AL-AHLEIA INSURANCE COMPANY S.A.K.

FINANCIAL STATEMENTS

31 December 2012

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL-AHLEIA INSURANCE COMPANY S.A.K.

Report on the Financial Statements

We have audited the accompanying financial statements of Al-Ahleia Insurance Company S.A.K. (the "Company"), which comprise the statement of financial position as at 31 December 2012, and the income statement, statement of comprehensive income, statement of changes in equity and 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 Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 the management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL-AHLEIA INSURANCE COMPANY S.A.K. (continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Company and the financial statements, together with the contents of the report of the Company's board of directors relating to these 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 financial statements incorporate all information that is required by the Companies Law No. 25 of 2012, and by the 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, or of the Company's Articles of Association, have occurred during the year ended 31 December 2012 that might have had a material effect on the business of the Company or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG
AL-AIBAN, AL-OSAIMI & PARTNERS

ABDULLATIF A. H. AL-MAJID
(LICENCE NO. 70 A)
OF PARKER RANDALL (ALLIED ACCOUNTANTS)

19 March 2013

Kuwait

INCOME STATEMENT
Year ended 31 December 2012

	Notes	*2012* *KD*	*2011* *KD*
Revenue:			
Gross premiums		**32,875,668**	32,332,209
Premiums ceded to reinsurers		**(19,846,333)**	(19,194,073)
Net premiums		**13,029,335**	13,138,136
Movement in unearned premiums		**(717,387)**	(435,670)
Net premiums earned		**12,311,948**	12,702,466
Commission income on ceded reinsurance		**5,549,012**	4,640,672
Policy issuance fees		**565,529**	556,866
Net investment income	3	**3,522,416**	2,682,089
Other income		**300,086**	460,333
Total revenue		**22,248,991**	21,042,426
Expenses:			
Claims incurred	9	**(6,298,981)**	(6,685,345)
Commissions		**(2,907,397)**	(2,146,500)
Movement in life mathematical reserve		**(335,100)**	197,600
Maturity and cancellations of life insurance policies		**(176,516)**	(298,964)
Administrative expenses		**(3,492,622)**	(4,030,114)
Total expenses		**(13,210,616)**	(12,963,323)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT AND DIRECTORS' FEES		**9,038,375**	8,079,103
Contribution to KFAS		**(82,746)**	(79,356)
NLST		**(197,542)**	(181,557)
Zakat		**(79,017)**	(72,674)
Directors' fees	12	**(180,000)**	(172,500)
PROFIT FOR THE YEAR		**8,499,070**	7,573,016
BASIC AND DILUTED EARNINGS PER SHARE	4	**45.83 fils**	40.88 fils

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	*2012* *KD*	*2011* *KD*
Profit for the year		**8,499,070**	7,573,016
Other comprehensive income (loss):			
Financial assets available for sale:			
Net change in fair values		**1,796,545**	(1,319,976)
Transferred to income statement on sale		**(803,617)**	(2,287,501)
Impairment loss transferred to income statement	3	**1,076,633**	2,122,907
		2,069,561	(1,484,570)
Share of other comprehensive income (loss) of associates	6	**78,738**	(107,855)
Foreign currency translation adjustment	6	**15,932**	(25,297)
Total other comprehensive income (loss) for the year		**2,164,231**	(1,617,722)
Total comprehensive income for the year		**10,663,301**	5,955,294

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 KD	2011 KD
ASSETS			
Property and equipment	5	**2,938,055**	3,011,871
Investment in associates	6	**15,349,179**	13,379,884
Financial assets available for sale	7	**74,708,867**	74,973,317
Loans secured by life insurance policyholders		**180,358**	193,532
Premiums and insurance receivables	8	**10,912,921**	10,597,015
Reinsurance recoverable on outstanding claims	9	**26,827,941**	25,150,734
Other debit balances	10	**2,105,022**	2,199,206
Fixed deposits	11	**20,164,630**	15,431,394
Bank balances and cash		**6,514,831**	186,569
TOTAL ASSETS		**159,701,804**	145,123,522
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**18,953,248**	18,050,713
Statutory reserve	13	**17,162,327**	16,258,490
General reserve	13	**16,922,802**	16,018,965
Special voluntary reserve	13	**10,500,000**	10,000,000
Treasury shares	14	**(1,579,956)**	(1,642,331)
Treasury shares reserve		**1,385,068**	1,369,420
Cumulative changes in fair values reserve		**8,254,160**	6,105,861
Foreign currency translation reserve		**89,914**	73,982
Retained earnings		**15,090,504**	14,217,231
Total equity		**86,778,067**	80,452,331
LIABILITIES			
Liabilities arising from insurance contracts:			
Outstanding claims reserve	9	**34,910,977**	33,738,713
Unearned premiums reserve	9	**4,189,282**	3,471,895
Life mathematical reserve	9	**3,776,000**	3,440,900
Incurred but not reported reserve	9	**6,700,000**	6,700,000
Total liabilities arising from insurance contracts		**49,576,259**	47,351,508
Insurance payables	15	**15,278,281**	8,888,174
Other credit balances	16	**6,883,574**	6,802,804
Premiums received in advance		**1,185,623**	1,628,705
Total liabilities		**72,923,737**	64,671,191
TOTAL EQUITY AND LIABILITIES		**159,701,804**	145,123,522

Sulaiman Hamad Al-Dalali
Chairman and Managing Director

Ayman Abdullatif Al-Shayea
Vice Chairman

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2012

	Share capital KD	*Statutory reserve KD*	*General reserve KD*	*Special voluntary reserve KD*	*Treasury shares KD*	*Treasury shares reserve KD*	*Cumulative changes in fair values Reserve KD*	*Foreign currency translation reserve KD*	*Retained earnings KD*	*Total equity KD*
Balance at 1 January 2012	18,050,713	16,258,490	16,018,965	10,000,000	(1,642,331)	1,369,420	6,105,861	73,982	14,217,231	80,452,331
Profit for the year	-	-	-	-	-	-	-	-	8,499,070	8,499,070
Total other comprehensive income	-	-	-	-	-	-	2,148,299	15,932	-	2,164,231
Total comprehensive income for the year	-	-	-	-	-	-	2,148,299	15,932	8,499,070	10,663,301
Issue of bonus shares (Note 12)	902,535	-	-	-	-	-	-	-	(902,535)	-
Cash dividend (Note 12)	-	-	-	-	-	-	-	-	(4,415,588)	(4,415,588)
Purchase of treasury shares	-	-	-	-	(16,578)	-	-	-	-	(16,578)
Sale of treasury shares	-	-	-	-	78,953	15,648	-	-	-	94,601
Transfer to reserves	-	903,837	903,837	500,000	-	-	-	-	(2,307,674)	-
At 31 December 2012	**18,953,248**	**17,162,327**	**16,922,802**	**10,500,000**	**(1,579,956)**	**1,385,068**	**8,254,160**	**89,914**	**15,090,504**	**86,778,067**
Balance at 1 January 2011	17,191,155	15,450,580	15,211,055	9,500,000	(1,715,677)	1,370,511	7,698,286	99,279	13,818,486	78,623,675
Profit for the year	-	-	-	-	-	-	-	-	7,573,016	7,573,016
Total other comprehensive loss	-	-	-	-	-	-	(1,592,425)	(25,297)	-	(1,617,722)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(1,592,425)	(25,297)	7,573,016	5,955,294
Issue of bonus shares (Note 12)	859,558	-	-	-	-	-	-	-	(859,558)	-
Cash dividend (Note 12)	-	-	-	-	-	-	-	-	(4,198,893)	(4,198,893)
Sale of treasury shares	-	-	-	-	73,346	(1,091)	-	-	-	72,255
Transfer to reserves	-	807,910	807,910	500,000	-	-	-	-	(2,115,820)	-
At 31 December 2011	18,050,713	16,258,490	16,018,965	10,000,000	(1,642,331)	1,369,420	6,105,861	73,982	14,217,231	80,452,331

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 KD	2011 KD
OPERATING ACTIVITIES			
Profit for the year		**8,499,070**	7,573,016
Non-cash adjustments to reconcile profit for the year to net cash flows:			
Depreciation	5	**170,298**	159,266
Share of results of associates	3	**(1,598,328)**	11,165
Gain on sale of financial assets available for sale	3	**(803,617)**	(2,287,501)
Impairment loss on financial assets available for sale	3	**1,076,633**	2,122,907
Interest income on bonds and fixed deposits	3	**(441,417)**	(439,832)
Dividend income	3	**(1,589,210)**	(1,924,144)
Interest expense		**30,857**	51,874
Provision for employees' end of service benefits		**98,929**	110,090
		5,443,215	5,376,841
Changes in operating assets and liabilities:			
Premiums and insurance receivables		**(315,906)**	2,281,822
Reinsurance recoverable on outstanding claims		**(1,677,207)**	504,027
Other debit balances		**352,043**	243,650
Liabilities arising from insurance contracts		**2,224,751**	337,060
Insurance payables		**6,390,107**	(394,694)
Other credit balances		**(94,452)**	521,518
Premiums received in advance		**(443,082)**	(474,983)
Cash flows from operations		**11,879,469**	8,395,241
Employees' end of service benefits paid		**(32,080)**	(74,087)
Net cash flows from operating activities		**11,847,389**	8,321,154
INVESTING ACTIVITIES			
Purchase of property and equipment	5	**(96,482)**	(34,858)
Additional subscription in associates	6	**(24,476)**	-
Purchase of financial assets available for sale		**(8,284,251)**	(16,910,338)
Proceeds from sale of financial assets available for sale		**10,093,424**	10,014,761
Movement in loans secured by life insurance policyholders		**13,174**	(97,690)
Fixed deposits		**(4,733,236)**	(423,346)
Dividends received from associates	6	**-**	240,940
Dividend income received	3	**1,543,312**	1,832,031
Interest income received		**229,457**	245,772
Net cash flows used in investing activities		**(1,259,078)**	(5,132,728)
FINANCING ACTIVITIES			
Dividend paid		**(4,338,072)**	(4,093,083)
Purchase of treasury shares		**(16,578)**	-
Sale of treasury shares		**94,601**	72,255
Net cash flows used in financing activities		**(4,260,049)**	(4,020,828)
NET INCREASE (DECREASE) IN BANK BALANCES AND CASH		**6,328,262**	(832,402)
Bank balances and cash at the beginning of the year		**186,569**	1,018,971
BANK BALANCES AND CASH AT THE END OF THE YEAR		**6,514,831**	186,569

The attached notes 1 to 23 form part of these financial statements.

1 CORPORATE INFORMATION

The financial statements of Al-Ahleia Insurance Company S.A.K. (the "Company") for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 19 March 2013. The annual general assembly of the shareholders has the power to amend these financial statements after issuance.

The financial statements of the Company for the year ended 31 December 2011 have been approved by the shareholders' Annual General Assembly on 22 April 2012.

The Company is a Kuwaiti Shareholding Company registered in 1962 under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments. It is engaged in various insurance activities, including reinsurance as set forth in the Company's Articles of Association, article No. 3.

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 Company has a period of 6 months from 29 November 2012 to regularize its affairs in accordance with the Companies Law.

The Company's registered head office address is at P. O. Box 1602, Safat 13017, Kuwait.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

Statement of compliance
The financial statements of the Company 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.

Basis of preparation
The financial statements have been prepared on the historical cost convention as modified to include the measurement at fair value of financial assets available for sale.

The financial statements are presented in Kuwaiti Dinars (KD), which is the functional and presentation currency of the Company.

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the respective notes.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Product classification
Insurance contracts
Insurance contracts are those contracts when the Company (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 Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

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, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Gross premiums
Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance premiums
Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

Commissions and policy issuance fees
Insurance and investment contracts 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.

Realised gains and losses
Realised gains and losses recorded in the income statement include gains and losses on financial assets. Gains and losses on sale of investments 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 income statement as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the reporting date.

The Company 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 Company'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.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Policy acquisition costs
Those direct and indirect costs incurred during the financial period arising from the writing or renewals of insurance contracts are deferred to the extent that those costs are recoverable out of future premiums. All other acquisition costs are recognised as expenses when incurred.

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 income statement. DAC is also considered in the liability adequacy test for each reporting period.

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

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

Liability adequacy test
At each reporting date the Company 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 income statement and an unexpired risk provision is created.

The Company 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
The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

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

The Company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or 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 related 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.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

The Company calculates the contribution to KFAS at 1% of profit for the year in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the transfer to statutory reserve and accumulated losses brought forward should be excluded from profit for the year when determining the contribution.

National Labour Support Tax (NLST)

The Company calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. As per law, income from associates and cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

Zakat

Contribution to Zakat is calculated in accordance with the requirements of Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

Property and equipment

Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

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

• Buildings on freehold land	25 years
• Leasehold properties	20 to 25 years
• Furniture, fixtures, equipment and motor vehicles	3 to 5 years

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

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognised in the income statement as an expense.

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 income statement in the year the asset is derecognised.

Investment in associates

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

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

The income statement reflects the share of the results of operations of the associates. Where there has been a change recognised directly in other comprehensive income of the associates, the Company recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits or losses resulting from transactions between the Company and the associates are eliminated to the extent of the interest in the associates.

The share of profit of the associates is included as part of net investment income in the income statement. This is profit attributable to equity holders of the associates and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)
The financial statements of the associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring its accounting policies in line with the Company.

After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in associates. The Company 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 Company 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 income statement.

Upon loss of significant influence over the associates, the Company measures and recognises any remaining 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 remaining investment and proceeds from disposal is recognised in the income statement.

Financial instruments – initial recognition and subsequent measurement

(i) 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 Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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 Company commits to purchase or sell the asset.

The Company's financial assets include financial assets available for sale, loans and other receivables and insurance receivables (include reinsurance receivables). At 31 December, the Company did not have any derivatives designated as hedging instruments.

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

Financial assets available for sale
Financial assets available for sale include equity and debt securities. Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available for sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of income, or determined to be impaired, at which time the cumulative loss is recognised in the statement of income and removed from the cumulative changes in fair values reserve.

The Company evaluates its available for sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Company is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Subsequent measurement (continued)

Financial assets available for sale (continued)
For a financial asset reclassified out of the financial assets available for sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the income statement.

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 EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'finance income' in the income statement. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Insurance receivables (including reinsurance)
Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement. Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(ii) Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

Financial assets available for sale

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

In the case of debt instruments classified as financial assets available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss and loans and borrowings or as derivatives designated as hedging instruments in an effective hedge as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include insurance payables and other credit balances. 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.

Derecognition

A financial liability is derecognised when the obligation under the liability 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 income statement.

(iv) Offsetting of financial instruments

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

For investments traded in an active market, fair value is determined by reference to quoted market bid prices.

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

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

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

Outstanding claims reserve (OCR)

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 is 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 premiums 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 Company's actuaries.

2 ACCOUNTING POLICIES (continued)

2.2 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 reporting date in addition to other contingencies and any differences that may arise. Provision based on management's judgement and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the reporting date.

Employees' end of service benefits
The Company provides end of service benefits to its employees under the Kuwait Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Company makes contributions to social security calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

Treasury shares
Treasury shares consist of the Company's own shares that have been issued, subsequently reacquired by the Company 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 treasury shares reserve account. No cash dividend is 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.

Foreign currencies
Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the income statement with the exception of differences on foreign monetary items that form part of a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Contingencies
Contingent liabilities are not recognised in the 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 financial statements but disclosed when an inflow of economic benefits is probable.

Significant accounting judgements, estimates and assumptions

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

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

***(i)* Judgement**
In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Classification of investments
Classification of investments is based on management's intention at acquisition and requires considerable judgment.

***(ii)* Estimation and assumptions**

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 described below.

Impairment of non-financial assets
An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model.

Fair value of financial instruments
Where the fair value of financial assets recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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 and outstanding claims reserve 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.

The main assumption underlying these techniques is that a Company'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 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 maker 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 regular basis.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

(*ii*) Estimation and assumptions (continued)

Life insurance contract liabilities (Life mathematical reserve)
The main assumptions used relate to mortality and morbidity rates, longevity, investment return, expenses, lapse and surrender rates and discount rates. The Company base mortality and morbidity tables on standard industry and national tables which reflect historical experiences, adjusted when appropriate to reflect the Company'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.

2.3 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended International Accounting Standards Board ("IASB") standard effective as of 1 January 2012:

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the 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 Company does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt these standards when they become effective.

IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Company's first annual report after becoming effective.

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 — Amendments to IAS 32
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. The Company is currently assessing the impact of the this amendment on its financial position or performance. Amendments to IAS 32 become effective for annual periods beginning on or after 1 January 2014.

2 ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's 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 Company'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 IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. 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 Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. The standard does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company 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

	2012	*2011*
	KD	*KD*
Share of results of associates (Note 6)	**1,598,328**	(11,165)
Gain on sale of financial assets available for sale	**803,617**	2,287,501
Impairment loss on financial assets available for sale	**(1,076,633)**	(2,122,907)
Interest on bonds and fixed deposits	**441,417**	439,832
Dividend income	**1,589,210**	1,924,144
Other investment income	**166,477**	164,684
	3,522,416	2,682,089

4 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares). Diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares) 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. The Company did not have any diluted shares as at 31 December.

	2012 KD	*2011 KD*
Profit for the year	**8,499,070**	7,573,016
	Shares	Shares
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	**185,429,552**	185,242,231
Basic and diluted earnings per share	**45.83 fils**	40.88 fils

The basic and diluted earnings per share have been adjusted for the current and previous year following the shareholders' approval of bonus shares at the Extraordinary General Assembly meeting held on 22 April 2012 (Note 12).

5 PROPERTY AND EQUIPMENT

	Freehold land KD	*Buildings on freehold Land KD*	*Leasehold properties KD*	*Furniture, fixtures equipment and motor vehicles KD*	*Total KD*
Cost:					
At 1 January 2011	1,725,500	2,910,884	248,242	1,800,395	6,685,021
Additions	-	-	-	34,858	34,858
At 31 December 2011	1,725,500	2,910,884	248,242	1,835,253	6,719,879
Additions	-	-	-	96,482	96,482
At 31 December 2012	1,725,500	2,910,884	248,242	1,931,735	6,816,361
Depreciation:					
At 1 January 2011	-	1,617,019	165,388	1,766,335	3,548,742
Charge for the year	-	116,435	3,871	38,960	159,266
At 31 December 2011	-	1,733,454	169,259	1,805,295	3,708,008
Charge for the year	-	116,435	3,871	49,992	170,298
At 31 December 2012	-	1,849,889	173,130	1,855,287	3,878,306
Net carrying amount:					
At 31 December 2012	**1,725,500**	**1,060,995**	**75,112**	**76,448**	**2,938,055**
At 31 December 2011	1,725,500	1,177,430	78,983	29,958	3,011,871

6 INVESTMENTS IN ASSOCIATES

The Company has the following investment in associates:

	Ownership percentage		*Country of*	*2012*	*2011*
	2012	*2011*	*incorporation*	***KD***	*KD*
Iraq International Insurance Company S.A (Closed)	**20.00%**	-	Iraq	**93,910**	-
AL-Watania Insurance Company Y.S.C. (Closed)	**22.50%**	-	Yemen	**138,286**	-
Burgan Insurance Company S.A.L. (formerly Arab Life Insurance Company S.A.L.)	**49.37%**	49.37%	Lebanon	**360,864**	390,762
Arab Life and Accident Insurance Company P.S.C.	**27.70%**	27.70%	Jordan	**954,769**	952,475
Trade Union Insurance Company E.C.	**20.95%**	20.95%	Bahrain	**2,528,527**	1,581,947
Kuwait Reinsurance Company K.S.C. (Closed)	**30.00%**	30.00%	Kuwait	**11,272,823**	10,454,700
				15,349,179	13,379,884

During the year ended 31 December 2012, The Company, through board representation, has exercised significant influence over Iraq International Insurance Company S.A (Closed) and AL-Watania Insurance Company Y.S.C. (Closed). Accordingly, these investments were transferred from financial assets available for sale to investment in associates at its fair value of KD 251,821.

The movement of the investment in associates during the year is as follows:	***2012 KD***	*2011 KD*
Carrying value at 1 January	**13,379,884**	13,765,141
Additional subscription in associates	**24,476**	-
Transfer from financial assets available for sale	**251,821**	-
Share of results of associates (Note 3)	**1,598,328**	(11,165)
Dividend received	**-**	(240,940)
Share of other comprehensive income	**78,738**	(107,855)
Foreign currency translation adjustment	**15,932**	(25,297)
Carrying value at 31 December	**15,349,179**	13,379,884

	2012 KD	*2011 KD*
Share of associates' financial position:		
Assets	**34,650,395**	30,777,176
Liabilities	**(19,301,216)**	(17,397,292)
Net assets	**15,349,179**	13,379,884
Share of associates' revenues and profit (loss):		
Revenues	**3,810,552**	418,959
Profit (loss)	**1,598,328**	(11,165)

Investment in associates includes Kuwait Reinsurance Company, a listed Company on the Kuwait Stock Exchange. The fair value of this associate based on bid prices as at 31 December 2012 amounted to KD 5,879,654 (2011: KD 7,695,149).

7 FINANCIAL ASSETS AVAILABLE FOR SALE

	2012 *KD*	*2011* *KD*
Local equity securities:		
Quoted	**21,332,913**	22,054,684
Unquoted	**9,142,834**	9,904,071
	30,475,747	31,958,755
Foreign equity securities:		
Quoted	**5,030,695**	3,828,510
Unquoted	**18,820,397**	17,550,935
	23,851,092	21,379,445
Unquoted foreign funds	**20,032,028**	21,285,116
Bonds	**350,000**	350,001
	74,708,867	74,973,317

As at 31 December 2012, quoted equity securities are carried at fair value. Management has performed a review of these investments to assess whether any impairment has occurred in their value and accordingly, an impairment loss of KD 252,682 (2011: KD 379,132) was recognised in the income statement.

As at 31 December 2012, unquoted equity securities of KD 9,140,157 (2011: KD 5,854,886) are carried at fair value determined by the directors of the Company using an appropriate valuation method based on the latest financial information available. Management has performed a review of these investments to assess whether any impairment has occurred in their value and no impairment recorded for these investments.

As at 31 December 2012, unquoted equity securities of KD 18,823,074 (2011: KD 21,600,120) are carried at cost due to the non availability of reliable measures of their fair values. Management has performed a review of these investments to assess whether any impairment has occurred in their value and based on specific information, an impairment loss of KD 409,781 (2011: KD 1,242,087) was recognised in the income statement.

Managed funds are carried at net asset values reported by the investment manager. Management has performed a review of these investments to assess whether any impairment has occurred in their value and accordingly, an impairment loss of KD 414,170 (2011: KD 501,688) in the income statement.

Bonds are carried at fair value which approximates its carrying value at the reporting date.

8 PREMIUMS AND INSURANCE RECEIVABLES

	2012 *KD*	*2011* *KD*
Policyholders' accounts receivable		
Premiums receivable	**7,540,548**	7,900,000
Provision for impaired receivables	**(687,452)**	(702,673)
Net policyholders' accounts receivable	**6,853,096**	7,197,327
Insurance and reinsures accounts receivable		
Reinsures receivable	**4,198,941**	3,538,804
Provision for impaired receivables	**(139,116)**	(139,116)
Net insurance and reinsures accounts receivable	**4,059,825**	3,399,688
Total premiums and insurance receivables	**10,912,921**	10,597,015

As at 31 December 2012, premiums and insurance receivables at nominal value of KD 687,452 (2011: KD 702,673) were impaired and fully provided for.

8 PREMIUMS AND INSURANCE RECEIVABLES (continued)

Movements in the allowance for impairment of premiums and insurance receivables were as follows:

	2012 *KD*	*2011* *KD*
At 1 January	**841,789**	1,144,299
Reversal of impairment	**(15,221)**	(302,510)
At 31 December	**826,568**	841,789

9 LIABILITIES ARISING FROM INSURANCE CONTRACTS

31 December 2012	***Marine and aviation*** ***KD***	***Accident*** ***KD***	***Fire*** ***KD***	***Life and health*** ***KD***	***Total*** ***KD***
OUTSTANDING CLAIMS RESERVE:					
Gross balance at the beginning of the year	**3,002,731**	**8,055,875**	**10,468,634**	**12,211,473**	**33,738,713**
Reinsurance recoverable on outstanding Claims	**(2,687,397)**	**(3,450,925)**	**(10,145,946)**	**(8,866,466)**	**(25,150,734)**
Net balance at the beginning of the year	**315,334**	**4,604,950**	**322,688**	**3,345,007**	**8,587,979**
Gross claims incurred during the year	**1,735,798**	**4,554,535**	**1,384,208**	**6,450,868**	**14,125,409**
Reinsurance recoverable	**(1,250,332)**	**(468,899)**	**(969,901)**	**(5,137,296)**	**(7,826,428)**
Claims incurred	**485,466**	**4,085,636**	**414,307**	**1,313,572**	**6,298,981**
Gross claims paid during the year	**(1,949,144)**	**(3,902,229)**	**(995,816)**	**(6,105,956)**	**(12,953,145)**
Reinsurance recoverable	**1,574,917**	**252,830**	**698,424**	**3,623,050**	**6,149,221**
Paid during the year	**(374,227)**	**(3,649,399)**	**(297,392)**	**(2,482,906)**	**(6,803,924)**
NET BALANCE AT THE END OF THE YEAR	**426,573**	**5,041,187**	**439,603**	**2,175,673**	**8,083,036**
Presented in the statement of financial position as follows:					
Outstanding claims reserve	**2,789,385**	**8,708,181**	**10,857,026**	**12,556,385**	**34,910,977**
Reinsurance recoverable on outstanding Claims	**(2,362,812)**	**(3,666,994)**	**(10,417,423)**	**(10,380,712)**	**(26,827,941)**
NET BALANCE AT THE END OF THE YEAR	**426,573**	**5,041,187**	**439,603**	**2,175,673**	**8,083,036**
Unearned premiums reserve	**411,060**	**3,332,359**	**445,863**	**-**	**4,189,282**
Life mathematical reserve	**-**	**-**	**-**	**3,776,000**	**3,776,000**
Incurred but not reported reserve	**518,778**	**5,009,138**	**72,084**	**1,100,000**	**6,700,000**

9 LIABILITIES ARISING FROM INSURANCE CONTRACTS (continued)

31 December 2011	*Marine and aviation KD*	*Accident KD*	*Fire KD*	*Life and health KD*	*Total KD*
OUTSTANDING CLAIMS RESERVE:					
Gross balance at the beginning of the year	2,536,586	8,172,076	10,872,427	12,058,634	33,639,723
Reinsurance recoverable on outstanding Claims	(2,120,029)	(3,645,166)	(10,553,296)	(9,336,270)	(25,654,761)
Net balance at the beginning of the year	416,557	4,526,910	319,131	2,722,364	7,984,962
Gross claims incurred during the year	2,179,548	3,408,569	696,693	7,012,752	13,297,562
Reinsurance recoverable	(1,881,630)	(229,354)	(491,080)	(4,010,153)	(6,612,217)
Claims incurred	297,918	3,179,215	205,613	3,002,599	6,685,345
Gross claims paid during the year	(1,713,403)	(3,524,770)	(1,100,486)	(6,859,914)	(13,198,573)
Reinsurance recoverable	1,314,262	423,595	898,430	4,479,958	7,116,245
Paid during the year	(399,141)	(3,101,175)	(202,056)	(2,379,956)	(6,082,328)
NET BALANCE AT THE END OF THE YEAR	315,334	4,604,950	322,688	3,345,007	8,587,979
Presented in the statement of financial position as follows:					
Outstanding claims reserve	3,002,731	8,055,875	10,468,634	12,211,473	33,738,713
Reinsurance recoverable on outstanding Claims	(2,687,397)	(3,450,925)	(10,145,946)	(8,866,466)	(25,150,734)
NET BALANCE AT THE END OF THE YEAR	315,334	4,604,950	322,688	3,345,007	8,587,979
Unearned premiums reserve	492,691	2,691,667	287,537	-	3,471,895
Life mathematical reserve	-	-	-	3,440,900	3,440,900
Incurred but not reported reserve	570,772	4,897,704	131,524	1,100,000	6,700,000

10 OTHER DEBIT BALANCES

	2012 KD	*2011 KD*
Accrued income	**276,111**	290,343
Reserve retained by reinsurers	**337,462**	382,058
Other debit balances	**1,491,449**	1,526,805
	2,105,022	2,199,206

11 FIXED DEPOSITS

Fixed deposits as at 31 December 2012 are placed with local financial institutions and mature within one year from the placement date. Fixed deposits are denominated in Kuwaiti Dinars and carry an average effective interest rate of 2.44% (2011: 2.46%) per annum.

12 SHARE CAPITAL, CASH DIVIDEND AND BONUS SHARES

Share capital
The authorised, issued and fully paid up share capital consists of 189,532,484 shares of 100 fils each (2011: 180,507,130) which is fully paid in cash.

Cash dividend and bonus shares
On 22 April 2012, the ordinary Annual General Assembly Of the Company's shareholders approved the payment of cash dividend of 25% for the year ended 31 December 2011 (2010: 25%), totalling KD 4,415,588 (2010: KD 4,198,892) and Board of Directors' fees of KD 172,500 (2010: KD 135,000).

On the same date, the Extraordinary General Assembly Of the Company's Shareholders approved the increase of share capital from KD 18,050,713 to KD 18,953,248 through issuance of 9,025,354 bonus shares of 100 fils each for the year ended 31 December 2011 (2010: 8,595,580 shares).

For the year ended 31 December 2012, the Company's board of directors have proposed a distribution of cash dividend of 25 fils per share (2011: 25 fils) and 5.52280843% bonus shares of paid up share capital (2011: 5%) and board of directors' fees of KD 180,000 (2011: KD 172,500). This proposal is subject to the approval by Annual Ordinary General Assembly Meeting of the Company's Shareholders.

13 RESERVES

Statutory reserve
As required by the Companies Law and the Company's articles of association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees has been transferred to statutory reserve. The Company may resolve to discontinue such annual transfers since the reserve exceeds 50% of paid up share capital.

Only the part of the reserve in excess of 50% of paid up share capital is freely distributable. Distribution of the balance is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

General reserve
In accordance with the Company's articles of association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees is has been transferred to general reserve.

Special voluntary reserve
In accordance with the Company's articles of association, the board of directors can resolve to transfer certain amount of the profit for the year to the special voluntary reserve. This transfer can be suspended at the discretion of the general assembly. Special voluntary reserve is available for distribution.

14 TREASURY SHARES

	2012	*2011*
Number of shares	**4,042,130**	4,003,634
Percentage of issued shares (%)	**2.13**	2.22
Market value (KD)	**2,263,593**	2,081,890

15 INSURANCE PAYABLES

	2012	*2011*
	KD	*KD*
Policyholders payables	**2,370,900**	2,225,047
Reinsurance payables	**11,399,045**	5,476,689
Claims payables	**815,099**	640,593
Other insurance payables	**693,237**	545,845
	15,278,281	8,888,174

16 OTHER CREDIT BALANCES

	2012	*2011*
	KD	*KD*
Reserve retained on reinsurance business	**1,134,979**	1,013,214
Other payables	**5,748,595**	5,789,590
	6,883,574	6,802,804

17 SEGMENT INFORMATION

The Company operates in two segments, general risk insurance and life and health insurance. There are no inter-segment transactions. The Company's assets and operations are located in Kuwait. Following are the details of those two primary segments:

A) Segment information – Income statement

Year ended 31 December 2012:	*Marine and aviation KD*	*Accident KD*	*Fire KD*	*Total general risk insurance KD*	*Life and health KD*	*Total KD*
Revenue:						
Gross premiums	8,441,340	11,851,439	4,572,709	24,865,488	8,010,180	32,875,668
Premiums ceded to reinsurers	(6,574,018)	(4,695,706)	(3,691,020)	(14,960,744)	(4,885,589)	(19,846,333)
Net premiums	1,867,322	7,155,733	881,689	9,904,744	3,124,591	13,029,335
Movement in unearned premiums	81,631	(640,692)	(158,326)	(717,387)	-	(717,387)
Net premiums earned	1,948,953	6,515,041	723,363	9,187,357	3,124,591	12,311,948
Commission income on ceded reinsurance	2,532,008	1,265,374	793,132	4,590,514	958,498	5,549,012
Policy issuance fees	-	565,529	-	565,529	-	565,529
Total revenue	4,480,961	8,345,944	1,516,495	14,343,400	4,083,089	18,426,489
Expenses:						
Claims incurred	485,466	4,085,636	414,307	4,985,409	1,313,572	6,298,981
Commissions	694,396	1,664,435	286,674	2,645,505	261,892	2,907,397
Movement in life mathematical Reserve	-	-	-	-	335,100	335,100
Maturity and cancellations of life insurance policies	-	-	-	-	176,516	176,516
Administrative expenses for insurance business	766,404	1,026,276	287,680	2,080,360	543,314	2,623,674
Total expenses	1,946,266	6,776,347	988,661	9,711,274	2,630,394	12,341,668
Net underwriting results	2,534,695	1,569,597	527,834	4,632,126	1,452,695	6,084,821
Net investment income				3,373,665	148,751	3,522,416
Other income				158,014	142,072	300,086
Other administrative expenses				(288,086)	(533)	(288,619)
Unallocated expenses				(580,329)	-	(580,329)
Profit before contribution to KFAS, NLST, Zakat and Directors' fees						9,038,375

17 SEGMENT INFORMATION (continued)

A) Segment information – Income statement (continued)

	Marine and aviation KD	*Accident KD*	*Fire KD*	*Total general risk insurance KD*	*Life and health KD*	*Total KD*
Year ended 31 December 2011:						
Revenue:						
Gross premiums	8,325,967	9,553,760	3,037,114	20,916,841	11,415,368	32,332,209
Premiums ceded to reinsurers	(6,284,393)	(3,448,194)	(2,429,441)	(12,162,028)	(7,032,045)	(19,194,073)
Net premiums	2,041,574	6,105,566	607,673	8,754,813	4,383,323	13,138,136
Movement in unearned premiums	(232,309)	(161,518)	(41,843)	(435,670)	-	(435,670)
Net premiums earned	1,809,265	5,944,048	565,830	8,319,143	4,383,323	12,702,466
Commission income on ceded Reinsurance	1,898,620	1,036,437	598,902	3,533,959	1,106,713	4,640,672
Policy issuance fees	-	556,866	-	556,866	-	556,866
Total revenue	3,707,885	7,537,351	1,164,732	12,409,968	5,490,036	17,900,004
Expenses:						
Claims incurred	(297,918)	(3,179,215)	(205,613)	(3,682,746)	(3,002,599)	(6,685,345)
Commissions	(404,047)	(1,294,018)	(161,380)	(1,859,445)	(287,055)	(2,146,500)
Movement in life mathematical Reserve	-	-	-	-	197,600	197,600
Maturity and cancellations of life insurance policies	-	-	-	-	(298,964)	(298,964)
Administrative expenses for insurance business	(816,457)	(1,090,964)	(268,510)	(2,175,931)	(847,414)	(3,023,345)
Total expenses	(1,518,422)	(5,564,197)	(635,503)	(7,718,122)	(4,238,432)	(11,956,554)
Net underwriting results	2,189,463	1,973,154	529,229	4,691,846	1,251,604	5,943,450
Net investment income				2,432,393	249,696	2,682,089
Other income				451,054	9,279	460,333
Other administrative expenses				(434,043)	-	(434,043)
Unallocated expenses				(572,726)	-	(572,726)
Profit before contribution to KFAS, NLST, Zakat and Directors' fees						8,079,103

17 SEGMENT INFORMATION (continued)

B) Segment information – Statement of financial position

	General risk insurance KD	*Life and health insurance KD*	*Total KD*
31 December 2012			
Assets	**137,964,785**	**21,737,019**	**159,701,804**
Liabilities	**51,124,513**	**21,799,224**	**72,923,737**
31 December 2011			
Assets	123,457,241	21,666,281	145,123,522
Liabilities	42,849,269	21,821,922	64,671,191

Takaful Insurance Department

In 2009, The Company established a new insurance unit named Takaful Insurance for life and non-life insurance which will be specialised in issuing Islamic insurance products. The impact of the related premiums written and net profit on the Company's financial statements is immaterial to be disclosed separately.

18 RELATED PARTY TRANSACTIONS

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

Transactions with related parties included in the income statement are as follows:

	Associates *KD*	*Other related parties* *KD*	*2012* *KD*	*2011* *KD*
Gross premiums	**660,591**	**2,627,387**	**3,287,978**	3,054,824
Claims incurred	**233,227**	**752,224**	**985,451**	1,107,566

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

	Associates *KD*	*Other related parties* *KD*	*2012* *KD*	*2011* *KD*
Premiums and insurance balances receivable	**554,525**	**2,848,173**	**3,402,698**	2,955,343
Other credit balances	**194,521**	**13,792**	**208,313**	68,973

Compensation of key management personnel:

	2012 *KD*	*2011* *KD*
Salaries and other short term benefits	**303,057**	280,671
Employees' end of service benefits	**139,328**	106,106
	442,385	386,777

19 CONTINGENCIES

(a) As at 31 December 2012, the financial position date, the Company had future capital commitments with respect to purchase of financial assets available for sale amounting to KD 5,041,387 (2011: KD 5,297,020).

(b) The Company 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.

20 STATUTORY GUARANTEES

In accordance with the Kuwaiti Law:

(a) Investments of KD 90,000 (2011: KD 90,000) have been deposited with a Kuwaiti bank as security to underwrite general insurance business;
(b) Investments of KD 45,000 (2011: KD 45,000) have been deposited with a Kuwaiti bank in respect of the Company's right to transact life assurance business;
(c) Other investments, in the form of deposits and bonds amounting to KD 6,466,000 (2011: KD 5,390,000) are held in Kuwait.
(d) The Company's premises with net carrying amount of KD 1,060,995 (2011: KD 1,177,430) have been mortgaged with the Ministry of Commerce and Industry.

21 RISK MANAGEMENT

(a) Governance framework

The Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Company is establishing a risk management function with clear terms of reference from the Company's board of directors, its committees and the associated executive management committees. This will be supplemented with a clear organisational structure that document delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Also, a Company policy framework including risk profiles for the Company, risk management, control and business conduct standards for the Company's operations.

(b) Regulatory framework

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

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

- For the life and capital insurance contracts issued in Kuwait, the full mathematical reserves are to be retained in Kuwait.
- For marine insurance contracts, at least 15% of the premiums collected in the previous year are to be retained in Kuwait.
- For all other types of insurance, at least 30% of the premiums collected in the previous year are to be retained in Kuwait.
- The funds retained in Kuwait should be invested as under:
  - 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% could 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.

(c) Insurance risk

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

The principal risk the Company 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 Company 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. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The majority of insurance business ceded is placed on a quota share basis with retention limits varying by product line and territory. 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 Company 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 Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

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

(1) Life insurance contracts

Life insurance contracts offered by the Company include term insurance, life and disability, endowment, investment and pension (individual policies).

Term assurance are conventional regular premium products when lump sum benefits are payable on death or permanent disability.

Pension plans 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 value of the fund accumulated or sum assured whichever is greater. Some contracts give the policyholder the option at retirement to take a cash sum or pension annuity allowing the policyholders the option of taking the more valuable of the two. 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 Company 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 Company 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.

These risks do not vary significantly in relation to the location of the risk insured by the Company as life business mainly written in Gulf countries.

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

The Company'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, 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 Company 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 Company to pursue third parties for payment of some or all costs. The Company 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 Company.

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.

For annuity contracts, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

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:

31 December 2012 **Type of contract**	***Gross liabilities KD***	***Reinsurers' share of liabilities KD***	***Net liabilities KD***
Term insurance	**33,652**	**(18,761)**	**14,891**
Life and disability	**2,703,044**	**(2,658,513)**	**44,531**
Medical	**359,248**	**(9,138)**	**350,110**
Endowment individual policies	**757,107**	**(733,500)**	**23,607**
Pensions (individual policies)	**196,342**	**-**	**196,342**
Total life insurance contracts	**4,049,393**	**(3,419,912)**	**629,481**
Total investment contracts and participation feature	**3,146,519**	**-**	**3,146,519**
Other life insurance contracts liabilities	**13,656,385**	**(10,380,712)**	**3,275,673**

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

31 December 2011 Type of contract	*Gross liabilities* *KD*	*Reinsurers' share of liabilities* *KD*	*Net liabilities* *KD*
Term insurance	19,712	(19,612)	100
Life and disability	1,493,397	(1,485,868)	7,529
Medical	521,877	(519,246)	2,631
Endowment individual policies	898,536	(894,006)	4,530
Pensions (individual policies)	218,440	-	218,440
Total life insurance contracts	3,151,962	(2,918,732)	233,230
Total investment contracts and participation feature	3,207,670	-	3,207,670
Other life insurance contracts liabilities	13,311,473	(8,866,466)	4,445,007

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 contracts' 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 Company's own experiences. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by occupation, underwriting class and contract type.

An increase in the actual mortality 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.

• ***Longevity***
Assumptions are based on standard rates, adjusted when appropriate to reflect the Company's own risk experience. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by occupation, 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.

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions (continued)

• ***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 Company'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 Company'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.

Sensitivities
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.

(2) Non-life insurance contracts

The Company principally issues the following types of general insurance contracts: marine and aviation, accident and fire. 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 Company to multiple insurance risks. The Company has adequately reinsured for insurance risk that may involve significant litigation.

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

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. 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 Company. The Company 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 Company.

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

The Company 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 Company's risk appetite as decided by management.

(3) General risk insurance contracts

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

31 December 2012	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*
Marine and Aviation	**3,719,223**	**(2,362,812)**	**1,356,411**
Accident	**17,049,678**	**(3,666,994)**	**13,382,684**
Fire	**11,374,973**	**(10,417,423)**	**957,550**
Total	**32,143,874**	**(16,447,229)**	**15,696,645**
31 December 2011			
Marine and Aviation	4,066,194	(2,687,397)	1,378,797
Accident	15,645,246	(3,450,925)	12,194,321
Fire	10,887,695	(10,145,946)	741,749
Total	30,599,135	(16,284,268)	14,314,867

Key assumptions

The principal assumption underlying the estimates is the Company'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.

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(3) General risk insurance contracts (continued)

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 which is indicated in the table below:

31 December 2012	*Change in assumption*	*Impact on gross liabilities KD*	*Impact on net liabilities KD*	*Impact on profit KD*
Average claim cost	**+10%**	**103,465**	**86,928**	**86,928**
Average number of claims	**+10%**	**215**	**215**	**215**

31 December 2011	*Change in assumption*	*Impact on gross liabilities KD*	*Impact on net liabilities KD*	*Impact on profit KD*
Average claim cost	+10%	96,745	77,589	78,002
Average number of claims	+10%	200	200	200

(d) 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.

The Company is developing its policies and procedures to enhance the Company's mitigation of credit risk exposures.

- A Company credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are monitored by the management.

- 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.

21 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(1) Credit risk (continued)

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

Exposure credit risk by classifying financial assets according to type of insurance	***31 December 2012*** General insurance KD	Life and health insurance KD	Total KD
Financial assets available for sale (Debt securities)	**-**	**350,000**	**350,000**
Loans secured by life insurance policyholders	**-**	**180,358**	**180,358**
Policyholders accounts receivable (gross)	**5,942,546**	**1,598,002**	**7,540,548**
Premiums and insurance receivables (gross)	**3,682,204**	**516,737**	**4,198,941**
Reinsurance recoverable on outstanding claims	**16,447,229**	**10,380,712**	**26,827,941**
Other debit balances	**1,847,476**	**28,018**	**1,875,494**
Fixed deposits	**12,078,173**	**8,086,457**	**20,164,630**
Bank balances	**6,512,467**	**2,364**	**6,514,831**
Total credit risk exposure	**46,510,095**	**21,142,648**	**67,652,743**

Exposure credit risk by classifying financial assets according to type of insurance	*31 December 2011* General insurance KD	Life and health insurance KD	Total KD
Financial assets available for sale (Debt securities)	-	350,001	350,001
Loans secured by life insurance policyholders	-	193,532	193,532
Policyholders accounts receivable (gross)	6,239,356	1,660,644	7,900,000
Premiums and insurance receivables (gross)	3,191,785	347,019	3,538,804
Reinsurance recoverable on outstanding claims	16,284,268	8,866,466	25,150,734
Other debit balances	2,176,134	23,072	2,199,206
Fixed deposits	12,397,181	3,034,213	15,431,394
Bank balances	185,811	758	186,569
Total credit risk exposure	40,474,535	14,475,705	54,950,240

21 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(1) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the financial assets by classifying assets according to international credit ratings of the counterparties.

Exposure credit risk by classifying financial assets according to international credit rating agencies	***A*** ***KD***	***B*** ***KD***	***Not rated*** ***KD***	***Total*** ***KD***
31 December 2012				
Financial assets available for sale (Debt securities)	-	-	**350,000**	**350,000**
Loans secured by life insurance policyholders	-	-	**180,358**	**180,358**
Policyholders accounts receivable (gross)	-	-	**7,540,548**	**7,540,548**
Premiums and insurance receivable (gross)	**576,651**	**1,089,471**	**2,532,819**	**4,198,941**
Reinsurance recoverable on outstanding claims	**9,000,000**	**13,151,200**	**4,676,741**	**26,827,941**
Other debit balances	-	-	**1,875,494**	**1,875,494**
Fixed deposits	**20,164,630**	-	-	**20,164,630**
Bank balances	**6,514,831**	-	-	**6,514,831**
Total credit risk exposure	**36,256,112**	**14,240,671**	**17,155,960**	**67,652,743**

Exposure credit risk by classifying financial assets according to international credit rating agencies	*A* *KD*	*B* *KD*	*Not rated* *KD*	*Total* *KD*
31 December 2011				
Financial assets available for sale (Debt securities)	-	-	350,001	350,001
Loans secured by life insurance policyholders	-	-	193,532	193,532
Policyholders accounts receivable (gross)	-	-	7,900,000	7,900,000
Premiums and insurance receivable (gross)	-	417,944	3,120,860	3,538,804
Reinsurance recoverable on outstanding claims	8,800,000	12,000,000	4,350,734	25,150,734
Other debit balances	-	-	2,199,206	2,199,206
Fixed deposits	15,431,394	-	-	15,431,394
Bank balances	186,569	-	-	186,569
Total credit risk exposure	24,417,963	12,417,944	18,114,333	54,950,240

The Company does not have any material past due but not impaired financial assets at 31 December 2012 and 31 December 2011.

21 RISK MANAGEMENT (continued)

(d) 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 Company has sufficient liquidity and, therefore, does not resort to borrowings in the normal course of business.

The table below summarises the maturity profile of the Company's financial liabilities. The maturities financial liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile of financial liabilities at 31 December was as follows:

31 December 2012	***Within 1 year*** ***KD***	***More than 1 year*** ***KD***	***Total*** ***KD***
Insurance payables	**13,385,999**	**1,892,282**	**15,278,281**
Other credit balances	**1,883,574**	**5,000,000**	**6,883,574**
	15,269,573	**6,892,282**	**22,161,855**

31 December 2011	*Within 1 year* *KD*	*More than 1 year* *KD*	*Total* *KD*
Insurance payables	4,855,639	4,032,535	8,888,174
Other credit balances	2,802,804	4,000,000	6,802,804
	7,658,443	8,032,535	15,690,978

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 equity price 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 Company'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 contracts liabilities are expected to be settled. The currency risk is effectively managed by the Company through financial instruments.

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 assets and liabilities.

21 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

3) Market risk (continued)

(i) Currency risk (continued)

The correlation of variables will have a significant effect in determining the ultimate impact on market 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 nonlinear. The effect of decreases in profit and other comprehensive income is expected to be equal and opposite to the effect of the increases shown.

		2012		*2011*	
	Change in Variables	***Impact on profit for the year KD***	***Impact on other comprehensive income KD***	*Impact on profit for the year KD*	*Impact on other comprehensive income KD*
USD	± 5%	**310,268**	**1,361,170**	4,798	1,168,680
JD	± 5%	**15,045**	**35,536**	15,710	51,580
EGP	± 5%	**5,380**	**89,181**	2,411	79,102
Euro	± 5%	**7,028**	**151,794**	479	118,165
GBP	± 5%	**2,214**	**41,472**	886	41,202
Others	± 5%	**42,327**	**193,344**	-	210,105

(ii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Company is exposed to interest rate risk on its interest bearing assets and liabilities.

The sensitivity of the income statement is the effect of the assumed changes in interest rates, on the Company's profit before contribution to KFAS, NLST, Zakat and directors' fees, based on floating rate financial assets and financial liabilities held at 31 December 2012 and 2011.

The Company is not exposed to interest rate risk as majority of its interest bearing assets and liabilities are stated at fixed interest rates.

(iii) Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Company manages this risk through diversification of investments in terms of geographical distribution and industrial concentration.

The effect on other comprehensive income as a result of a change in the fair value of financial assets available for sale at 31 December due to ±10% change in the following market indices with all other variables held constant is as follows:

Market indices	***2012 Effect on other comprehensive income for the year KD***	*2011 Effect on other comprehensive income for the year KD*
Kuwait	± 2,133,291	± 2,205,469
Other GCC countries	± 503,070	± 382,851

22 CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issues new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's policy is to keep the gearing ratio between 35% and 60%. The Company includes within net debt, liabilities arising from insurance contracts, payables and term loans less cash and cash equivalent. Capital includes equity of the Company.

	2012 *KD*	*2011* *KD*
Liabilities arising from insurance contracts	**49,576,259**	47,351,508
Payables	**23,347,478**	17,319,683
Less: Bank balances and cash	**(6,514,831)**	(186,569)
Net debt	**66,408,906**	64,484,622
Total capital	**86,778,067**	80,452,331
Total capital and net debt	**153,186,973**	144,936,953
Gearing ratio	**43%**	44%

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of debt securities, loans secured by life insurance policyholders, policyholder's accounts receivable, insurance and reinsurance accounts receivable, reinsurance recoverable on outstanding claims, other debit balances, fixed deposits and bank balances.

Financial liabilities consist of insurance payables and other credit balances.

The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost (Note 7), are not materially different from their carrying values. The Company 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;

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

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

31 December 2012	***Total fair value KD***	*Level 1 KD*	*Level 2 KD*	*Level 3 KD*
Financial assets available for sale:				
Quoted	**26,363,608**	**26,363,608**	-	-
Unquoted	**47,662,047**	-	-	**47,662,047**
Total	**74,025,655**	**26,363,608**	-	**47,662,047**

31 December 2011	*Total fair value KD*	*Level 1 KD*	*Level 2 KD*	*Level 3 KD*
Financial assets available for sale:				
Quoted	25,883,194	25,883,194	-	-
Unquoted	47,997,129	-	-	47,997,129
Total	73,880,323	25,883,194	-	47,997,129

During the year, there have been no transfers between hierarchies.

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	***Net results recorded in the statement of comprehensive income KD***	***Net results recorded in the income statement KD***	***Net purchases and disposals KD***	***At 31 December 2012 KD***
Financial assets available for sale:					
Unquoted	**47,997,129**	**1,880,734**	**35,474**	**(2,251,290)**	**47,662,047**

	At 1 January 2011 KD	*Net results recorded in the statement of comprehensive income KD*	*Net results recorded in the income statement KD*	*Net purchases and disposals KD*	*At 31 December 2011 KD*
Financial assets available for sale:					
Unquoted	48,489,400	1,814,138	999,918	(3,306,327)	47,997,129