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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Gulf Insurance Company K.S.C. (the Parent Company) and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2012 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 of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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.

ERNST & YOUNG

BAKER TILLY
KUWAIT
Dr. Saud Hamad Al-Humaidi & Partners
Public Accountants

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012, 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, and by the Parent Company's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No 25 of 2012, nor of the Articles of Association have occurred during the year ended 31 December 2012 that might have had a material effect on the business of the Parent Company or on its financial position.

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

20 February 2013
Kuwait

Gulf Insurance Company K.S.C.
And Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2012

	Notes	*2012* *KD*	*2011* *KD*
Revenue:			
Premiums written		**145,374,450**	133,872,324
Reinsurance premiums ceded		**(71,673,304)**	(66,661,202)
Net premiums written		**73,701,146**	67,211,122
Movement in unearned premiums reserve		**(3,648,575)**	(1,792,769)
Movement in life mathematical reserve		**(1,098,537)**	(1,394,848)
Net premiums earned		**68,954,034**	64,023,505
Commission received on ceded reinsurance		**10,807,646**	9,291,004
Policy issuance fees		**3,443,477**	2,684,407
Net investment income (loss) from life insurance	3	**2,774,470**	(530,341)
		85,979,627	75,468,575
Expenses:			
Claims incurred		**51,511,594**	43,177,984
Commission and discounts		**9,037,638**	7,908,355
Increase in incurred but not reported reserve		**136,396**	26,764
Maturity and cancellations of life insurance policies		**1,189,372**	1,129,996
General and administrative expenses		**15,387,851**	13,378,038
		77,262,851	65,621,137
Net underwriting income	21	**8,716,776**	9,847,438
Net investment income	3	**6,331,103**	2,758,479
Net sundry income		**491,101**	227,701
		15,538,980	12,833,618
Other charges:			
Unallocated general and administrative expenses		**(3,941,143)**	(3,373,373)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT TAX AND DIRECTORS' FEES		**11,597,837**	9,460,245
Contribution to KFAS		**(106,211)**	(84,613)
NLST		**(177,131)**	(142,331)
Zakat tax		**(63,420)**	(83,690)
Directors' fees		**(125,000)**	(100,000)
PROFIT FOR THE YEAR		**11,126,075**	9,049,611
Attributable to:			
Equity holders of the Parent Company		**9,279,954**	7,115,046
Non-controlling interests		**1,846,121**	1,934,565
		11,126,075	9,049,611
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	4	**50.54 fils**	38.16 fils

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	***2012 KD***	*2011 KD*
Profit for the year		**11,126,075**	9,049,611
Other comprehensive income			
Share of other comprehensive income of associate	6	**42,510**	-
Net unrealised gain (loss) on investments available for sale		**1,230,792**	(5,442,398)
Net realised gain transferred to statement of income on disposal of investments available for sale	3	**(364,904)**	(1,598,351)
Transfer to statement of income on impairment of investments available for sale	3	**1,011,463**	3,244,781
Exchange differences on translation of foreign operations		**(1,073,095)**	(1,281,019)
Other comprehensive income (loss) for the year		**846,766**	(5,076,987)
Total comprehensive income for the year		**11,972,841**	3,972,624
ATTRIBUTABLE TO:			
Equity holders of the Parent Company		**10,126,720**	2,038,059
Non-controlling interests		**1,846,121**	1,934,565
		11,972,841	3,972,624

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	*2012* KD	*2011* KD
ASSETS			
Property and equipment	5	**11,278,028**	11,473,415
Investment in associates	6	**21,344,080**	13,299,616
Goodwill	7	**8,394,278**	8,466,184
Financial instruments:			
Investments held to maturity		**18,798,050**	17,389,892
Debt securities (loans)		**11,033,153**	7,758,269
Investments available for sale	8	**31,701,357**	32,247,322
Investments carried at fair value through income statement	9	**16,554,083**	14,033,180
Loans secured by life insurance policies		**977,053**	832,348
Premiums and insurance balances receivable	10	**51,509,558**	42,112,326
Reinsurance recoverable on outstanding claims	11	**40,725,920**	41,801,433
Property held for sale		**613,841**	234,663
Other assets	12	**18,702,446**	12,300,885
Time deposits	13	**23,203,405**	33,951,697
Cash and cash equivalents	14	**43,508,957**	30,871,979
TOTAL ASSETS		**298,344,209**	266,773,209
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities arising from insurance contracts:	11		
Outstanding claims reserve (gross)		**77,577,832**	75,179,568
Unearned premiums reserve (net)		**27,449,206**	24,100,850
Life mathematical reserve (net)		**19,762,691**	18,672,420
Incurred but not reported reserve (net)		**4,175,414**	4,092,361
Total liabilities arising from insurance contracts		**128,965,143**	122,045,199
Premiums received in advance		**232,595**	276,511
Insurance payable	15	**43,031,874**	33,273,082
Other liabilities	16	**16,935,887**	14,692,035
Bank overdrafts	14	**20,397,443**	14,730,513
TOTAL LIABILITIES		**209,562,942**	185,017,340
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY			
Share capital	17	**18,703,913**	17,813,250
Share premium		**3,600,000**	3,600,000
Treasury shares	18	**(1,780,131)**	(1,561,429)
Treasury shares reserve		**2,051,215**	2,051,215
Statutory reserve	19	**14,766,173**	13,791,001
Voluntary reserve	20	**18,719,586**	17,744,414
Other reserve		**(3,010,734)**	(3,010,734)
Cumulative changes in fair value		**2,748,519**	828,658
Foreign currency translation adjustments		**(3,319,418)**	(2,246,323)
Retained earnings		**20,445,815**	17,505,213
		72,924,938	66,515,265
Non-controlling interests		**15,856,329**	15,240,604
Total equity		**88,781,267**	81,755,869
TOTAL LIABILITIES AND EQUITY		**298,344,209**	266,773,209

Farqad A. Al-Sane
Chairman

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	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 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	-	-	-	-	-	-	-	-	-	-	-	(599,037)	(599,037)
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(631,359)	(631,359)
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**
Balance at 1 January 2011	16,965,000	3,600,000	-	2,051,215	13,038,433	16,991,846	(3,010,734)	4,624,626	(965,304)	16,984,803	70,279,885	12,298,686	82,578,571
Profit for the year	-	-	-	-	-	-	-	-	-	7,115,046	7,115,046	1,934,565	9,049,611
Other comprehensive loss	-	-	-	-	-	-	-	(3,795,968)	(1,281,019)	-	(5,076,987)	-	(5,076,987)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	-	(3,795,968)	(1,281,019)	7,115,046	2,038,059	1,934,565	3,972,624
Issue of bonus shares	848,250	-	-	-	-	-	-	-	-	(848,250)	-	-	-
Dividend for 2010	-	-	-	-	-	-	-	-	-	(4,241,250)	(4,241,250)	-	(4,241,250)
Purchase of treasury shares	-	-	(1,561,429)	-	-	-	-	-	-	-	(1,561,429)	-	(1,561,429)
Transfer to reserves	-	-	-	-	752,568	752,568	-	-	-	(1,505,136)	-	-	-
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	1,007,353	1,007,353
Balance at 31 December 2011	17,813,250	3,600,000	(1,561,429)	2,051,215	13,791,001	17,744,414	(3,010,734)	828,658	(2,246,323)	17,505,213	66,515,265	15,240,604	81,755,869

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	***2012 KD***	*2011 KD*
OPERATING ACTIVITIES			
Profit before contribution to KFAS, NLST, Zakat tax and directors' fees		**11,597,837**	9,460,245
Adjustments for:			
Depreciation	5	**901,790**	699,571
Gain on sale of property and equipment		**(25,207)**	
Net investment income		**(8,759,404)**	(4,878,569)
Impairment of investments available for sale	3	**1,011,463**	3,244,781
Share of results of associates	6	**13,432**	(520,360)
Gain arising on associates	6	**(3,199,597)**	(985,170)
Impairment of goodwill	7	**71,906**	-
		1,612,220	7,020,498
Changes in operating assets and liabilities:			
Investments carried at fair value through income statement		**(2,520,903)**	5,892,479
Premiums and insurance balances receivable		**(9,397,232)**	(2,117,531)
Reinsurance recoverable on outstanding claims		**1,075,513**	(1,808,291)
Purchase of property held for sale		**(379,178)**	(11,852)
Other assets		**1,714,845**	(2,904,768)
Liabilitiesarising from insurance contracts		**6,919,944**	6,671,273
Premiums received in advance		**(43,916)**	(964,693)
Insurance payable		**9,758,792**	74,294
Other liabilities		**2,599,167**	1,545,396
Cash from operations		**11,339,252**	13,396,805
Paid to KFAS		**(84,613)**	(80,435)
Paid to NLST		**(125,189)**	(133,831)
Paid to Zakat		**(23,114)**	(87,936)
Paid to directors		**(100,000)**	(80,000)
Net cash from operating activities		**11,006,336**	13,014,603
INVESTING ACTIVITIES			
Purchase of property and equipment	5	**(1,783,211)**	(4,639,328)
Proceeds from sale of property and equipment		**1,062,016**	17,498
Purchase of investment in a subsidiary	27	-	(541,511)
Purchase of investment in associates	6	**(9,127,996)**	-
Proceeds from sale of investment in associates		**5,035,438**	-
Return of capital of associates		-	243,588
Purchase of investment held to maturity		**(1,408,158)**	(5,107,984)
Movement in debt securities (loans)		**(3,274,884)**	1,255,690
Net movement on investments available for sale		**(4,886,470)**	408,353
Movement in loans secured by life insurance policies		**(144,705)**	78,963
Time deposits		**10,748,292**	166,034
Interest received		**4,764,349**	3,767,484
Dividends received		**1,005,144**	1,276,211
Net cash from (used in) investing activities		**1,989,815**	(3,075,002)
FINANCING ACTIVITIES			
Dividends paid		**(3,492,506)**	(4,272,129)
Net movement of treasury shares		**(218,702)**	(1,561,429)
Net movement in non-controlling interests		**(1,230,396)**	1,007,353
Net cash used in financing activities		**(4,941,604)**	(4,826,205)
Foreign currency translation adjustments		**(1,084,499)**	(1,222,939)
INCREASE IN CASH AND CASH EQUIVALENTS		**6,970,048**	3,890,457
Cash and cash equivalents at beginning of the year		**16,141,466**	12,251,009
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	14	**23,111,514**	16,141,466

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

1 CORPORATE INFORMATION

The consolidated financial statements of Gulf Insurance Company K.S.C. (the "Parent Company") and subsidiaries (the "Group") for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 20 February 2013. 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 43.44% (31 December 2011: 44.04%) owned by Kuwait Projects Company Holding K.S.C. (previously the "Ultimate Parent Company" and 41.42% (31 December 2011: 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 1,308 employees for the year ended 31 December 2012 (31 December 2011: 1,208 employees).

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPERATION

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

The Companies Law issued on 26 November 2012 by Decree Law no 25 of 2012 (the "Companies Law"), which was published in the Official Gazette on 29 November 2012, cancelled the Commercial Companies Law No 15 of 1960. According to article 2 of the Decree, the Parent Company has a period of 6 months from 29 November 2012 to regularize its affairs in accordance with the Companies Law.

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 2012.

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

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

2.2 BASIS OF CONSOLIDATION (continued)

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:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously 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 realize 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 Standards effective as of 1 January 2012:

IFRS 3: Business Combinations (Amendment) (effective 1 July 2011)
The measurement options available for non controlling interest have been amended. Only components of non controlling interest that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The amendment has no effect on the Group's financial position, performance or its disclosures.

IFRS 7 Financial Instruments: Disclosures – Enhanced Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's consolidated financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its consolidated financial statements.

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

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

IAS 19 Employee Benefits (Revised)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

2.4 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Standards issued but not yet effective (continued)

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, 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 revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendment)
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments 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. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendment)
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 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. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

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

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

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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

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

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

3 NET INVESTMENT INCOME

Net investment income (loss) 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*	***2012 Total KD***	*2011 Total KD*
Realised gain (loss)	-	324,778	-	**324,778**	(201,770)
Unrealised gain (loss)	-	831,871	-	**831,871**	(1,359,386)
Dividend income	-	37,744	-	**37,744**	83,896
Interest income	1,026,953	-	534,752	**1,561,705**	888,323
Gain (loss) on financial instruments	1,026,953	1,194,393	534,752	**2,756,098**	(588,937)
Other investment income	-	26,879	-	**26,879**	70,343
Total investment income (loss)	1,026,953	1,221,272	534,752	**2,782,977**	(518,594)
Financial charges and other expenses	-	(8,507)	-	**(8,507)**	(11,747)
Total investment expense	-	(8,507)	-	**(8,507)**	(11,747)
Net investment income (loss)	1,026,953	1,212,765	534,752	**2,774,470**	(530,341)

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*	***2012 Total KD***	*2011 Total KD*
Realised gain	-	-	364,904	359,583	-	-	-	**724,487**	1,351,806
Unrealised gain (loss)	-	-	-	285,399	-	-	-	**285,399**	(405,320)
Dividends income	-	-	962,627	4,773	-	-	-	**967,400**	1,192,315
Interest income	-	1,816,925	-	-	-	1,477,508	-	**3,294,433**	3,087,046
Gain on financial instruments	-	1,816,925	1,327,531	649,755	-	1,477,508	-	**5,271,719**	5,225,847
Share of result from associates (Note 6)	(13,432)	-	-	-	-	-	-	**(13,432)**	520,360
Gain arising on reclassification of investment available for sale (Note 6)	3,199,597	-	-	-	-	-	-	**3,199,597**	985,170
Rental income	-	-	-	-	47,324	-	-	**47,324**	93,323
Other investment income	-	-	-	834	-	-	656,550	**657,384**	77,993
Total investment income	3,186,165	1,816,925	1,327,531	650,589	47,324	1,477,508	656,550	**9,162,592**	6,902,693
Financial charges	(1,360,143)	-	-	(35,897)	-	-	-	**(1,396,040)**	(624,501)
Impairment loss	-	-	(1,011,463)	-	-	-	-	**(1,011,463)**	(3,244,781)
Other investment expenses	-	(66,022)	(174,118)	(183,846)	-	-	-	**(423,986)**	(274,932)
Total investment expense	(1,360,143)	(66,022)	(1,185,581)	(219,743)	-	-	-	**(2,831,489)**	(4,144,214)
Net investment income	1,826,022	1,750,903	141,950	430,846	47,324	1,477,508	656,550	**6,331,103**	2,758,479

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:

	2012	*2011*
Profit for the year attributable to equity holders of the Parent Company (KD)	**9,279,954**	7,115,046
Number of shares outstanding at the beginning of the year	**187,039,125**	187,039,125
Weighted average number of treasury shares	**(3,441,233)**	(575,714)
Weighted average number of shares outstanding during the year	**183,597,892**	186,463,411
Basic and diluted earnings per share	**50.54 fils**	38.16 fils

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

5 PROPERTY AND EQUIPMENT

	Land	*Buildings*	*Leasehold improvements*	*Computer*	*Furniture and fixtures*	*Motor vehicles*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*	*KD*	*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**

Part of the Parent Company's premises with net carrying amount of KD 1,260,000 (31 December 2011: 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*	*Computer* *KD*	*Furniture and fixtures* *KD*	*Motor vehicles* *KD*	*Total* *KD*
Cost:							
At 1 January 2011	2,846,737	6,408,457	739,992	3,585,670	2,558,311	448,989	16,588,156
Additions	170,893	3,073,048	420,632	474,293	326,529	173,933	4,639,328
Disposals	-	-	(819)	(71,458)	(23,743)	(77,609)	(173,629)
Arising on acquisition of a subsidiary	-	341,780	10,545	31,607	14,970	15,137	414,039
Foreign currency translation differences	(16,425)	(109,569)	(12,110)	(45,581)	(27,715)	(10,795)	(222,195)
At 31 December 2011	3,001,205	9,713,716	1,158,240	3,974,531	2,848,352	549,655	21,245,699
Accumulated Depreciation:							
At 1 January 2011	-	3,127,028	567,985	3,142,093	2,131,519	266,274	9,234,899
Charge for the year	-	109,976	108,942	257,422	143,682	79,549	699,571
On disposals	-	-	(447)	(70,938)	(14,760)	(69,986)	(156,131)
Arising on acquisition of a subsidiary	-	-	21,305	36,108	8,344	15,809	81,566
Foreign currency translation differences	-	(19,969)	(7,645)	(33,894)	(20,553)	(5,560)	(87,621)
At 31 December 2011	-	3,217,035	690,140	3,330,791	2,248,232	286,086	9,772,284
Net carrying amount:							
At 31 December 2011	3,001,205	6,496,681	468,100	643,740	600,120	263,569	11,473,415

6 INVESTMENT IN ASSOCIATES

The Group has the following investment in associates:

	Country of incorporation	*Percentage of ownership*		*Principal Activity*
		2012	*2011*	
Al-Brouj Co-Operative Insurance Company (A Saudi Joint Stock Company)	Kingdom of Saudi Arabia	**27%**	27%	Insurance activities
Kipco Private Equity Company *	State of Kuwait	**Nil**	39%	Investment activities
Al-Argan International Real Estate Company K.S.C.**	State of Kuwait	**19%**	Nil	Real Estate Activities
Alliance Insurance Company P.S.C.***	United Arab Emirates	**20%**	Nil	Insurance Activities

* During the year, the Group sold its entire investment in the associated company "KIPCO Private Equity Company" for a total consideration equal to its carrying value of KD 10,161,933 to a related party (Note 26).

** Al-Argan International Real Estate Company K.S.C. was previously accounted for as an investment available for sale as the Group did not have any significant influence over the financial and operational decision. During the current year, the Group acquired additional stake of 6% and increased its ownership percentage and was able to exercise significant influence to a sufficient degree for the Group to demonstrate that it has significant influence over the associate.

*** During the year, the Group acquired equity interest in "Alliance Insurance Company P.S.C." for a total consideration of KD 6,733,845 from a related party (Note 26). The initial accounting for the acquisition was done based on provisional values of identifiable assets and liabilities of this company. The provisional fair values of identifiable assets and liabilities were determined by the management of the Group based on their initial estimates.
As of the reporting date, the final fair valuation of identifiable assets and liabilities of this company has not been finalized yet, consequently the goodwill amounting to KD 1,783,964 has been provisionally determined and included in the carrying value of the investment in associate. The Group is in the process of determining the final fair values and will recognize any adjustments to these provisional values after completing the purchase price allocation within twelve months from the acquisition date.

Carrying amount of investment in associates

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

	2012	*2011*
	KD	*KD*
Carrying value at 1 January	**13,299,616**	3,196,778
Share of results of associates recognised through previous year provision	**(500,000)**	-
Additions	**9,127,996**	-
Disposals	**(10,161,933)**	-
Return of capital	-	(243,588)
Share of results of associates	**(13,432)**	520,360
Transfers from investments available for sale	**6,298,323**	8,840,896
Gain arising on reclassification of investment available for sale (Note 3)	**3,199,597**	985,170
Share of other comprehensive income of associates	**42,510**	-
Foreign currency translation adjustment	**51,403**	-
Carrying value at 31 December	**21,344,080**	13,299,616

Goodwill included in the carrying value of the investment in associates amounts to KD 2,424,128 (31 December 2011: KD 640,169).

6 INVESTMENT IN ASSOCIATES (continued)

	2012	*2011*
	KD	*KD*
Share of associates' financial position:		
Assets	**39,872,879**	12,746,138
Liabilities	**(20,952,927)**	(86,691)
	18,919,952	12,659,447
Goodwill	**2,424,128**	640,169
Net assets	**21,344,080**	13,299,616
Share of associates' expenses (revenues) and losses:		
Revenues	**1,853,273**	520,674
Net (loss) / profit	**(13,432)**	520,360

Investment in associates include quoted associate with a carrying value of KD 21,344,080 (31 December 2011: KD 3,196,778) having a market value of KD 28,841,149 (31 December 2011: KD 15,537,618).

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:

	2012	*2011*
	KD	*KD*
Arab Misr Insurance Group Company S.A.E.	**308,340**	308,340
Bahrain Kuwaiti Insurance Company (B.S.C.)	**2,625,935**	2,625,935
Arab Orient Insurance Company J.S.C.	**5,292,099**	5,292,099
Held through subsidiaries:		
Egypt Life Takaful Insurance Company (S.A.E.)	**167,904**	167,904
Syrian Kuwait Insurance Company (S.S.C.)	**-**	71,906
At 31 December	**8,394,278**	8,466,184

Movement on goodwill during the year is as follows:

	2012	*2011*
	KD	*KD*
At I January	**8,466,184**	8,304,567
On acquisition of a subsidiary company	**-**	167,904
Impairment of goodwill	**(71,906)**	-
Foreign currency translation adjustment	**-**	(6,287)
At 31 December	**8,394,278**	8,466,184

The carrying amount of goodwill allocated to each cash-generating unit is disclosed under segment information (Note 21). 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% (2011: 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% (2011: 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

	2012 KD	*2011 KD*
Quoted equity securities	**11,773,238**	10,937,392
Unquoted equity securities	**19,309,569**	20,190,548
Unquoted managed funds	**618,550**	1,119,382
	31,701,357	32,247,322

Included in investments available for sale are unquoted equity securities with a value of KD 536,352 (31 December 2011: KD 1,467,090) 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 1,011,463 (31 December 2011: KD 3,244,781) 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

	2012 KD	*2011 KD*
Held for trading:		
Quoted securities	**3,394,741**	3,074,559
Designated upon initial recognition:		
Managed funds of quoted securities	**13,159,342**	10,958,621
	16,554,083	14,033,180

10 PREMIUMS AND INSURANCE BALANCES RECEIVABLE

	2012 *KD*	*2011* *KD*
Policyholders' accounts receivable		
Premiums receivable	**45,573,251**	39,993,756
Insured debts receivable	**575,840**	733,943
	46,149,091	40,727,699
Provision for doubtful debts	**(5,114,101)**	(5,029,496)
Net policyholders' accounts receivable	**41,034,990**	35,698,203

	2012 *KD*	*2011* *KD*
Insurance and reinsures' accounts receivable		
Reinsures receivable	**11,011,806**	6,880,250
Provision for doubtful debts	**(537,238)**	(466,127)
Net insurance and reinsures' accounts receivable	**10,474,568**	6,414,123
Total premiums and insurance balances receivable	**51,509,558**	42,112,326

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:

	2012 *KD*	*2011* *KD*
At 1 January	**5,029,496**	4,644,287
Charge for the year	**400,791**	626,454
Amounts written off	**(316,186)**	(241,245)
At 31 December	**5,114,101**	5,029,496

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

	2012 *KD*	*2011* *KD*
At 1 January	**466,127**	914,613
Charge for the year	**71,111**	-
Amounts written off	-	(448,486)
At 31 December	**537,238**	466,127

11 LIABILITIES AND ASSETS ARISING FROM INSURANCE CONTRACTS

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**

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

12 OTHER ASSETS

	2012	*2011*
	KD	*KD*
Accrued interest income	**879,472**	787,683
Inward reinsurance retentions	**41,564**	54,806
Refundable claims	**95,639**	105,659
Amounts due from related parties (Note 26)	**6,529,184**	2,714,432
Prepaid expenses and others	**11,156,587**	8,638,305
	18,702,446	12,300,885

13 TIME DEPOSITS

Time deposits of KD 23,203,405 (31 December 2011: KD 33,951,697) are placed with local and foreign banks and carry an average effective interest rate of 2.50% (31 December 2011: 2.14%) per annum. Time deposits mature within one year.

14 CASH AND CASH EQUIVALENTS

	2012	*2011*
	KD	*KD*
Cash on hand and at banks	**8,288,118**	7,226,003
Short term deposits and call accounts	**35,220,839**	23,645,976
Cash and cash equivalents in the consolidated statement of financial position	**43,508,957**	30,871,979
Bank overdrafts	**(20,397,443)**	(14,730,513)
Cash and cash equivalents in the consolidated statement of cash flows	**23,111,514**	16,141,466

15 INSURANCE PAYABLE

	2012	*2011*
	KD	*KD*
Policyholders and agencies payables	**15,049,031**	9,529,481
Insurance and reinsurance payables	**27,854,436**	23,596,840
Amount due to policyholders of Takaful unit (Note 28)	**128,407**	146,761
	43,031,874	33,273,082

16 OTHER LIABILITIES

	2012	*2011*
	KD	*KD*
Accrued expenses and others	**8,998,754**	7,870,614
Reserve for reinsurance premiums	**1,727,244**	1,460,736
KFAS, NLST and Zakat payables	**346,762**	310,634
Provision for end of service indemnity	**5,738,127**	4,950,051
Proposed directors' fees	**125,000**	100,000
	16,935,887	14,692,035

17 SHARE CAPITAL

Authorised, issued and fully paid capital consists of 187,039,125 shares of 100 fils each (31 December 2011: 178,132,500 shares).

Cash dividends, bonus shares and directors' fees

The Ordinary Annual General Assembly of the Parent Company's shareholders held on 2 April 2012 approved the payment of cash dividends amounting to KD 3,498,345 for the year ended 31 December 2011 which represents 20% of paid up share capital (31 December 2010: 25%) and 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 (31 December 2010: 5%).

On 20 February 2013, the Board of Directors of the Parent Company have proposed cash dividend of 25 fils per share (31 December 2011: 20 fils) and 0% bonus shares of paid up share capital (31 December 2011: 5%) in respect of the year ended 31 December 2012. This proposal is subject to the approval by annual general meeting of the shareholders of the Parent Company.

Directors' fees of KD 125,000 for the year ended 31 December 2012 is subject to approval by the Ordinary Annual General Assembly of the shareholders of the Parent Company. Directors' fees of KD 100,000 for the year ended 31 December 2011 was approved by the ordinary general assembly of the shareholders held on 2 April 2012..

18 TREASURY SHARES

	2012	*2011*
Number of shares (share)	**3,694,455**	3,105,273
Percentage of issued shares (%)	**1.975%**	1.74%
Market value (KD)	**1,958,061**	1,614,742

19 STATUTORY RESERVE

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

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

20 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.

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 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						(582,495)			(329,998)	(912,493)
Unallocated general and administrative expenses						(2,534,620)			(494,030)	(3,028,650)
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)

a) Segmental consolidated statement of income (continued)

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

21 SEGMENT INFORMATION (continued)

b) Segment consolidated statement of financial position

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	8,226,374	167,904	**8,394,278**
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	14,711,617	3,990,829	**18,702,446**
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**
Other disclosures:			
Capital expenditure	1,585,522	197,689	**1,783,211**

21 SEGMENT INFORMATION (continued)

b) Segment consolidated statement of financial position (continued)

31 December 2011	*General risk insurance* *KD*	*Life and medical insurance* *KD*	*Total* *KD*
Assets			
Property and equipment	8,795,844	2,677,571	11,473,415
Investment in associates	13,299,616	-	13,299,616
Goodwill	8,294,467	171,717	8,466,184
Financial instruments:			
Investments held to maturity	14,957,280	2,432,612	17,389,892
Debt securities (loans)	-	7,758,269	7,758,269
Investments available for sale	31,239,020	1,008,302	32,247,322
Investments carried at fair value through income statement	1,381,164	12,652,016	14,033,180
Loans secured by life insurance policies	-	832,348	832,348
Premium and insurance balances receivable	25,125,852	16,986,474	42,112,326
Reinsurers recoverable on outstanding claims	33,064,137	8,737,296	41,801,433
Property held for sale	204,619	30,044	234,663
Other assets	9,664,998	2,635,887	12,300,885
Time deposits	19,681,201	14,270,496	33,951,697
Cash and cash equivalents	20,024,828	10,847,151	30,871,979
Total assets	185,733,026	81,040,183	266,773,209
Liabilities			
Liabilities arising from insurance contracts:			
Outstanding claims reserve (gross)	56,212,453	18,967,115	75,179,568
Unearned premiums reserve (net)	17,450,344	6,650,506	24,100,850
Life mathematical reserve (net)	-	18,672,420	18,672,420
Incurred but not reported reserve (net)	3,215,026	877,335	4,092,361
Total liabilities arising from insurance contracts	76,877,823	45,167,376	122,045,199
Premiums received in advance	223,242	53,269	276,511
Insurance payable	22,573,005	10,700,077	33,273,082
Other liabilities	12,996,251	1,695,784	14,692,035
Bank overdrafts	14,640,572	89,941	14,730,513
Total liabilities	127,310,893	57,706,447	185,017,340
Other disclosures:			
Capital expenditure	4,540,957	98,371	4,639,328

21 SEGMENT INFORMATION (continued)

c) Geographic information

	Kuwait		*GCC Countries*		*Other ME Countries*		*Total*	
	KD	*KD*	***KD***	*KD*	***KD***	*KD*	***KD***	*KD*
	2012	*2011*	***2012***	*2011*	***2012***	*2011*	***2012***	*2011*
Segment revenue	**47,000,198**	40,839,579	**6,735,234**	6,468,078	**32,244,195**	28,160,918	**85,979,627**	75,468,575
Segment results (net underwriting income)	**4,943,790**	4,673,837	**1,556,706**	1,724,641	**2,216,280**	3,448,960	**8,716,776**	9,847,438
Profit for the year attributable to equity holders of the Parent Company	**5,403,739**	3,554,881	**767,404**	816,978	**3,108,811**	2,743,187	**9,279,954**	7,115,046
Total assets	**216,455,871**	169,568,550	**25,191,495**	30,552,772	**56,696,843**	66,651,887	**298,344,209**	266,773,209
Total liabilities	**140,324,088**	123,239,812	**18,195,217**	16,235,838	**51,043,637**	45,541,690	**209,562,942**	185,017,340

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:

	2012	*2011*
	KD	*KD*
Current accounts and deposits at banks	**23,196,441**	17,417,829
Loans secured by life insurance policies	**977,053**	832,348
	24,173,494	18,250,177

Foreign deposits of KD 22,205,432 (31 December 2011: KD 25,565,616) 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 3,405,786 (31 December 2011: KD 2,553,841).

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 does not have future commitments with respect to purchase financial instruments (31 December 2011: KD 4,774,032).

25 RISK MANAGEMENT

(a) Governance framework

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

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

25 RISK MANAGEMENT (continued)

(b) Regulatory framework

Law No. 24 of 1961, Law No.13 of 1962, Law No. 510 of 2011 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 25% of the premiums collected in the previous year are to be retained in Kuwait.
- For all other types of insurance, at least 40% 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)

Type of contract	2012 Gross liabilities KD	2012 Reinsurers' share of liabilities KD	2012 Net liabilities KD	2011 Gross liabilities KD	2011 Reinsurers' share of liabilities KD	2011 Net liabilities KD
Whole life insurance	**29,420**	**8,784**	**20,636**	4,000	-	4,000
Term insurance	**180,878**	**24,985**	**155,893**	151,658	-	151,658
Pure endowment	**1,895,855**	-	**1,895,855**	1,675,543	-	1,675,543
Group life and disability	**574,811**	**291,835**	**282,976**	649,016	408,089	240,927
Group medical including TPA	**1,396,754**	-	**1,396,754**	1,694,249	-	1,694,249
Credit life (Banks)	**6,235,208**	**3,980,611**	**2,254,597**	9,213,860	6,295,835	2,918,025
Preferred global health	**67,638**	-	**67,638**	67,692	-	67,692
Balsam	**148,632**	-	**148,632**	265,263	-	265,263
Misk individual policies	**3,716,784**	-	**3,716,784**	3,980,200	157,956	3,822,244
Total life insurance contract	**14,245,980**	**4,306,215**	**9,939,765**	17,701,481	6,861,880	10,839,601
Unitised pensions (Misk individual policies)	**9,822,926**	-	**9,822,926**	7,832,819	-	7,832,819
Total investments contracts	**9,822,926**	-	**9,822,926**	7,832,819	-	7,832,819
Total life insurance and investment contracts	**24,068,906**	**4,306,215**	**19,762,691**	25,534,300	6,861,880	18,672,420
Other life insurance contract liabilities	**23,146,684**	**6,523,027**	**16,623,657**	18,580,793	5,875,010	12,705,783

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)

	2012			*2011*		
	Gross liabilities KD	***Reinsurers' share of liabilities KD***	***Net Liabilities KD***	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*
Kuwait	**14,245,980**	**4,306,215**	**9,939,765**	17,701,481	6,861,880	10,839,601

Investment contracts

	2012			*2011*		
	Gross liabilities KD	***Reinsurers' share of liabilities KD***	***Net Liabilities KD***	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net Liabilities KD*
Kuwait	**616,816**	-	**616,816**	298,491	-	298,491
Europe	**9,206,110**	-	**9,206,110**	7,534,328	-	7,534,328
Total	**9,822,926**	- -	**9,822,926**	7,832,819	-	7,832,819

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*	
	2012	*2011*	***2012***	*2011*	***2012***	*2011*	***2012***	*2011*	***2012***	*2011*	***2012***	*2011*
Investment contracts:												
With fixed and guaranteed terms	**A49/52**	A49/52	**3%**	4%	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Non guaranteed terms	**A49/52**	A49/52	**N/A**	N/A	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Life term assurance:												
Males	**49**	49	**4%**	4%	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Females	**52**	52	**4%**	4%	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life insurance contracts (continued)

Sensitivities

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

Life insurance contracts

31 December 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

31 December 2011

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

Investment contracts

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

31 December 2011

	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%	78,328	78,328	78,328
Expenses	+10%	45,000	45,000	(45,000)
Discount rate	-1%	70,000	70,000	(70,000)
Longevity	N/A	N/A	N/A	N/A
Lapse and surrenders rate	N/A	N/A	N/A	N/A

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.

	2012			*2011*		
Concentration of insurance contract liabilities by type of contract:	***Gross liabilities***	***Reinsurer's share of liabilities***	***Net liabilities***	*Gross liabilities*	*Reinsurer's share of liabilities*	*Net liabilities*
	KD	***KD***	***KD***	*KD*	*KD*	*KD*
Marine and Aviation	**5,140,330**	**3,447,125**	**1,693,205**	7,501,691	5,757,317	1,744,374
Motor vehicles	**36,879,005**	**5,851,615**	**31,027,390**	36,510,540	6,274,631	30,235,909
Property	**24,817,407**	**21,803,135**	**3,014,272**	21,751,029	18,994,459	2,756,570
Engineering	**12,985,893**	**11,420,687**	**1,565,206**	13,995,814	12,638,102	1,357,712
General Accidents	**11,838,276**	**4,006,479**	**7,831,797**	11,754,795	4,035,674	7,719,121
Total	**91,660,911**	**46,529,041**	**45,131,870**	91,513,869	47,700,183	43,813,686

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.

	2012			*2011*		
Geographical concentration of insurance contract liabilities:	***Gross liabilities***	***Reinsurer's share of liabilities***	***Net Liabilities***	*Gross liabilities*	*Reinsurer's share of liabilities*	*Net liabilities*
	KD	***KD***	***KD***	*KD*	*KD*	*KD*
Kuwait	**45,778,624**	**26,557,437**	**19,221,187**	47,525,548	28,240,945	19,284,603
GCC and Middle East countries	**45,882,287**	**19,971,604**	**25,910,683**	43,988,321	19,459,238	24,529,083
Total	**91,660,911**	**46,529,041**	**45,131,870**	91,513,869	47,700,183	43,813,686

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 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%	**932,889**	**419,800**	**419,800**
Average claim settlement paid	Reduce from 18 months to 12 months	**5,503,127**	**2,476,407**	**123,820**

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

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

Claims development table

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

The table below shows gross insurance contracts' outstanding claims provision for 31 December 2012.

	2006 *KD*	*2007* *KD*	*2008* *KD*	*2009* *KD*	*2010* *KD*	*2011* *KD*	*2012* *KD*	***Total*** ***KD***
At end of accident year	24,482,652	23,146,664	33,066,296	30,938,644	30,984,182	42,334,934	56,524,220	**241,477,592**
One year later	21,217,976	28,050,626	34,383,669	34,477,744	28,488,256	44,336,635	-	**190,954,906**
Two years later	21,765,383	24,023,859	34,317,324	32,573,764	32,371,772	-	-	**145,052,102**
Three years later	20,780,261	24,282,443	33,131,354	34,510,257	-	-	-	**112,704,315**
Four years later	21,033,421	27,097,389	37,505,659	-	-	-	-	**85,636,469**
Five years later	22,981,300	30,368,750	-	-	-	-	-	**53,350,050**
Six years later	25,363,874	-	-	-	-	-	-	**25,363,874**
Current estimate of cumulative claims incurred	**25,363,874**	**30,368,750**	**37,505,659**	**34,510,257**	**32,371,772**	**44,336,635**	**56,524,220**	**260,981,167**
Cumulative payments to date	(23,061,841)	(25,443,977)	(34,273,793)	(28,784,975)	(26,069,546)	(34,115,337)	(16,961,853)	**(188,711,322)**
Liability recognised in the consolidated statement of financial position	2,302,033	4,924,773	3,231,866	5,725,282	6,302,226	10,221,298	39,562,367	72,269,845
Liability in respect of years prior to 2006								5,307,987
Total liability included in the consolidated statement of financial position								**77,577,832**

25 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

Claims development table (continued)

The table below shows net non-life insurance contracts' outstanding claims provision for 31 December 2012.

	2006 *KD*	*2007* *KD*	*2008* *KD*	*2009* *KD*	*2010* *KD*	*2011* *KD*	*2012* *KD*	***Total*** ***KD***
At end of accident year	9,902,188	11,655,226	13,949,504	16,179,642	18,989,771	22,801,828	30,984,265	**124,462,424**
One year later	9,499,382	10,119,865	13,651,755	14,899,257	16,018,924	21,471,731	-	**85,660,914**
Two years later	9,823,638	10,578,839	13,226,815	13,717,065	18,553,679	-	-	**65,900,036**
Three years later	10,472,680	10,664,295	12,727,909	15,869,789	-	-	-	**49,734,673**
Four years later	10,527,518	11,410,502	15,505,613	-	-	-	-	**37,443,633**
Five years later	11,622,643	13,797,078	-	-	-	-	-	**25,419,721**
Six years later	12,694,032	-	-	-	-	-	-	**12,694,032**
Current estimate of cumulative claims incurred	**12,694,032**	**13,797,078**	**15,505,613**	**15,869,789**	**18,553,679**	**21,471,731**	**30,984,265**	128,876,187
Cumulative payments to date	(11,943,795)	(12,258,624)	(13,726,516)	(13,984,948)	(14,909,450)	(16,249,176)	(10,775,905)	**(93,848,414)**
Liability recognised in the consolidated statement of financial position	750,237	1,538,454	1,779,097	1,884,841	3,644,229	5,222,555	20,208,360	**35,027,773**
Liability in respect of years prior to 2006								**1,824,139**
Total liability including in the consolidated statement of financial position								**36,851,912**

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 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**

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

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 2012 by classifying assets according to International credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as not rated.

Exposure to credit risk by classifying financial assets according to international credit rating agencies	***AAA KD***	***AA KD***	***A KD***	***BBB KD***	***Not rated KD***	***Total KD***
31 December 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		***Past due or***	
	High grade 2012 KD	***Standard grade 2012 KD***	***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)

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

Unrated responses are classified as follows using internal credit ratings.

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

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(1) Credit risk (continued)

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 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**

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

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 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**

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

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 2012: **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	3,279,390	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	-	-	-	**8,394,278**
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	-	4,151,041	**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	*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									
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)

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

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

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

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

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).

		2012		*2011*	
	Change in variables	***Impact on profit KD***	***Impact on equity KD***	*Impact on profit KD*	*Impact on equity KD*
USD	±5%	**1,106,541**	**-**	1,072,161	505,142
BD	±5%	**403,767**	**650,954**	545,348	592,626
EGP	±5%	**283,242**	**467,799**	478,758	425,262
JD	±5%	**970,038**	**450,410**	1,028,775	401,711

(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.

	2012		*2011*	
Currency	***Change in variables***	***Impact on profit before tax KD***	*Change in variables*	*Impact on profit before tax KD*
KD	±50 basis	**74,550**	±50 basis	73,671
USD	±50 basis	**-**	±50 basis	-
BD	±50 basis	**26,572**	±50 basis	-
Others	±50 basis	**137,209**	±50 basis	1,857

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:

	2012	*2011*
	%	*%*
Kuwait market	2 %	5 %
Rest of GCC market	25 %	6 %
MENA	39 %	8 %
Other international markets	11 %	19 %

The above percentages have been determined based on basis of the average market movements over a 90 days period from October to December 2011 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*	
	2012	*2011*	***2012***	*2011*
	KD	*KD*	***KD***	*KD*
Investment carried at fair value through income Statement	**480,579**	1,895,751	-	-
Investments available for sale	-	-	**2,064,763**	1,821,558

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

31 December 2012	*GCC*	*MENA*	*Europe*	*America*	*Others*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*	*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**

25 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(iii) Equity price risk (continued)

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

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.

	2012		*2011*	
	Premiums KD	***Claims KD***	*Premiums KD*	*Claims KD*
Directors and key management personnel	**280,608**	**88,982**	299,098	114,606
Other related parties	**3,372,324**	**635,207**	2,680,913	369,508
	3,652,932	**724,189**	2,980,011	484,114

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

	2012		*2011*	
	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	**193,030**	**3,532**	189,691	-
Other related parties	**533,769**	**1,114,161**	2,714,432	41,022
	726,799	**1,117,693**	2,904,123	41,022

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 7,326,256 (31 December 2011: KD 3,629,918). The Group also holds bonds issued by Kuwait Projects Company Holding Company and other related entity amounting to KD 10,033,153 (31 December 2011: KD 7,008,269).

26 RELATED PARTY TRANSACTIONS (continued)

b) Included under other assets an amount of KD 1,402,689 (31 December 2011: KD 1,402,689) which represents loan granted to an entity under common control amounting to KD 1,402,689 (31 December 2011: KD 1,402,689). This loan is repayable on demand. The interest rate is applicable based on prevailing discount rate of the Central Bank of Kuwait.

c) Included on other assets an amount of KD 5,126,495 due from Kuwait Project Holding K.S.C. (major shareholder) on sale of an investment in associated company "KIPCO Private Equity Company" at its carrying value. The sale transaction took place on 29 March 2012.

d) During the year, the Group acquired equity interest in "Alliance Insurance Company P.S.C." for KD 6,733,845 from United States Fire Insurance Company (subsidiary of FairFax Financial Holding Limited "major shareholder" representing 20% equity interest in the associated company.

Key management personnel compensation

	2012 ***KD***	*2011* *KD*
Salaries and other short term benefits	**838,800**	880,270
Employees' end of service benefits	**2,798,002**	2,511,188
	3,636,802	3,391,458

27 SUBSIDIARIES COMPANIES

The consolidated financial statements include the following subsidiaries:

Entity	*Country of incorporation*	*% ownership*		*Nature of operation*
		2012	*2011*	
Gulf Life Insurance Company K.S.C.	Kuwait	**99.80%**	99.80%	Life and medical insurance
Fajr Al Gulf Insurance and Reinsurance Company S.A.L.	Lebanon	**54.70%**	54.70%	General risk and life insurance and Reinsurance
Arab Misr Insurance Group Company S.A.E.	Egypt	**94.85%**	94.85%	General risk insurance
Syrian Kuwait Insurance Company (S.S.C.)	Syria	**54.29%**	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	**88.67%**	88.67%	General risk and life insurance
Egypt Life Takaful Insurance Company (S.A.E.)	Egypt	**59.5%**	59.5%	Life Takaful

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 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)**

For the year ended 31 December 2011

	Marine and Aviation KD	*Property KD*	*Motor KD*	*Engineering KD*	*General Accidents KD*	*Life and Medical KD*	*Total KD*
Premium written	278,322	431,123	215,056	29,038	155,535	1,554,296	2,663,370
Surplus (deficit) from insurance operations	127,043	14,397	14,585	5,997	39,707	(759,809)	(588,080)

	2012 KD	*2011 KD*
Amounts due to policyholders (Note 15)	**128,407**	146,761

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

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

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

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

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

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

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

31 December 2012	*Level: 1* *KD*	*Level: 2* *KD*	*Level: 3* *KD*	*Total fair value* *KD*
Financial instruments:				
Investments available for sale:				
Quoted equity securities	**11,773,238**	-	-	**11,773,238**
Unquoted equity securities	-	**11,801,400**	**6,971,817**	**18,773,217**
Unquoted managed funds	-	-	**618,550**	**618,550**
Investments carried at fair value through income statements:				
Held for Trading:				
Quoted securities	**3,394,741**	-	-	**3,394,741**
Designated upon initial recognition:				
Managed funds of quoted securities	**13,159,342**	-	-	**13,159,342**
Total	**28,327,321**	**11,801,400**	**7,590,367**	**47,719,088**

31 December 2011	*Level: 1* *KD*	*Level: 2* *KD*	*Level: 3* *KD*	*Total fair value* *KD*
Financial instruments:				
Investments available for sale:				
Quoted equity securities	10,937,392	-	-	10,937,392
Unquoted equity securities	-	-	18,723,458	18,723,458
Unquoted managed funds	-	-	1,119,382	1,119,382
Investments carried at fair value through income statements:				
Held for Trading:				
Quoted securities	3,074,559	-	-	3,074,559
Designated upon initial recognition:				
Managed funds of quoted securities	10,958,621	-	-	10,958,621
Total	24,970,572	-	19,842,840	44,813,412

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 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**

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

During the year ended 31 December 2012, there were no transfers between Level 1 and Level 2 fair value measurements.

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