Gulf Insurance Group K.S.C.P. and Subsidiaries (Formerly Gulf Insurance Company K.S.C. and Subsidiaries)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

Building a better
working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GULF INSURANCE GROUP K.S.C.P. AND SUBSIDIARIES (FORMERLY GULF INSURANCE COMPANY K.S.C. AND SUBSIDIARIES)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Gulf Insurance Group K.S.C.P. (the "Parent Company") and its subsidiaries (together "the Group") (Formerly Gulf Insurance Company K.S.C. and Subsidiaries), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GULF INSURANCE GROUP K.S.C.P. AND SUBSIDIARIES (FORMERLY GULF INSURANCE COMPANY K.S.C. AND SUBSIDIARIES) (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 25 of 2012, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No 25 of 2012, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2013 that might have had a material effect on the business of the Parent Company or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

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

11 February 2014
Kuwait

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2013

	Notes	***2013 KD***	*2012 KD*
Revenue:			
Premiums written		**157,040,226**	145,374,450
Reinsurance premiums ceded		**(73,722,870)**	(71,673,304)
Net premiums written		**83,317,356**	73,701,146
Movement in unearned premiums reserve		**(4,394,624)**	(3,648,575)
Movement in life mathematical reserve		**(1,755,699)**	(1,098,537)
Net premiums earned		**77,167,033**	68,954,034
Commission received on ceded reinsurance		**11,248,974**	10,807,646
Policy issuance fees		**3,369,374**	3,443,477
Net investment income from life insurance	3	**2,126,772**	2,774,470
		93,912,153	85,979,627
Expenses:			
Claims incurred		**58,769,117**	51,511,594
Commission and discounts		**9,670,114**	9,037,638
Increase in incurred but not reported reserve		**799,434**	136,396
Maturity and cancellations of life insurance policies		**1,368,308**	1,189,372
General and administrative expenses		**14,814,205**	15,387,851
		85,421,178	77,262,851
Net underwriting income		**8,490,975**	8,716,776
Net investment income	3	**8,010,193**	6,331,103
Net sundry income		**429,535**	491,101
		16,930,703	15,538,980
Other charges:			
Unallocated general and administrative expenses		**(4,368,794)**	(3,941,143)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT TAX AND DIRECTORS' FEES		**12,561,909**	11,597,837
Contribution to KFAS		**(104,932)**	(106,211)
NLST		**(186,677)**	(177,131)
Zakat tax		**(72,196)**	(63,420)
Directors' fees		**(155,000)**	(125,000)
PROFIT FOR THE YEAR		**12,043,104**	11,126,075
Attributable to:			
Equity holders of the Parent Company		**10,202,495**	9,279,954
Non-controlling interests		**1,840,609**	1,846,121
		12,043,104	11,126,075
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	4	**55.67 fils**	50.54 fils

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	**2013 KD**	*2012 KD*
Profit for the year		**12,043,104**	11,126,075
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive income of associates	6	**102,927**	42,510
Net unrealised gain on investments available for sale		**1,565,115**	1,230,792
Net realised gain transferred to statement of income on disposal of investments available for sale	3	**(427,812)**	(364,904)
Transfer to statement of income on impairment of investments available for sale	3	**175,914**	1,011,463
Exchange differences on translation of foreign operations		**(1,398,362)**	(1,073,095)
Other comprehensive income for the year		**17,782**	846,766
Total comprehensive income for the year		**12,060,886**	11,972,841
ATTRIBUTABLE TO:			
Equity holders of the Parent Company		**10,220,277**	10,126,720
Non-controlling interests		**1,840,609**	1,846,121
		12,060,886	11,972,841

The attached notes 1 to 29 form part of these consolidated financial statements.

Gulf Insurance Group K.S.C.P. and Subsidiaries (Formerly Gulf Insurance Company K.S.C. and Subsidiaries)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2013

	Notes	**2013 KD**	2012 KD
ASSETS			
Property and equipment	5	**12,882,183**	11,278,028
Investment in associates	6	**24,242,332**	21,344,080
Goodwill	7	**8,998,351**	8,998,351
Financial instruments:			
Investments held to maturity		**19,918,966**	18,798,050
Debt securities (loans)		**11,758,037**	11,033,153
Investments available for sale	8	**34,686,156**	31,701,357
Investments carried at fair value through income statement	9	**17,739,589**	16,554,083
Loans secured by life insurance policies		**1,185,432**	977,053
Premiums and insurance balances receivable	10	**48,594,196**	51,509,558
Reinsurance recoverable on outstanding claims	11	**47,353,529**	40,725,920
Property held for sale		**422,519**	613,841
Other assets	12	**12,721,119**	18,098,373
Time deposits	13	**21,321,046**	23,203,405
Cash and cash equivalents	14	**58,604,115**	43,508,957
TOTAL ASSETS		**320,427,570**	298,344,209
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities arising from insurance contracts:	11		
Outstanding claims reserve (gross)		**87,510,097**	77,577,832
Unearned premiums reserve (net)		**31,336,565**	27,449,206
Life mathematical reserve (net)		**21,550,883**	19,762,691
Incurred but not reported reserve (net)		**4,813,645**	4,175,414
Total liabilities arising from insurance contracts		**145,211,190**	128,965,143
Premiums received in advance		**280,055**	232,595
Insurance payable	15	**41,327,905**	43,031,874
Other liabilities	16	**17,938,797**	16,935,887
Bank overdrafts	14	**20,374,524**	20,397,443
TOTAL LIABILITIES		**225,132,471**	209,562,942
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY			
Share capital	17	**18,703,913**	18,703,913
Share premium		**3,600,000**	3,600,000
Treasury shares	18	**(1,837,125)**	(1,780,131)
Treasury shares reserve		**2,051,215**	2,051,215
Statutory reserve	19	**15,830,998**	14,766,173
Voluntary reserve	20	**19,784,411**	18,719,586
Other reserve		**(3,015,966)**	(3,010,734)
Cumulative changes in fair values		**4,164,663**	2,748,519
Foreign currency translation adjustments		**(4,717,780)**	(3,319,418)
Retained earnings		**23,935,043**	20,445,815
		78,499,372	72,924,938
Non-controlling interests		**16,795,727**	15,856,329
Total equity		**95,295,099**	88,781,267
TOTAL LIABILITIES AND EQUITY		**320,427,570**	298,344,209

Farqad A. Al-Sane
Chairman

The attached notes 1 to 29 form part of these consolidated financial statements.

Gulf Insurance Group K.S.C.P. and Subsidiaries (Formerly Gulf Insurance Company K.S.C. and Subsidiaries)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Attributable to equity holders of the Parent Company											*Non-controlling interests*	*Total equity*
	Share capital	*Share premium*	*Treasury shares*	*Treasury share reserve*	*Statutory reserve*	*Voluntary reserve*	*Other reserve*	*Cumulative changes in fair values*	*Foreign currency translation adjustments*	*Retained earnings*	*Sub total*		
	KD	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*
Balance at 1 January 2013	18,703,913	3,600,000	(1,780,131)	2,051,215	14,766,173	18,719,586	(3,010,734)	2,748,519	(3,319,418)	20,445,815	72,924,938	15,856,329	88,781,267
Profit for the year	-	-	-	-	-	-	-	-	-	10,202,495	10,202,495	1,840,609	12,043,104
Other comprehensive income (loss)	-	-	-	-	-	-	-	1,416,144	(1,398,362)	-	17,782	-	17,782
Total comprehensive income (loss) for the year	-	-	-	-	-	-	-	1,416,144	(1,398,362)	10,202,495	10,220,277	1,840,609	12,060,886
Dividend for 2012 (Note 17)	-	-	-	-	-	-	-	-	-	(4,583,617)	(4,583,617)	-	(4,583,617)
Purchase of treasury shares	-	-	(56,994)	-	-	-	-	-	-	-	(56,994)	-	(56,994)
Change in ownership of a subsidiary (Note 27)	-	-	-	-	-	-	(5,232)	-	-	-	(5,232)	-	(5,232)
Transfer to reserves	-	-	-	-	1,064,825	1,064,825	-	-	-	(2,129,650)	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(901,211)	(901,211)
Balance at 31 December 2013	**18,703,913**	**3,600,000**	**(1,837,125)**	**2,051,215**	**15,830,998**	**19,784,411**	**(3,015,966)**	**4,164,663**	**(4,717,780)**	**23,935,043**	**78,499,372**	**16,795,727**	**95,295,099**
Balance at 1 January 2012	17,813,250	3,600,000	(1,561,429)	2,051,215	13,791,001	17,744,414	(3,010,734)	828,658	(2,246,323)	17,505,213	66,515,265	15,240,604	81,755,869
Profit for the year	-	-	-	-	-	-	-	-	-	9,279,954	9,279,954	1,846,121	11,126,075
Other comprehensive income (loss)	-	-	-	-	-	-	-	1,919,861	(1,073,095)	-	846,766	-	846,766
Total comprehensive income (loss) for the year	-	-	-	-	-	-	-	1,919,861	(1,073,095)	9,279,954	10,126,720	1,846,121	11,972,841
Issue of bonus shares (Note 17)	890,663	-	-	-	-	-	-	-	-	(890,663)	-	-	-
Dividend for 2011 (Note 17)	-	-	-	-	-	-	-	-	-	(3,498,345)	(3,498,345)	-	(3,498,345)
Purchase of treasury shares	-	-	(218,702)	-	-	-	-	-	-	-	(218,702)	-	(218,702)
Transfer to reserves	-	-	-	-	975,172	975,172	-	-	-	(1,950,344)	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(1,230,396)	(1,230,396)
Balance at 31 December 2012	18,703,913	3,600,000	(1,780,131)	2,051,215	14,766,173	18,719,586	(3,010,734)	2,748,519	(3,319,418)	20,445,815	72,924,938	15,856,329	88,781,267

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	***2013 KD***	*2012 KD*
OPERATING ACTIVITIES			
Profit before contribution to KFAS, NLST, Zakat tax and directors' fees		**12,561,909**	11,597,837
Adjustments for:			
Depreciation	5	**857,734**	901,790
Gain on sale of property and equipment		**-**	(25,207)
Net investment income		**(8,451,788)**	(8,759,404)
Impairment losses	3	**250,027**	1,011,463
Share of results of associates	6	**(1,567,799)**	13,432
Gain arising on reclassification of investments available for sale to investment in associates	6	**(367,405)**	(3,199,597)
Impairment of goodwill	7	**-**	71,906
		3,282,678	1,612,220
Changes in operating assets and liabilities:			
Investments carried at fair value through income statement		**186,942**	(2,520,903)
Premiums and insurance balances receivable		**2,915,362**	(9,397,232)
Reinsurance recoverable on outstanding claims		**(6,627,609)**	1,075,513
Other assets		**8,223,894**	1,714,845
Liabilities arising from insurance contracts		**16,246,047**	6,919,944
Premiums received in advance		**47,460**	(43,916)
Insurance payable		**(1,703,969)**	9,758,792
Other liabilities		**(129,405)**	2,599,167
Cash from operations		**22,441,400**	11,339,252
Paid to KFAS		**(106,211)**	(84,613)
Paid to NLST		**(177,131)**	(125,189)
Paid to Zakat		**(63,420)**	(23,114)
Paid to directors		**(125,000)**	(100,000)
Net cash from operating activities		**21,969,638**	11,006,336
INVESTING ACTIVITIES			
Purchase of property and equipment	5	**(2,629,250)**	(1,783,211)
Proceeds from sale of property and equipment		**15,953**	1,062,016
Purchase of investment in a subsidiary	27	**(30,934)**	-
Purchase of investment in associates	6	**(674,099)**	(9,127,996)
Proceeds from sale of investment in associates		**-**	5,035,438
Dividends received from associates	7	**591,878**	-
Purchase of investment held to maturity		**(1,120,916)**	(1,408,158)
Movement in debt securities (loans)		**(724,884)**	(3,274,884)
Net movement on investments available for sale		**(2,303,732)**	(4,886,470)
Movement in loans secured by life insurance policies		**(208,379)**	(144,705)
Purchase of property held for sale		**191,322**	(379,178)
Time deposits		**1,882,359**	10,748,292
Interest received		**2,989,791**	4,764,349
Dividends received		**1,444,872**	1,005,144
Net cash (used in) from investing activities		**(576,019)**	1,989,815
FINANCING ACTIVITIES			
Dividends paid		**(3,498,345)**	(3,492,506)
Purchase of treasury shares		**(56,994)**	(218,702)
Dividends to non-controlling interest		**(901,211)**	(1,230,396)
Net cash used in financing activities		**(4,456,550)**	(4,941,604)
Foreign currency translation adjustments		**(1,818,992)**	(1,084,499)
INCREASE IN CASH AND CASH EQUIVALENTS		**15,118,077**	6,970,048
Cash and cash equivalents at beginning of the year		**23,111,514**	16,141,466
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	14	**38,229,591**	23,111,514

The attached notes 1 to 29 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial statements of Gulf Insurance Group K.S.C.P. (the "Parent Company") and subsidiaries (the "Group") (Formerly Gulf Insurance Company K.S.C. and Subsidiaries) for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 11 February 2014. The Shareholders' General Assembly has the power to amend the consolidated financial statements after issuance.

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

The Parent Company is 44.04% (31 December 2012: 44.04%) owned by Kuwait Projects Company Holding K.S.C. (previously the "Ultimate Parent Company" and 41.42% (31 December 2012: 41.42%) by Fairfax Middle East Limited Company.

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

The Group employs 1352 employees for the year ended 31 December 2013 (31 December 2012: 1,308 employees).

The Extraordinary General Assembly Meeting of the Parent Company's shareholders was held on 30 June 2013 and has resolved to change the commercial name of the Parent Company from "Gulf Insurance Company K.S.C" to "Gulf Insurance Group K.S.C.P.". The commercial register of the Parent Company was amended to reflect this change on 9 December 2013.

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

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPERATION

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

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

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

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013.

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. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- 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 equity
- 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 parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Product classification

Insurance contracts

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

Investment contracts

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

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

Basis of combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be 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 will not be re-measured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Revenue recognition

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

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

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

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

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

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

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

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

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

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

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

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

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

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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

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

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

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

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

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

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

De-recognition of financial liabilities
A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

End of service indemnity
Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on reporting date.

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

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions (continued)

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

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

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty (continued)

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

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

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgement (continued)

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

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

2.4 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES

New and amended standards and interpretations
The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS recently issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2013. However the implementation of new and amended IFRS and IFRIC interpretations did not have a significant impact on the Group's consolidated financial statements.

- *IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*
- *IAS 1 Clarification of the requirement for comparative information (Amendment)*
- *IAS 19 Employee Benefits (Revised)*
- *IFRS 7 Disclosures: Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7*
- *IFRS 10 Consolidated Financial Statements*
- *IAS 27 Separate Financial Statements (as revised in 2011)*
- *IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures*
- *IFRS 13 Fair Value Measurement*

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
The amendment 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.

IAS 1 Clarification of the requirement for comparative information (Amendment)
These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2013 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

2.4 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)

IAS 19 Employee Benefits (Revised)
Amended standard is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. The application of this did not have material impact on the consolidated financial position and performance.

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

IFRS 10 Consolidated Financial Statements
This standard replaces the portion of IAS 27 "*Consolidated and Separate Financial Statements"* that addresses the accounting for consolidated financial statements. The standard establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgment 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. The application of IFRS 10 did not have material impact on the consolidated financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements.

IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures
IFRS 11 replaces IAS 31 "*Interests in Joint Ventures*". The standard 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. As a consequence of the new IFRS 11 and IFRS 12; IAS 28 has been renamed IAS 28 "*Investments in Associates and Joint Ventures"*, and describes the application of the equity method to investments in joint ventures in addition to associates. The application of IFRS 11 did not have material impact on the consolidated financial position and performance.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 29.

2.4 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)

New and revised IASB 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 is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. However, the Group expects no significant impact from the adoption of the amendments on its consolidated financial position or performance.

IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial liabilities (Amended)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group is currently assessing the impact that this standard will have on the consolidated financial position and performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 9 Financial Instruments: Classification and Measurement

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

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied.

3 NET INVESTMENT INCOME

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

	Debt securities (loans) KD	*Investments carried at fair value through income statement KD*	*Time and call deposits KD*	***2013 Total KD***	*2012 Total KD*
Realised gain	-	180,830	-	**180,830**	324,778
Unrealised gain	-	596,759	-	**596,759**	831,871
Dividend income	-	195,459	-	**195,459**	37,744
Interest income	797,792	-	235,374	**1,033,166**	1,561,705
Gain on financial instruments	797,792	973,048	235,374	**2,006,214**	2,756,098
Other investment income	-	131,998	-	**131,998**	26,879
Total investment income	797,792	1,105,046	235,374	**2,138,212**	2,782,977
Financial charges and other expenses	-	(11,440)	-	**(11,440)**	(8,507)
Total investment expense	-	(11,440)	-	**(11,440)**	(8,507)
Net investment income	797,792	1,093,606	235,374	**2,126,772**	2,774,470

3 NET INVESTMENT INCOME (continued)

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

	Investment in associates KD	*Investments held to maturity KD*	*Investments available for sale KD*	*Investments carried at fair value through income statement KD*	*Property held for sale KD*	*Time and call deposits KD*	*Other investment income KD*	***2013 Total KD***	*2012 Total KD*
Realised gain	-	-	427,812	104,519	-	-	-	**532,331**	724,487
Unrealised gain	-	-	-	490,340	-	-	-	**490,340**	285,399
Dividends income	-	-	1,218,389	31,024	-	-	-	**1,249,413**	967,400
Interest income	-	1,999,503	-	-	-	3,018,916	33,830	**5,052,249**	3,294,433
Gain on financial instruments	-	1,999,503	1,646,201	625,883	-	3,018,916	33,830	**7,324,333**	5,271,719
Share of result from associates (Note 6)	1,567,799	-	-	-	-	-	-	**1,567,799**	(13,432)
Gain arising on reclassification of investment available for sale (Note 6)	367,405	-	-	-	-	-	-	**367,405**	3,199,597
Rental income	-	-	-	-	64,671	-	-	**64,671**	47,324
Other investment income	-	-	-	-	-	-	277,305	**277,305**	657,384
Total investment income	1,935,204	1,999,503	1,646,201	625,883	64,671	3,018,916	311,135	**9,601,513**	9,162,592
Financial charges	-	-	(183)		-	(1,311)	(953,625)	**(955,119)**	(1,396,040)
Impairment loss	-	(74,113)	(175,914)	-	-	-	-	**(250,027)**	(1,011,463)
Other investment expenses	-	(71,554)	(314,620)		-	-	-	**(386,174)**	(423,986)
Total investment expense	-	(145,667)	(490,717)	-	-	(1,311)	(953,625)	**(1,591,320)**	(2,831,489)
Net investment income	1,935,204	1,853,836	1,155,484	625,883	64,671	3,017,605	(642,490)	**8,010,193**	6,331,103

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

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

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

	2013	*2012*
Profit for the year attributable to equity holders of the Parent Company (KD)	**10,202,495**	9,279,954
Number of shares outstanding at the beginning of the year	**187,039,125**	187,039,125
Weighted average number of treasury shares	**(3,756,439)**	(3,441,233)
Weighted average number of shares outstanding during the year	**183,282,686**	183,597,892
Basic and diluted earnings per share	**55.67 fils**	50.54 fils

5 PROPERTY AND EQUIPMENT

	Land KD	*Buildings* KD	*Leasehold improvements* KD	*Computers* KD	*Furniture and fixtures* KD	*Motor vehicles* KD	*Total* KD
Cost:							
At 1 January 2013	3,670,705	8,791,282	1,235,030	4,458,800	3,046,541	566,537	21,768,895
Additions	1,215,405	676,035	3,753	447,372	100,463	186,222	2,629,250
Disposals	-	-	(5,351)	(7,905)	(21,049)	(110,294)	(144,599)
Foreign currency translation differences	(15,018)	(84,044)	(25,859)	(44,275)	(17,446)	(31,461)	(218,103)
At 31 December 2013	4,871,092	9,383,273	1,207,573	4,853,992	3,108,509	611,004	24,035,443
Accumulated Depreciation:							
At 1 January 2013	-	3,420,415	809,687	3,559,798	2,407,303	293,664	10,490,867
Charge for the year	-	192,345	84,823	307,588	175,031	97,947	857,734
On disposals	-	-	(5,351)	(7,053)	(13,914)	(102,328)	(128,646)
Foreign currency translation differences	-	(11,650)	11,560	(35,259)	(20,845)	(10,501)	(66,695)
At 31 December 2013	-	3,601,110	900,719	3,825,074	2,547,575	278,782	11,153,260
Net carrying amount:							
At 31 December 2013	**4,871,092**	**5,782,163**	**306,854**	**1,028,918**	**560,934**	**332,222**	**12,882,183**

Part of the Parent Company's premises with net carrying amount of KD 1,260,000 (2012: KD 1,260,000) have been mortgaged with the Ministry of Commerce and Industry.

5 PROPERTY AND EQUIPMENT (continued)

	Land *KD*	*Buildings* *KD*	*Leasehold improvements* *KD*	*Computers* *KD*	*Furniture and fixtures* *KD*	*Motor vehicles* *KD*	*Total* *KD*
Cost:							
At 1 January 2012	3,001,205	9,713,716	1,158,240	3,974,531	2,848,352	549,655	21,245,699
Additions	681,558	51,387	117,770	552,932	255,266	124,298	1,783,211
Disposals	-	(988,448)	-	(7,081)	(40,452)	(95,389)	(1,131,370)
Foreign currency translation differences	(12,058)	14,627	(40,980)	(61,582)	(16,625)	(12,027)	(128,645)
At 31 December 2012	3,670,705	8,791,282	1,235,030	4,458,800	3,046,541	566,537	21,768,895
Accumulated Depreciation:							
At 1 January 2012	-	3,217,035	690,140	3,330,791	2,248,232	286,086	9,772,284
Charge for the year	-	197,148	144,209	279,505	196,449	84,479	901,790
On disposals	-	-	-	(2,671)	(23,807)	(68,083)	(94,561)
Foreign currency translation differences	-	6,232	(24,662)	(47,827)	(13,571)	(8,818)	(88,646)
At 31 December 2012	-	3,420,415	809,687	3,559,798	2,407,303	293,664	10,490,867
Net carrying amount:							
At 31 December 2012	3,670,705	5,370,867	425,343	899,002	639,238	272,873	11,278,028

6 INVESTMENT IN ASSOCIATES

The Group has the following investment in associates:

	Country of incorporation	*Percentage of ownership*		*Principal activity*
		2013	*2012*	
Al-Brouj Co-Operative Insurance Company (A Saudi Joint Stock Company)	Kingdom of Saudi Arabia	**27%**	27%	Insurance activities
Al-Argan International Real Estate Company K.S.C.	State of Kuwait	**20%**	19%	Real Estate Activities
Alliance Insurance Company P.S.C.	United Arab Emirates	**20%**	20%	Insurance Activities
Egyptian Takaful Property and Liability S.A.E.*	Egypt	**17%**	17%	Insurance Activities

* Egyptian Takaful Property and Liability S.A.E. was previously accounted for as an investment available for sale. During the current year, the Group was able to exercise significant influence to a sufficient degree for the Group to demonstrate that it has significant influence over the associate, accordingly an amount of KD 367,405 was recognized in the consolidated statement of income on measurement of the investment as per IAS 28 requirements.

Carrying amount of investment in associates

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

	2013 KD	*2012 KD*
Carrying value at 1 January	**21,344,080**	13,299,616
Share of results of associates recognised through previous year provision	**-**	(500,000)
Additions	**674,099**	9,127,996
Disposals	**-**	(10,161,933)
Dividends received	**(591,878)**	-
Share of results of associates (Note 3)	**1,567,799**	(13,432)
Transfers from investments available for sale	**809,935**	6,298,323
Gain arising on reclassification of investment available for sale (Note 3)	**367,405**	3,199,597
Share of other comprehensive income of associates	**102,927**	42,510
Foreign currency translation adjustment	**(32,035)**	51,403
Carrying value at 31 December	**24,242,332**	21,344,080

Goodwill included in the carrying value of the investment in associates amounts to KD 2,424,128 (31 December 2012: KD 2,424,128).

	2013 KD	*2012 KD*
Share of associates' financial position:		
Assets	**49,342,493**	39,872,879
Liabilities	**(27,524,289)**	(20,952,927)
	21,818,204	18,919,952
Goodwill	**2,424,128**	2,424,128
Net assets	**24,242,332**	21,344,080
Share of associates' revenues and net profit (loss):		
Revenues	**1,890,872**	1,853,273
Net profit (loss)	**1,567,799**	(13,432)

6 INVESTMENT IN ASSOCIATES (continued)

Investment in associates include quoted associate with a carrying value of KD 23,336,882 (31 December 2012: KD 21,344,080) having a market value of KD 26,833,458 (31 December 2012: KD 28,841,149).

7 GOODWILL

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

	2013 KD	*2012 KD*
Arab Misr Insurance Group Company S.A.E.	**308,340**	308,340
Bahrain Kuwaiti Insurance Company (B.S.C.)	**2,625,935**	2,625,935
Arab Orient Insurance Company J.S.C.	**5,292,099**	5,292,099
Dar Al-Salam Insurance Company	**604,073**	604,073
Held through subsidiaries:		
Egypt Life Takaful Insurance Company (S.A.E.)	**167,904**	167,904
	8,998,351	8,998,351

Movement on goodwill during the year is as follows:

	2013 KD	*2012 KD*
At I January	**8,998,351**	9,070,257
Impairment of goodwill	**-**	(71,906)
	8,998,351	8,998,351

The recoverable amount of each segment unit has been determined based on a value in use calculation, using cash flow projections approved by senior management covering a five-year period. The average discount rate used was 15% (2012: 15%) applied to cash flow projections over a five years period. Cash flows beyond the five year period are extrapolated using a projected growth rate of 3% (2012: 3%).

The calculation of value in use for each segment unit is sensitive to the following assumptions:

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

7 GOODWILL (continued)

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

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

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

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

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

Sensitivity to changes in assumptions
With regard to the assessment of value in use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

8 INVESTMENTS AVAILABLE FOR SALE

	2013 KD	*2012 KD*
Quoted equity securities	**16,677,873**	11,773,238
Unquoted equity securities	**17,651,647**	19,309,569
Unquoted managed funds	**356,636**	618,550
	34,686,156	31,701,357

Included in investments available for sale are unquoted equity securities with a value of KD 265,180 (31 December 2012: KD 536,352) which are carried at cost as the fair value could not be reliably measured. Information for such investments is usually restricted to periodic investment performance reports from the investment managers. Management has performed a review of its unquoted investments to assess whether impairment has occurred in the value of these investments. Based on the latest financial information available in respect of these investments and their operations, management is of the view that the value of these investments is not impaired.

Impairment loss of KD 175,914 (31 December 2012: KD 1,011,463) has been made against quoted securities on which there has been a significant or prolonged decline in fair value below cost.

9 INVESTMENTS CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

	2013 KD	*2012 KD*
Held for trading:		
Quoted securities	**4,574,878**	3,394,741
Designated upon initial recognition:		
Managed funds of quoted securities	**13,164,711**	13,159,342
	17,739,589	16,554,083

10 PREMIUMS AND INSURANCE BALANCES RECEIVABLE

	2013 ***KD***	*2012* *KD*
Policyholders' accounts receivable		
Premiums receivable	**46,799,418**	45,573,251
Insured debts receivable	**300,838**	575,840
	47,100,256	46,149,091
Provision for doubtful debts	**(5,306,913)**	(5,114,101)
Net policyholders' accounts receivable	**41,793,343**	41,034,990

	2013 ***KD***	*2012* *KD*
Insurance and reinsures' accounts receivable		
Reinsures receivable	**7,383,719**	11,011,806
Provision for doubtful debts	**(582,866)**	(537,238)
Net insurance and reinsures' accounts receivable	**6,800,853**	10,474,568
Total premiums and insurance balances receivable	**48,594,196**	51,509,558

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

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

	2013 ***KD***	*2012* *KD*
At 1 January	**5,114,101**	5,029,496
Charge for the year	**366,403**	400,791
Amounts written off	**(173,591)**	(316,186)
At 31 December	**5,306,913**	5,114,101

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

	2013 ***KD***	*2012* *KD*
At 1 January	**537,238**	466,127
Charge for the year	**45,628**	71,111
At 31 December	**582,866**	537,238

11 LIABILITIES AND ASSETS ARISING FROM INSURANCE CONTRACTS

31 December 2013	*Marine and aviation KD*	*Motor vehicles KD*	*Property KD*	*Engineering KD*	*General accidents KD*	*Life KD*	*Medical KD*	*Total KD*
OUTSTANDING CLAIMS RESERVE:								
Gross balance at beginning of the year	2,630,072	21,021,930	16,464,563	7,904,328	6,532,659	12,243,109	10,781,171	77,577,832
Reinsurance recoverable on outstanding claims	(2,150,097)	(5,040,181)	(14,988,790)	(7,374,029)	(2,282,616)	(3,253,497)	(5,636,710)	(40,725,920)
Net balance at beginning of the year	479,975	15,981,749	1,475,773	530,299	4,250,043	8,989,612	5,144,461	36,851,912
Foreign currency translation difference	(7,136)	(1,267,030)	(65,192)	(41,165)	(78,398)	(1,175)	(38,123)	(1,498,219)
Incurred during the year (net)	210,049	20,615,937	1,721,542	1,057,280	1,247,512	11,752,372	22,164,425	58,769,117
Paid during the year (net)	(225,698)	(18,593,729)	(1,406,129)	(519,434)	(1,037,429)	(10,212,310)	(21,971,513)	(53,966,242)
NET BALANCE AT END OF THE YEAR	457,190	16,736,927	1,725,994	1,026,980	4,381,728	10,528,499	5,299,250	40,156,568
Represented in:								
Gross balance at end of the year	4,079,991	23,108,067	18,266,892	12,255,855	7,153,175	13,320,461	9,325,656	**87,510,097**
Reinsurance recoverable	(3,622,801)	(6,371,140)	(16,540,898)	(11,228,875)	(2,771,447)	(2,791,962)	(4,026,406)	**(47,353,529)**
NET BALANCE AT END OF THE YEAR	457,190	16,736,927	1,725,994	1,026,980	4,381,728	10,528,499	5,299,250	**40,156,568**
Unearned premiums reserve (net)	494,454	15,915,486	1,228,373	803,352	2,700,849	79,447	10,114,604	**31,336,565**
Life mathematical reserve (net)	-	-	-	-	-	19,918,434	1,632,449	**21,550,883**
Incurred but not reported reserve (net)	445,622	1,751,235	417,063	373,309	811,527	1,001,413	13,476	**4,813,645**

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

11 LIABILITIES AND ASSETS ARISING FROM INSURANCE CONTRACTS (continued)

31 December 2012	*Marine and aviation KD*	*Motor vehicles KD*	*Property KD*	*Engineering KD*	*General accidents KD*	*Life KD*	*Medical KD*	*Total KD*
OUTSTANDING CLAIMS RESERVE:								
Gross balance at beginning of the year	4,808,634	22,457,804	14,202,601	8,495,133	6,986,408	11,127,757	7,101,231	75,179,568
Reinsurance recoverable on outstanding claims	(4,239,036)	(6,040,695)	(12,966,932)	(7,952,946)	(2,602,058)	(4,159,486)	(3,840,280)	(41,801,433)
Net balance at beginning of the year	569,598	16,417,109	1,235,669	542,187	4,384,350	6,968,271	3,260,951	33,378,135
Foreign currency translation difference	(7,643)	(978,031)	(14,289)	(5,115)	(21,105)	(765,809)	768,240	(1,023,752)
Incurred during the year (net)	144,147	18,505,359	1,356,144	476,797	1,133,996	11,243,096	18,652,054	51,511,593
Paid during the year (net)	(226,127)	(17,962,688)	(1,101,751)	(483,571)	(1,247,199)	(8,455,946)	(17,536,782)	(47,014,064)
NET BALANCE AT END OF THE YEAR	479,975	15,981,749	1,475,773	530,298	4,250,042	8,989,612	5,144,463	36,851,912
Represented in:								
Gross balance at end of the year	2,630,072	21,021,930	16,464,563	7,904,327	6,532,659	12,243,109	10,781,172	77,577,832
Reinsurance recoverable	(2,150,097)	(5,040,181)	(14,988,790)	(7,374,029)	(2,282,617)	(3,253,497)	(5,636,709)	(40,725,920)
NET BALANCE AT END OF THE YEAR	479,975	15,981,749	1,475,773	530,298	4,250,042	8,989,612	5,144,463	36,851,912
Unearned premiums reserve (net)	497,220	13,867,326	1,126,250	801,240	2,560,416	72,359	8,524,395	27,449,206
Life mathematical reserve (net)	-	-	-	-	-	18,149,668	1,613,023	19,762,691
Incurred but not reported reserve (net)	716,010	1,178,315	412,250	233,668	1,021,339	600,000	13,832	4,175,414

12 OTHER ASSETS

	2013 KD	2012 KD
Accrued interest income	689,387	879,472
Inward reinsurance retentions	40,713	41,564
Refundable claims	146,644	95,639
Amounts due from related parties (Note 26)	1,402,689	6,529,184
Prepaid expenses and others	10,441,686	10,552,514
	12,721,119	18,098,373

13 TIME DEPOSITS

Time deposits of KD 21,321,046 (31 December 2012: KD 23,203,405) are placed with local and foreign banks and carry an average effective interest rate of 4% (31 December 2012: 4%) per annum. Time deposits mature within one year.

14 CASH AND CASH EQUIVALENTS

	2013 KD	2012 KD
Cash on hand and at banks	13,907,786	8,288,118
Short term deposits and call accounts	44,696,329	35,220,839
Cash and cash equivalents in the consolidated statement of financial position	58,604,115	43,508,957
Bank overdrafts	(20,374,524)	(20,397,443)
Cash and cash equivalents in the consolidated statement of cash flows	38,229,591	23,111,514

15 INSURANCE PAYABLE

	2013 KD	2012 KD
Policyholders and agencies payables	13,222,947	15,049,031
Insurance and reinsurance payables	27,231,563	27,854,436
Amount due to policyholders of Takaful unit (Note 28)	873,395	128,407
	41,327,905	43,031,874

16 OTHER LIABILITIES

	2013 KD	2012 KD
Accrued expenses and others	9,797,309	8,998,754
Reserve for reinsurance premiums	1,508,065	1,727,244
KFAS, NLST and Zakat payables	363,805	346,762
Provision for end of service indemnity	6,114,618	5,738,127
Proposed directors' fees	155,000	125,000
	17,938,797	16,935,887

17 SHARE CAPITAL

Authorised, issued and fully paid capital consists of 187,039,125 shares of 100 fils each (2012: 187,039,125 shares) which was fully paid in cash.

Cash dividends, bonus shares and directors' fees

The Ordinary Annual General Assembly of the Parent Company's shareholders held on 8 April 2013 approved the payment of cash dividends amounting to KD 4,583,617 for the year ended 31 December 2012 (2011: KD 3,498,345), which represents 25% of paid up share capital (2011: 20%) and the Ordinary Annual General Assembly of the Parent Company's shareholders held on 2 April 2012 approved the increase of authorised, issued and paid up share capital from KD 17,813,250 to KD 18,703,913 through issuance of 8,906,630 bonus shares of 100 fils each which is equivalent to 5% of paid up share capital.

On 11 February 2014, the Board of Directors of the Parent Company have proposed cash dividend of 30 fils per share (31 December 2012: 25 fils). This proposal is subject to the approval by Annual General Meeting of the shareholders of the Parent Company.

Directors' fees of KD 155,000 for the year ended 31 December 2013 is subject to approval by the Ordinary Annual General Assembly of the Parent Company's shareholders. Directors' fees of KD 125,000 for the year ended 31 December 2012 was approved by the Ordinary Annual General Assembly of the Parent Company's shareholders held on 8 April 2013.

18 TREASURY SHARES

	2013	*2012*
Number of shares (share)	**3,792,976**	3,694,455
Percentage of issued shares (%)	**2.028%**	1.975%
Market value (KD)	**2,086,137**	1,958,061

19 STATUTORY RESERVE

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

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

20 VOLUNTARY RESERVE

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

21 SEGMENT INFORMATION

a) Segmental consolidated statement of income

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

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

Executive Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment result and is measured consistently with the results in the consolidated financial statements.

21 SEGMENT INFORMATION (continued)

a) Segmental consolidated statement of income (continued)

	General risk insurance						*Life and medical insurance*			
Year ended 31 December 2013:	*Marine and aviation KD*	*Motor vehicles KD*	*Property KD*	*Engineering KD*	*General accidents KD*	*Total general risk insurance KD*	*Life KD*	*Medical KD*	*Total life and medical insurance KD*	*Total KD*
Revenue:										
Premiums written	7,762,630	34,508,066	22,801,529	9,900,685	10,571,460	85,544,370	17,642,643	53,853,213	71,495,856	**157,040,226**
Reinsurance premiums ceded	(5,996,709)	(2,634,130)	(20,545,780)	(8,583,981)	(5,737,676)	(43,498,276)	(3,178,082)	(27,046,512)	(30,224,594)	**(73,722,870)**
Net premiums written	1,765,921	31,873,936	2,255,749	1,316,704	4,833,784	42,046,094	14,464,561	26,806,701	41,271,262	**83,317,356**
Movement in unearned premiums	(9,525)	(2,414,731)	(126,890)	(24,295)	(196,149)	(2,771,590)	(1,854)	(1,621,180)	(1,623,034)	**(4,394,624)**
Movement in life mathematical reserve	-	-	-	-	-	-	(1,736,273)	(19,426)	(1,755,699)	**(1,755,699)**
Net premiums earned	1,756,396	29,459,205	2,128,859	1,292,409	4,637,635	39,274,504	12,726,434	25,166,095	37,892,529	**77,167,033**
Commission received on ceded reinsurance	1,850,850	354,280	3,111,985	1,799,439	1,016,713	8,133,267	778,505	2,337,202	3,115,707	**11,248,974**
Policy issuance fees	160,660	1,776,102	87,916	72,726	108,176	2,205,580	67,781	1,096,013	1,163,794	**3,369,374**
Net investment loss from life insurance	-	-	-	-	-	-	1,596,967	529,805	2,126,772	**2,126,772**
Total revenue	3,767,906	31,589,587	5,328,760	3,164,574	5,762,524	49,613,351	15,169,687	29,129,115	44,298,802	**93,912,153**
Expenses:										
Claims incurred	210,049	20,615,937	1,721,542	1,057,280	1,247,511	24,852,319	11,752,372	22,164,426	33,916,798	**58,769,117**
Commission and discounts	680,327	4,342,668	1,579,829	759,387	855,910	8,218,121	766,100	685,893	1,451,993	**9,670,114**
Movement in incurred but not reported reserve	(260,177)	650,909	14,260	154,689	(160,247)	399,434	400,000	-	400,000	**799,434**
Maturity and cancellations of life insurance policies	-	-	-	-	-	-	1,368,308	-	1,368,308	**1,368,308**
General and administrative expenses	1,156,002	4,862,463	1,558,456	723,485	1,467,118	9,767,524	1,126,201	3,920,480	5,046,681	**14,814,205**
Total expenses	1,786,201	30,471,977	4,874,087	2,694,841	3,410,292	43,237,398	15,412,981	26,770,799	42,183,780	**85,421,178**
Net underwriting income	1,981,705	1,117,610	454,673	469,733	2,352,232	6,375,953	(243,294)	2,358,316	2,115,022	**8,490,975**
Net investment income						8,010,193			-	**8,010,193**
Net sundry income						422,027			7,508	**429,535**
Depreciation						(472,393)			(385,341)	**(857,734)**
Unallocated general and administrative expenses						(2,872,070)			(638,990)	**(3,511,060)**
Profit for the year before contribution to KFAS, NLST, Zakat tax and Directors' fees						11,463,710			1,098,199	**12,561,909**

21 SEGMENT INFORMATION (continued)

a) Segmental consolidated statement of income (continued)

	General risk insurance						*Life and medical insurance*			
Year ended 31 December 2012:	*Marine and aviation KD*	*Motor vehicles KD*	*Property KD*	*Engineering KD*	*General accidents KD*	*Total general risk insurance KD*	*Life KD*	*Medical KD*	*Total life and medical insurance KD*	*Total KD*
Revenue:										
Premiums written	8,648,933	31,964,303	22,060,528	8,531,329	10,039,221	81,244,314	16,048,015	48,082,121	64,130,136	145,374,450
Reinsurance premiums ceded	(6,922,756)	(2,996,225)	(19,720,852)	(7,216,177)	(5,354,048)	(42,210,058)	(2,737,988)	(26,725,258)	(29,463,246)	(71,673,304)
Net premiums written	1,726,177	28,968,078	2,339,676	1,315,152	4,685,173	39,034,256	13,310,027	21,356,863	34,666,890	73,701,146
Movement in unearned premiums	(27,880)	(1,138,075)	(53,236)	(216,793)	(281,874)	(1,717,858)	91,669	(2,022,386)	(1,930,717)	(3,648,575)
Movement in life mathematical reserve	-	-	-	-	-	-	(1,512,715)	414,178	(1,098,537)	(1,098,537)
Net premiums earned	1,698,297	27,830,003	2,286,440	1,098,359	4,403,299	37,316,398	11,888,981	19,748,655	31,637,636	68,954,034
Commission received on ceded reinsurance	1,880,694	446,809	3,009,990	1,762,361	883,577	7,983,431	680,579	2,143,636	2,824,215	10,807,646
Policy issuance fees	144,224	1,725,305	76,650	61,370	123,677	2,131,226	17,078	1,295,173	1,312,251	3,443,477
Net investment loss from life insurance	-	-	-	-	-	-	2,197,736	576,734	2,774,470	2,774,470
Total Revenue	3,723,215	30,002,117	5,373,080	2,922,090	5,410,553	47,431,055	14,784,374	23,764,198	38,548,572	85,979,627
Expenses:										
Claims incurred	144,148	18,505,359	1,356,144	476,797	1,133,996	21,616,444	11,243,097	18,652,053	29,895,150	51,511,594
Commission and discounts	723,359	4,133,825	1,369,729	828,370	826,081	7,881,364	566,952	589,322	1,156,274	9,037,638
Movement in incurred but not reported reserve	25,049	377,929	(17,143)	11,949	2,230	400,014	(250,000)	(13,618)	(263,618)	136,396
Maturity and cancellations of life insurance policies	-	-	-	-	-	-	1,189,372	-	1,189,372	1,189,372
General and administrative expenses	1,294,907	5,083,834	2,186,139	941,572	1,332,553	10,839,005	1,155,067	3,393,779	4,548,846	15,387,851
Total Expenses	2,187,463	28,100,947	4,894,869	2,258,688	3,294,860	40,736,827	13,904,488	22,621,536	36,526,024	77,262,851
Net underwriting income	1,535,752	1,901,170	478,211	663,402	2,115,693	6,694,228	879,886	1,142,662	2,022,548	8,716,776
Net investment income						6,331,103			-	6,331,103
Net sundry income						486,303			4,798	491,101
Depreciation						(571,792)			(329,998)	(901,790)
Unallocated general and administrative expenses						(2,534,620)			(494,030)	(3,039,353)
Profit for the year before contribution to KFAS, NLST, Zakat tax and Directors' fees						10,394,519			1,203,318	11,597,837

21 SEGMENT INFORMATION (continued)

b) Segment consolidated statement of financial position

31 December 2013	*General risk insurance KD*	*Life and medical insurance KD*	***Total KD***
Assets			
Property and equipment	9,664,669	3,217,514	**12,882,183**
Investment in associates	24,242,332	-	**24,242,332**
Goodwill	8,830,447	167,904	**8,998,351**
Financial instruments:			
Investments held to maturity	19,370,938	548,028	**19,918,966**
Debt securities (loans)	-	11,758,037	**11,758,037**
Investments available for sale	33,680,860	1,005,296	**34,686,156**
Investments carried at fair value through income statement	2,150,460	15,589,129	**17,739,589**
Loans secured by life insurance policies	-	1,185,432	**1,185,432**
Premium and insurance balances receivable	29,353,192	19,241,004	**48,594,196**
Reinsurers recoverable on outstanding claims	40,535,161	6,818,368	**47,353,529**
Property held for sale	372,084	50,435	**422,519**
Other assets	6,837,874	5,883,245	**12,721,119**
Time deposits	16,745,504	4,575,542	**21,321,046**
Cash and cash equivalents	34,324,941	24,279,174	**58,604,115**
Total assets	**226,108,462**	**94,319,108**	**320,427,570**
Liabilities			
Liabilities arising from insurance contracts:			
Outstanding claims reserve (gross)	64,863,980	22,646,117	**87,510,097**
Unearned premiums reserve (net)	21,142,514	10,194,051	**31,336,565**
Life mathematical reserve (net)	-	21,550,883	**21,550,883**
Incurred but not reported reserve (net)	3,798,756	1,014,889	**4,813,645**
Total liabilities arising from insurance contracts	89,805,250	55,405,940	**145,211,190**
Premiums received in advance	236,295	43,760	**280,055**
Insurance payable	26,792,284	14,535,621	**41,327,905**
Other liabilities	15,589,413	2,349,384	**17,938,797**
Bank overdrafts	20,227,309	147,215	**20,374,524**
Total liabilities	**152,650,551**	**72,481,920**	**225,132,471**

21 SEGMENT INFORMATION (continued)

b) Segment consolidated statement of financial position (continued)

31 December 2012	*General risk insurance* *KD*	*Life and medical insurance* *KD*	*Total* *KD*
Assets			
Property and equipment	8,854,255	2,423,773	11,278,028
Investment in associates	21,344,080	-	21,344,080
Goodwill	8,830,447	167,904	8,998,351
Financial instruments:			
Investments held to maturity	17,552,005	1,246,045	18,798,050
Debt securities (loans)	-	11,033,153	11,033,153
Investments available for sale	31,142,642	558,715	31,701,357
Investments carried at fair value through income statement	1,567,116	14,986,967	16,554,083
Loans secured by life insurance policies	-	977,053	977,053
Premium and insurance balances receivable	30,946,864	20,562,694	51,509,558
Reinsurers recoverable on outstanding claims	31,835,716	8,890,204	40,725,920
Property held for sale	235,797	378,044	613,841
Other assets	14,107,544	3,990,829	18,098,373
Time deposits	16,573,713	6,629,692	23,203,405
Cash and cash equivalents	24,302,896	19,206,061	43,508,957
Total assets	207,293,075	91,051,134	298,344,209
Liabilities			
Liabilities arising from insurance contracts:			
Outstanding claims reserve (gross)	54,553,552	23,024,280	77,577,832
Unearned premiums reserve (net)	18,852,452	8,596,754	27,449,206
Life mathematical reserve (net)	-	19,762,691	19,762,691
Incurred but not reported reserve (net)	3,561,582	613,832	4,175,414
Total liabilities arising from insurance contracts	76,967,586	51,997,557	128,965,143
Premiums received in advance	199,145	33,450	232,595
Insurance payable	29,730,071	13,301,803	43,031,874
Other liabilities	15,176,256	1,759,631	16,935,887
Bank overdrafts	20,183,851	213,592	20,397,443
Total liabilities	142,256,909	67,306,033	209,562,942

21 SEGMENT INFORMATION (continued)

c) Geographic information

	Kuwait		*GCC Countries*		*Other ME Countries*		*Total*	
	KD 2013	*KD 2012*	***KD 2013***	*KD 2012*	***KD 2013***	*KD 2012*	***KD 2013***	*KD 2012*
Segment revenue	**52,133,881**	47,000,198	**6,821,759**	6,735,234	**34,956,513**	32,244,195	**93,912,153**	85,979,627
Segment results (net underwriting income)	**4,369,860**	4,943,790	**1,170,419**	1,556,706	**2,950,696**	2,216,280	**8,490,975**	8,716,776
Profit for the year attributable to equity holders of the Parent Company	**6,033,684**	5,403,739	**750,919**	767,404	**3,417,892**	3,108,811	**10,202,495**	9,279,954
Total assets	**217,635,602**	216,455,871	**26,475,406**	25,191,495	**76,316,562**	56,696,843	**320,427,570**	298,344,209
Total liabilities	**136,565,939**	140,324,088	**19,871,358**	18,195,217	**68,695,174**	51,043,637	**225,132,471**	209,562,942

22 STATUTORY GUARANTEES

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

	2013	*2012*
	KD	*KD*
Current accounts and deposits at banks	**19,921,072**	17,423,955
Loans secured by life insurance policies	**977,053**	900,114
	20,898,125	18,324,069

Foreign deposits of KD 25,469,715 (31 December 2012: KD 21,362,909) held outside the State of Kuwait as security for the subsidiary companies' activities.

23 CONTINGENT LIABILITIES

At the reporting date, the Group is contingently liable in respect of letters of guarantee and other guarantees amounting to KD 4,182,478 (31 December 2012: KD 3,405,786).

The Group operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

24 COMMITMENTS

At the reporting date, the Group did not have future commitments with respect to purchase financial instruments (31 December 2012: Nil).

25 RISK MANAGEMENT

(a) Governance framework

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

The Group established a risk management function with clear terms of reference from the Parent Company's board of directors, its committees and the associated executive management committees. The risk management function will support the Parent Company as well as the subsidiaries in all risk management practices. This supplemented with a clear organisational structure that document delegated authorities and responsibilities from the board of directors to executive and senior managers.

25 RISK MANAGEMENT (continued)

(b) Regulatory framework

Law No. 24 of 1961, Law No.13 of 1962, Law No. 510 of 2011 which is subsequently amended by Law No. 578 of 2013 and Decree No. 5 of 1989, and the rules and regulations issued by the Ministry of Commerce provide the regulatory framework for the insurance industry in Kuwait. All insurance companies operating in Kuwait are required to follow these rules and regulations.

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

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

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

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

(c) Capital management objectives, policies and approach

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

Capital management objectives

The capital management objectives are:

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

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

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

25 RISK MANAGEMENT (continued)

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

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

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

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

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

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

(d) Insurance risk

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

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

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

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

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

Insurance risk is divided into risk of life insurance contracts and risk of non-life insurance contracts as follows:

(1) Life insurance contracts

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

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

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

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

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

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

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

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

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life insurance contracts (continued)

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

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

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

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

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

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life insurance contracts (continued)

	2013			*2012*		
Type of contract	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*
Whole life insurance	**38,729**	**2,971**	**35,758**	29,420	8,784	20,636
Term insurance	**332,685**	**43,818**	**288,867**	180,878	24,985	155,893
Pure endowment	**1,886,794**	**-**	**1,886,794**	1,895,855	-	1,895,855
Group life and disability	**557,616**	**279,845**	**277,771**	574,811	291,835	282,976
Group medical including TPA	**1,493,291**	**2,117**	**1,491,174**	1,396,754	-	1,396,754
Credit life (Banks)	**4,971,484**	**3,404,334**	**1,567,150**	6,235,208	3,980,611	2,254,597
Preferred global health	**55,237**	**-**	**55,237**	67,638	-	67,638
Balsam	**87,623**	**-**	**87,623**	148,632	-	148,632
Misk individual policies	**275,000**	**-**	**275,000**	3,716,784	-	3,716,784
Total life insurance contract	**9,698,459**	**3,733,085**	**5,965,374**	14,245,980	4,306,215	9,939,765
Unitised pensions (Misk individual policies)	**15,585,509**	**-**	**15,585,509**	9,822,926	-	9,822,926
Total investments contracts	**15,585,509**	**-**	**15,585,509**	9,822,926	-	9,822,926
Total life insurance and investment contracts	**25,283,968**	**3,733,085**	**21,550,883**	24,068,906	4,306,215	19,762,691
Other life insurance contract liabilities	**26,391,601**	**5,363,107**	**21,028,494**	23,146,684	6,523,027	16,623,657

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

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life insurance contracts (continued)

	2013			2012		
	Gross liabilities KD	**Reinsurers' share of liabilities KD**	**Net Liabilities KD**	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*
Kuwait	**9,698,459**	**3,733,085**	**5,965,374**	14,245,980	4,306,215	9,939,765

Investment contracts

	2013			2012		
	Gross liabilities KD	**Reinsurers' share of liabilities KD**	**Net Liabilities KD**	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net Liabilities KD*
Kuwait	**5,131,124**	**-**	**5,131,124**	616,816	-	616,816
Europe	**10,454,385**	**-**	**10,454,385**	9,206,110	-	9,206,110
Total	**15,585,509**	**-**	**15,585,509**	9,822,926	-	9,822,926

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

Key assumptions

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

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

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

•***Mortality and morbidity rates***

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

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

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life insurance contracts (continued)

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

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

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

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

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

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

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

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

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

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

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life insurance contracts (continued)

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

Portfolio assumptions by type of business impacting net liabilities	*Mortality and morbidity rates*		*Investment return*		*Lapse and surrender rates*		*Discount rates*		*Renewal expenses*		*Inflation rate*	
	2013	*2012*	***2013***	*2012*	***2013***	*2012*	***2013***	*2012*	***2013***	*2012*	***2013***	*2012*
Investment contracts:												
With fixed and guaranteed terms	A49/52	A49/52	**3%**	3%	N/A	N/A	**4%**	4%	5% of AP+1% of SA	5% of AP+1% of SA	**3%**	3%
Non-guaranteed terms	A49/52	A49/52	N/A	N/A	N/A	N/A	**4%**	4%	5% of AP+1% of SA	5% of AP+1% of SA	**3%**	3%
Life term assurance:												
Males	A49/52	A49/52	**4%**	4%	N/A	N/A	**4%**	4%	5% of AP+1% of SA	5% of AP+1% of SA	**3%**	3%
Females	A49/52-3yr	A49/52-3yr	**4%**	4%	N/A	N/A	**4%**	4%	5% of AP+1% of SA	5% of AP+1% of SA	**3%**	3%

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life insurance contracts (continued)

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

Life insurance contracts

31 December 2013

	Change in assumptions	***Impact on gross liabilities***	***Impact on net liabilities***	***Impact on profit***
Mortality/morbidity	Conservative	Reduction	Reduction	Positive
Investment return	-1%	-	-	(19,000)
Expenses	10%	180,000	180,000	(180,000)
Discount rate	-1%	110,000	110,000	(110,000)
Longevity	N/A	N/A	N/A	N/A
Lapse and surrenders rate	N/A	N/A	N/A	N/A

31 December 2012

	Change in assumptions	***Impact on gross liabilities***	***Impact on net liabilities***	***Impact on profit***
Mortality/morbidity	Conservative	Reduction	Reduction	Positive
Investment return	-1%	-	-	(20,000)
Expenses	10%	165,000	165,000	(165,000)
Discount rate	-1%	120,000	120,000	(120,000)
Longevity	N/A	N/A	N/A	N/A
Lapse and surrenders rate	N/A	N/A	N/A	N/A

Investment contracts

31 December 2013

	Change in assumptions	***Impact on gross liabilities***	***Impact on net liabilities***	***Impact on profit***
Mortality/morbidity				
Investment return	-1%	-	-	(46,000)
Expenses	10%	60,000	60,000	(60,000)
Discount rate	-1%	150,000	150,000	(150,000)
Longevity	N/A	N/A	N/A	N/A
Lapse and surrenders rate	N/A	N/A	N/A	N/A

31 December 2012

	Change in assumptions	*Impact on gross liabilities*	*Impact on net liabilities*	*Impact on profit*
Mortality/morbidity	Conservative	Small reduction	Small reduction	Neutral
Investment return	-1%	-	-	(30,000)
Expenses	10%	55,000	55,000	(55,000)
Discount rate	-1%	90,000	90,000	(90,000)
Longevity	N/A	N/A	N/A	N/A
Lapse and surrenders rate	N/A	N/A	N/A	N/A

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts

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

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

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

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

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

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

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

In additions; the Group also have an excess of loss agreements which cover both of the catastrophic and risk excess of loss, also the Group has obtained a stop loss cover for the Group.

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

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

Concentration of insurance contract liabilities by type of contract:	***2013*** Gross liabilities KD	***2013*** Reinsurer's share of liabilities KD	***2013*** Net liabilities KD	*2012* Gross liabilities KD	*2012* Reinsurer's share of liabilities KD	*2012* Net liabilities KD
Marine and Aviation	**5,888,467**	**4,491,200**	**1,397,267**	5,140,330	3,447,125	1,693,205
Motor vehicles	**40,452,348**	**6,048,700**	**34,403,648**	36,879,005	5,851,615	31,027,390
Property	**27,315,565**	**23,944,134**	**3,371,431**	24,817,407	21,803,135	3,014,272
Engineering	**18,222,596**	**16,018,956**	**2,203,640**	12,985,893	11,420,687	1,565,206
General Accidents	**11,910,797**	**4,016,693**	**7,894,104**	11,838,276	4,006,479	7,831,797
Total	**103,789,773**	**54,519,683**	**49,270,090**	91,660,911	46,529,041	45,131,870

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

Geographical concentration of insurance contract liabilities:	***2013*** Gross liabilities KD	***2013*** Reinsurer's share of liabilities KD	***2013*** Net Liabilities KD	*2012* Gross liabilities KD	*2012* Reinsurer's share of liabilities KD	*2012* Net liabilities KD
Kuwait	**51,418,898**	**30,238,142**	**21,180,756**	45,778,624	26,557,437	19,221,187
GCC and Middle East countries	**52,370,875**	**24,281,541**	**28,089,334**	45,882,287	19,971,604	25,910,683
Total	**103,789,773**	**54,519,683**	**49,270,090**	91,660,911	46,529,041	45,131,870

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

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

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

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

31 December 2013	***Change in assumption***	***Impact on gross liabilities KD***	***Impact on net liabilities KD***	***Impact on profit KD***
Average claim cost	±15%	**6,395,248**	**3,447,843**	**3,447,843**
Average number of claim	±15%	**21,901**	**18,529**	**345,871**
Average claim settlement paid	Reduce from 18 months to 12 months	**4,263,500**	**2,298,562**	**187,412**

31 December 2012	*Change in assumption*	*Impact on gross liabilities KD*	*Impact on net liabilities KD*	*Impact on profit KD*
Average claim cost	±15%	6,432,122	2,894,455	2,894,455
Average number of claim	±15%	21,592	17,241	419,800
Average claim settlement paid	Reduce from 18 months to 12 months	5,503,127	2,476,407	123,820

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

Claims development table

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

***31 December 2013*.**

	2005 KD	*2006 KD*	*2007 KD*	*2008 KD*	*2009 KD*	*2010 KD*	*2011 KD*	*2012 KD*	*2013 KD*	***Total KD***
At end of accident year	76,581,775	37,390,119	39,885,670	50,392,935	51,524,295	56,453,283	78,124,867	88,367,386	92,528,799	
One year later	76,304,641	39,553,990	48,534,654	56,859,685	62,274,940	62,730,493	84,303,220	105,856,376	-	
Two years later	76,965,452	40,011,253	46,678,841	58,440,069	61,699,883	65,213,797	84,813,749	-	-	
Three years later	76,149,173	40,440,039	45,330,471	55,919,644	59,751,989	63,223,120	-	-	-	
Four years later	80,497,675	40,039,491	45,757,353	54,617,117	58,481,591	-	-	-	-	
Five years later	76,517,962	39,680,983	45,351,500	52,626,676	-	-	-	-	-	
Six years later	75,400,848	39,395,705	44,051,708	-	-	-	-	-	-	
Seven years later	74,455,112	38,486,199	-	-	-	-	-	-	-	
Eight years later	74,102,048	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	**74,102,048**	**38,486,199**	**44,051,708**	**52,626,676**	**58,481,591**	**63,223,120**	**84,813,749**	**105,856,376**	**92,528,799**	**614,170,266**

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

2) Non-life insurance contracts (continued)

	2005 KD	*2006 KD*	*2007 KD*	*2008 KD*	*2009 KD*	*2010 KD*	*2011 KD*	*2012 KD*	*2013 KD*	***Total KD***
At end of accident year	(40,223,246)	(17,179,779)	(21,721,476)	(23,049,928)	(28,437,389)	(31,673,465)	(44,916,955)	(52,954,704)	(55,297,933)	
One year later	(55,092,826)	(28,542,946)	(33,563,593)	(41,262,147)	(48,591,990)	(53,302,980)	(72,733,259)	(89,033,837)	-	
Two years later	(61,604,200)	(31,621,080)	(38,798,076)	(45,069,439)	(52,043,337)	(58,634,355)	(77,428,615)	-	-	
Three years later	(64,851,828)	(35,119,385)	(39,764,560)	(50,237,063)	(53,529,541)	(59,228,139)	-	-	-	
Four years later	(67,757,579)	(36,065,388)	(40,151,246)	(51,146,402)	(53,182,787)	-	-	-		
Five years later	(68,932,591)	(36,576,340)	(40,317,694)	(49,981,678)	-	-	-	-		
Six years later	(69,748,927)	(37,386,949)	(39,931,619)	-	-	-	-	-	-	
Seven years later	(70,663,980)	(37,457,649)	-	-	-	-	-	-	-	
Eight years later	(70,733,294)	-	-	-	-	-	-	-	-	
cumulative payment to date	**(70,733,294)**	**(37,457,649)**	**(39,931,619)**	**(49,981,678)**	**(53,182,787)**	**(59,228,139)**	**(77,428,615)**	**(89,033,837)**	**(55,297,933)**	**(532,275,551)**
Gross insurance contract outstanding claims at 31 December 2013	3,368,754	1,028,550	4,120,089	2,644,998	5,298,804	3,994,982	7,385,134	16,822,539	37,230,865	81,894,715
Incurred but not reported reserve included into the outstanding claims reserve at 31 December 2013									**5,615,383**	**5,615,383**
Total gross insurance outstanding claims provision per statement of financial position at 31 December 2013	**3,368,754**	**1,028,550**	**4,120,089**	**2,644,998**	**5,298,804**	**3,994,982**	**7,385,134**	**16,822,539**	**42,846,248**	**87,510,098**

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

2) Non-life insurance contracts (continued)

31 December 2012.

	2005 *KD*	*2006* *KD*	*2007* *KD*	*2008* *KD*	*2009* *KD*	*2010* *KD*	*2011* *KD*	*2012* *KD*	***Total*** ***KD***
At end of accident year	76,581,775	37,390,119	39,885,670	50,392,935	51,524,295	56,453,283	78,124,867	88,367,386	
One year later	76,304,641	39,553,990	48,534,654	56,859,685	62,274,940	62,730,493	84,303,220	-	
Two years later	76,965,452	40,011,253	46,678,841	58,440,069	61,699,883	65,213,797	-	-	
Three years later	76,149,173	40,440,039	45,330,471	55,919,644	59,751,989	-	-	-	
Four years later	80,497,675	40,039,491	45,757,353	54,617,117	-	-	-	-	
Five years later	76,517,962	39,680,983	45,351,500	-	-	-	-	-	
Six years later	75,400,848	39,395,705	-	-	-	-	-	-	
Seven years later	74,455,112	-	-	-	-	-	-	-	
Eight years later	76,581,775	37,390,119	39,885,670	50,392,935	51,524,295	56,453,283	78,124,867	88,367,386	
Current estimate of cumulative claims incurred	74,455,112	39,395,705	45,351,500	54,617,117	59,751,989	65,213,797	84,303,220	88,367,386	511,455,826
At end of accident year	(40,223,246)	(17,179,779)	(21,721,476)	(23,049,928)	(28,437,389)	(31,673,465)	(44,916,955)	(52,954,704)	
One year later	(55,092,826)	(28,542,946)	(33,563,593)	(41,262,147)	(48,591,990)	(53,302,980)	(72,733,259)	-	
Two years later	(61,604,200)	(31,621,080)	(38,798,076)	(45,069,439)	(52,043,337)	(58,634,355)	-	-	
Three years later	(64,851,828)	(35,119,385)	(39,764,560)	(50,237,063)	(53,529,541)	-	-	-	
Four years later	(67,757,579)	(36,065,388)	(40,151,246)	(51,146,402)	-	-	-	-	
Five years later	(68,932,591)	(36,576,340)	(40,317,694)	-	-	-	-	-	
Six years later	(69,748,927)	(37,386,949)	-	-	-	-	-	-	
Seven years later	(70,663,980)								
Eight years later	(40,223,246)	(17,179,779)	(21,721,476)	(23,049,928)	(28,437,389)	(31,673,465)	(44,916,955)	(52,954,704)	
Current estimate of cumulative claims incurred	(70,663,980)	(37,386,949)	(40,317,694)	(51,146,402)	(53,529,541)	(58,634,355)	(72,733,259)	(52,954,704)	(437,366,883)

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

2) Non-life insurance contracts (continued)

	2005 *KD*	*2006* *KD*	*2007* *KD*	*2008* *KD*	*2009* *KD*	*2010* *KD*	*2011* *KD*	*2012* *KD*	***Total*** ***KD***
Gross insurance contract outstanding claims at 31 December 2012	3,791,132	2,008,756	5,033,806	3,470,715	6,222,449	6,579,442	11,569,961	35,412,682	74,088,943
Incurred but not reported reserve included into the outstanding claims reserve at 31 December 2012								3,488,889	3,488,889
Total gross insurance outstanding claims provision per statement of financial position at 31 December 2012	3,791,132	2,008,756	5,033,806	3,470,715	6,222,449	6,579,442	11,569,961	38,901,571	77,577,832

25 RISK MANAGEMENT (continued)

(e) Financial risks

(1) Credit risk

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

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

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

	31 December 2013			
Exposure to credit risk by classifying financial assets according to type of insurance	***General KD***	***Life KD***	***Unit linked KD***	***Total KD***
Investments held to maturity	19,370,938	548,028	-	**19,918,966**
Debt securities (loans)	-	7,309,343	4,448,694	**11,758,037**
Loans secured by life insurance policies	-	66,948	1,118,484	**1,185,432**
Policyholders' accounts receivable (gross)	36,737,707	10,362,549	-	**47,100,256**
Reinsurers' accounts receivable (gross)	6,818,712	565,007	-	**7,383,719**
Reinsurance recoverable on outstanding claims	40,535,162	6,818,367	-	**47,353,529**
Other assets	2,404,207	-	-	**2,404,207**
Time deposits	18,710,135	2,610,911	-	**21,321,046**
Cash and cash equivalents	34,874,774	23,729,341	-	**58,604,115**
Total credit risk exposure	159,451,635	52,010,494	5,567,178	**217,029,307**

	31 December 2012			
Exposure to credit risk by classifying financial assets according to type of insurance	*General KD*	*Life KD*	*Unit linked KD*	*Total KD*
Investments held to maturity	18,245,366	552,684	-	18,798,050
Debt securities (loans)	-	7,283,153	3,750,000	11,033,153
Loans secured by life insurance policies	-	-	977,053	977,053
Policyholders' accounts receivable (gross)	32,830,811	13,318,280	-	46,149,091
Reinsurers' accounts receivable (gross)	10,707,532	304,274	-	11,011,806
Reinsurance recoverable on outstanding claims	34,202,893	6,523,027	-	40,725,920
Other assets	9,616,488	-	-	9,616,488
Time deposits	18,176,752	5,026,653	-	23,203,405
Cash and cash equivalents	31,752,627	11,756,330	-	43,508,957
Total credit risk exposure	155,532,469	44,764,401	4,727,053	205,023,923

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(1) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the financial assets at 31 December 2013 by classifying assets according to International credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as not rated.

Exposure to credit risk by classifying financial assets according to international credit rating agencies	*AAA KD*	*AA KD*	*A KD*	*BBB KD*	*BB and below KD*	*Not rated KD*	*Total KD*
31 December 2013							
Investments held to maturity	-	883,001	2,485,232	1,080,779	15,267,055	202,899	**19,918,966**
Debt securities (loans)	-	-	-	11,758,037	-	-	**11,758,037**
Loans secured by life insurance policies	-	-	2,961	-	-	1,182,471	**1,185,432**
Policyholders' accounts receivable (gross)	10,748	10,748	8,087,526	15,319,653	4,709,357	18,962,224	**47,100,256**
Reinsurers accounts receivable (gross)	1,043	192,264	1,909,860	2,496,173	665,018	2,119,361	**7,383,719**
Reinsurance recoverable on outstanding claims	3,707	6,749,633	21,318,109	6,249,443	9,164,301	3,868,336	**47,353,529**
Other assets	-	-	-	-	-	2,404,207	**2,404,207**
Time Deposits	-	2,162	5,311,566	10,511,442	4,037,732	1,458,144	**21,321,046**
Cash and cash equivalents	118,999	1,197,344	28,976,626	23,486,960	4,799,896	24,290	**58,604,115**
Total credit risk exposure	**134,497**	**9,035,152**	**68,091,880**	**70,902,487**	**38,643,359**	**30,221,932**	**217,029,307**

Unrated responses are classified as follows using internal credit ratings.

	Neither past due nor impaired			
	High grade 2013 KD	*Standard grade 2013 KD*	*Past due or impaired 2013 KD*	*Total 2013 KD*
31 December 2013				
Investments held to maturity	399	202,500	-	**202,899**
Loan secured by life insurance policy	-	1,182,471	-	**1,182,471**
Policyholders' accounts receivable (gross)	15,405,874	3,447,406	108,944	**18,962,224**
Reinsurance accounts receivable (gross)	2,081,139	-	38,222	**2,119,361**
Reinsurance recoverable on outstanding claims	3,811,926	56,410	-	**3,868,336**
Other assets	2,404,207	-	-	**2,404,207**
Term deposits	1,458,144	-	-	**1,458,144**
Cash & Cash equivalents	24,290	-	-	**24,290**
	25,185,979	**4,888,787**	**147,166**	**30,221,932**

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(1) Credit risk (continued)

Exposure to credit risk by classifying financial assets according to international credit rating agencies	*AAA* *KD*	*AA* *KD*	*A* *KD*	*BBB* *KD*	*Not rated* *KD*	*Total* *KD*
31 December 2012						
Investments held to maturity	-	952,525	2,287,540	15,557,985	-	18,798,050
Debt securities (loans)	-	-	-	11,033,153	-	11,033,153
Loans secured by life insurance policies	-	-	-	-	977,053	977,053
Policyholders' accounts receivable (gross)	270,842	-	7,108,901	11,744,159	27,025,189	46,149,091
Reinsurers accounts receivable (gross)	5,264	1,100,787	2,094,940	5,396,394	2,414,421	11,011,806
Reinsurance recoverable on outstanding claims	70,359	9,065,642	10,574,524	18,156,620	2,858,775	40,725,920
Other assets	-	-	-	5,126,495	4,489,993	9,616,488
Time Deposits	-	-	2,213,815	19,093,758	1,895,832	23,203,405
Cash and cash equivalents	43,965	1,032,081	27,859,712	14,460,534	112,665	43,508,957
Total credit risk exposure	390,430	12,151,035	52,139,432	100,569,098	39,773,928	205,023,923

Unrated responses are classified as follows using internal credit ratings.

	Neither past due nor impaired			
	High grade 2012 *KD*	*Standard grade 2012* *KD*	*Past due or impaired 2012* *KD*	*Total 2012* *KD*
31 December 2012				
Loan secured by life insurance policy	-	977,053	-	977,053
Policyholders' accounts receivable (gross)	18,629,391	5,891,025	2,504,773	27,025,189
Reinsurance accounts receivable (gross)	2,174,155	66,463	173,803	2,414,421
Reinsurance recoverable on outstanding claims	1,569,811	599,032	689,932	2,858,775
Other assets	-	4,489,993	-	4,489,993
Term deposits	11,492	-	1,884,340	1,895,832
Cash & Cash equivalents	25,742	-	86,923	112,665
	22,410,591	12,023,566	5,339,771	39,773,928

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(1) Credit risk (continued)

The following table represents the aging analysis of premiums and insurance balance receivable that are not past due nor impaired:

	Up to 1 month KD	***Within 1-3 months KD***	***Within 3-12 months KD***	***More than 1 year KD***	***Total KD***
31 December 2013:					
Policyholders' accounts receivable (net)	**9,245,607**	**10,736,860**	**21,246,588**	**564,288**	**41,793,343**
Reinsurance receivables (net)	**1,645,292**	**1,270,817**	**1,868,441**	**2,016,303**	**6,800,853**
Total	**10,890,899**	**12,007,677**	**23,115,029**	**2,580,591**	**48,594,196**

	Up to 1 month KD	*Within 1-3 months KD*	*Within 3-12 months KD*	*More than 1 year KD*	*Total KD*
31 December 2012:					
Policyholders' accounts receivable (net)	6,490,202	10,782,795	20,870,170	2,891,823	41,034,990
Reinsurance receivables (net)	4,758,007	1,696,802	2,063,717	1,956,042	10,474,568
Total	11,248,209	12,479,597	22,933,887	4,847,865	51,509,558

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(2) Liquidity risk

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

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

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

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

	Up to 1 month KD	***Within 1-3 months KD***	***Within 3-12 months KD***	***Within 1-5 years KD***	***Within 5-10 years KD***	***Total KD***
31 December 2013						
Premiums received in advance	-	-	205,073	8,700	66,282	**280,055**
Insurance payable	5,334,024	8,882,348	15,527,026	11,394,280	190,227	**41,327,905**
Other liabilities	901,706	1,449,006	8,066,104	7,521,981	-	**17,938,797**
Bank overdrafts	252,307	140,600	19,981,617	-	-	**20,374,524**
	6,488,037	**10,471,954**	**43,779,820**	**18,924,961**	**256,509**	**79,921,281**

	Up to 1 month KD	*Within 1-3 months KD*	*Within 3-12 months KD*	*Within 1-5 years KD*	*Within 5-10 years KD*	*Total KD*
31 December 2012						
Premiums received in advance	158,059	-	-	-	74,536	232,595
Insurance payable	6,626,987	5,126,730	13,353,473	17,924,684	-	43,031,874
Other liabilities	2,206,080	2,214,649	5,077,306	6,202,456	1,235,396	16,935,887
Bank overdrafts	104,964	-	20,292,479	-	-	20,397,443
	9,096,090	7,341,379	38,723,258	24,127,140	1,309,932	80,597,799

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk

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

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

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

(i) Currency risk

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

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

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

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

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2013: **ASSETS**	*Local currency KD equivalent*	*USD KD equivalent*	*BD KD equivalent*	*EGP KD equivalent*	*JD KD equivalent*	*Euro KD equivalent*	*GBP KD equivalent*	*Other KD equivalent*	***Total KD***
Property and equipment	3,150,973	16,948	2,775,446	2,624,521	2,391,856	-	-	1,922,439	**12,882,183**
Investments in associates	13,633,931	-	-	905,450	-	-	-	9,702,951	**24,242,332**
Goodwill	-	-	2,625,935	476,224	5,292,099	-	-	604,093	**8,998,351**
Investments held to maturity	-	2,686,952	1,705,330	15,019,555	507,129	-	-	-	**19,918,966**
Debt securities (loans)	5,800,000	5,958,037	-	-	-	-	-	-	**11,758,037**
Investments available for sale	20,874,366	3,138,727	2,518,028	1,815,218	1,005,231	-	35,492	5,299,094	**34,686,156**
Investments carried at fair value thorough income statement	3,862,978	62,868	-	2,010,728	1,260,443	-	-	10,542,572	**17,739,589**
Loans secured by life insurance policies	1,182,471	-	-	-	-	-	-	2,961	**1,185,432**
Premium and insurance balances receivable	22,214,900	1,984,808	5,350,628	2,239,741	13,058,606	28,227	22,863	3,694,423	**48,594,196**
Reinsurance recoverable on outstanding claims	18,663,162	12,404,506	7,021,895	4,297,437	3,405,917	81,470	59,535	1,419,607	**47,353,529**
Property held for sale	-	-	133,559	54,651	-	-	-	234,309	**422,519**
Other assets	4,536,677	234,268	600,223	2,626,272	3,262,318	-	-	1,461,361	**12,721,119**
Cash and cash equivalents and time deposits	43,833,636	6,359,857	4,591,307	5,033,058	12,862,275	466,215	79,844	6,698,969	**79,925,161**
Total assets	**137,753,094**	**32,846,971**	**27,322,351**	**37,102,855**	**43,045,874**	**575,912**	**197,734**	**41,582,779**	**320,427,570**

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2013 **LIABILITIES**	*Local currency KD equivalent*	*USD KD equivalent*	*BD KD equivalent*	*EGP KD equivalent*	*JD KD equivalent*	*Euro KD equivalent*	*GBP KD equivalent*	*Other KD equivalent*	*Total KD*
Liabilities arising from insurance contracts									
Outstanding claims reserve (gross)	54,078,894	2,233,331	10,803,727	7,243,803	8,033,081	82,074	71,776	4,963,411	**87,510,097**
Unearned premiums reserve (net)	14,651,490	-	2,307,411	3,765,732	8,409,858	-	-	2,202,074	**31,336,565**
Life mathematical reserve (net)	10,969,021	-	-	-	-	-	-	10,581,862	**21,550,883**
Incurred but not reported reserve (net)	2,650,000	-	-	1,992,908	-	-	-	170,737	**4,813,645**
Total liabilities arising from insurance contracts	82,349,405	2,233,331	13,111,138	13,002,443	16,442,939	82,074	71,776	17,918,084	**145,211,190**
Premiums received in advance	88,792		116,281	-	-	-	-	74,982	**280,055**
Insurance payable	19,104,343	4,522,112	5,661,355	2,464,675	7,727,599	27,664	2,331	1,817,826	**41,327,905**
Other liabilities	10,938,886	1,735	1,229,824	3,137,925	1,221,855	-	-	1,408,572	**17,938,797**
Bank overdrafts	19,671,523	-	-	-	-	-	-	703,001	**20,374,524**
Total liabilities	**132,152,949**	**6,757,178**	**20,118,598**	**18,605,043**	**25,392,393**	**109,738**	**74,107**	**21,922,465**	**225,132,471**

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2012:	*Local currency KD equivalent*	*USD KD equivalent*	*BD KD equivalent*	*EGP KD equivalent*	*JD KD equivalent*	*Euro KD equivalent*	*GBP KD equivalent*	*Other KD equivalent*	*Total KD*
ASSETS									
Property and equipment	3,279,390	1,224,990	2,860,083	1,286,247	2,312,186	-	-	315,132	11,278,028
Investments in associates	12,022,118	-	-	-	-	-	-	9,321,962	21,344,080
Goodwill	-	-	2,625,935	476,244	5,292,099	-	-	640,073	8,998,351
Investments held to maturity	-	1,604,391	1,698,510	14,951,122	544,027	-	-	-	18,798,050
Debt securities (loans)	5,050,000	5,983,153	-	-	-	-	-	-	11,033,153
Investments available for sale	21,118,553	2,659,469	2,183,127	2,173,825	625,052	270,225	73,700	2,597,406	31,701,357
Investments carried at fair value thorough income statement	4,486,673	618,159	-	2,234,356	109,827	-	-	9,105,068	16,554,083
Loans secured by life insurance policies	977,053	-	-	-	-	-	-	-	977,053
Premium and insurance balances receivable	21,633,417	6,307,765	7,282,100	2,457,410	11,865,788	87,580	65,339	1,810,159	51,509,558
Reinsurance recoverable on outstanding claims	19,900,092	10,330,557	2,752,345	3,182,006	2,826,605	49,719	28,228	1,656,368	40,725,920
Property held for sale	-	55,648	133,025	411,685	-	-	-	13,483	613,841
Other assets	3,166,040	6,044,811	440,467	2,083,359	2,815,634	1,094	-	3,510,968	18,702,446
Cash and cash equivalents and time deposits	34,685,679	6,824,601	6,381,106	2,762,422	10,301,682	682,257	25,388	5,049,227	66,712,362
Total assets	126,319,015	41,653,544	26,356,698	32,018,676	36,692,900	1,090,875	192,655	34,019,846	298,344,209

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2012 LIABILITIES	*Local currency KD equivalent*	*USD KD equivalent*	*BD KD equivalent*	*EGP KD equivalent*	*JD KD equivalent*	*Euro KD equivalent*	*GBP KD equivalent*	*Other KD equivalent*	*Total KD*
Liabilities arising from insurance contracts									
Outstanding claims reserve (gross)	51,146,166	1,311,152	6,342,280	6,317,573	6,685,372	98,712	48,512	5,628,065	77,577,832
Unearned premiums reserve (net)	11,701,295	181,688	2,254,087	3,426,384	7,712,436	-	-	2,173,316	27,449,206
Life mathematical reserve (net)	10,688,095	50	-	-	-	-	-	9,074,546	19,762,691
Incurred but not reported reserve (net)	2,250,000	-	-	1,769,839	-	-	-	155,575	4,175,414
Total liabilities arising from insurance contracts	75,785,556	1,492,890	8,596,367	11,513,796	14,397,808	98,712	48,512	17,031,502	128,965,143
Premiums received in advance	53,341	74,535	104,719	-	-	-	-	-	232,595
Insurance payable	18,547,380	6,641,955	8,340,208	2,632,238	5,593,318	91,761	(5,779)	1,190,793	43,031,874
Other liabilities	11,515,679	390,823	1,171,761	2,553,826	867,144	676	36	435,942	16,935,887
Bank overdrafts	19,356,612	673,300	-	104,765	-	-	-	262,766	20,397,443
Total liabilities	125,258,568	9,273,503	18,213,055	16,804,625	20,858,270	191,149	42,769	18,921,003	209,562,942

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

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

		2013		2012	
	Change in variables	***Impact on profit KD***	***Impact on equity KD***	*Impact on profit KD*	*Impact on equity KD*
USD	±5%	**1,304,489**	**-**	1,106,541	-
BD	±5%	**360,187**	**425,901**	403,767	650,954
EGP	±5%	**924,890**	**1,310,871**	283,242	467,799
JD	±5%	**882,674**	**503,124**	970,038	450,410

(ii) Interest rate risk

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

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

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

The Group has no significant concentration of interest rate risk.

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

	2013		2012	
Currency	***Change in variables***	***Impact on profit before tax KD***	*Change in variables*	*Impact on profit before tax KD*
KD	±50 basis	**108,198**	±50 basis	74,550
USD	±50 basis	**-**	±50 basis	-
BD	±50 basis	**25,019**	±50 basis	26,572
Others	±50 basis	**142,681**	±50 basis	137,209

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

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(iii) Equity price risk

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

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

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

	2013	*2012*
	%	*%*
Kuwait market	27%	2 %
Rest of GCC market	43%	25 %
MENA	9%	39 %
Other international markets	11%	11 %

The above percentages have been determined based on basis of the average market movements over a 90 days period from October to December 2013 and 2012. The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date. The analysis reflects the impact of positive changes to equity prices in accordance with the above-mentioned equity price risk sensitivity assumptions.

	Profit for the year		*Equity*	
	2013	*2012*	***2013***	*2012*
	KD	*KD*	***KD***	*KD*
Investment carried at fair value through income Statement	**765,014**	480,579	-	-
Investments available for sale	-	-	**4,693,630**	2,064,763

The table below presents the geographical concentration of financial instruments exposed to equity price risk:

31 December 2013	*GCC*	*MENA*	*Europe*	*America*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*
Investments available for sale	28,522,289	6,042,702	35,492	85,673	34,686,156
Investments carried at fair value through income statement	3,925,704	3,286,446	10,527,439	-	17,739,589
	32,447,993	**9,329,148**	**10,562,931**	**85,673**	**52,425,745**

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(iii) Equity price risk (continued)

31 December 2012	*GCC* *KD*	*MENA* *KD*	*Europe* *KD*	*America* *KD*	*Total* *KD*
Investments available for sale	26,527,353	4,568,545	448,754	156,705	31,701,357
Investments carried at fair value through income statement	4,806,571	2,699,682	9,047,830	-	16,554,083
	31,333,924	7,268,227	9,496,584	156,705	48,255,440

26 RELATED PARTY TRANSACTIONS

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

	2013		*2012*	
	Premiums KD	***Claims KD***	*Premiums KD*	*Claims KD*
Directors and key management personnel	**311,775**	**149,400**	280,608	88,982
Other related parties	**3,779,602**	**462,479**	3,372,324	635,207
	4,091,377	**611,879**	3,652,932	724,189

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

	2013		*2012*	
	Amounts owed by related parties KD	***Amounts owed to related parties KD***	*Amounts owed by related parties KD*	*Amounts owed to related parties KD*
Directors and key management personnel	**235,882**	**-**	193,030	3,532
Other related parties	**446,618**	**597,041**	533,769	1,114,161
	682,500	**597,041**	726,799	1,117,693

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

a) The Group holds certain deposits and call accounts with related entities under common control amounting to KD 16,284,826 (2012: KD 7,326,256). The Group also holds bonds issued by Kuwait Projects Company Holding Company and other related entity amounting to KD 10,758,037 (2012: KD 10,033,153).

26 RELATED PARTY TRANSACTIONS (continued)

b) Included under other assets an amount of KD 1,402,689 (2012: KD 1,402,689) which represents loan granted to an entity under common control. This loan is interest free and repayable on demand.

Key management personnel compensation

	2013 ***KD***	*2012* *KD*
Salaries and other short term benefits	**870,236**	838,800
Employees' end of service benefits	**3,189,461**	2,798,002
	4,059,697	3,636,802

27 SUBSIDIARIES COMPANIES

The consolidated financial statements include the following subsidiaries:

Entity	*Country of incorporation*	*% ownership*		*Nature of operation*
		2013	*2012*	
Gulf Life Insurance Company K.S.C.	Kuwait	**99.80%**	99.80%	Life and medical insurance
Fajr Al Gulf Insurance and Reinsurance Company S.A.L.	Lebanon	**88%**	54.70%	General risk and life insurance and Reinsurance
Arab Misr Insurance Group Company S.A.E.	Egypt	**94.85%**	94.85%	General risk insurance
Syrian Kuwait Insurance Company (S.S.C.)	Syria	**54.29%**	54.29%	General risk and life insurance
Bahrain Kuwaiti Insurance Company (B.S.C.)	Bahrain	**56.12%**	56.12%	General risk insurance
Arab Orient Insurance Company J.S.C.	Jordan	**88.907%**	88.67%	General risk insurance
Egypt Life Takaful Insurance Company (S.A.E.)	Egypt	**60.619%**	59.5%	Life Takaful insurance
Saudi Pearl Insurance Company	Bahrain	**100%**	100%	General risk insurance
Dar Al-Salam Insurance Company	Iraq	**51%**	51%	General risk & life insurance

27 SUBSIDIARIES COMPANIES (continued)

Arab Orient Insurance Company J.S.C. (AOIC)
During 2013, the Group acquired additional equity interest in "Arab Orient Insurance Company J.S.C" for KD 30,934. Accordingly, the ownership percentage increased from 88.67% to 88.91% as at 31 December 2013. The excess of the consideration transferred over the fair value of net identifiable assets acquired of KD 5,232 has been recognised under other reserve within equity.

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

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

Takaful business in the Group consists of the Takaful Insurance Unit established by the Parent Company and the Takaful fund of its subsidiary Egypt Life Takaful Insurance Company (S.A.E).

Policyholders' result by line of business:

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

For the year ended 31 December 2013

	Marine and Aviation KD	***Property KD***	***Motor KD***	***Engineering KD***	***General Accidents KD***	***Life and Medical KD***	***Total KD***
Premium written	209,249	122,229	102,651	40,591	185,376	8,846,707	**9,506,803**
Surplus (deficit) from insurance operations	120,120	29,185	39,707	37,893	48,595	(399,899)	**(124,399)**

For the year ended 31 December 2012

	Marine and Aviation KD	*Property KD*	*Motor KD*	*Engineering KD*	*General Accidents KD*	*Life and Medical KD*	*Total KD*
Premium written	230,676	360,501	171,397	112,718	221,289	4,526,881	5,623,462
Surplus (deficit) from insurance operations	88,516	19,485	(37,746)	37,311	94,873	(630,218)	(427,779)

	2013 KD	*2012 KD*
Amounts due to policyholders (Note 15)	**873,395**	128,407

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2013:

			Fair value measurement using		
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		KD	*KD*	*KD*	*KD*
Assets measured at fair value					
Investments available for Sale:					
Quoted equity securities	31 December 2013	**16,677,873**	**16,677,873**	**-**	**-**
Unquoted equity securities	31 December 2013	**17,386,467**	**-**	**11,801,400**	**5,585,067**
Unquoted managed funds	31 December 2013	**356,636**	**-**	**-**	**356,636**
Investments carried at fair value through income statements:					
Held for Trading:					
Quoted securities	31 December 2013	**4,574,878**	**4,574,878**	**-**	**-**
Designated upon initial recognition					
Managed funds of quoted securities	31 December 2013	**13,164,711**	**13,164,711**	**-**	**-**
		52,160,565	**34,417,462**	**11,801,400**	**5,941,703**

29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2012:

			Fair value measurement using		
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		KD	*KD*	*KD*	*KD*
Assets measured at fair value					
Investments available for Sale:					
Quoted equity securities	31 December 2012	11,773,238	11,773,238	-	-
Unquoted equity securities	31 December 2012	18,773,217	-	11,801,400	6,971,817
Unquoted managed funds	31 December 2012	618,550	-	-	618,550
Investments carried at fair value through income statements:					
Held for Trading:					
Quoted securities	31 December 2012	3,394,741	3,394,741	-	-
Designated upon initial recognition:					
Managed funds of quoted securities	31 December 2012	13,159,342	13,159,342	-	-
		47,719,088	28,327,321	11,801,400	7,590,367

29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	At 1 January 2013 KD	***Transfer from carried at cost to Level 3 KD***	***Transfer from available for sale to investment in associate KD***	***Gain / (loss) recorded in the consolidated statement of comprehensive income KD***	***Net Purchases And disposals KD***	***At 31 December 2013 KD***
Financial assets available for sale:						
Unquoted equity securities	**6,971,817**	**157,658**	**(898,417)**	**(340,962)**	**(305,029)**	**5,585,067**
Unquoted managed funds	**618,550**	**-**	**-**	**(6,796)**	**(255,118)**	**356,636**
	7,590,367	**157,658**	**(898,417)**	**(347,758)**	**(560,147)**	**5,941,703**

	At 1 January 2012 KD	*Transfers From Level 3 To Level 2 KD*	*Gain / (loss) recorded in the consolidated statement of comprehensive income KD*	*Net purchases and disposals KD*	*At 31 December 2012 KD*
Financial assets available for sale:					
Unquoted equity securities	18,723,458	(12,750,000)	165,153	833,206	6,971,817
Unquoted managed funds	1,119,382	-	(12,574)	(488,258)	618,550
	19,842,840	(12,750,000)	152,579	344,948	7,590,367

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

Description of significant unobservable inputs to valuation of financial assets:

Local unquoted securities represent delisted securities on local stock exchange, which are valued based on last traded prices, adjusted for additional impairment losses recognised on a prudent basis. The Group is confident of realising the remaining amount and believes it to be reasonable estimates of fair value.

Unquoted equity investment is valued based on net book value method using latest available financial statement of the investee entity, wherein the underlying assets are fair valued.