anxiety which greatly reduced financial flows, leaving credit expansion generally meager in western economies.

With policy indecisiveness, and austerity measures in place, the year 2011 ended with notoriously-complex and yet-to-resolve issues that included imbalances at the country, region, and global levels. Meanwhile however, emerging markets continued to grow resiliently, although at a somewhat slower pace, because of slower global trade and investment flows in addition to domestic policy tightening.

Overall, the growth of the world economy decelerated from 4.4% in 2010 to 3.2% in 2011. Quarterly growth revealed the same trend as global GDP growth has decreased from 4.7% in Q4/10 to 1.8% in Q4/11, q/q saar[2]. Growth of the U.S. decelerated from 3% 2010 to 1.8% in 2011 while Euro area grew at 1.6%[3]. Germany, the largest EU country, grew at 3% while France grew mildly at 1.6% and Italy grew at about 0.4% while Spain grew at 0.7% whereas Greece and Portugal regressed by (-5.7%) and (-1.7%) respectively[4]. Japan contracted by 0.9% in 2011 after growing by 4.4% in 2010, as exports weakened due to supply disruptions resulting from the March earthquake. Later in the year, the decline in external demand along with new disruptions caused by the Thai floods and persistent strong Yen have further undermined export competitiveness.

Emerging economies continued to sustain high growth, at 6.2% in 2011 driven largely by China and India, which grew at 9.2% and 7.4% respectively. Many of these economies however, had to deal with volatile capital flows and have experienced low export growth. Also, economic growth was undermined by lower commodity prices especially in low-income countries.

While inflation was subdued in mature economies, it became a major concern in emerging economies, especially in Asia Pacific and BRIC countries. It remained supportive to growth in advanced economies, at 3.2% in the U.S., 2.7% in the Euro area, 2.3% in Germany and 2.1% in France whereas CPI contracted by 0.3% in Japan. However, in emerging economies it reached 8.9% in Russia, 8.4% in India, 5.4% in China, 6.6% in Brazil. Singapore's annual CPI rate rose to 5.2%. As well, consumer prices rose in South Korea at 4%, while Indonesia CPI rose by 5.4%.

Monetary policy in mature economies remained largely expansionary throughout the year with short term interest rates ranging between 0.25% in the U.S., 0.50% in the UK and 1% in the Euro area. In emerging economies, where inflation was a threatening issue, central banks initially tightened their monetary stances to combat inflation at the beginning of the year. Later in the year and as energy and food prices retreated, monetary policy have eased in many emerging economies though policy rates remained high at 5.8% on average in Asia and 7.3% in BRIC countries, on average. The central bank rate reached 6.6% in China, 11% in Brazil, 8% in Russia and 7.5% in India. By year-end, the short-term cost of borrowing increased from 0.8% in 2010 to 1.4% in 2011 on 3-months euro deposits whereas it remained at 0.5% on 6-months U.S. dollar deposits and 0.4% on 6-months Japanese Yen deposits[5].

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1 Time Magazine: January 2, 2011.
2 IIF, "Global Economic Monitor", December 2011 / January 2012.
3 IMF, WEO Update, January 2012.
4 Consensus Forecasts, January 9, 2012.
5 Consensus Economics, January 9, 2012.

In the GCC region, economic growth was quite robust despite slow global growth and sluggish recovery in mature economies. Overall, the region achieved an aggregate economic growth in the vicinity of 7% with Qatar realizing the fastest growth rate of nearly 15% followed by KSA at about 7%. The rest of the GCC economies realized rates in the vicinity of 4-4.5%, whereas Bahrain achieved a more moderate growth of 1.5%. The major drivers of economic growth were firm oil prices, rapid exports growth and fiscal expansion, both current and investment types.

Despite massive fiscal expansion, the GCC economies realized sizable budget surpluses and the rapid increase in exports led to the realization of hefty trade balances and to the accumulation of foreign exchange reserves. The infrastructure, utilities and transportation sectors received significant shares in the total value of construction projects along with the housing sector, especially in Saudi Arabia.

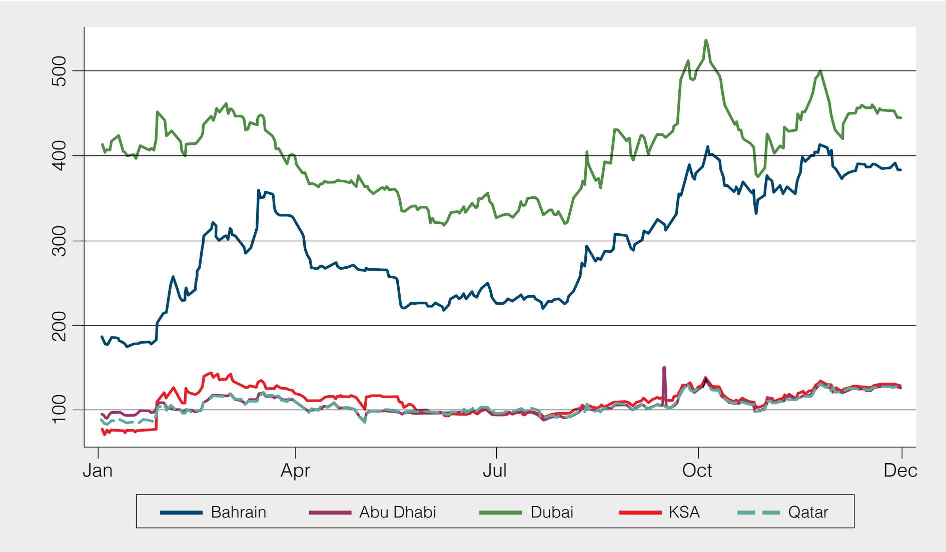
The banking sector inched forward with credit expansion in general with the Saudi banks making discernibly faster expansion rates than corresponding rates in other GCC banks. Specifically, credit growth in Saudi Arabia has been steadily increasing since 2009, reaching 8.7% in August 2011. UAE witnessed an up surge in non-performing loans to total loans since 2008, reaching 8% in 2011 compared to 5.6% in 2010. Credit growth increased in the vicinity of 2-3%. In order to maintain a strong banking sector, the Central bank of the UAE introduced a new set of provisioning rules and capital adequacy requirements by classifying loans as default after 90 days of delinquency instead of 6 months, hence increasing 2011 provisions by almost 10% and requiring banks to achieve a 12% capital adequacy.[6, 7]

Loan loss provisions remained high in the GCC area with Oman having the highest provisions to non-performing loans of 104%, followed by the UAE at 98% and Qatar at 95%. However, GCC banks remain profitable and highly capitalized despite the fact that high provisions and non performing loans erode the profitability figures. Qatar led the way in terms of returns on assets (ROA) with 2.6, as the ROA increased for Kuwait, UAE, and Oman reaching 1.2, 1.4, and 1.8 respectively. The return on equity grew similarly to the ROA. Oman's ROE grew from 10 to 12.7 as Kuwait's ROE reached 9.1 up from 6.8 in 2010. The profitability indicators slipped slightly for Saudi Arabia in 2010 to reach 1.8 in terms of ROA and 14.7 for the ROE, down from 1.9 and 16.4 respectively.

Credit default swap spreads in the GCC performed much better than international comparators such as the EU region. However, although minor, increases continued to occur from the beginning to the end of the year. Therefore, the GCC economies were receiving negative externality from the Arab Spring and the Euro zone widespread uncertainty. The highest CDS spreads occurred for Dubai throughout the entire year, ending at 445 bps in December. Bahrain came second at 383 bps, while Abu Dhabi, KSA and Qatar exhibit relatively similar trends at around 128 bps.

[6] United Arab Emirates, Industry report, Financial Services, EIU, June 2011.
[7] UAE Market Assessment, EIU, February 2011.

Figure 2: Credit Default Swap Spreads in the GCC during 2011



Source: Bloomberg.

To conclude, in 2011 risks continued to be present due to the fallouts from the Arab Spring and the EU sovereign debt crisis. However, prudential policies managed to stave-off these risks although, by all means, did not completely eliminate them. These risks affected the inflows of FDI and dragged GCC markets and increased their overall volatility. However, market performance was overall positive.

The Bond Market

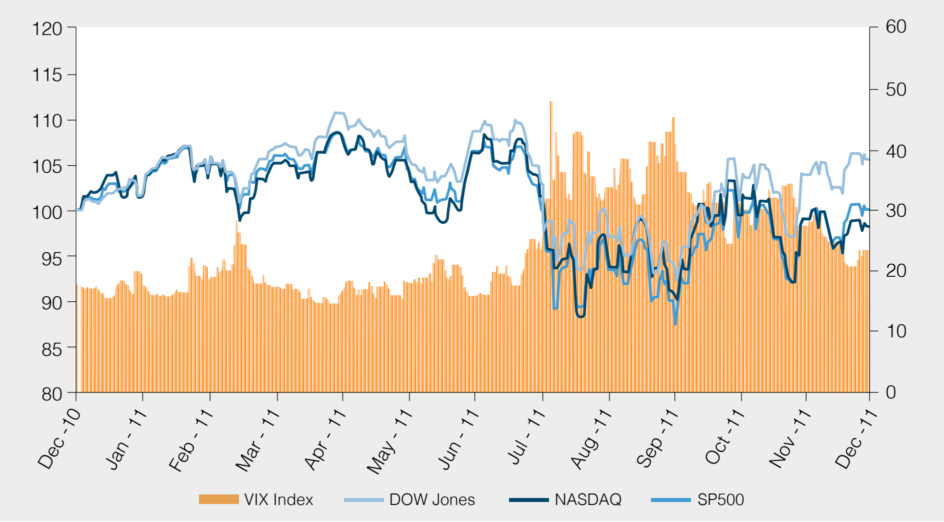
By the end of 2011, the yield on the US 10-year Treasury bonds had fallen by 43% to 1.88% from 3.3% in year-end 2010. Likewise, in the euro area, the yield on the German benchmark 10-year note fell by 38.2% from 2.96% in 2010 to 1.83% in 2011. The yield on the UK gilts fell by 41.8% from 3.4% in 2010 to 1.98 in 2011. In Japan, the yield fell by 14bp from 1.13% in 2010 to 0.99% in 2011. Such significant falls were triggered by global bond purchases by central banks to help sluggish slowing economies. The bond rally was induced also by rising demands from sovereign and corporate buyers on safe haven assets at times of higher uncertainty and financial instability. Within the euro area, the yield on the Italy 10-year note rose by 46.2% from 4.81% in 2010 to 7.03% in 2011, the sovereign default threshold. In Spain, the yield fell slightly by less than 0.5% to reach 5.04% in 2011.

As inflation remained largely muted in advanced countries, treasuries continued to outperform risky assets such as equities, high yield corporate bonds and spread products. In emerging economies, rising inflation was conducive to risky assets especially in BRIC and many Asian countries, as their underlying fundamentals remained supportive to risky assets with low valuation. In BRIC countries, the yield on 10-year note rose for Brazil by 44bp to reach 12.61% in 2011, and rose by 8bp in Russia to reach 6%, and rose by 63bp in India to reach 8.55% in 2011 whereas it declined by 47bp in China which reflects easing inflationary pressures by the year end. Emerging market bonds issued in local currencies have benefited from currency appreciation and gained momentum during the year 2011 especially at times of heightened market volatility as these economies remained healthier than advanced economies with debt to GDP less than 40% in Brazil and Mexico, the top two debt issuers among developing countries.

Equities

Global market turbulences following the credit downgrades of triple-A government bonds coupled with the sovereign debt crisis and fear of EU collapse had their toll on the equity markets, erasing the amassed 2010 gains and causing further deterioration in the indices' performance. Few market indices managed to rebound mainly the US indices that fared well when weighed against other comparators with levels fairly close to end of 2010. Figure 3 shows the performance of major global equity indices by year-end 2011. In tandem, market volatility, gauged by the VIX index, surged during the second half of the year to record high levels with peaks around July and September remained elevated till the end of the year.

Figure 3: Major US Stock Indices and Market Volatility Index (VIX), Jan-Dec 2011



Source: Bloomberg.

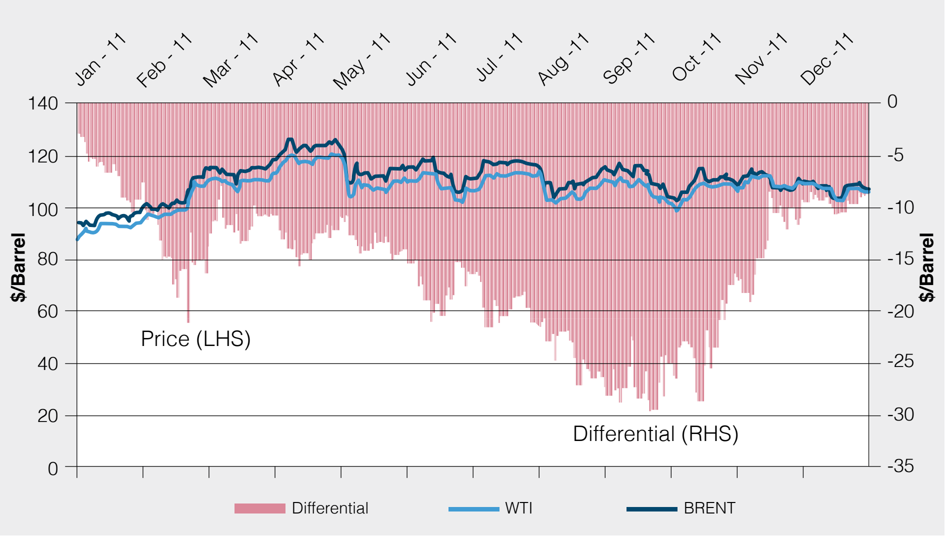
Commodities

The total return on JPMorgan aggregate commodity index fell by 1.7%, 12-months in January 31, 2012. Within the aggregate index, precious metals and energy sectors outperformed the aggregate index in terms of total returns, at 24.7% and 1.9% returns respectively. The biggest sector losers were agriculture (-14%), industrial (-11.3%), non-energy sector (-4.7%) and livestock (-1.4%)[8]. Oil prices regained the $100pb mark in the last weeks of 2011 and overall, the average price for 2011 increased by 19.6% relative to 2010 to $94.9pb while world oil demand grew by 1.04% y/y in 2011 driven by demand in the emerging countries, particularly China. Geopolitical forces played a prominent role in maintaining firm oil prices. Specifically, MENA political unrests during early 2011 along with the Libyan oil production cut caused WTI oil prices to surpass the $110pb mark before it ended the year at $98.83pb for WTI and $107.6pb for crude Brent[9].

Oil prices rose throughout 2011 despite the global economic slowdown. WTI ended up 8% higher than the beginning of the year from $91.38/barrel to $98.83/barrel compared to a more prominent increase in Brent prices of 14% from $94.3/barrel to $107.58/barrel. WTI and Brent prices started to diverge since the start of 2011 and the WTI-Brent differential peaked in September 2011 reaching $29.55/barrel.

[8] Bloomberg, JP Morgan Commodity Index, 31 January 2012.
[9] Bloomberg, January 31, 2012.

Figure 4: Oil Prices during Jan-Dec 2011



Note: Differentials refer to the difference between the two oil benchmark prices; i,e. WTI-Brent.

In the foreign exchange markets, the Euro appreciated initially against the U.S. dollar till mid-year when the surge began to weaken and the Euro started to trend downwards before appreciating at the year-end by 2.8%, y/y to $1.298. By the year end 2011, the Sterling Pound appreciated vs. the U.S.dollar by 0.8% to reach $1.554 while the Japanese Yen appreciated by 5.5% to reach $76.94[10]. Commodity currencies such as the Canadian, Australian and New Zealand dollar have ended the year 2011 declining vs. the U.S. dollar by 1.7%, 0.9% and 1.2% y/y respectively. Emerging currencies such as the Chinese Yuan and the Indian Rupee ended the year with mixed results where the Yuan appreciated by 4.2%, and the Indian Rupee depreciated by 18.5% y/y to reflect inflation momentum in India and slowing growth in China.

[10] Consensus Economics, January 9, 2012.

GCC Equity Markets Review 2011

Overview

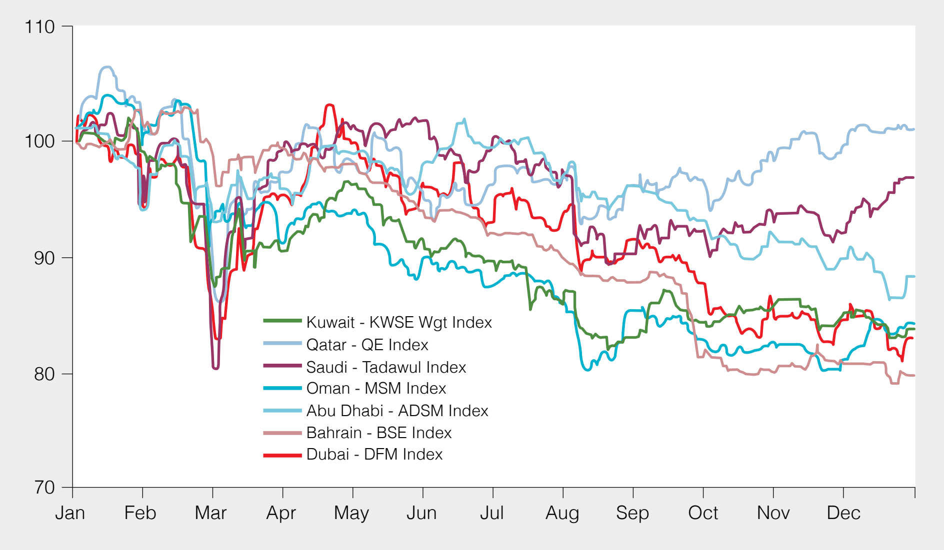
The GCC markets started the year on a good note with a marked recovery in investor sentiment built on a robust foundation of economic fundamentals. However, the markets were shocked by the strength and speed at which the 'Arab Spring' shook the political landscape, challenging the status quo, and eroding investor confidence.

Exacerbation of the global credit crisis, threatened to arrest the pace of the global economic recovery, and plunge it back into a double-dip recession. Mounting evidence of deterioration in the fiscal and economic situation in Europe elevated risk-perception and volatility across most global markets.

Despite robust macro-economic fundamentals for the GCC region, and a surge in oil prices due to geo-political uncertainties, equity markets in the GCC remained highly volatile. Close correlation with global equity indices took its toll on the GCC equity markets, causing the benchmark S&P GCC (Total Return) Index to correct by -4.5% for the year.

As the level of uncertainty escalated during the course of the year, the markets witnessed a sector rotation in favor of defensive sectors and industry segments that were exposed to local economies including Retail, Consumer, Telecoms and Cement sectors, which in turn outperformed the benchmarks in the latter part of the year.

Figure 5: Performance of GCC Indices

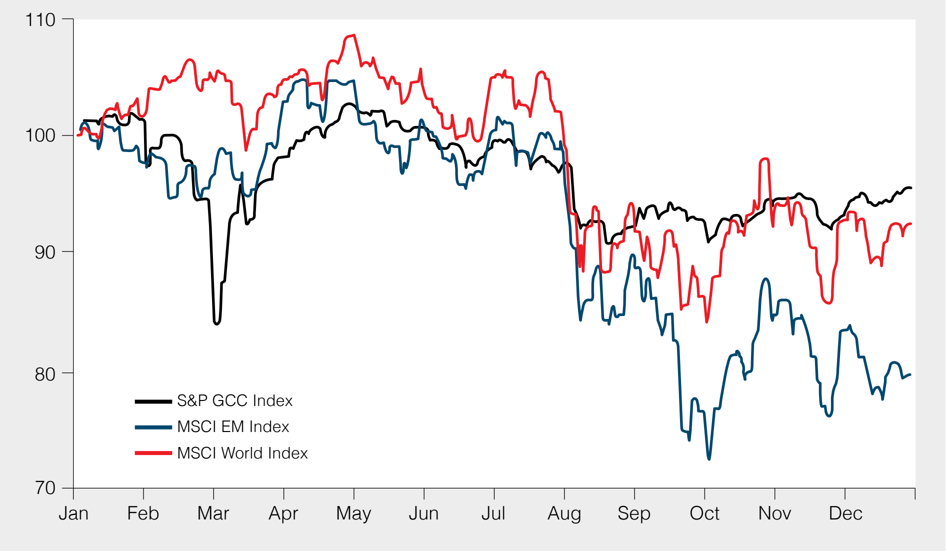


Source: GIC Research, Bloomberg data.

Relative performance of S&P GCC index

During 2011, the S&P GCC Index posted a net decline of -4.5%. However, the index out-performed the MSCI EM and World indices, which succumbed to losses of -20.4% and -7.6% respectively. The S&P GCC index also outperformed the S&P Pan-Arab index, which recorded a decline of -12.7% for the year.

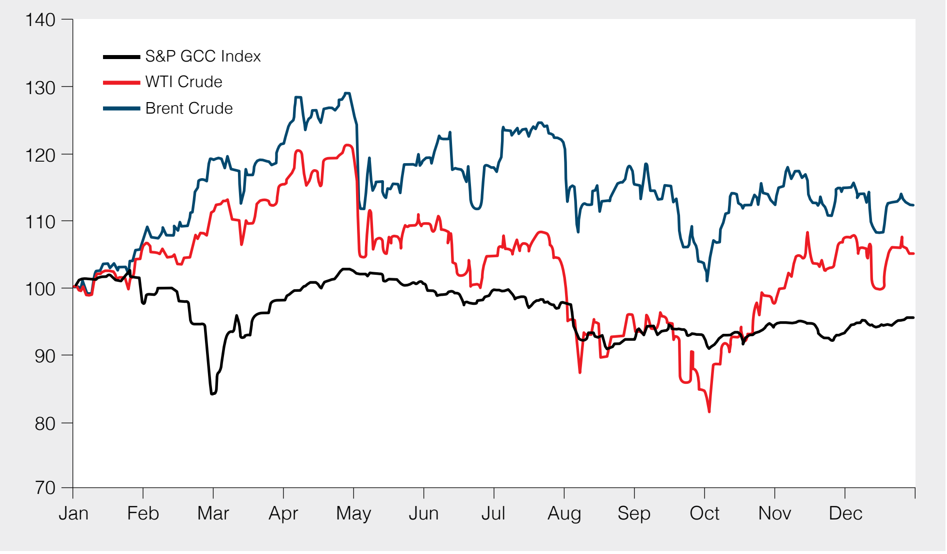
Figure 6: Relative Performance of S&P GCC Index



Source: GIC Research, Bloomberg data.

Though the global economic turbulence had an impact on demand for oil during 2011, prices remained resilient largely due to geo-political considerations. Brent crude averaged at USD 109/bbl for the year, and closed with a net gain of +12.4%.

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



Source: GIC Research, Bloomberg data.

Country Performances

During the year, only one of the seven GCC indices managed to close with positive returns, while all the others recorded net negative returns.

Qatar's QE index was the sole gainer for the year, with a net gain of +1.12%, while Bahrain's BSE index remained the worst-performing with a net decline of -20.15% for the year.

Dubai's DFM index clocked losses of -17.00%, followed by Kuwait's KWSE (Weighted) index with -16.22% and Oman's MSM 30 index with -15.69%. Abu Dhabi's ADSM index recorded losses of -11.68%. However, the Tadawul in Saudi Arabia fared better with losses for the year being restricted to -3.07%.

Table 1: Index Returns

	Dec '10	**Dec '11**	% Chg
S&P GCC index	121.14	**115.73**	-4.5%
MSCI World index	1,280.07	**1,182.59**	-7.6%
S&P Pan Arab index	732.31	**639.07**	-12.7%
MSCI EM index	1,151.38	**916.39**	-20.4%
Qatar - QE index	8,681.65	**8,799.03**	+1.1%
Saudi - Tadawul index	6,620.75	**6,417.73**	-3.1%
UAE - ADSM index	2,719.87	**2,402.28**	-11.7%
Oman - MSM 30 index	6,754.92	**5,695.12**	-15.7%
Kuwait - KWSE (Wgt.) index	484.17	**405.62**	-16.2%
UAE - DFM index	1,630.52	**1,353.39**	-17.0%
Bahrain - BSE index	1,432.26	**1,143.69**	-20.1%

Source: GIC Research, Bloomberg.

Table 2: World Major Economic Indicators (Annual % Change)

Country	Real GDP			Inflation			Unemployment		
	2009	2010	**2011**	2009	2010	**2011**	2009	2010	**2011**
United States	-3.5	3.0	**1.7**	-0.3	1.6	**3.1**	9.3	9.6	**9.0**
Japan	-5.5	4.5	**-0.9**	-1.3	-0.7	**-0.3**	5.1	5.0	**4.6**
Germany	-5.1	3.7	**3.1**	0.4	1.1	**2.3**	8.2	7.7	**7.1**
France	-2.6	1.4	**1.7**	0.1	1.5	**2.1**	9.1	9.4	**9.3**
United Kingdom	-4.4	2.1	**0.9**	2.2	3.3	**4.5**	4.7	4.7	**4.8**
Euro Zone	-4.2	1.8	**1.5**	0.3	1.6	**2.7**	9.6	10.1	**10.1**
China	9.2	10.4	**9.2**	-0.7	3.3	**5.4**	-	-	**-**
India	6.8	8.0	**8.5**	9.0	12.4	**10.4**	-	-	**-**

Source: Consensus Forecasts and Asia Pacific Consensus Forecasts, February 2012.

Table 3: Global Equity Indices for 2011

	2010 year-end	**2011 year-end**	% Change	High 2011	Low 2011
DJIA	11,577.51	**12,217.56**	5.53	12,810.54	10,655.30
				4/29/2011	10/3/2011
S&P 500	1,257.64	**1,257.60**	-0.00	1,363.61	1,099.23
				4/29/2011	10/3/2011
Nasdaq Comp	2,652.87	**2,605.15**	-1.80	2,873.54	2,335.83
				4/29/2011	10/3/2011
MSCI	897.67	**829.78**	-7.56	952.60	754.72
				2/18/2011	10/3/2011
Russell 2000	783.65	**740.92**	-5.45	865.29	609.49
				4/29/2011	10/3/2011
S&P GCC	121.14	**115.73**	-4.47	124.34	101.71
				4/28/2011	3/2/2011
FTSE 100	5,899.94	**5,572.28**	-5.55	6,091.33	4,944.44
				2/8/2011	10/4/2011
Xetra Dax	6,914.19	**5,898.35**	-14.69	7,527.64	5,072.33
				5/2/2011	9/12/2011
CAC 40	3,804.78	**3,159.81**	-16.95	4,157.14	2,781.68
				2/18/2011	9/22/2011
Nikkei 225	10,228.92	**8,455.35**	-17.34	10,857.53	8,160.01
				2/21/2011	11/25/2011
Hang Seng	23,035.45	**18,434.39**	-19.97	24,419.62	16,250.27
				1/19/2011	10/4/2011

Source: Bloomberg.

Table 4: Real GDP Growth, % change

Country	2008	2009	2010	**2011**	2012
Bahrain	6.3	3.1	4.5	**2.2**	3.3
Kuwait	4.7	-4.8	2.9	**4.4**	2.8
Oman	12.8	1.1	4.1	**4.4**	4.5
Qatar	17.7	12.0	16.6	**17.8**	5.7
Saudi Arabia	4.2	0.3	3.8	**6.1**	3.4
United Arab Emirates	4.8	-3.5	3.2	**4.3**	2.1

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

Table 5: Consumer Prices, % change

Country	2008	2009	2010	**2011**	2012
Bahrain	3.5	2.8	1.9	**-0.4**	2.2
Kuwait	10.6	4.0	4.1	**4.5**	3.0
Oman	12.4	3.5	3.3	**3.8**	3.4
Qatar	15.2	-4.9	-2.4	**2.2**	3.8
Saudi Arabia	9.9	5.1	5.4	**5.1**	5.6
United Arab Emirates	12.3	1.8	0.6	**0.9**	2.1

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

Table 6: Hydrocarbon Exports (Oil & Gas),US$ million

Country	2008	2009	2010	**2011**	2012
Bahrain	13.8	8.7	11.2	**15.7**	15.2
Kuwait	82.6	46.6	61.7	**91.0**	89.0
Oman	28.7	18.1	25.7	**36.5**	35.9
Qatar	48.3	40.1	59.4	**86.5**	83.7
Saudi Arabia	281.0	163.3	215.2	**312.7**	273.0
United Arab Emirates	102.9	68.2	85.8	**123.3**	108.9

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

Table 7: US Treasuries Yields, percent

Yields	2010 Year-end	**2011 Year-end**	Annual (% change)
3-months	0.127	**0.013**	-89.7
5-Year	2.008	**0.832**	-58.6
10-Year	3.288	**1.876**	-42.9
30-Year	4.336	**2.894**	-33.3

Source: Bloomberg.

Table 8: LIBOR Rates

LIBOR Rates	2010 Year-end	**2011 Year-end**	Annual (% change)
US 3-Months	0.303	**0.581**	91.7
US 1-Year	0.781	**1.128**	44.4
Euro 3-Months	0.939	**1.292**	37.6
Euro 1-Year	1.472	**1.913**	30.0

Source: Bloomberg.

Table 9: Historical and Current Spot Crude Prices, Yearly Average (US$/bl)

	OPEC Basket	Y/Y % change	Brent	Y/Y % change	WTI	Y/Y % change
YTD 2011*	**107.47**	**38.76%**	**111.67**	**22.00%**	**94.67**	**6.19%**
Year 2010	77.45	26.84%	91.53	48.39%	89.15	44.07%
Year 2009	61.06	-35.35%	61.68	-36.65%	61.88	-38.12%
Year 2008	94.45	36.73%	97.37	34.21%	100.00	38.33%
Year 2007	69.08	13.10%	72.55	11.34%	72.29	9.46%
Year 2006	61.08	20.60%	65.16	19.70%	66.04	16.90%

* 2011 year-to-date average, 26 December 2011

Source: Middle East Petroleum and Economic Publications (MEES), December 2011.

Financial review

Net Income Analysis

Gulf Investment Corporation (GIC) posted net consolidated profit of US$ 181 million for the year 2011 compared to US$ 151 million in 2010. This is after provision of US$ 49 million (2010: US$ 22 million) which mainly relates to accounting of marked-to-market valuation provision of some holdings in international private equity funds & debt securities and provisions on equity participations.

Growth of approximately 20% in net profit for the current year was mainly contributed by GIC's core business - project investments, which validates GIC's long-term investment strategies. Analysis of the contributing components confirms good asset quality and the strength of GIC's investment philosophy under challenging situations.

Interest Income

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

Gross interest and similar income declined by 5% to US$ 41 million during 2011, which is attributable to the continuity of low interest rate scenario globally and due to redemptions and partial liquidation of interest bearing assets, within the context of a planned portfolio restructuring scheme.

Net Gains from Investments

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

GIC recorded a net gain of US$ 33 million during 2011, compared to US$ 59 million in the prior year. Net gains for the year comprise of realized gain of US$ 27 million on financial assets available for sale, US$ 6 million from financial assets at fair value through statement of income. Prior year income included US$ 15 million realized on planned exit from two associate companies.

Dividend Income

Dividend income of US$ 24 million (2010: US$ 20 million) comprises of receipts from private equity funds, equities and managed funds and equity participations. Dividends from private equity funds amounted to US$ 1 million. Equities and managed funds contributed US$ 5 million as dividends. An amount of US$ 18 million was received as dividends from equity participation in projects.

Share of Results of Associates

Share of results from associates accounted during the year amounted to US$ 227 million showing significant growth compared to prior year income of US$ 134 million. This represents GIC's share of profits from associated companies. The increase during 2011 was, to a large extent, contributed by projects in the chemicals, power and communication sectors. Positive trends in chemical sector contributed to remarkable profits during the current year. It must be noted that the portfolio also includes new ventures, contributions from which are currently moderate, though expected to enhance significantly in the coming years, as they progress. Further, GIC's investments in mega projects within the utilities, re-insurance and other sectors are expected to provide the direction for future growth.

Net Fee and Commission Income

Income from fee and commission amounting to US$ 20 million for the year increased by US$ 13 million compared to 2010, which was mainly due to one-off income of US$ 13 million received from the successful development of a major power project in Saudi Arabia. Fee income is mainly generated from the fund management activity, financial advisory business and by providing custodial and administrative services to the funds managed by third parties.

Other Operating Income

Other operating income represents the income from consolidated subsidiaries which at US$ 7 million increased by appox. 17% compared to prior year.

Interest Expense

Interest expense increased by 18% compared to prior year mainly due to higher spread on new tranches of term finance raised to replace the existing ones which matured during the current year.

Operating Expenses

In line with increase in activities, operating expenses increased by appox. 22% or US$ 11 million on an annual basis to reach at US$ 61 million for the year 2011.

Provision for Impairments/Mark-to-Market Losses

Net charge for the year in impairment/mark-to-market losses totaled US$ 49 million, compared to US$ 22 million recorded in 2010. Additional provisions during 2011 relate mainly to exposures in international private equity funds, debt securities and equity participations. The Corporation continued to adhere to its conservative provisioning policy, based on mark-to-market/fair valuations where-ever possible. A detailed break down is provided in Note 20 to the Financial Statements.

Balance Sheet Analysis

The Corporation took prudent steps to consolidate and restructure the balance sheet, with the objective of achieving an asset allocation which enhances the risk adjusted return profile. Initiatives were implemented both, on the assets and liabilities sides. As a result of this, the Corporation succeeded in registering a growth of approx. 13% in equity while managing to maintain low risk profile with marginal increase in the size of balance sheet to US$ 5.9 billion.

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

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

Equity

Total equity increased by US$ 272 million or 13% to reach US$ 2,389 million at the end of 2011 (2010: US$ 2,117 million). The increase is comprised of net profit of US$ 181 million and marked-to-market valuation of assets available for sale & share of revaluation reserves of associates amounting to US$ 91 million.

Financial Assets at Fair Value through Statement of Income

This category includes investments in trading equities and funds of US$ 50 million, trading bond and other debt funds of US$ 147 million and alternative equity investments of US$ 368 million. The portfolio declined by US$ 76 million or 12% compared to the previous year, primarily due to liquidation/redemption in debt funds.

Loans

In line with the strategic decision to discontinue this line of business, except for loans to entities within GIC's principal investment portfolio, the outstanding balance of loans, as of end 2011 amounted to US$ 74 million net of provision. This is a loan, advanced at an arms length transaction, and at commercial rate of return, to a project in the Corporation's project portfolio.

Total loan loss provisions including loan guarantees amounted to US$ 2 million at 31 December 2011. This includes counterparty specific provision and general provisions as per Central Bank of Kuwait regulations. The specific provision is made against subordinate loan related to a project investment. Specific provisions for loans are made to the full extent of the estimated potential loss while general provisions are maintained to cover possible future losses which as yet have not been specifically identified.

Financial Assets Available for Sale

As at 31 December 2011, financial assets available for sale amounted to US$ 2,646 million, 8% lower than the levels of the previous year. Debt and other interest bearing securities, constituting 61% of the financial assets available for sale declined by US$ 300 million or 16% during the year. Sales and natural redemptions amounting to appox. US$ 571 million were partially offset by new purchases and net market appreciation.

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

Financial assets available for sale also includes investments in equities and funds of US$ 159 million, equity participation amounting to US$ 594 million and international & GCC private equity fund exposures of US$ 269 million. Equities and funds increased by 19% over the previous year end mainly due to increase of investment in global equities portfolio and in GCC strategic equities offset by some redemption and net decline in market values.

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

Investments in private equity funds are carried at fair value. An amount of US$ 12 million was charged to income statement for mark-to-market losses during the year.

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

Investment in Associates

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

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

Investment in associates increased by 28% to US$ 1,597 million primarily due to injection of capital and funds in some of the existing projects.

Property and Other Assets

Including property and fixed assets, total other assets amounted to US$ 403 million at 31 December 2011. Of this US$ 118 million related to property and other fixed assets. The remaining US$ 285 million comprised of accrued interest and fees receivable, employees’ end of service benefit asset, accounts receivable, prepaid expenses, derivatives at fair value and other miscellaneous assets. Details are set out in Note 8 to the Financial Statements.

Liquidity and Funding

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

Risk management

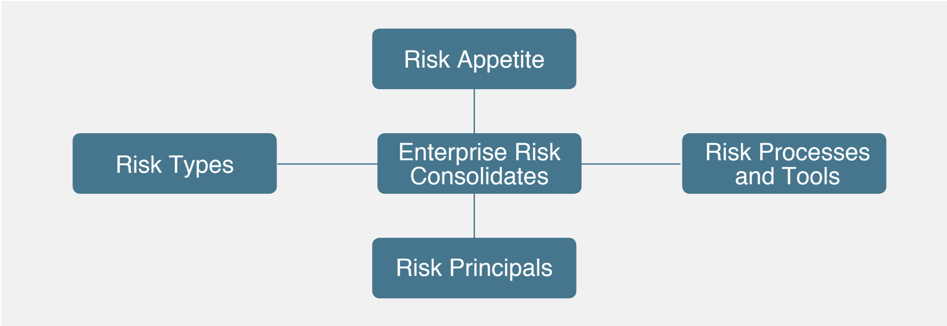
The management of risk is an integral part of the corporate strategic objective. The Corporation's business activities, in striving to achieve their financial goal of earning consistent competitive returns, entail risks. Cognizant of the interrelationship between risk and returns, the goal of risk management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

GIC's success during 2011, a challenging year in many respects, is testimony to strong business capabilities and a robust enterprise risk framework. In addition to registering significant profit growth, the corporation enhanced almost all financial strength parameters during 2011. The multiple initiatives implemented have borne fruit, with significant improvements in capital adequacy, asset quality, leverage and internal processes, along with steady earnings growth. Unequivocally, GIC remains a significantly resilient, measurably strong and stable financial institution. Risk management will continue to be an important aspect of corporate strategy and every effort will be made to ensure it is adaptive, effective and value adding.

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

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

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



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

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

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

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

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

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

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

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

Credit Risk

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

For the world credit markets 2011 was a year that witnessed a multitude of events including the "Arab Spring", the natural disaster in Japan, the debt crisis in the United States of America and the European financial crisis. The impact from most of these linger on at varying levels of intensity. GIC was almost totally unscathed by these severe distress situations, registering nil credit losses, thanks to prudent proactive measures, stringent control frameworks and continuous monitoring. While the corporation's credit portfolio, mainly made up of debt securities, constitutes a material portion of the overall asset base, strong internal risk guidelines and proactive portfolio management ensure that high quality is maintained at all times. Notwithstanding the Corporation's rigorous and prudent policies for provisioning, no material write-downs were required during 2011. This is a reflection of the good quality of the portfolio. GIC's credit portfolios recorded valuations gains of approximately US$ 12.6 million during the year in review.

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

The size of the high quality asset backed securities portfolio continued to contract, a result of accelerated prepayments and maturities, with minimal impact on profitability and earnings, while contributing to the overall reduction of credit risk. The Corporation continued to be flexible and ready to adapt rapidly to unforeseen events along with the efficient utilization of conventional risk management tools, including mathematical and statistical models.

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

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

The Debt Capital Markets (DCM) portfolio which forms the largest asset class and constitutes approximately 31% of the balance sheet is monitored against a Credit Value at Risk (Credit VaR) limit, approved by the board. The US$ 190 million VaR limit (99.96% confidence, 1 year), which supplements the existing notional limits for this portfolio, is based on the Creditmetrics methodology and is measured using Monte Carlo simulation techniques.

The table below provides the Credit VaR figures for the DCM portfolios. On 31st December 2011 the market value of this portfolio was US$ 1,767.4 million. As of 1st January 2011, it was US$ 1,923.6 million. While, the Average Credit VaR was significantly lower than previous year level, the year end Credit VaR was up 6% or US$ 8.2 million compared to previous year end. The increase in Credit VaR was in line with the Corporation's strategy to increase exposure to high quality Emerging Markets Sovereigns.

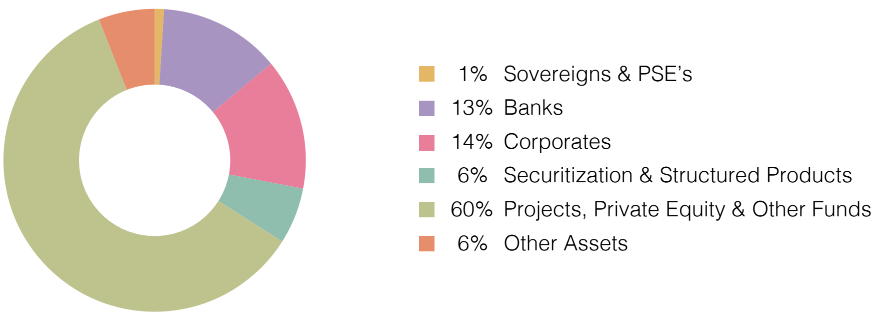
Table 1: 2011 Credit Value at Risk - 99.96% confidence level, 1 year holding period

US$ 000's	Average	Minimum	Maximum	**31 Dec 2011**
Debt Portfolios	129,277	116,000	147,342	147,342

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

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

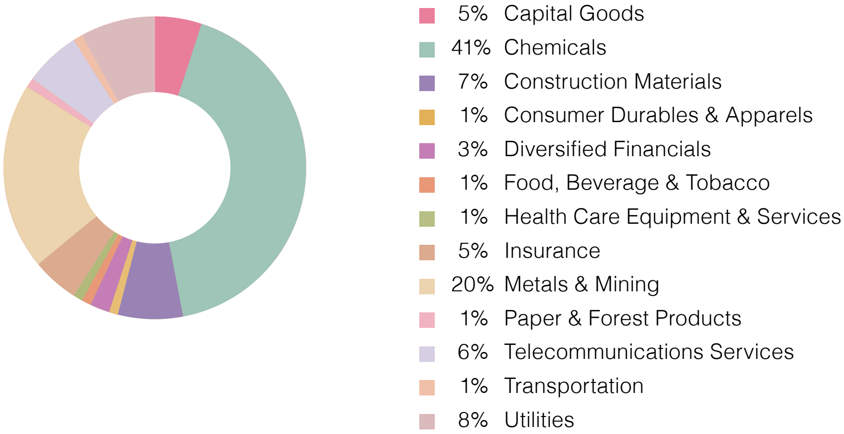
Chart 1: Sources of Credit Risk (Weighted Credit Risk Exposure)



Noteworthy, most of the realignment in the credit risk pie at the end of 2011, compared to the previous year-end, pertained to Corporates and Projects, Private Equity and Other Funds. Credit risk weighted exposure for Projects, Private Equity and Other Funds increased from 52.0% of total in 2010 to 60.0% at the 2011 year-end and for Corporates decreased from 26.5% of total in 2010 to 13.8% at the 2011 year-end. Credit risk weighted exposure for Banks increased from 9.0% of total in 2010 to 13.0% at the 2011 year-end. The two key components of total credit risk exposure were Projects & Private Equity Investments, and Debt Securities of Banks & Corporates.

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

Chart 2: Principal Investing (Projects) by Industry



Off-balance Sheet Financial Instruments

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

In the case of derivatives and foreign exchange transactions, procedures similar to on balance sheet products are used for measuring and monitoring credit risk. Credit risk weighted exposure to off balance sheet products amounted to nearly 6.5% of total credit risk weighted exposure. This figure represents the mark-to-market or replacement cost of these transactions. At the year end 2011, all outstanding derivatives held for trading were foreign exchange contracts, 55% of which were short term with a maturity of less than one year. Credit risk amounts arising from these transactions relate to major banks. Off balance sheet transactions also include credit-related contingent items designed to meet the financial requirement of the Corporation's customers. A detailed credit risk analysis of credit-related contingent items, derivatives and foreign exchange products is set in Notes 23 & 24 to the Consolidated Financial Statements.

As uncertainty and volatility in the global credit markets escalate, the Corporation will continue to adhere to strong internal risk controls.

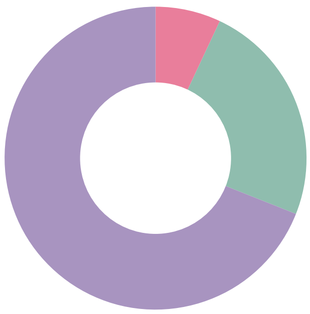
While the mechanism of risk monitoring and control has been fostered further, the risk management function is now more engaged with the business units, having been brought forward within the investment process. In addition to incorporating additional credit information, including CDS prices, equity prices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

Market Risk

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

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

Chart 3: Market Risk Constituents - Overall



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

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

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

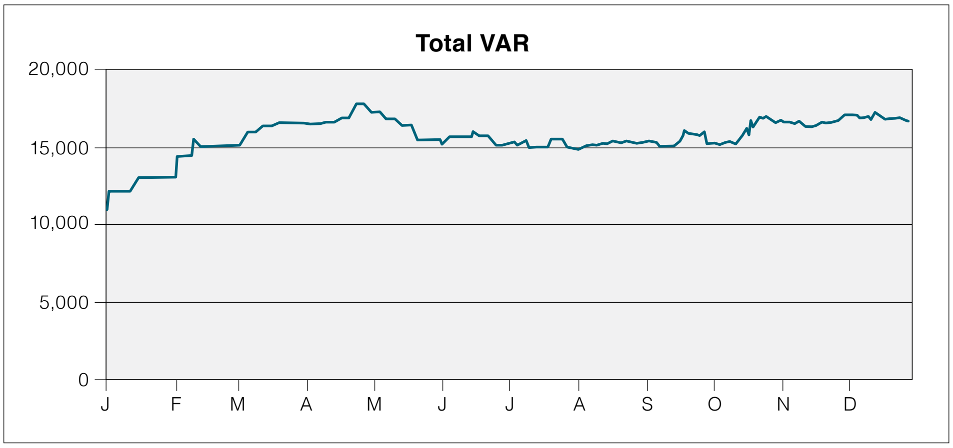
Table 2: Market Value at Risk for Global Markets Group alone - 25 day holding period, 95% confidence level

2011				
US$ 000's	**Average**	**Minimum**	**Maximum**	**31-Dec-11**
Interest rate	5,434	2,664	8,021	6,277
Equity	15,313	11,551	17,430	15,460
Foreign Exchange	1,636	590	3,538	2,597
Total*	**15,597**	**10,859**	**17,712**	**16,656**
2010				
US$ 000's	**Average**	**Minimum**	**Maximum**	**31-Dec-10**
Interest rate	1,362	768	2,726	2,720
Equity	12,116	11,201	14,564	11,593
Foreign Exchange	2,229	924	4,340	3,465
Total*	11,856	10,490	14,240	10,890

* Total VaR incorporates benefits of diversification

Market risk exposure was only moderately increased during 2011, given the turmoil and uncertainty within most operating markets. This is reflected in the slightly higher level of Total market VaR, which ranged between US$ 10.9 million and US$ 17.7 million, averaging at about US$ 15.6 million. Comparatively, the average total VaR in 2010 was US$ 11.9 million. Total market risk VaR remained within limits as approved by the Risk Management Committee and the Board of Directors. Equity VaR continues to be the dominant component of market VaR. Although, higher than the previous year, Interest rate VaR continues to be moderate, given that interest rate positions are, to a large extent, hedged. The Corporation will closely monitor the operating environment and seek to take on appropriate market risk at opportune times.

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



We should note that certain portfolios and positions are not included in the market VaR analysis, where VaR is not the most suitable measure of risk. These include the principal project investments in the GCC and the portfolio of international private equity funds. The market risk relating to these investments are measured in terms of a 10% sensitivity measure – an estimated decline in asset values. The fair values of the underlying positions may be sensitive to changes in a number of factors, including but not limited to: the financial performance of the companies, projected timing and amount of future cash flows, discount rates, trends within sectors and underlying business models. The table below provides the sensitivity measure for 2011 and 2010. The principal investment and private equity portfolios are both categorized as available-for-sale; hence, the 10% sensitivity measure provided in the table below reflects the impact on shareholders equity and not on profits.

Table 3: Sensitivity Measure: for assets not included in market VaR (US$ 000s)

Asset Categories	10% sensitivity measure	10% sensitivity measure (impact on shareholders' equity)	
		31 Dec 2011	31 Dec 2010
Principal Investments	Underlying asset value	**231,175**	187,809
Private Equity Funds	Underlying asset value	**26,877**	27,602

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

Liquidity Risk Management

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

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

a) ***Cash flow illiquidity***, arising from the inability to honor financial commitments or to procure funds at reasonable rates and required maturities; and

b) ***Asset illiquidity***, relating to the lack of market depth during times when assets are to be liquidated on a forced basis.

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

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

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

Liquidity Limits

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

The liquidity limits that are regularly monitored include the following:

a) Maximum daily cash outflow limit for major currencies;

b) Maximum cumulative cash outflow which should include likely outflows as a result of draw-down of commitments, etc; and

c) Net liquid asset ratio – this ratio is calculated by taking a conservative view of marketability of liquid assets, with a discount to cover price volatility and any drop in price in the event of a forced sale. The ratio is the proportion of such liquid assets to volatile liabilities.

The net liquid asset ratio as of 31st December 2011 was 170.9%. This figure was determined taking into account the following basic criteria:

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

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

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

The Corporation's investment portfolio is managed so that holdings of un-pledged, marketable securities that comprised the strategic reserve are equivalent to approximately 50% of the projected maximum 30 day cumulative cash outflow. By the end of December 2011, investments in marketable securities tallied at approximately US$ 2.1 billion, and are primarily made up of investment grade securities.

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

Market Access for Liquidity

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

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

A diversity of funding sources, currencies, and maturities are used in order to gain a broad access to the investor base. Several initiatives to strengthen the corporation's liquidity profile were successfully executed during 2011. Significant among these was the raising of approximately US$ 550 million of medium term finance during the year. In February 2011, GIC issued a Malaysian Ringgit (MYR) 600 million 5 year Sukuk in Malaysia. This was followed by the raising of US$ 100 million 3 year term finance from a regional investor in the first quarter. Further, in August 2011, the corporation once again raised medium term finance from Malaysia via the issuance of MYR 750 million 5 year sukuk. GIC's success in raising this quantum of longer term finance at competitive rates, in the wake of severely distressed financial markets, is a reflection of the corporation's strong credit quality. As of 31 December 2011, the Corporation's term financing stood at US$ 1,141 million.

Further, the Corporation was successful in enhancing the diversity of its depositor base, a reflection of increased market confidence. At year-end 2011 the Corporation's deposit base stood at about US$ 1,424 million, of which approximately 95% is due to GCC depositors. GCC deposits had proven to be a stable source of funds over the years.

Additional short term funding is acquired through the use of repurchase agreements secured by a portfolio of high-grade securities. Such form of funding accounted for close to 17% of total funding at year-end 2011.

The table below provides the breakdown of the Corporation's funding source for the comparative years 2010 to 2011.

US$ Millions	2011(US$)	2011(%)	2010(US$)	2010(%)
GCC Deposits	1,346	24%	1,419	25%
International Deposits	78	1%	10	-
Repo Financing	538	9%	856	15%
Term Financing	1,141	20%	1,179	20%
Shareholder's funds & Others	2,632	46%	2,312	40%
Total	**5,735**	**100%**	5,776	100%

Contingency Funding Plan

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

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

a) A suite of measures to be undertaken in the absence of liquidity crisis to enhance GIC's available liquidity in the event of a crisis;

b) Careful identification of specific triggers that would prompt activation of CFP; and;

c) Specification of exact guidelines for adequate management of liquidity crisis.

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

Interest Rate Gapping Risk

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

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

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

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

The Eurodollar futures contract position value as at December 31, 2011 is calculated at 1,172 contracts, with an estimated VaR of US$ 0.55 million.

Maturity profile of assets and liabilities

A detailed breakdown of the maturity profile by individual asset and liability category is provided in Note 22 to Consolidated Financial Statements. At December 31st 2011, roughly 53% of total assets were due to mature within 3 months, based on internal assessment of the Corporation's right and ability to liquidate these instruments. Comparatively, on the same basis, approximately 39% of total liabilities were in the same time bucket. The sizable portfolio of high quality marketable securities contributed to the relatively high ratio of liquid assets. The Corporation's GCC retention record shows that short maturity deposits from GCC governments, central banks and other regional financial institutions have been regularly renewed over the past several years. With the success achieved in raising medium term finance, the corporation was able to optimize the asset liability maturity gap, especially within the medium and long term buckets.

CREDIT RATING

GIC's consistent good performance over the last three years as reflected in sustained profit growth, enhanced capital base, healthy leverage levels, improved liquidity, liability profile and overall financial condition resulted in positive action by the rating agencies. Most recently, Moody's upgraded GIC's Bank Financial Strength Ratings (BFSR) to 'D' from 'D-', reaffirming the long term ratings. Also during the year, Fitch upgraded GIC's individual (standalone) rating to 'D' from 'D/E' and reaffirmed the long term ratings. As of end 2011, GIC's long term deposits were rated BBB by Fitch and Baa2 by Moody's. All ratings carry a stable outlook. GIC continues to be rated AAA by Rating Agency Malaysia (RAM).

	Moody's	**Fitch**	**RAM**
Long-term Deposits	Baa2	BBB	AAA
Short-term Deposits	P2	F3	P1
Bank Financial Strength (BFSR)	D		

CAPITAL STRENGTH

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

At USD 2.4 billion, the capital base is at a historical high for the corporation. GIC continues to be one of the best capitalized financial institutions in the region

Regulatory Capital

The Basel Committee on Banking Supervision has introduced a revised capital adequacy framework that promotes the adoption of stronger risk management practices, and more risk-sensitive capital requirements that are conceptually sound and at the same time pay due regard to particular features of the present supervisory and accounting systems in individual member countries.

The Central Bank of Kuwait (CBK) had issued a directive for banks in Kuwait to implement the revised accord beginning December 2005. While GIC does not fall under the purview of the CBK, the Corporation's view is that it is prudent to implement the recommendations set forth under the revised accord with the following primary objectives:

a) The Corporation has been subjecting itself to the standards of Basel 1 (1988) and the amendments introduced in 1998 (market risk). As a natural progression, adoption of the modified standards as outlined in the revised capital accord underscores the Corporation's commitment to be in line with international standards;
b) GIC acknowledges the importance of the qualitative and quantitative approaches set out in Basel II that impose rigor and discipline with respect to capital adequacy assessment; and
c) Adopting the Basel II capital accord is viewed to enhance risk culture within the organization and further strengthen GIC's market image, thus, resulting to improvements in external credit ratings assigned by international rating agencies, thereby ensuring continued access to capital markets.

Under the new accord, the Corporation's Total capital ratio at the end of December 2011 was 30.6%. The Tier 1 ratio was the same, since the existing small quantum of Tier 2 capital was reduced to nil after deductions. Comparatively, the Total and Tier 1 capital ratios the previous year was 30.0%. The continued enhancement in capital adequacy ratios was driven by the strengthening of the core capital base. Moreover, the scaling down of risk exposures also had a positive impact on capital ratios. The standardized approach was used to calculate the capital requirement to cover credit and operational risks. Market risk capital cover calculation, on the other hand, employed the VaR-based approach. Going forward, GIC aims to achieve convergence of regulatory capital with economic capital as it adopts more advanced measurements for capital adequacy. Details of the regulatory capital ratio computations are provided in the Basel II disclosure section of this annual report.

Economic Capital

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

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

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

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, or systems, external events.

This definition includes disaster recovery planning as another element of Operational Risk management. It is for this reason that the Corporation finds it prudent to include the same consideration – namely, unexpected significant and unusual one-time events, such as disaster events – in its framework for Operational Risk Management. Other risks to which the GIC is exposed are regulatory risk, legal risk, and reputational risk:

- ***Regulatory risk*** is controlled through a framework of compliance policies and procedures:
- ***Legal risk*** is managed through the effective use of internal and external legal advisors.
- ***Reputational risk*** is controlled through regular examinations of issues that are considered to have reputational repercussions within GIC, with clear and transparent guidelines and policies being issued as appropriate.

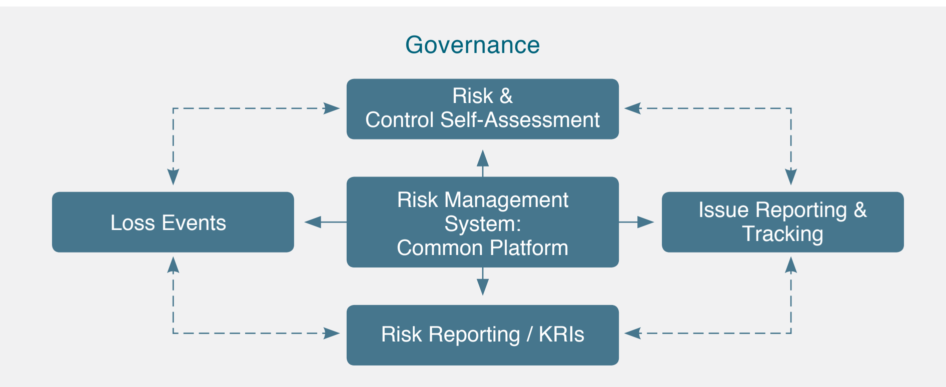
Operational Risk is embedded in all our activities, including the practices and controls used to manage other risks.

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

a) appropriate segregation of duties by adopting the “maker-checker” concept in operating procedures;
b) the scheduled reconciliation processes to identify unusual items;
c) the implementation of system security controls;
d) periodic internal audit due diligence to verify that operating policies and procedures have been implemented effectively;
e) suitable insurance coverage remains valid to mitigate operational losses;
f) the formulation of a comprehensive Disaster Recovery Plan (DRP) and Business Continuity Plans (BCP); and
g) a sound framework for Operational Risk reporting.

In order to meet the demands and best practices of Basel II GIC’s Operational Risk program is composed of four components, for each line of business :–

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



The information gathered from these pillars, tied together by the classification hierarchy, facilitates management decision-making at both the executive and business line level. By providing a basis for institutional understanding of Operational Risk, this framework supports a culture in which employees are aware of the risk inherent in daily operations, and are encouraged to proactively identify existing, emerging and/or other potential problems.

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

The Risk and Control Self-Assessment procedures establishes a consistent framework for describing business activities, processes, risks and controls, monitoring and testing those controls, assessing the controls, and reporting results of the monitoring and assessment activities. It is a process which transparently assess the business's risks and analyze the strength or weakness of controls that are put in place to manage the identified risks.

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

Risk monitoring/control - Loss Event Framework

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

In keeping with our broad definition of Operational Risk, from 2009 we began to include data on events with non-monetary impacts and near-miss events in our collection and analysis activities.

The proper measurement of Operational Risk and the associated regulatory and economic capital relies on accurate and timely loss events data.

Risk monitoring/control - Corrective Action Plans Framework

The Risk Management Committee provides oversight and direction to the Corporation's Operational Risk programs. The Committee is a key component of management practice to identify, document and resolve control issues identified in our business and to demonstrate to audit (internal & external) and regulators, that management is aware of and is actively addressing such issues as well as monitoring the timely resolution of these issues. The Committee will be kept abreast of material Operational Risk issues that have been identified by the business itself, Compliance, Risk Management or external regulators/auditors and to allow close monitoring as well as providing a central repository for all items to be logged.

Operational Risk Reporting Framework

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

- establish a common language regarding Operational Risk, throughout the organization;
- improve the Corporations' communication channel about its risk management environment;
- facilitate the correlation of similar events and to identify causes (rather than symptoms) of risk within departments, and across the Corporation; and
- link the various components of Operational Risk events; and facilitates compliance with regulatory and supervisory requirements.

Basel II: Disclosure

Basel II Rationale:

Aligning banking risk management with capital Requirements

As Basel II continues to further evolve, the Basel Committee moves closer to its goal of aligning banking risk and its management with capital requirements. The primary objective of the new accord is to improve safety and soundness in the financial system by placing increased emphasis on bank's internal controls and risk management processes and models, the supervisory review process, and market discipline.

Basel II encourages the ongoing improvements in risk assessments and mitigation. Thus, over time, it presents banks with the opportunity to gain competitive advantage by allocating capital to business activities that demonstrate a strong risk-return ratio. Developing a better understanding of the risk/reward trade-off for capital supporting specific business or products is one of the most important business benefits banks may derive from compliance to the new accord.

The Architecture of Basel II

The Three Pillars

With Basel II, the Basel Committee abandons Basel I's 'one-size-fits all' method of calculating minimum regulatory capital requirements and introduced a three-pillar concept that seeks to align regulatory requirements with economic principles of risk management. At the same time, by putting operational risk management on every bank's agenda, Basel II encourages a new focus on its management and sound and comprehensive corporate governance practices.

The Three Pillars Defined

Pillar 1 – Minimum Capital Requirements

Pillar 1 sets out minimum regulatory capital requirements – meaning the amount of capital banks must hold against risks. The new framework provides a continuum of approaches from basic to advanced methodologies for the measurement of both credit and operational risks. It provides a flexible structure in which banks, subject to supervisory review, will adopt approaches that best fit their level of sophistication and their risk profile. The framework also deliberately builds in rewards for stronger and more accurate risk measurement.

Pillar 2 – Supervisory Review

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

Pillar 3 – Market Discipline

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

Gulf Investment Corporation G.S.C. (GIC or 'the Corporation') – Market Disclosure

The following sections set out the Corporation's disclosure details prepared in line with the new accord's requirements via its publication dated June 2006 – A Revised Framework for International Convergence of Capital Measurement and Capital Standard, and increased capital requirement for market risk as proposed in Basel Committee's document 'Revisions to the Basel II market risk framework' dated July 2009.

1. Capital Structure

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

Table 1 presents the Corporation's regulatory capital resources for the years ending December 2011 and December 2010. Basel II permits recognition of general provision (albeit subject to a maximum of 1.25% of credit risk weighted assets) as part of Tier 2 capital. Meanwhile, the portion of significant investments in financial and commercial entities that exceed a certain materiality threshold; and exposures to 'Securitization' that fall below a cut-off risk grade are deducted 50% from Tier 1 and 50% from Tier 2 capital, respectively. For 2011, deduction from Tier 2 capital was limited to the quantum of Tier 2 capital, with a proportionately higher deduction being applied to Tier 1. Total eligible regulatory capital was US$ 1,849.9 million by year-end December 2011 compared to US$ 1,882.1 million recorded in December 2010. As a conservative measure, the net fair value reserve, which was positive for the year under review, was deducted from eligible capital to the extent of 55% of the same. The Corporation has adopted a conservative policy for the treatment of such net fair value reserve, wherein, if negative - the total amount is deducted from eligible capital, and if positive - only 45% of fair value reserve is included within eligible capital.

Table 1: Eligible Regulatory Capital

In US$ millions	**31 December 2011**	31 December 2010
Paid-up capital	2,100.0	2,100.0
Disclosed reserves	505.3	505.3
Retained earnings	(385.1)	(566.3)
Less: Goodwill	39.0	38.9
Less: Deductions	331.3	118.0
Total Tier 1 Capital	1,849.9	1,882.1
Fair value reserve (55% discount)	75.7	34.8
General Provision	2.0	2.4
Less: Deductions	77.7	37.2
Total Tier 2 Capital	-	-
Total eligible regulatory capital	1,849.9	1,882.1

2. Capital Adequacy Management

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

GIC's process of assessing the capital requirements commences with the compilation of the annual business plan by individual business units which are then consolidated into the annual budget plan of the Corporation. The annual budget plan provides the estimated overall growth in assets, its impact on capital and targeted profitability for the forthcoming fiscal year.

Utilizing the financial projections generated from the budget plan, capital is allocated to the various business units in such a way that the allocations remain consistent with the risk profile of the business activity. These capital allocations as well as corresponding Return On Risk-Adjusted Capital (RORAC) are reviewed on an ongoing basis during the budget year in order to optimally deploy capital to achieve targeted returns. Whilst the Corporation acknowledges the benefits of higher leverage to Return on Equity (ROE), it also believes in the advantage and benefit of keeping a strong capital position. As such, GIC maintains a prudent balance among the major components of its capital. Current internal policy aims to maintain a floor of 16% total capital adequacy ratio.

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

Finally, the Corporation targets a credit risk rating of single 'A' or better. This would allow easy access to capital from the market at competitive pricing in the event additional funding needs to be appropriated. GIC is among a select few financial institutions in the region to maintain high ratings by both major international agencies (Moody's & Fitch). Details of the Corporation's ratings are provided on page 43 of this annual report.

Table 2: Capital Adequacy Ratios

In US$ millions	Risk-weighted assets	Capital requirement
Credit Risk	3,863.4	309.1
Market Risk	1,694.9	135.6
Operational Risk	489.6	39.1
Total	6,047.9	483.8
Capital Adequacy Ratios		
Total CAR	30.6%	
Tier 1 Ratio	30.6%	

Table 2 details the risk-weighted assets together with their corresponding regulatory capital requirements as at 31 December 2011. Total capital adequacy ratio and Tier 1 capital ratio are likewise calculated. The numbers were generated by applying the 'Standardized' approach for credit and operational risks, while the 'Internal Model' approach was utilized to yield market risk positions. Total risk-weighted exposures of US$ 6,047.9 million, as at 31 December 2011, requires regulatory capital of US$ 483.8 million to meet the minimum Basel II CAR of 8%. Should the minimum CAR threshold be raised to GIC's internal target of 16%, the required regulatory capital increases to about US$ 967.7 million. The reported eligible regulatory capital of US$ 1,849.9 million still provides sufficient cushion to support business expansions.

Table 3: Risk Exposure Break-down

In US$ millions	31 December 2011
Credit Risk (RWA)	
Claims on Sovereigns	9.8
Claims on Public Sector Entities	12.8
Claims on Banks	519.3
Claims on Corporates	551.9
Securitization and Structured Investment Vehicle	110.7
Venture Capital and Private Equity	250.8
Investments in Commercial Entities	1,948.4
Investments in Other Funds and Quoted Equities	209.0
Other Assets	250.7
Total	3,863.4
Market Risk (VaR)	
Interest rate risk position	3.0
Foreign exchange risk position	3.9
Equity risk position	26.6
(Total VaR + Stress VaR) x 3	100.9
Specific risk position	34.7
Total capital requirement	135.6
Total RWA (capital requirement x 12.5)	1,694.9
Operational Risk (RWA):	
Operational risk capital charge	39.1
Total RWA (capital charge x 12.5)	489.6

3. Risk Management Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Chart 1: GIC Risk Management Division Structure

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

a) Management Committee covers mainly general management issues including performance review vis-à-vis budget, and assessment of status quo against strategic business plan.
b) Global Markets Group Investment Committee translates investment strategy directions into asset allocation guidelines, recommends investment proposals, and reviews investment portfolios. The committee also functions as a surrogate Asset-Liability Committee.
c) Principle Investing Investment Committee evaluates proposals for investments and divestiture of assets and ensures compliance to investment criteria as well as investment procedures at each phase of the investment process.
d) Global Markets Product Development Committee identifies product development opportunities, recommends product launches, and monitors performance of same. Product performance and operational issues are resolved in this committee.
e) Systems Steering Committee provides the forum to discuss functions. The committee likewise reviews the IT architecture and its condition to meet current and future business requirements.
f) Audit Committee provides assurance on the adequacy of internal controls and accuracy of reports and reporting.
g) Human Resources Committee, as it relates to risk, covers the staffing levels and succession planning, as well as review of performance and bonus determination.

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

4. Credit Risk Exposure

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

Portfolio Strategy and Planning

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

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

Investment Origination and Maintenance

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

Performance Assessment and Reporting

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

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

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

Credit Risk as per Basel II Standardized Approach

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

Table 4: CQG Mapping

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

Table 4 serves as a sample of mapping notations of rating agencies into CQGs for claims on Corporates. At 31 December 2011, rated credit exposures accounted for more than 22% of total credit exposures. Note that the numbers are after applying the equivalent risk-weights (credit conversion) as provided under the Basel II accord. Meanwhile, gross credit exposure to rated assets was recorded at approximately 39% of total gross credit exposure. Assets that are rated single 'A' or better comprised 79% of rated gross credit exposure.

Table 5: Credit Exposure (post-credit conversion)

In US$ millions	31 December 2011		
	Rated	Unrated	Total
Claims on Sovereigns	9.8	-	9.8
Claims on Public Sector Entities	12.8	-	12.8
Claims on Banks	515.5	3.8	519.3
Claims on Corporate	203.8	348.1	551.9
Securitization and SIVs	152.5	96.8	249.3
Venture Capital and Private Equity	-	250.8	250.8
Investments in Commercial Entities	-	1,948.4	1,948.4
Other Funds and Quoted Equities	-	209.0	209.0
Other Assets	-	250.7	250.7
Total	894.4	3,107.6	4,002.0
In Percent	22.3%	77.7%	100.0%

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

In US$ millions	31 December 2011		
	Rated	Unrated	Total
Claims on Sovereigns	70.7	-	70.7
Claims on Public Sector Entities	23.1	-	23.1
Claims on Banks	1,318.7	7.5	1,326.2
Claims on Corporate	369.5	348.1	717.6
Securitization and SIVs	225.0	96.8	321.8
Venture Capital and Private Equity	-	250.8	250.8
Investments in Commercial Entities	-	1,948.4	1,948.4
Other Funds and Quoted Equities	-	209.0	209.0
Other Assets	-	250.7	250.7
Total	2,007.0	3,111.3	5,118.3
In Percent	39.2%	60.8%	100.0%

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

Table 7: Gross Credit Exposure before CRM

In US$ millions	31 December 2011		
	Funded	Unfunded	Total
Claims on Sovereigns	70.7	-	70.7
Claims on Public Sector Entities	23.1	-	23.1
Claims on Banks	1,302.2	24.0	1,326.2
Claims on Corporate	406.8	310.8	717.6
Securitization and SIVs	321.8	-	321.8
Venture Capital and Private Equity	250.8	-	250.8
Investments in Commercial Entities	1,948.4	-	1,948.4
Other Funds and Quoted Equities	209.0	-	209.0
Other Assets	250.7	-	250.7
Total	4,783.5	334.8	5,118.3
In Percent	93.5%	6.5%	100.0%

In terms of facility type (Table 7), US$ 4,783.5 million or approximately 94% is funded. The balance is ascribed to guarantees issued and commitments made by the Corporation, as well as credit exposures on outstanding forward and swap transactions with banks.

Table 8: Gross Credit Exposure by Geographic Distribution

In US$ millions	31 December 2011				
	GCC	Europe	North America	Asia	Total
Claims on Sovereigns	65.7	5.0	-	-	70.7
Claims on Public Sector Entities	23.1	-	-	-	23.1
Claims on Banks	774.6	227.5	287.3	36.8	1,326.2
Claims on Corporate	386.8	160.4	149.8	20.6	717.6
Securitization and SIVs	-	117.5	204.3	-	321.8
Venture Capital and Private Equity	24.0	70.8	132.3	23.7	250.8
Investments in Commercial Entities	1,856.2	-	92.2	-	1,948.4
Other Funds and Quoted Equities	104.9	42.4	35.0	26.7	209.0
Other Assets	147.9	37.2	65.6	-	250.7
Total	3,383.2	660.8	966.5	107.8	5,118.3
In Percent	66.1%	12.9%	18.9%	2.1%	100.0%

The geographical distribution (Table 8) is based on either the primary purpose of the exposure or the place of incorporation of the debt security issuer, or incorporation of the fund manager. A sizable portion of credit exposure is in the GCC region tallying at US$ 3,383.2 million, or 66.1% of the total. Following suit are exposures to North America and Europe, 18.9% and 12.9% respectively. These exposures are due in great part to investments in global securities and funds with varying investment themes.

Table 9: Gross Credit Exposure by Industry Sector

In US$ millions	31 December 2011					
	Banks & Financial Institutions	Trading & Manufacturing	Utilities	Government Agencies	Others	Total
Claims on Sovereigns	-	-	-	70.7	-	70.7
Claims on Public Sector Entities	-	-	-	23.1	-	23.1
Claims on Banks	1,326.2	-	-	-	-	1,326.2
Claims on Corporate	65.4	355.9	268.9	-	27.4	717.6
Securitization and SIVs	321.8	-	-	-	-	321.8
Venture Capital and Private Equity	250.8	-	-	-	-	250.8
Investments in Commercial Entities	145.7	1,459.3	283.9	-	59.5	1,948.4
Other Funds and Quoted Equities	209.0	-	-	-	-	209.0
Other Assets	155.0	79.7	7.1	-	8.9	250.7
Total	2,473.9	1,894.9	559.9	93.8	95.8	5,118.3
In Percent	48.4%	37.0%	10.9%	1.8%	1.9%	100.0%

The table on industry distribution (Table 9) of the gross credit exposure reveals a concentration on Banks and Financial Institutions, amounting to 48.4% of total exposure. Again, this is traced to the Corporation's debt securities and fund investments as it diversifies its asset from purely equity holdings. Meanwhile, in line with GIC's commitment to support the industrial growth within the GCC region, equity investments in commercial entities are focused in the trading and manufacturing sectors.

Table 10: Credit Exposure by Residual Contractual Maturity

In US$ millions	31 December 2011				
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Claims on Sovereigns	-	-	45.1	25.6	70.7
Claims on Public Sector Entities	-	-	23.1	-	23.1
Claims on Banks	663.3	36.7	534.5	91.7	1,326.2
Claims on Corporate	48.0	53.6	479.2	136.8	717.6
Securitization and SIVs	42.5	63.6	108.4	107.3	321.8
Venture Capital and Private Equity	-	-	-	250.8	250.8
Investments in Commercial Entities	-	-	-	1,948.4	1,948.4
Other Funds and Quoted Equities	-	-	-	209.0	209.0
Other Assets	63.5	30.5	14.9	141.8	250.7
Total	817.3	184.4	1,205.2	2,911.4	5,118.3
In Percent	16.0%	3.6%	23.5%	56.9%	100.0%

The residual maturity of gross credit exposure broken down by standard credit risk exposure is shown in Table 10. Approximately 57% of gross credit exposure falls within the longest time bucket of over five years.

Recognition of Impairment of Assets

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

5. Securitization Activities

The Corporation's securitization exposure comes by way of its investments in structured products, which can be generally classified under synthetic securitization. Capital cover treatment of securitization exposures follows the 'Ratings Based' approach as recommended in the Basel II capital adequacy guidelines. As such, the external credit assessments provided by either Moody's or S&P are considered when determining credit risk weights for securitization exposures.

Table 11: Credit Exposure on Securitization and SIVs

In US$ millions	**31 December 2011**	
	Gross Exposure	Post-credit Conversion
CQG 1	152.7	30.5
CQG 2	43.7	21.8
CQG 3	12.2	12.2
CQG 4	13.2	46.2
CQG 5	-	(deduction from capital)
CQG 6	3.2	
Unrated	96.8	
Total	321.8	110.7

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

6. Market Risk

This section focuses regulatory capital adequacy computations based on the VaR measurement for the 'Trading' book. More details on VaR and Market Risk monitoring are provided in the 'Risk Management' section of the annual report. The regulatory capital adequacy ratios are computed incorporating capital charges for market risk, as per the June 2006– A Revised Framework for International Convergence of Capital Measurement and Capital Standard, and increased capital requirement for market risk as proposed in Basel Committee's document 'Revisions to the Basel II market risk framework' dated July 2009.GIC follows the Internal Models Approach (IMA) to quantify the capital charge associated with market risk within the trading portfolio.

The Corporation uses the 'Risk Manager' system, developed by Risk Metrics Inc. (part of MSCI), and utilizes a parametric computational method based on the variance – covariance concept. In line with the capital accord, the parameters used in determining the VaR are a 10 day holding period and 99% confidence level. The computation utilizes an equally weighted historical data set going back one year. The computation ignores the correlation benefit amongst the three risk types (interest rate, equity and foreign exchange), with Total Market Risk VaR being equal to the arithmetic sum of the three components. The capital charge relating to market risk is determined for all portfolios categorized as trading (the trading book), which includes the following (Ref Note 4 of 2011 Consolidated Financial Statements):

(US$ million)	**2011**	2010
Equities and Managed funds	275	352
Alternative Equity Investments	290	289
	565	641

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

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

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

Back-testing

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

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

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

Capital Charge (market risk) = (Max {Vavg,Vend} + Max{SVavg,SVend})X Mf

Where, Vavg equals: Average Total VaR for the trading book over the previous 60 business days

Vend equals: End of period Total VaR for the trading book

SVavg equals: Average Stressed VaR for the trading book over the previous 60 business days

SVend equals: End of period Stressed VaR for the trading book

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

Table 12: Trading Book VaR (US$ 000's) – 10 day holding period, 99% confidence level.
For the last 60 business days in 2011

In US$ millions	Interest Rate	Equity	FX	Total
Max	1.0	8.6	4.1	13.7
Min	0.8	7.5	3.0	11.3
Average	0.9	7.9	3.6	12.4
31-Dec-11	0.4	11.8	1.9	14.1
Stress VaR	2.7	14.8	2.0	19.5

7. Operational Risk

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

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

Table 13: Business Lines for Operational Risk

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

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

Table 14: Operational Risk Capital Charge

In US$ millions	31 December 2011		
	3 Year Average Gross Income	Beta Factor	Capital Charge
Principal Investment	155.5	18%	28.0
Debt Capital Market	1.6	18%	0.3
Equities Investments	9.7	18%	1.7
Alternative Investments	43.1	18%	7.8
Treasury	(0.4)	18%	(0.1)
Asset Management	14.3	12%	1.7
Corporate Finance	(2.7)	18%	(0.5)
Headquarters	1.3	18%	0.2
Total	222.4		39.1
Risk-weighted exposure			489.6

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

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

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

8. Equity Risk in the Banking Book

Equity investments in the banking book are classified at the time of acquisition into those acquired for realizing capital gains and to those purchased for strategic investments. The decision where to classify investments is arrived at after considering significant factors that include business and strategic advantages to the Corporation, and the amount of planned investments. All investment decisions require the approval of the Investment Committees, or the Executive Committee, depending on the amount of exposure. Investments acquired with a view to generating income and profits from capital appreciation are reviewed periodically and disposed off at opportune instances. Meanwhile, the strategic investment portfolios are reviewed based on the industry, market and economic developments, and the Corporation decides whether to liquidate or further consolidate its holdings in these investments. In accordance with International Financial Reporting Standards, equity positions in the banking book are classified as Available For Sale securities. These investments are fair valued periodically and revaluation gains/losses are accounted as cumulative changes in fair value in equity. For equity investments quoted in organized financial markets, fair value is determined by reference to quoted bid prices. Fair values of unquoted equity investments are determined by using valuation techniques such as recent arm's length transactions, reference to the market value of a similar investment, an earnings multiple or the expected discounted cash flows, or other appropriate valuation models. Equity investments whose fair value cannot be estimated accurately are carried at cost less impairment, if any. More details on the accounting treatment of equity investments can be found under 'Significant Accounting Policies' in the notes to the Consolidated Financial Statements.

Publicly traded investments represent quoted equities traded in the local and international stock exchanges. Privately held investments represent investments in unquoted entities and projects. The total value of equity investments in the banking book at the end of December 2011 is US$ 1,016 million, net of provision (refer to Table 15 below). Cumulative realized gain from sale or exchange of available for sale securities and projects is approximately US$ 25.6 million, of which a significant portion is from privately held equity holdings. Meanwhile, the total un-realized gain recognized in equity is US$ 335.3 million.

Table 15: Equity Holdings in Banking Book

In US$ millions	**31 December 2011**		
	Publicly Traded	Privately Held	Total
Fair Value of Equity Investments	622.1	393.9	1,016.0
Realized gains recorded in P/L	5.4	20.2	25.6
Unrealized gains recorded in equity	280.4	54.9	335.3
45% unrealized gain in Tier 2 Capital	126.2	24.7	150.9

9. Interest Rate Risk in the Banking Book

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

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

The Eurodollar futures contract position value as at 31 December 2011 is calculated at 1,172 contracts, with an estimated VaR of US$ 0.55 million.

Consolidated financial s

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31 December 2011

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Independent Auditors' Report To The Shareholders Of Gulf Investment Corporation G.S.C.

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

The Corporation's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

We further report that, during the course of our audit, to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2011.

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

23 February 2012
Kuwait

Consolidated Statement of Financial Position

as at 31 December 2011

(US$ million)	Notes	2011	2010
Assets			
Cash and cash equivalents		50	22
Placements with banks	3	546	632
Financial assets at fair value through statement of income	4	565	641
Financial assets available for sale	5	2,646	2,870
Investment in associates	6	1,597	1,250
Loans and advances	7	74	74
Other assets	8	403	287
Total assets		**5,881**	5,776
Liabilities and equity			
Liabilities			
Deposits from banks and other financial institutions	9	1,424	1,429
Securities sold under repurchase agreements	10	538	856
Term finance	11	1,171	1,179
Other liabilities	12	343	195
Total liabilities		**3,476**	3,659
Equity			
Share capital	13	2,100	2,100
Reserves	13	709	582
Accumulated losses		(420)	(565)
Equity attributable to equity holders of the Corporation		**2,389**	2,117
Non-controlling interest		16	-
Total equity		**2,405**	2,117
Total liabilities and equity		**5,881**	5,776

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

Dr. Zakaria Ahmed Hejres
Chairman

Hisham Abdulrazzaq Al-Razzuqi
Chief Executive Officer

Consolidated Statement of Income

for the year ended 31 December 2011

(US$ million)	Notes	2011	2010
Interest income	14	41	43
Net gains from investments	15	33	59
Dividend income	16	24	20
Share of results from associates	6	227	134
Net fees and commission income	17	20	7
Foreign exchange (loss) gain		(1)	4
Total income		**344**	267
Interest expense	18	(59)	(50)
Other operating income	19	7	6
Net operating income		**292**	223
Staff cost		(42)	(34)
Premises cost		(2)	(2)
Other operating expense		(17)	(14)
Impairment losses	20	(49)	(22)
Profit for the year		**182**	151
Attributable to:			
Equity holders of the Corporation		181	151
Non-controlling interest		1	-
		182	151

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

(US$ million)	Notes	2011	2010
Profit for the year		182	151
Other comprehensive income:			
Financial assets available for sale:			
- Net unrealised gain arising during the year		77	208
- Transferred to consolidated statement of income on sale	15	(27)	(8)
- Transferred to consolidated statement of income on impairment	20	50	19
Share of other comprehensive loss of associates		(9)	(3)
Other comprehensive income for the year		91	216
Total comprehensive income for the year		**273**	367
Attributable to:			
Equity holders of the Corporation		**272**	367
Non-controlling interest		**1**	-
		273	367

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

		Reserves						
(US$ million)	**Share capital**	**Compulsory reserve**	**Voluntary reserve**	**Investment revaluation reserve**	**Accumulated losses**	**Subtotal**	**Non-controlling interest**	**Total Equity**
Balance as at 1 January 2011	2,100	316	189	77	(565)	2,117	-	2,117
Profit for the year	-	-	-	-	181	181	1	182
Other comprehensive income for the year	-	-	-	91	-	91	-	91
Total comprehensive income	-	-	-	91	181	272	1	273
Arising from consolidation of subsidiaries (Note 30)	-	-	-	-	-	-	15	15
Transfer to compulsory and voluntary reserves	-	18	18	-	(36)	-	-	-
Balance as at 31 December 2011	**2,100**	**334**	**207**	**168**	**(420)**	**2,389**	**16**	**2,405**
Balance as at 1 January 2010	2,100	301	174	(139)	(686)	1,750	-	1,750
Profit for the year	-	-	-	-	151	151	-	151
Other comprehensive income for the year	-	-	-	216	-	216	-	216
Total comprehensive income	-	-	-	216	151	367	-	367
Transfer to compulsory and voluntary reserves	-	15	15	-	(30)	-	-	-
Balance as at 31 December 2010	2,100	316	189	77	(565)	2,117	-	2,117

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

(US$ million)	Notes	2011	2010
Cash flows from operating activities:			
Profit for the year		182	151
Adjustments for:			
Impairment losses	20	49	22
Realised gain on financial assets available for sale	15	(27)	(8)
Realised gain on sale of associates	15	-	(15)
Share of results of associates	6	(227)	(134)
Amortisation of net discount / premium on debt securities		(1)	(2)
Dividend income	16	(24)	(20)
		(48)	(6)
Changes in operating assets and liabilities:			
Decrease in placements with banks		86	398
Decrease (increase) in financial assets at fair value through statement of income		76	(40)
Decrease in financial assets available for sale		303	509
Decrease in loans and advances		-	11
(Decrease) / increase in deposits from banks and other financial institutions		(5)	69
Movement in other assets and other liabilities, (net)		26	(141)
Dividend income received	16	24	20
Net cash inflows from operating activities		**462**	820
Cash flows from investing activities:			
Dividends from associates		13	11
Proceeds from sale of investment in associates		-	29
Additional contribution to associates		(136)	(110)
Net cash outflows from investing activities		**(123)**	(70)
Cash flows from financing activities:			
Decrease in securities sold under repurchase agreements		(318)	(355)
New term finance obtained		547	292
Term finance repaid		(555)	(700)
Net cash outflows from financing activities		**(326)**	(763)
Increase (decrease) in cash and cash equivalents		13	(13)
Non-controlling interest arising on consolidation (Note 30)		15	-
Cash and cash equivalents at 1 January		22	35
Cash and cash equivalents at 31 December		**50**	22

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011

1 Incorporation And Activity

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

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

The consolidated financial statements of the Corporation and its subsidiaries (collectively "the Group") for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 23 February 2012. The Annual General Assembly of Shareholders has the power to amend these consolidated financial statements after issuance.

2 Significant Accounting Policies

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the regulations of the Government of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets. In addition, the consolidated financial statements have been prepared in accordance with the requirements of the Kuwait Commercial Companies Law of 1960, as amended, Ministerial Order No.18 of 1990 and the Corporation's memorandum and articles of association.

2.2 Basis of preparation

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

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

Changes in accounting policy and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the following new and amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2011. However the implementation of new and amended IFRS and IFRIC interpretations did not have a significant impact on the Group's consolidated financial statements.

2 Significant Accounting Policies (continued)

2.2 Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

IAS 24 Related Party Transactions (Amendment)

The International Accounting Standards Board (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 – Classification of Rights Issues

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 because the Group does not have such types of instruments.

Improvements to IFRSs (issued 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*
- IFRS 7 - *Financial Instruments: Disclosures*
- IAS 1 - *Presentation of Financial Statements*
- IAS 27 - *Consolidated and Separate Financial Statements*
- IAS 34 - *Interim Financial Statements*
- IFRIC 13 - *Customer Loyalty Programmes*

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011

2 Significant Accounting Policies (continued)

2.2 Basis of preparation (continued)

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated 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*
IFRS 7: *Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*
IFRS 9: *Financial Instruments: Classification and Measurement*
IFRS 10: *Consolidated Financial Statements*
IFRS 11: *Joint Arrangements*
IFRS 12: *Disclosure of Involvement with Other Entities*
IFRS 13: *Fair Value Measurement*

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
The amendment becomes effective for annual periods beginning on or after 1 July 2012. It changes the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to consolidated statement of income 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 no impact on the Group's financial position or performance.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

2 Significant Accounting Policies (continued)

2.2 Basis of preparation (continued)

Standards issued but not yet effective (continued)

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. It 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. The Group is in the process of assessing the impact of adoption of this standard.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Ventures. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The amendment is deemed to have no impact on the financial statements of the Group. 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. The standard 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.

Improvements

IFRS 3 Business Combinations

The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate 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 amendment to IFRS 3 is effective for annual periods beginning on or after 1 July 2011.

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011

2 Significant Accounting Policies (continued)

2.3 Basis of consolidation

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

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

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

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

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

2.4 Business Combination and Goodwill

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

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

2 Significant Accounting Policies (continued)

2.4 Business Combination and Goodwill (continued)

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

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

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

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

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

2.5 Cash and cash equivalents

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

2.6 Placements with banks

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011

2 Significant Accounting Policies (continued)

2.7 Financial assets

(i) Recognition

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

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

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

(ii) Classification and measurement

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

2.7 Financial assets (continued)

(ii) Classification and measurement (continued)

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

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

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

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

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

(iii) Impairment

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011

2 Significant Accounting Policies (continued)

2.7 Financial assets (continued)

(iii) Impairment (continued)

Financial assets carried at amortised cost

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

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

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

Financial assets available for sale

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

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

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

In addition, in accordance with Central Bank of Kuwait instructions, the Group makes a minimum general provision on all applicable credit facilities (net of certain categories of collateral) that are not subject to specific provision. No other general provisions are made.

2 Significant Accounting Policies (continued)

2.7 Financial assets (continued)

(iv) Derecognition

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

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

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

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

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

2.8 Financial liabilities

(i) Recognition

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

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

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

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2 Significant Accounting Policies (continued)

2.8 Financial liabilities (continued)

(ii) Classification and measurement

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

Loans and borrowings

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

Accounts payable and accruals

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

Deposits from banks and financial institutions

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

Term finance

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

Financial guarantees

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

(iii) Derecognition

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

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

2 Significant Accounting Policies (continued)

2.9 Offsetting

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

2.10 Fair value of financial instruments

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

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

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

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

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

2.11 Impairment of non-financial assets

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011

2 Significant Accounting Policies (continued)

2.11 Impairment of non-financial assets (continued)

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

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

2.12 Repurchase and resale arrangements

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

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

2.13 Investment in associates

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

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

2 Significant Accounting Policies (continued)

2.13 Investment in associates (continued)

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

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

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

The principle associates are listed in note 30.

2.14 Other provisions

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

2.15 Property, plant and equipment

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

2.16 Fiduciary activities

Assets managed for third parties or held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011

2 Significant Accounting Policies (continued)

2.17 Hedge accounting

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

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

A hedging relationship exists where:
at the inception of the hedge there is formal documentation of the hedge;

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

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

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

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

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

2 Significant Accounting Policies (continued)

2.18 Recognition of income and expenses

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

Interest income and expense

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

Fees and commission income

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

Investment income

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

Dividend income

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

Sale of goods

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

2.19 End of service benefits

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011

2 Significant Accounting Policies (continued)

2.20 Foreign currency

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

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

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

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

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

2.21 Segment reporting

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

2 Significant Accounting Policies (continued)

2.22 Significant accounting judgements and estimates

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

Judgements

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

Classification of investments

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

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

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

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

All other investments are classified as available for sale.

Impairment of equity investments

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

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2 Significant Accounting Policies (continued)

2.22 Significant accounting judgements and estimates (continued)

Estimation uncertainty

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

Impairment losses on investment in debt instruments

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

Valuation of unquoted equity investments

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

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

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of securities where this estimation cannot be reliably determined and these are carried at cost as disclosed in note 5. The Group updates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

3 Placements With Banks

(US$ million)	**2011**	2010
Local banks	60	-
Overseas banks	486	632
	546	632

Notes to the Consolidated Financial Statements

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4 Financial Assets At Fair Value Through Statement Of Income

(US$ million)	2011	2010
Held for trading		
Investment in unquoted managed funds	273	350
Designated at fair value through statement of income		
Unquoted equity securities	2	2
Investments in alternative equity funds	290	289
	292	291
Total	565	641

5 Financial Assets Available For Sale

(US$ million)	2011	2010
Debt Instruments		
International bonds	685	814
GCC and Islamic bonds	553	687
Emerging market bonds and funds	55	-
Asset backed securities	44	48
Structured debt instruments	287	375
	1,624	1,924
Equities and managed funds		
Quoted equity investments	60	56
Unquoted managed fund investments	99	78
	159	134
Equity participations		
Quoted equity investments	463	378
Unquoted equity investments	131	158
	594	536
Private equity funds		
Managed funds portfolio	224	225
Real estate funds portfolio	38	42
GCC Diversified funds portfolio	7	9
	269	276
	2,646	2,870

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for the year ended 31 December 2011

5 Financial Assets Available For Sale (Continued)

Debt instruments available for sale amounting to US$ 538 million (31 December 2010: US$ 856 million) are pledged as security in respect of borrowings under securities sold under repurchase agreements (Note 10).

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

Management has performed an analysis of the underlying investments and have concluded that the impairment losses of US$ 50 million (2010: US$ 19 million) recognized are adequate (Note 20).

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

6 Investment In Associates

The carrying amount of investment in associates includes goodwill amounting to US$ 72 million (2010: US$ 72 million).

During the previous year, the Corporation sold its entire holding in Oman Polypropylene LLC and Oman Fiber Optic Co. SAOG for a sale consideration of US$ 19 million and US$ 10 million, respectively, thereby recognising gains of US$ 11 million and US$ 4 million, respectively in the consolidated statement of income for the year ended 31 December 2010 (Note 15).

Group's investment in associates that are listed on a stock exchange have a carrying value of US$ 16 million (2010: US$ 14 million) and a market value of US$ 44 million (2010: US$ 39 million).

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

(US$ million)	**2011**	2010
Share of assets	4,627	2,880
Share of liabilities	(3,100)	(1,699)
Share of net assets	1,527	1,181
Goodwill	72	72
Impairment losses	(2)	(3)
Carrying amount of investment	1,597	1,250
Share of revenue	2,377	1,716
Share of results for the year	227	134

List of associates is disclosed in Note 30.

7 Loans And Advances

(US$ million)	2011	2010
Loans to associates	75	77
Impairment losses	(1)	(3)
	74	74

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

8 Other Assets

(US$ million)	2011	2010
Accrued interest, fees, commissions and dividends	45	34
Positive fair value of derivative instruments	18	19
Employees' end of service benefit asset	67	60
Prepayments	2	1
Property, plant and equipment	118	36
Other, including trade receivable from subsidiaries	153	137
	403	287

9 Deposits From Banks And Other Financial Institutions

(US$ million)	2011	2010
Deposits from Central Banks	50	254
Deposits from commercial banks	78	171
Deposits from other financial institutions	1,047	904
Other deposits	249	100
	1,424	1,429

At 31 December 2011, deposits from GCC Country Governments, Central Banks and other institutions headquartered in the GCC States amounted to US$ 1,424 million (2010: US$ 1,419 million).

Deposits from banks and other financial institutions carry an interest in the range of 1.10 % to 1.27% (2010: 1.27% to 1.73%)

Notes to the Consolidated Financial Statements

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10 Securities Sold Under Repurchase Agreements

As at 31 December 2011 the Group has entered into repurchase agreements with third-party international investment banks against certain debt instruments available for sale (Note 5). Repurchase agreements amounting to US$ 538 million (2010: US$ 592 million) are due within one year of the reporting date.

11 Term Finance

(US$ million)	**Effective interest rate % 2011**	**2011**	2010
AED Floating Rate term loan due in 1012	3 months $ LIBOR + 300 bps	7	-
US Dollar Floating Rate Bonds due in 2013	6 months $ LIBOR + 250 bps	100	100
US Dollar Floating Rate Bonds due in 2013	3 months $ LIBOR + 250 bps	200	200
US Dollar Floating Rate Bonds due in 2014	6 months $ LIBOR + 250 bps	100	-
AED Floating Rate term loan due in 2015	3 months $LIBOR + 400 bps	14	-
AED Floating Rate term loan due in within 2015	6 months EIBOR + 350 bps	9	-
Medium Term Note Issues (EMTN):			
GIC Euro floating rate note due in 2011	3 months € LIBOR + 30 bps	-	535
GIC HK Dollar floating rate note due in 2011	3 months HIBOR + 35 bps	-	19
GIC MYR medium term fixed rate note due in 2013	3.98 % per annum (semi annual)	189	195
GIC MYR medium term fixed rate note due in 2016	5.25 % per annum (semi annual)	189	-
GIC MYR medium term fixed rate note due in 2016	4.90 % per annum (semi annual)	237	-
GIC MYR medium term fixed rate note due in 2023	4.52 % per annum (semi annual)	126	130
		1,171	1,179

12 Other Liabilities

(US$ million)	**2011**	2010
Accrued interest	41	37
Derivative instruments	72	57
Employees' end of service benefits	67	61
Other, including trade payable of subsidiaries and accrued expenses	163	40
	343	195

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13 Equity

13.1 The authorised, issued and fully paid capital comprises of 2.1 million shares of US$ 1,000 each (2010: 2.1 million shares of US$ 1,000 each).

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

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

14 Interest Income

(US$ million)	**2011**	2010
Placements with banks	3	5
Financial assets available for sale	37	37
Loans and advances	1	1
	41	43

15 Net Gains From Investments

(US$ million)	**2011**	2010
Realised gain on financial assets available for sale	27	8
Realized gain from financial assets at fair value through statement of income	4	2
Unrealized gain from financial assets at fair value through statement of income	2	34
Realised gain on sale of associates (Note 6)	-	15
	33	59

16 Dividend Income

(US$ million)	**2011**	2010
Private equity funds available for sale	1	4
Equities and managed funds	5	4
Equity participations available for sale	18	12
	24	20

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17 Net Fee And Commission Income

(US$ million)	2011	2010
Management fees	5	6
Custody and administration fees	-	1
Project development fees	13	-
Other income	2	-
	20	7

18 Interest Expense

(US$ million)	2011	2010
Deposits from banks and other financial institutions	(16)	(18)
Securities sold under repurchase agreements	(15)	(19)
Term finance	(28)	(13)
	(59)	(50)

19 Other Operating Income

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

(US$ million)	2011	2010
Sales	139	53
Cost of sales	(109)	(41)
Gross profit	30	12
Selling and distribution expenses	(3)	(2)
Administrative expenses	(20)	(2)
	7	8
Other operating results of non-core businesses	-	(2)
	7	6

20 Impairment Losses

(US$ million)	2011	2010
Financial assets available for sale:		
Debt securities	(10)	(4)
Equities and managed funds	(2)	(3)
Equity participations	(26)	(2)
Private equity funds	(12)	(10)
Investment in associates	-	(1)
Other assets	1	(2)
	(49)	(22)

21 Retirement and other terminal benefits

The Group has defined voluntary contribution and end of service indemnity plans which cover all its employees. Contribution to the voluntary plan is based on a percentage of pensionable salary and consists of contribution by employees and a matched contribution up to a certain limit by the Group. Contribution to the end of service indemnity plan is based on a percentage of pensionable salary and number of years of service by the employees. The amounts to be paid at the end of service benefits are determined by reference to the amounts of the contributions and investment earnings thereon. The Group also pays contributions to Government defined contribution pension plan for certain employees in accordance with the legal requirements in Kuwait as well as contribution in line with the labour law in the countries where its subsidiaries operate.

The total cost of retirement and other end of service benefits included in staff expenses for the year ended 31 December 2011 amounted to US$ 7 million (2010: US$ 6 million).

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22 Risk Management

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

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

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

22.1 Liquidity risk

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

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

31 December 2011

(US$ million)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Deposits from banks and other financial institutions	993	436	-	-	1,429
Securities sold under repurchase agreements	279	263	-	-	542
Term finance	8	6	1,160	190	1,364
Gross settled derivative Instruments:					
- Contractual amount payable	936	31	635	126	1,728
- Contractual amount receivable	(931)	(30)	(651)	(123)	(1,735)
Other liabilities	87	87	74	95	343
Total undiscounted financial liabilities	**1,372**	**793**	**1,218**	**288**	**3,671**
Commitments	-	-	131	-	131
Contingent liabilities	20	27	133	72	252

22 Risk Management (continued)

22.1 Liquidity risk (continued)

31 December 2010

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

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22 Risk Management (continued)

22.1 Liquidity risk (continued)

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

(US$ million)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
At 31 December 2011					
Assets					
Cash and cash equivalents	50	-	-	-	50
Placements with banks	546	-	-	-	546
Financial assets at fair value through statement of income	563	2	-	-	565
Financial assets available for sale	1,868	390	85	303	2,646
Investment in associates	-	-	-	1,597	1,597
Loans and advances	-	-	74	-	74
Other assets	102	49	24	228	403
Total assets	**3,129**	**441**	**183**	**2,128**	**5,881**
Liabilities					
Deposits from banks and other financial institutions	992	432	-	-	1,424
Securities sold under repurchase agreements	279	259	-	-	538
Term finance	7	6	1,032	126	1,171
Other liabilities	87	87	74	95	343
Total liabilities	**1,365**	**784**	**1,106**	**221**	**3,476**
Net gap	**1,764**	**(343)**	**(923)**	**1,907**	

22 Risk Management (continued)

22.1 Liquidity risk (continued)

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

22.2 Market risk

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

Interest rate risk

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

Foreign exchange risk

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

Equity price risk

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

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22 Risk Management (continued)

22.2 Market risk (continued)

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

2011
(US$ million)

	Average	***Minimum***	***Maximum***	***31 December 2011***
Interest rate	5	3	8	6
Equity price	15	12	17	16
Foreign exchange	2	1	4	3
Total*	**16**	**11**	**18**	**17**

2010
(US$ million)

	Average	*Minimum*	*Maximum*	*31 December 2010*
Interest rate	2	1	3	3
Equity price	12	11	15	12
Foreign exchange	2	1	4	4
Total*	12	11	14	11

** Total VaR incorporates benefits of diversification.*

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

(US$ million)

Market indices	*Change in equity price*	*Effect on equity*	
		2011	2010
Saudi Stock Exchange	+10%	57	46
Other GCC indices	+10%	3	3

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

Please refer Note 25 for distribution of assets and liabilities between the divisions.

22 Risk Management (continued)

22.3 Credit risk

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

As at 31 December 2011, the Group has not obtained any collateral on any of the financial assets.

22.3.1 Maximum exposure to credit risk

The maximum credit exposure of the Group is as follows:

(US$ million)	**Maximum exposure**	
	2011	2010
Cash and cash equivalents	50	22
Placements with banks	546	632
Debt securities available for sale	1,624	1,924
Loans and advances	74	74
Other assets	283	212
Credit exposure on assets	**2,577**	2,864
Credit commitments	252	320
Total credit exposure	**2,829**	3,184

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

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The maximum credit exposure to a single counterparty (rated as investment grade) is US$ 84 million (2010: US$ 85 million).

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22 Risk Management (continued)

22.3.1 Maximum exposure to credit risk (continued)

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

(US$ million)	**GCC**	**Europe**	**North America**	**Asia/ Latin America**	**Total**
At 31 December 2011					
Cash and cash equivalents	45	1	4	-	50
Placements with banks	489	57	-	-	546
Debt securities available for sale	513	424	651	36	1,624
Loan and advances	74	-	-	-	74
Other assets	167	42	74	-	283
Credit exposure on assets	**1,288**	**524**	**729**	**36**	**2,577**
Credit commitments	249	2	-	1	252
Total credit exposure	**1,537**	**526**	**729**	**37**	**2,829**

(US$ million)	GCC	Europe	North America	Asia/ Latin America	Total
At 31 December 2010					
Cash and cash equivalents	20	1	1	-	22
Placements with banks	309	323	-	-	632
Debt securities available for sale	645	500	758	21	1,924
Loan and advances	74	-	-	-	74
Other assets	109	35	68	-	212
Credit exposure on assets	1,157	859	827	21	2,864
Credit commitments	320	-	-	-	320
Total credit exposure	1,477	859	827	21	3,184

22 Risk Management (continued)

22.3.1 Maximum exposure to credit risk (continued)

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

(US$ million)	**Banks & FIs.**	**Trading & Mftg.**	**Utilities**	**Govt. agencies**	**Other**	**Total**
At 31 December 2011						
Cash and cash equivalents	50	-	-	-	-	50
Placements with banks	546	-	-	-	-	546
Debt securities available for sale	1,059	128	181	61	195	1,624
Loans and advances	-	-	74	-	-	74
Other assets	175	90	8	-	10	283
Credit exposure on assets	**1,830**	**218**	**263**	**61**	**205**	**2,577**
Credit commitments	-	92	155	5	-	252
Total credit exposure	**1,830**	**310**	**418**	**66**	**205**	**2,829**

(US$ million)	Banks & FIs.	Trading & Mftg.	Utilities	Govt. agencies	Other	Total
At 31 December 2010						
Cash and cash equivalents	22	-	-	-	-	22
Placements with banks	632	-	-	-	-	632
Debt securities available for sale	1,240	176	316	133	59	1,924
Loans and advances	-	-	74	-	-	74
Other assets	162	39	3	4	4	212
Credit exposure on assets	2,056	215	393	137	63	2,864
Credit commitments	-	96	224	-	-	320
Total credit exposure	2,056	311	617	137	63	3,184

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for the year ended 31 December 2011

22 Risk Management (continued)

22.3.2 Credit quality of financial assets

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

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

(US$ million)	**Neither past due nor impaired**		**Total**
	Investment grade	**Unrated**	
At 31 December 2011			
Cash and cash equivalents	50	-	50
Placements with banks	546	-	546
Debt securities available for sale	1,456	168	1,624
Loans and advances	74	-	74
Other assets	173	110	283
Credit exposure on assets	**2,299**	**278**	**2,577**
Credit commitments	252	-	252
Total credit exposure	**2,551**	**278**	**2,829**

(US$ million)	Neither past due nor impaired		Total
	Investment grade	Unrated	
At 31 December 2010			
Cash and cash equivalents	22	-	22
Placements with banks	632	-	632
Debt securities available for sale	1,731	193	1,924
Loans and advances	74	-	74
Other assets	110	102	212
Credit exposure on assets	2,569	295	2,864
Credit commitments	320	-	320
Total credit exposure	2,889	295	3,184

23 Commitments And Contingent Liabilities

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

	Notional principal amount	
	2011	2010
Credit Risk Amounts (US$ million)		
Transaction-related contingent items:		
- Letter of guarantees	244	318
- Others	8	2
	252	320

The above commitments and contingent liabilities have off balance-sheet credit risk because only origination fees and accruals for probable losses are recognised in the consolidated statement of financial position until the commitments are fulfilled or expired. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows. The transaction related contingent liabilities are net of allowance of US $ 1 million (2010: US $ 2 million).

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

(US$ million)	**2011**	2010
Undrawn commitments for investments in private equity funds	77	90
Undrawn commitments for investments in associates and other equity participations	54	166
	131	256

24 Derivatives

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

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

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24 Derivatives (continued)

Hedge accounting
Interest rate swaps under which the Group pays a fixed rate and receives a floating rate are used in fair value hedges of fixed income financial assets available for sale.

As at the reporting date, the notional amount of interest rate swaps used to hedge interest rate risk amounted to US$ 730 million (2010: US$ 889 million) and its net fair value was a swap loss of US$ 47 million (2010: US$ 57 million).

For the year ended 31 December 2011, the Group recognised a loss of US$ 6 million (2010: loss of US$ 7 million) representing the realised and unrealised loss on hedging instruments. The corresponding realised and unrealised gain on the hedged fixed income securities amounted to US$ 8 million (2010: gain of US$ 4 million).

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

	2011			2010		
(US$ million)	**Positive fair value**	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount
Derivatives held for hedging						
- Interest rate swaps	-	(47)	730	-	(57)	889
- Cross currency swaps	9	(22)	774	18	-	363
Derivatives held for trading						
- Forward foreign exchange contracts	9	(3)	1,735	4	(3)	1,123
	18	**(72)**	**3,239**	22	(60)	2,375

Maturity analysis

(US$ million)	**Within 1 year**	**Year 1 to 5**	**Above 5 years**	**Total**
At 31 December 2011				
Notional amounts				
Interest rate swaps	104	553	73	730
Cross currency swaps	-	651	123	774
Forward foreign exchange contracts	961	651	123	1,735
	1,065	**1,855**	**319**	**3,239**

(US$ million)	Within 1 year	Year 1 to 5	Above 5 years	Total
At 31 December 2010				
Notional amounts				
Interest rate swaps	90	667	132	889
Cross currency swaps	19	215	129	363
Forward foreign exchange contracts	779	214	130	1,123
	888	1,096	391	2,375

25 Segmental Information

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

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

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

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

The Treasury division manages the Group's liquidity, short-term interest rate and foreign exchange activities using a variety of on and off-balance sheet treasury applications. The division trades on its own account and for clients in spot and forward foreign exchange and options, cash money markets, floating rate notes, interest rate swaps and other derivatives.

The 'corporate and other' division comprises items which are not directly attributable to specific business divisions, including investments of a strategic nature, and income arising on the recharge of the Group's net free capital to business units. Other operations of the Group includes asset management, operations, risk management and financial control. Transactions between business segments are conducted at estimated market rates on an arm's length basis. Interest is charged/ credited to business segments based on rates which approximate the marginal cost of funds.

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25 Segmental Information (Continued)

31 December 2011 (US$ million)	***Principal investments***	***Debt capital markets***	***Equity and alternative investments***	***Treasury***	***Corporate and other***	***Eliminations***	***Total***
Net operating income	235	33	16	4	4	-	292
Other operating expenses	(12)	(5)	(2)	(3)	(39)	-	(61)
Impairment losses	(26)	(10)	(13)	-	-	-	(49)
Segment results	197	18	1	1	(35)	-	182
Profit for the year							**182**
Other Information							
Segment assets	2,527	1,818	847	605	2,102	(2,018)	**5,881**
Segment liabilities	2,087	1,901	804	604	98	(2,018)	3,476
Equity							2,405
Total liabilities and equity							**5,881**

31 December 2010 (US$ million)	*Principal investments*	*Debt capital markets*	*Equity and alternative investments*	*Treasury*	*Corporate and other*	*Eliminations*	*Total*
Net operating income	152	19	41	6	5	-	223
Other operating expenses	(10)	(5)	(2)	(3)	(30)	-	(50)
Impairment losses	(5)	(4)	(13)	-	-	-	(22)
Segment results	137	10	26	3	(25)	-	151
Profit for the year							151
Other Information							
Segment assets	1,978	2,213	835	685	1,879	(1,814)	5,776
Segment liabilities	1,694	2,313	767	681	18	(1,814)	3,659
Equity							2,117
Total liabilities and equity							5,776

25 Segmental Information (Continued)

Geographical segment

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

31 December 2011

	GCC Region		**International**		**Total**	
(US$ million)	***PI***	***Others***	***PI***	***Others***	***PI***	***Others***
Net operating income	235	53	-	4	235	57
Total assets	2,507	1,354	20	2,000	2,527	3,354

31 December 2010

	GCC Region		International		Total	
(US$ million)	*PI*	*Others*	*PI*	*Others*	*PI*	*Others*
Net operating income	150	51	2	20	152	71
Total assets	1,958	1,252	20	2,546	1,978	3,798

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26 Fair Value Information

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

Determination of fair value and fair value hierarchy:

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:
Level 1: quoted prices in active market for the same instrument.
Level 2: quoted prices in active market for similar instruments or other valuation techniques for which all significant inputs are based on observable market data ; and
Level 3: valuation techniques for which any significant input is not based on observable market data.

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

2011

(US$ million)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Financial assets held for trading				
Investment in unquoted managed funds	13	260	-	273
Financial assets designated at fair value through statement of income				
Investment in alternative equity funds	-	290	-	290
Financial assets available for sale				
Debt instruments	1,124	44	419	1,587
Equities and managed funds	60	99	-	159
Equity participations	463	-	-	463
Private equity funds	-	30	224	254
Other assets- derivative financial instruments				
Forward foreign exchange contracts	-	-	9	9
Cross currency swaps	-	-	9	9
	1,660	**723**	**661**	**3,044**
Liabilities measured at fair value				
Other liabilities -derivative financial instruments				
Interest rate swaps	-	47	-	47
Cross currency swaps	-	-	22	22
Forward foreign exchange contracts	-	-	3	3
	-	**47**	**25**	**72**

26 Fair Value Information (continued)

2010

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

27 Related Party Transactions

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

Transactions with associates during the year are as follows:

(US$ million)	**2011**	2010
Net fees and commissions	4	4
Loans and advances	74	74
Guarantees and commitments	233	319
Receivables from associates	8	9

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27 Related Party Transactions (continued)

Compensation of key management personnel

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

(US$ million)	**2011**	2010
Salaries and short-term employee benefits	12	8
Post employment and termination benefits	3	2
	15	10

Included in other assets are loans to key management personnel amounting to US$ 1 million (2010: US$ 1 million).

28 Fiduciary Activities

At 31 December 2011, third party assets under management amounted to US$ 205 million (2010: US$ 208 million). These assets are managed in a fiduciary capacity and are therefore excluded from the consolidated statement of financial position. The related income from fiduciary activities amounted to US$ 2 million (2010: US$ 2 million).

29 Capital Management

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

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

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

No changes were made in the objectives, policies or processes from the previous year.

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

(US$ million)	**2011**	2010
Interest-bearing deposits, term finance and other borrowings	3,133	3,464
Other liabilities	343	195
Less: Cash and cash equivalents and placements with banks	(596)	(654)
Net debt	2,880	3,005
Equity attributable to equity holders of the Corporation	2,389	2,117
Gearing ratio (net debt /equity)	**1.2**	1.4

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30 Principal Subsidiaries And Associates

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

(US$ million)	Country of incorporation	Effective equity interest as at 2011	2010	Principal business activity
Subsidiaries				
Bituminous Products Co. Limited (Bitumat)	Saudi Arabia	100.0	100.0	Building material manufacturing
G.I.Corporation General Trading and Contracting Company W.L.L.	Kuwait	100.0	100.0	Holding company
Gulf Denim Limited	UAE	-	100.0	Textile manufacturing
Investel Holdings W.L.L.	Bahrain	100.0	100.0	Holding company
GIC Financial Services Ltd.	Cayman Islands	100.0	100.0	Holding company
GIC Investment Holding Ltd.	Cayman Islands	100.0	100.0	Holding company
Gulf Paramount for Electrical Services Co. W.L.L.	Kuwait	92.8	92.8	Electrical Services
GIC Technologies Co. W.L.L.	Kuwait	80.0	80.0	Technical advisory
Gulf Electronic Tawasul Co. KSCC	Kuwait	86.5	47.5	Information Technology
Gulf Jyoti International L.L.C.	UAE	70.0	70.0	Construction & Engineering
Crown Paper Mill Ltd. FZC	UAE	58.7	58.7	Paper Manufacturing
Associates				
Gulf Re Holdings Ltd.	UAE	50.0	50.0	Re-insurance
Gulf United Steel Holding Co. (Foulath) B.S.C.	Bahrain	50.0	50.0	Holding company
United Stainless Steel Co. B.S.C. (Closed)	Bahrain	-	50.0	Steel Manufacturing
Oman Investment Corporation SAOC	Oman	50.0	50.0	Investing activities
Gulf Industrial Investment Co. (E.C.)	Bahrain	-	50.0	Steel Pelletizing
Al Ezzel Power Company B.S.C.	Bahrain	45.0	45.0	Power & Water Utility Project
Bahrain Industrial Pharmaceutical Co. W.L.L.	Bahrain	40.0	40.0	Pharmaceuticals
Orimix Concrete Products L.L.C.	UAE	40.0	40.0	Building Materials
A'Saffa Foods Co. SAOG	Oman	33.3	33.3	Poultry & Dairy Products
The National Titanium Dioxide Co. Ltd. (CRISTAL)	Saudi Arabia	33.0	33.0	Production of Titanium Dioxide
SGA Marafiq Holdings	Saudi Arabia	33.3	33.3	Power & Water Utility Project
Technical Supplies & Services Co. Ltd.	UAE	30.7	30.7	Refrigeration & Cooling Services
Al Dur Power & Water Co.	Bahrain	25.0	25.0	Power & Water Utility Project
Jeddah Cable Company Ltd.	Saudi Arabia	25.0	25.0	Manufacturing Cables
ALUMCO L.L.C.	UAE	24.5	24.5	Building Materials
Interplast Company Limited (L.L.C.)	UAE	23.5	23.5	Plastic
Celtex Weaving Mills Company Ltd.	Bahrain	23.0	23.0	Textiles
Emirates Rawabi (PJSC)	UAE	22.5	22.5	Dairy Products
Shuqaiq Water & Electricity Co.	Saudi Arabia	20.0	20.0	Power & Water Utility Project
Gulf International Pipe Industry L.L.C.	Oman	20.0	20.0	Building Materials
Gulf Stone Company SAOG	Oman	20.0	20.0	Building Materials

For the year ended 31 December 2011, the Group has included the financial statements of certain subsidiaries which were previously not consolidated on grounds of materiality. The net assets of these subsidiaries were included under other assets at 31 December 2010. The change in the consolidation has no material impact on the financial position and financial performance of the Group nor would it significantly impact comparative figures. Accordingly, comparative figures have not been restated.

Direct Investments

	Name of the Project	Location	(US $ million) Total Shareholders' equity	GIC share of capital %
	Subsidiaries and Associated Companies			
1	G.I. Corporation General Trading & Contracting Co. W.L.L.	Kuwait	0.90	100.00
2	Bituminous Products Company Limited (Bitumat)	Saudi Arabia	94.38	100.00
3	Gulf Paramount for Electrical Services Company W.L.L.	Kuwait	8.48	92.84
4	Gulf Electronic Tawasul Company K.S.C.C.	Kuwait	8.65	86.54
5	GIC Technologies Co. (W.L.L.)	Kuwait	1.58	80.00
6	Gulf Jyoti International L.L.C.	UAE	4.77	70.00
7	Crown Paper Mills Ltd. FZC	UAE	32.80	58.70
8	Oman Investment Corporation SAOC	Oman	62.31	50.00
9	Gulf United Steel Holding Company (Foulath) B.S.C. (C) *	Bahrain	847.16	50.00
10	Gulf Re-insurance Ltd.	UAE	215.54	50.00
11	Al Ezzel Power Company B.S.C.	Bahrain	16.09	45.00
12	Orimix Concrete Products L.L.C. **	UAE	44.01	40.00
13	Bahrain Industrial Pharmaceutical Co. W.L.L	Bahrain	1.80	40.00
14	Gulf International Pipe Industry L.L.C. ***	Oman	15.52	35.00
15	A'Saffa Poultry Farms Co. SAOG	Oman	42.45	33.24
16	The National Titanium Dioxide Co., Ltd. (CRISTAL)	Saudi Arabia	1,522.60	33.00
17	Technical Supplies & Services Co. Ltd.	UAE	62.32	30.67
18	Jeddah Cable Company Ltd.	Saudi Arabia	199.39	25.00
19	Al Dur Power & Water Co. B.S.C. (C)	Bahrain	528.10	25.00
20	ALUMCO L.L.C. **	UAE	55.81	24.50
21	Interplast Company Limited (L.L.C.)	UAE	193.27	23.50
22	Celtex Weaving Mills Co. Ltd.	Bahrain	4.46	23.00
23	Emirates Rawabi (PJSC)	UAE	98.34	22.54
24	Gulf Stone Company SAOG **	Oman	10.14	20.00
25	Wataniya Telecom Algeria	Algeria	360.28	20.00
26	Jubail Water & Power Co	Saudi Arabia	-	20.00
27	Shuqaiq Water & Electricity Co	Saudi Arabia	-	20.00
	Equity Participations - GIC ownership less than 20 percent			
1	Tatweer Infrastructure Company (Q.S.P.C.)	Qatar	192.72	13.00
2	The Dubai Wellness Center Limited (L.L.C.)	UAE	61.63	10.00
3	Gulf Bridge International	Qatar	474.00	10.00
4	Ras Laffan Power Company Limited (Q.S.C.)	Qatar	273.94	10.00
5	Rasameel Structured Finance Co. K.S.C.	Kuwait	82.44	10.00
6	KGL Logistics Company K.S.C. (Closed)	Kuwait	185.18	9.00
7	Perella Weinberg Partners	USA	135.82	8.00
8	Securities and Investment Company B.S.C.	Bahrain	138.99	8.00
9	National Industrialization Co. (TASNEE) (Saudi Joint Stock Co.)	Saudi Arabia	2,938.39	7.27
10	Gulf Aluminium Rolling Mill Co. B.S.C.	Bahrain	187.67	5.89
11	United Power Company SAOG	Oman	58.96	2.30
12	Al-Razzi Holding Company K.S.C. (Closed)	Kuwait	145.41	2.00
13	Arabian Industrial Fibers Co. (IBN RUSHD) (Closed Joint Stock Company)	Saudi Arabia	744.21	1.95
14	Thuraya Satellite Telecommunications Company PJSC	UAE	562.53	1.72
15	Zamil Industrial Investment Co. (Joint Stock Company)	Saudi Arabia	358.52	0.26

* This was formed by the merger of two existing companies - Gulf Industrial Investment Co. (E.C) & United Stainless Steel Company B.S.C. (Closed)

** These associates are owned indirectly by our subsidiary Bitumat

*** Owned jointly with Oman Investment Corporation SAOC

Investment Products

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

Corporate directo

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Senior Management

Hisham Abdulrazzaq Al-Razzuqi
Chief Executive Officer

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

Rashid Bin Rasheed
Deputy Chief Executive Officer
& Head of Finance & Administration

Global Markets

Arun Ratra
Head of Global Markets Group

Malek Al-Ajeel
Head of Business Development

Talal Al-Tawari
Head of GCC Equities
Acting Head of Sales, Products & Marketing

Fahmi Al-Ali
Head of Managed Funds

Tarek El Rohayem
Head of GCC Research

Waleed Al-Braikan
GCC Fund Management

Martin Joy
Head of Treasury

Raffaele Bertoni
Head of Debt Capital Markets

Mathew Abraham
Money Markets International

Adel Al Bahar
Money Markets GCC

Principal Investing

Shafic Ali
Head of Utilities and Financial Services

Khaled Al-Qadeeri
Head of Manufacturing Projects

Mohammad Al-Melhem
Head of Diversified Projects

Muthuswamy Chandrasekaran
Head of Corporate Finance

Fadi Twainy
Head of Private Equity

Finance & Administration

Hani Al-Shakhs
Head of Information Technology

Hazem El-Rafie
Head of Financial Control

Shawki Khalaf
Head of Operations

Hamed Hamed
Human Resources & Administration

Qais Al-Shatti
Head of Public Relations & Communication

Corporate Office

Dr. Sulayman Al-Qudsi
Head of Economics

Sebastian Vadakumcherry
Head of Risk Management

Khaled Bukhamseen
Head of Internal Audit

Fahad Alabdulkader
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