WARBA INSURANCE COMPANY K.S.C.P. AND ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

EY
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Ernst & Young
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WARBA INSURANCE COMPANY K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Warba Insurance Company K.S.C.P. (the "Parent Company") and its subsidiary (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements'* section of our report. We are independent of the Group in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 26 to the consolidated financial statements, which describes the rectification of an error as per *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors,* retrospectively. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

We identified the following key audit matters:

a) Recoverability of receivables arising from insurance and reinsurance contracts

The receivables arising from insurance and reinsurance contracts are significant to the Group's consolidated financial statements as at 31 December 2017. The determination as to whether a receivable is collectable involves significant management judgement. Specific factors management considers include the age of the balance, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for a customer's balance overall.

We determined this to be a key audit matter because it requires a high level of management judgement and due to the materiality of the amounts involved.

Our audit procedures included evaluating the ageing analyses of receivable balances where no provision was recognised, to assess whether there are any indicators of impairment. This included verifying if payments had been received subsequent to the year-end, reviewing historical payment patterns and any correspondence with customers on expected settlement dates.

We selected a sample of the larger receivable balances where allowance for impairment of receivables was recognised and understood the rationale behind management's judgement. In order to evaluate the appropriateness of these judgements, we verified whether balances were overdue, the customer's historical payment patterns and whether any post year-end payments have been received up to the date of completing our audit procedures. We also obtained corroborative evidence including correspondence supporting any disputes between the parties involved, attempts by management to recover the amounts outstanding and on the credit status of significant counterparties where available.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)
By performing the procedures mentioned above, we also assessed management's rationale where provisions were recognised on transactions that were not overdue as at the reporting date.

In assessing the appropriateness of the overall allowance for impairment, we also considered management's policy for recognising allowances for impairment on doubtful receivables.

Further, we assessed the adequacy of disclosures relating to the receivables arising from insurance and reinsurance contracts given in note 11 to the consolidated financial statements.

b) Insurance Contract Liabilities
Insurance contract liabilities include: ("Outstanding Claims reserve" or "OCR"), ("Unearned Premiums Reserve" or "UPR"), ("Life Mathematical Reserve" or "LMR") and ("Incurred But Not Reported reserve" or "IBNR"). As at 31 December 2017, the Group has significant insurance contract liabilities. As disclosed in Note 2.5 to the consolidated financial statements, the determination of these reserves involves significant judgment over uncertain future outcomes, including primarily the timing and ultimate full settlement of long-term policyholder liabilities. The Group uses different models to calculate the insurance contract liabilities.

Actuarial assumptions such as mortality, morbidity and customer behavior, along with Groups historical claims data are key inputs used to estimate these long-term liabilities. Due to the significance of estimation uncertainty associated with the determination of the insurance contract liabilities, this is considered a key audit matter.

The Group uses the work of a management's specialist, and an external independent actuary for the determination of Insurance contract liabilities. Our audit procedures focused on evaluating the competence, capabilities and objectivity of the management's specialist and an external independent actuary and evaluating their work, which involved analyzing the rationale for the economic and actuarial assumptions used by the managements of the Group along with comparison to applicable industry benchmarks. Our internal actuarial specialists were part of our audit team to assist us in evaluating the key inputs and assumptions.

In addition, we have performed test of controls in place, checked the design and the operating effectiveness and assessed the validity of management's liability adequacy testing to obtain reasonable assurance that the liabilities are adequate as compared to the expected future contractual obligations. Our work on the liability adequacy tests on a sample basis included assessing the accuracy of the historical data used, and reasonableness of the projected cash flows and assumptions adopted, and recalculating the non-life insurance technical reserves on a sample basis, in the context of both the Group and industry experience and specific product features.

We further evaluated the adequacy of disclosures relating to insurance contract liability in Note 18 to the consolidated financial statements.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Other Matter
The consolidated financial statements of the Group for the year ended 31 December 2016 were audited by another auditor who expressed a qualified opinion on those consolidated financial statements on 19 March 2017.

Other information included in the Group's 2017 Annual Report
Management is responsible for the other information. Other information consists of the information included in the Group's 2017 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Those Charged with Governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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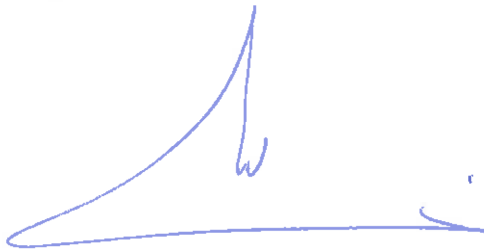
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WARBA INSURANCE COMPANY K.S.C.P. (continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 1 of 2016, as amended, and its executive regulation, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No 1 of 2016, as amended, and its executive regulation, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Parent Company or on its financial position.



BADER A. AL-ABDULJADER
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AL AIBAN, AL OSAIMI & PARTNERS

11 April 2018
Kuwait

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CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Notes	2017 KD	Restated* 2016 KD
Revenues:			
Gross premiums written		**30,816,917**	35,190,928
Premium ceded to reinsurers		**(17,683,246)**	(17,219,992)
Net premiums written		**13,133,671**	17,970,936
Movement in unearned premium reserve		**1,331,005**	(1,221,060)
Movement in life mathematical reserve		**(179,728)**	(558,362)
Net premiums earned		**14,284,948**	16,191,514
Commissions income on ceded reinsurance		**2,139,148**	1,233,240
Policy issuance fees		**184,211**	219,021
Net investment income from life insurance	3	**53,244**	97,622
Total Revenues		**16,661,551**	17,741,397
Expenses:			
Net claims incurred	18	**(8,018,903)**	(11,647,542)
Commissions and premiums' acquisition costs		**(1,767,143)**	(2,629,076)
General and administrative expenses		**(5,249,015)**	(5,487,198)
		(15,035,061)	(19,763,816)
Net underwriting income (loss)		**1,626,490**	(2,022,419)
Net investment (loss) income from non-life insurance	3	**(1,295,075)**	719,214
Insurance services income		**549,279**	773,886
Foreign currency exchange differences		**13,159**	(21,270)
Other income		**66,709**	79,304
Share of results of associates	7	**1,001,417**	201,245
		335,489	1,752,379
Other expenses:			
Insurance services expense		**(699,001)**	(871,369)
Impairment of goodwill		**(62,240)**	-
Unallocated general and administrative expenses		**(1,959,050)**	(780,154)
		(2,720,291)	(1,651,523)
LOSS FOR THE YEAR		**(758,312)**	(1,921,563)
Attributable to:			
Equity holders of the Parent Company		**(690,405)**	(1,876,626)
Non-controlling interest		**(67,907)**	(44,937)
		(758,312)	(1,921,563)
BASIC AND DILUTED LOSSES PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY	4	**(4.26) fils**	(11.58) fils

* *Certain amounts shown here do not correspond to the consolidated financial statements as at 31 December 2016 and reflect adjustments made as detailed in Note 26.*

The attached notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 KD	Restated* 2016 KD
Loss for the year		**(758,312)**	(1,921,563)
Other comprehensive loss:			
Items that are or may be reclassified to the consolidated statement of income in subsequent periods:			
- Net unrealized loss of financial assets available for sale		**(2,860,284)**	(468,221)
- Impairment loss on financial assets available for sale	3	**86,506**	25,500
- Realized loss from sale of financial assets available for sale	3	**2,558,523**	-
- Share of other comprehensive income of associates	7	**18,470**	13,442
Other comprehensive loss for the year		**(196,785)**	(429,279)
Total comprehensive loss for the year		**(955,097)**	(2,350,842)
Attributable to:			
Equity holders of the Parent Company		**(887,190)**	(2,305,905)
Non-controlling interests		**(67,907)**	(44,937)
		(955,097)	(2,350,842)

* *Certain amounts shown here do not correspond to the consolidated financial statements as at 31 December 2016 and reflect adjustments made as detailed in Note 26.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	***31 December 2017 KD***	*Restated* 31 December 2016 KD*	*Restated* 1 January 2016 KD*
ASSETS				
Goodwill		**-**	62,240	62,240
Property and equipment	10	**7,643,811**	7,896,389	8,129,091
Investment in associates	7	**6,763,678**	5,743,791	5,529,104
Loan secured by life insurance policies		**27,936**	38,505	23,903
Financial assets available for sale	8	**15,844,365**	19,280,706	18,330,927
Financial assets at fair value through profit or loss	9	**6,893,446**	2,749,293	5,072,144
Reinsurance share in outstanding claims reserve	18	**17,198,786**	14,298,511	15,496,970
Insurance and reinsurance receivables	11	**20,212,579**	18,132,279	15,749,989
Other assets	12	**4,241,855**	4,131,031	2,961,389
Fixed deposits	6	**6,664,592**	6,865,250	6,007,000
Bank balances and cash	5	**1,286,882**	4,693,584	4,505,901
TOTAL ASSETS		**86,777,930**	83,891,579	81,868,658
LIABILITIES AND EQUITY				
Liabilities				
Bank overdraft	5	**480,121**	2,053,723	-
Insurance contract liabilities	18	**33,159,431**	30,629,642	29,878,017
Insurance and reinsurance payables	17	**13,859,275**	13,285,335	10,120,410
Other liabilities	16	**5,998,333**	3,687,012	3,657,216
Total liabilities		**53,497,160**	49,655,712	43,655,643
Equity				
Share capital	13	**17,278,874**	17,278,874	17,278,874
Statutory reserve	14	**8,781,109**	8,781,109	8,781,109
General reserve		**4,000,000**	4,000,000	4,000,000
Voluntary reserve	14	**764,895**	9,206,054	9,206,054
Treasury shares	15	**(1,275,970)**	(1,275,970)	(1,270,570)
Treasury shares reserve		**164,760**	164,760	164,760
Cumulative changes in fair values reserve		**3,314,839**	3,530,094	3,972,815
Share of other comprehensive income of associates		**62,010**	43,540	30,098
Accumulated losses		**-**	(7,750,754)	(4,253,222)
Attributable to equity holders of the Parent Company		**33,090,517**	33,977,707	37,909,918
Non-controlling interests		**190,253**	258,160	303,097
Total equity		**33,280,770**	34,235,867	38,213,015
TOTAL EQUITY AND LIABILITIES		**86,777,930**	83,891,579	81,868,658

* *Certain amounts shown here do not correspond to the consolidated financial statements as at 31 December 2016 and reflect adjustments made as detailed in Note 26.*

Anwar Fozan Al-Sabej
Chief Executive Officer

Ewen McRobbie
Deputy CEO

The attached notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Equity attributable to equity holders of the Parent Company											
	Share capital KD	*Statutory reserve KD*	*General reserve KD*	*Voluntary reserve KD*	*Treasury shares KD*	*Treasury shares reserve KD*	*Cumulative changes in fair values reserve KD*	*Share of other comprehensive income of associates KD*	*(Accumulated losses) KD*	*Sub total KD*	*Non-controlling interests KD*	*Total equity KD*
As at 1 January 2017 *(restated)*	17,278,874	8,781,109	4,000,000	9,206,054	(1,275,970)	164,760	3,530,094	43,540	(7,750,754)	33,977,707	258,160	34,235,867
Loss for the year	-	-	-	-	-	-	-	-	(690,405)	(690,405)	(67,907)	(758,312)
Other comprehensive (loss) income	-	-	-	-	-	-	(215,255)	18,470	-	(196,785)	-	(196,785)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(215,255)	18,470	(690,405)	(887,190)	(67,907)	(955,097)
Write off accumulated losses (note 14)	-	-	-	(8,441,159)	-	-	-	-	8,441,159	-	-	-
As at 31 December 2017	**17,278,874**	**8,781,109**	**4,000,000**	**764,895**	**(1,275,970)**	**164,760**	**3,314,839**	**62,010**	**-**	**33,090,517**	**190,253**	**33,280,770**
As at 1 January 2016	17,278,874	8,781,109	4,000,000	9,206,054	(1,270,570)	164,760	3,972,815	30,098	2,848,907	45,012,047	303,097	45,315,144
Correction of an error (Note 26)	-	-	-	-	-	-	-	-	(7,102,129)	(7,102,129)	-	(7,102,129)
As at 1 January 2016 *(restated)*	17,278,874	8,781,109	4,000,000	9,206,054	(1,270,570)	164,760	3,972,815	30,098	(4,253,222)	37,909,918	303,097	38,213,015
Loss for the year	-	-	-	-	-	-	-	-	(1,876,626)	(1,876,626)	(44,937)	(1,921,563)
Other comprehensive (loss) income	-	-	-	-	-	-	(442,721)	13,442	-	(429,279)	-	(429,279)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(442,721)	13,442	(1,876,626)	(2,305,905)	(44,937)	(2,350,842)
Cash dividends	-	-	-	-	-	-	-	-	(1,620,906)	(1,620,906)	-	(1,620,906)
Purchase of treasury shares	-	-	-	-	(5,400)	-	-	-	-	(5,400)	-	(5,400)
As at 31 December 2016	17,278,874	8,781,109	4,000,000	9,206,054	(1,275,970)	164,760	3,530,094	43,540	(7,750,754)	33,977,707	258,160	34,235,867

* *Certain amounts shown here do not correspond to the consolidated financial statements as at 31 December 2016 and reflect adjustments made as detailed in Note 26.*

The attached notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 KD	Restated* 2016 KD
OPERATING ACTIVITIES			
Loss for the year		**(758,312)**	(1,921,563)
Adjustments to reconcile loss for the year to net cash flows:			
Unrealised loss of financial assets at fair value through profit or loss	3	**539,214**	200,537
Realised gain from sale of financial assets at fair value through profit or loss	3	**(607,742)**	(98,940)
Realised loss from sale of financial assets available for sale	3	**2,558,523**	-
Impairment loss of financial assets available for sale	3	**86,506**	25,500
Dividend income	3	**(1,028,170)**	(680,398)
Rental income	3	**(3,500)**	(8,400)
Interest income	3	**(303,000)**	(255,135)
Share of results of associates	7	**(1,001,417)**	(201,245)
Depreciation of property and equipment	10	**293,201**	313,807
Impairment of goodwill		**62,240**	-
Provision for employees' end of service benefits		**603,480**	366,969
		441,023	(2,258,868)
Changes in operating assets and liabilities:			
Reinsurance share in outstanding claims reserve		**(2,900,275)**	1,198,459
Insurance and reinsurance receivables		**(2,080,300)**	(2,382,290)
Other assets		**264,250**	(1,143,677)
Insurance contract liabilities		**2,529,789**	751,625
Insurance and reinsurance payables		**573,940**	3,164,925
Other liabilities		**2,259,039**	(62,415)
Cash flows from (used in) operations		**1,087,466**	(732,241)
Employees' end of service benefits paid		**(551,198)**	(290,296)
Net cash flows from (used in) operating activities		**536,268**	(1,022,537)
INVESTING ACTIVITIES			
Net movement in fixed deposits		**200,658**	(858,250)
Purchase of financial assets at fair value through profit or loss		**(5,128,300)**	(1,835,071)
Proceeds from sale of financial assets at fair value through profit or loss		**1,038,255**	4,056,325
Purchase of financial assets available for sale		**-**	(1,418,000)
Proceeds from sale of financial assets available for sale		**578,477**	-
Movement on loans secured by life insurance policies		**10,569**	(14,602)
Additions to property and equipment		**(40,623)**	(81,105)
Cash dividends received		**837,028**	680,398
Rental income received		**3,500**	8,400
Interest income received		**131,068**	229,170
Net cash flows (used in) from investing activities		**(2,369,368)**	767,265
FINANCING ACTIVITIES			
Dividends paid to shareholders		-	(1,605,368)
Purchase of treasury shares		-	(5,400)
Net cash flows used in financing activities		-	(1,610,768)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,833,100)**	(1,866,040)
Cash and cash equivalents at beginning of the year		**2,639,861**	4,505,901
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	5	**806,761**	2,639,861

* *Certain amounts shown here do not correspond to the consolidated financial statements as at 31 December 2016 and reflect adjustments made as detailed in Note 26.*

The attached notes 1 to 26 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial information of Warba Insurance Company K.S.C.P. (the "Parent Company") and its subsidiary – WAPMED TPA Services Company K.S.C.C. (collectively "the Group") for the year ended 31 December 2017 were authorised for issuance with a resolution of the Board of Directors on 2 April 2018. The general assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

The Parent company is a subsidiary of Bu-Khamseen Holding Company (the Ultimate Parent Company).

The Parent Company is a Kuwaiti Shareholding Company registered in 1962 under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments. The Parent Company has been engaging in various insurance and reinsurance activities, as set forth in the parent Company's Articles of Association. The Parent Company's registered head office address is at P. O. Box 24282, Safat 13103, Kuwait.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

Statement of compliance
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on the historical cost basis, except for financial assets available for sale and financial assets at fair value through profit and loss that have been carried at fair value.

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

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

In addition to the restatement explained in (Note 26), certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications were made in order to more appropriately present certain items of consolidated statement of financial position, consolidated statement of income and consolidated cash flow statement. Such reclassifications do not affect previously reported assets, liabilities, equity and profit for the year, nor materially affect the consolidated cash flow statement. The reclassifications are not material to the consolidated financial statements.

As permitted by IFRS 4 Insurance Contracts, the Group continues to apply the accounting policies that were applied prior to the adoption of IFRS, with certain modifications allowed by the standard subsequent to adoption for its insurance contracts.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the consolidated financial statements of the Parent Company and its subsidiary as at 31 December 2017. Subsidiary is an investee that the Group has control over.

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

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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the consolidated statement of income. Any investment retained is recognised at fair value.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. No reclassification of insurance contracts is required as part of the accounting for the business combination. Thus, insurance contracts are classified on the basis of the contractual terms and other factors at the inception of the contract or modification date.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated statement of income.

Any contingent consideration will be recognised at fair value at the acquisition date. Subsequent measurement takes place at fair value with changes in fair value recognised in the consolidated statement of income.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Product classification

Insurance contracts

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits payable after an insured event 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, but not significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or 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 expired. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Impairment of non-financial assets

Disclosures relating to impairment of non-financial assets are summarised in the following notes:

- Disclosures for significant assumptions Note 2.5

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs, to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in the consolidated statement of income.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)
The following criteria are also applied in assessing impairment of goodwill:

Goodwill
Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount, an impairment loss is recognised. The Group performs its annual impairment test of goodwill as at 31 December.

The recoverable amount for the life insurance business CGU has been determined based on a value in use calculation. This calculation is derived from embedded value (EV) principles together with the present value of expected profits from future new business. The EV represents the shareholder interests in the life insurance business and is the total of the net worth of the life insurance business and the value of the in-force business.

The recoverable amount of the non-life insurance business CGU and investment management services business CGU have been determined based on a value in use calculation. The calculation requires the Group to make an estimate of the expected future cash flows from each of the CGUs and discount these amounts using a suitable rate which reflects the risk of those cash flows in order to calculate the present value of those cash flows.

Previously recorded impairment losses for goodwill are not reversed in future periods.

Deferred Acquisition Costs (DAC)
Those direct and indirect costs incurred during the financial period arising from the acquiring or renewals of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums from insurance contract.

All other acquisition costs are recognised as expenses when incurred. Commissions paid to intermediaries and other incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts are amortised over the terms of the insurance contracts to which they relate as premiums are earned, when the related contracts are settled or disposed of.

Subsequent to initial recognition, this DAC asset for life insurance is amortised over the expected life of the contracts as a constant percentage of expected premiums. DAC for general insurance and health products are amortised over the period in which the related revenues are earned. The deferred acquisition costs for reinsurers are amortised in the same manner as the underlying asset amortisation and is recorded in the consolidated statement of income.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the consolidated statement of income.

DACs are derecognised when the related contracts are either settled or disposed of.

Property and equipment
Property and equipment, including owner-occupied property is stated at cost, excluding the costs of day-to-day Servicing, less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Replacement or major inspection costs are capitalised when incurred, if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)
Land is not depreciated. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

• Buildings	35 years
• Furniture and equipment	4 years
• Computers	4 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.

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

Investment in associates
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee and which is neither a subsidiary nor a joint venture.

The Group's investment in associates is accounted for using the equity method.

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

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

The aggregate of the Group's share of result of an associate is included in the consolidated statement of income.

The financial statements of the associates are prepared for the same reporting period as the Group or to a date not earlier than three months of the Group's reporting date using consistent accounting policies. Where practicable, adjustments are made to bring the accounting policies in line with those of the Group.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, financial assets available for sale, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

The Group's financial assets include "loans", "financial assets available for sale", "financial assets at fair value through profit or loss " "receivables arising from reinsurance contracts and premium accruals", "reinsurance recoverable on outstanding claims", "premiums and insurance balances receivable", and "accounts receivable and other debit balances". During the year and as at 31 December, the Group did not have any derivatives 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 investments and debt securities. Equity investments classified as financial assets available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that 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 in other comprehensive income and credited or debited to the financial assets available for sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of income as gain or (loss) of financial assets available for sale , or the investment is determined to be impaired, when the cumulative loss is reclassified from the financial assets available for sale reserve to the consolidated statement of income as impairment in financial assets available for sale. Interest earned whilst holding financial assets available for sale is reported as interest income using the effective interest rate method (EIR). Dividends earned whilst holding AFS investments are recognised in the consolidated statement of income as 'Investment income' when the right of the payment has been established. When the asset is derecognised or determined to be impaired, the cumulative gain or loss is reclassified from AFS reserve the consolidated statement of income.

The Group evaluates whether the ability and intention to sell its financial assets available for sale in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

Loans, receivables and other debit balances
This category is the most relevant to the Group. Loans and other debit balances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognised in the consolidated statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (continued)

Subsequent measurement (continued)

Insurance and reinsurance receivables
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 consolidated statement of income. Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand and bank balances, deposits with an original maturity of less than three months and bank overdrafts.

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

(ii) Impairment of financial assets
The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred '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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) Impairment of financial assets (continued)

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

If there is objective evidence that an impairment loss has been 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 EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of income. Interest income (recorded in net investment income in the consolidated statement of income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 Group. 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. If a write-off is later recovered, the recovery is credited to the net investment income in the consolidated statement of income.

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

In the case of equity investments classified as 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 evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised in other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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 consolidated statement of income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of net investment income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iii) Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include Borrowings, insurance payables, Accounts payable and other credit balances. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

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

Interest bearing loans and borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the EIR amortisation process.

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 cost in the consolidated statement of income.

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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

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

Fair value measurement
The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.
- The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iv) Offsetting of financial instruments (continued)

Fair value measurement (continued)
Assets, liabilities and equity items for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are measured at fair value in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for significant accounting judgements, estimates and assumptions — Note 2.5
- Financial instruments — Note 25
- Quantitative disclosures of fair value measurement hierarchy — Note 25

Reinsurance contracts held
The Group cedes insurance risk in the normal course of business for life insurance and non-life insurance contracts when applicable. 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 Group 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 Group will receive from the reinsurer. The impairment loss is recorded in the consolidated statement of income.

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

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

Reinsurance risk assumed
The Group 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the EIR method when accrued.

Taxation
Kuwait Foundation for the Advancement of Sciences (KFAS)
The Group 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 Group 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, incomes 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.

Leases
The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee
A lease is classified at the inception date as a finance lease or an operating lease. Leases that do not transfer substantially all of the risks and rewards of ownership of an asset to the Group are classified as operating leases.

Operating lease payments are recognised as an expense in the consolidated statement of income on a straight line basis over the lease term.

Group as a lessor
Leases in which the Group does not transfer substantially all of the risks and rewards of ownership of an asset are classified as operating leases.

Rental income is recognised as revenue in the consolidated statement of income on a straight line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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

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

Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of income with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Transactions and balances (continued)

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

Cash dividend to equity holders of the Parent Company

The Parent Company recognises a liability to make cash distributions to equity holders of the Parent Company when the distribution is authorised and it is no longer at the discretion of the Parent Company. A distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity. Dividends for the year that are approved after the reporting date are not recognised as a liability at the reporting date.

Life insurance contract liabilities

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is 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. A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and premium deficiency, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group. Adjustments to the liabilities at each reporting date are recorded in the consolidated statement of income in 'Gross change in contract liabilities'. Profits originated from margins for adverse deviations on run-off contracts are recognised in the consolidated statement of income over the life of the contract, whereas losses are fully recognised in the consolidated statement of income during the first year of runoff. The liability is derecognised when the contract expires, is discharged or cancelled.

Non-life insurance contract liabilities

Non-life insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency.

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and a reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims. Therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data, historical data, based on previous experience and current assumptions that may include a margin for adverse deviation. In specific cases, independent loss adjusters normally estimate property claims. In addition, a provision based on management's judgement and the Group's prior experience is maintained for the cost of settling claims incurred but not reported at the reporting date. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-life insurance contract liabilities (continued)
At each reporting date, the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant nonlife insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the consolidated statement of income by setting up a provision for premium deficiency.

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

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Revenue recognition

Gross premiums
Insurance premiums on life are recognised as revenue when payable by the policyholder. For single premium business, revenue is recognised on the date on which the policy becomes effective.

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.

Premium earned for the year from reinsurance operations includes adjustments to premiums written in prior accounting periods and estimates for pipeline or premium not yet advised by the cedant for contracts in force at the end of the year. Where statements of insurance contract accounts have not been received at the end of the year, pipeline premiums are estimated on the basis of the latest available information. An estimate is made at the reporting date to recognise retrospective adjustments to premium. Premium relating to the expired risk period is taken as earned and recognised as revenue for the year while premium relating to the unexpired risk period is treated as a reserve for unexpired risks. Pipeline premium (being the premium written but not reported to the Group as at the reporting date) are reported as 'accrued premiums arising from reinsurance contracts'.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Reinsurance premiums
Reinsurance premiums on life are recognised as an expense on the earlier of the date when premiums are payable or on the date on which the policy becomes effective.

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.

Reinsurance premiums and claims on the face of the consolidated statement of income have been presented as negative items within premiums and claims, respectively, because this is consistent with how the business is managed.

Fees and commission income
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
For all financial instruments measured at amortised cost and interest-bearing financial assets classified as AFS, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or shorter period, where appropriate, to the net carrying amount of the financial asset. Interest is included in the net investment income in the consolidated statement of income.

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

Net realised gains and losses
Net realised gains and losses recorded in the statement of income include gains and losses on financial assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

Gross claims
Gross claims for life insurance contracts include the cost of all claims arising during the year, including: internal and external claims handling costs that are directly related to the processing and settlement of claims. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

General insurance and health claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims
Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Finance cost
Interest paid is recognised in the consolidated statement of income as it accrues and is calculated by using the EIR method. Accrued interest is included within the carrying value of the interest bearing financial liability.

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.

Employees' end of service benefits
The Group provides end of service benefits to all of its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Further, with respect to its national employees, the Group also makes contributions to Public institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

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

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

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

Contingent liabilities and assets
Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of each new standard and amendment is described below. Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual consolidated financial statements of the Group:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual Improvements Cycle - 2014-2016
Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12
The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

However, their application has no effect on the Group's financial position and performance

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated 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.

(*i*) Judgement
In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated 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. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Useful lives of property and equipment
The Group's management determines the estimated useful lives of its equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(ii) Estimation and assumptions (continued)

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

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

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
When the fair value of financial assets recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, they are determined using valuation techniques including the price to book method and 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.

Life insurance contract liabilities
The liability for life insurance contracts is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time together with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs (DAC) and are amortised to the consolidated statement of income over time. If the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and this may also require additional impairment write-offs to the consolidated statement of income. The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group bases mortality and morbidity on standard industry mortality tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to life style, these could result in significant changes to the expected future mortality exposure. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments. Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation, if appropriate.

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current market risk rates, adjusted for the Group's own risk exposure.

Claims requiring court or arbitration decisions are estimated individually. In specific cases, 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(ii) Estimation and assumptions (continued)

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 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 Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster 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 historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features 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.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

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

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt those standards, if applicable when they become effective.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

During 2017, the Group performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future.

The Group meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) from annual reporting periods beginning on or after 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments (see below).

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments (continued)
The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9 before and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between consolidated statement of income and consolidated statement of other comprehensive income an amount that results in the statement of income at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

IFRS 15: Revenue from Contracts with customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group expects to apply IFRS 15 fully retrospective. Given insurance contracts are scoped out of IFRS 15. The Group does not expect the impact to be significant.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 17 Insurance Contracts (continued)
In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short- duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows).
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period.
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period.
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non- distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet.
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense.
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

3 NET INVESTMENT (LOSS) INCOME

	2017 *KD*	*2016* *KD*
Interest income	**303,000**	255,135
Dividend income	**1,028,170**	680,398
Realised loss from financial assets available for sale (Note - 8)	**(2,558,523)**	-
Realised gain from financial assets at fair value through profit or loss	**607,742**	98,940
Rental income	**3,500**	8,400
Unrealised loss of financial assets at fair value through profit or loss	**(539,214)**	(200,537)
Impairment loss on available for sale investments (Note - 8)	**(86,506)**	(25,500)
	(1,241,831)	816,836
Disclosed in the consolidated statement of income as follows:		
Net investment (loss) income from non-life	**(1,295,075)**	719,214
Net investment income from life insurance	**53,244**	97,622
	(1,241,831)	816,836

4 BASIC AND DILUTED LOSSES PER SHARE

There are no potential dilutive ordinary shares. Losses per share are calculated by dividing the loss for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares) as follows:

	2017 *KD*	**Restated* *2016* *KD*
Loss for the year attributable to equity holders of the parent company	**(690,405)**	(1,876,626)
	Share	Share
Number of shares outstanding:		
Number of issued shares at beginning of the year	**172,788,740**	172,788,740
Less: Weighted average number of treasury shares	**(10,698,171)**	(10,691,614)
Weighted average number of outstanding shares	**162,090,569**	162,097,126
Losses per share (fils)	**(4.26) fils**	(11.58) fils

5 CASH AND CASH EQUIVALENTS

	2017 *KD*	*2016* *KD*
Bank balances and cash	**1,063,309**	1,409,361
Cash in portfolios	**223,573**	3,284,223
	1,286,882	4,693,584
Less:		
Bank overdraft	**(480,121)**	(2,053,723)
Cash and cash equivalents	**806,761**	2,639,861

The effective interest rate on unsecured overdraft facilities from a local bank was 3.75 % per annum (2016: 3.75%).

6 FIXED DEPOSITS

Fixed deposits represent deposits with banks whose maturity period exceeds three months from date of deposit.

Fixed deposits include an amount of KD 4,169,000 held in State of Kuwait under lien to the Ministry of Commerce and Industry in accordance with insurance regulations of State of Kuwait (31 December 2016: KD 4,674,250).

The effective interest rate on fixed deposits was 1.1% to 2.9% per annum (31 December 2016: 1% to 2.9%).

The Insurance Companies and Agent Law No. 24 of 1961 as amended, requires the Parent Company to deposit in a Kuwaiti bank or in a Kuwaiti branch of a foreign bank, a deposit amounting to KD 500,000 for general insurance and KD 500,000 for life insurance (31 December 2016 - KD 500,000 for general insurance and KD 500,000 for life insurance business).

Additionally, a minimum 15% of premiums collected on marine insurance contracts and 30% of premiums collected on non-marine insurance contracts except for life insurance contracts are to be retained in Kuwait. A minimum 40% of the amounts retained are to be in the form of deposits in a bank operating in Kuwait.

7 INVESTMENT IN ASSOCIATES

The Group has the following investment in associates:

	Ownership percentage		*Country of*	*2017*	*2016*
	2017	*2016*	*incorporation*	***KD***	*KD*
Ritaj Takaful Insurance Company K.S.C.C.	**25.1%**	25.1%	Kuwait	**3,302,407**	3,193,225
Partners Real Estate Company – W.L.L	**40.5%**	40.5%	Kuwait	**3,461,271**	2,550,566
				6,763,678	5,743,791

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

	2017 ***KD***	*2016* *KD*
Carrying value as at 1 January	**5,743,791**	5,529,104
Share of results of associates	**1,001,417**	201,245
Share of other comprehensive income	**18,470**	13,442
Carrying value as at 31 December	**6,763,678**	5,743,791

Summarized financial information in respect of each of the Group's associates is set out below. The summarized financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs (adjusted by the Group for equity accounting purposes).

Ritaj Takaful Insurance Company K.S.C.C.

	2017 ***KD***	*2016* *KD*
Current assets	**5,802,567**	6,266,216
Non- current assets	**8,366,891**	6,930,730
Current liabilities	**(362,459)**	(374,931)
Non-Current liabilities	**(650,000)**	(100,000)
Equity	**13,156,999**	12,722,015
Revenue	**950,304**	465,988
Profit for the year	**361,388**	321,431
Other comprehensive income for the year	**73,596**	53,556
Total comprehensive income for the year	**434,984**	374,987

Reconciliation of the above summarized financial information to the carrying amount of the interest in Ritaj Takaful Insurance Company K.S.C.C. recognized in the consolidated financial statements.

	2017 ***KD***	*2016* *KD*
Net assets of the associate	**13,156,999**	12,722,011
Proportion of the Group's ownership interest	**25.1%**	25.1%
Carrying amount of the Group's interest	**3,302,407**	3,193,225

7 INVESTMENT IN ASSOCIATES (continued)

Partners Real Estate Company - WLL

	2017 *KD*	*2016* *KD*
Current assets	**42,182**	11,452
Non- current assets	**10,000,020**	6,743,129
Current liabilities	**(1,495,854)**	(456,887)
Equity	**8,546,348**	6,297,694
Revenue	**2,282,445**	6,377
Profit (loss) for the year	**2,248,654**	(2,524)

Reconciliation of the above summarized financial information to the carrying amount of the interest in Partners Real Estate Company WLL recognized in the consolidated financial statements.

	2017 *KD*	*2016* *KD*
Net assets of the associate	**8,546,348**	6,297,694
Proportion of the Group's ownership interest	**40.5%**	40.5%
Carrying amount of the Group's interest	**3,461,271**	2,550,566

8 FINANCIAL ASSETS AVAILABLE FOR SALE

	2017 *KD*	*2016* *KD*
Quoted securities	**10,976,958**	11,273,162
Unquoted securities	**1,461,407**	4,589,544
Investment in bonds	**3,406,000**	3,418,000
	15,844,365	19,280,706

Bonds classified as Investments available for sale carry interest rate ranging from 4.5% to 6.5% per annum (2016: 4.75% to 6.5%) and mature in 10 years.

Investments available for sale are denominated in the following currencies:

	2017 *KD*	*2016* *KD*
Local currency (KD)	**11,304,565**	13,742,094
Foreign currency	**4,539,800**	5,538,612
	15,844,365	19,280,706

As at 31 December 2017, 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 86,506 (2016: KD 25,500) was recognised in the consolidated statement of income for the year ended 31 December 2017.

8 FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

During the year ended 31 December 2017, the Parent Company sold unquoted securities with carrying value of KD 2,227,500 net off negative fair value reserve of KD 907,500 for sales consideration of KD 577,500, resulting in a realized loss of KD 2,557,500 recorded in the consolidated statement of income (Note 3).

Bonds carry interest rate ranging from 4.75% to 6.50% per annum (31 December 2016: 4.75% to 6.50%), mature in 10 years, and are carried at cost less impairment since their fair values cannot be reliably determined.

Quoted shares with a fair value of KD 2,773,365 (2016: KD 1,854,000) are under lien to the Ministry of Commerce and Industry.

Unquoted equity securities amounting KD 836,705 (2016: KD 844,105) are carried at cost less impairment loss since their fair values cannot be reliably determined.

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 *KD*	*2016* *KD*
Quoted shares	**721,366**	1,577,097
Investments in fund	**129,172**	118,717
Investments in portfolio	**6,042,908**	1,053,479
	6,893,446	2,749,293

10 PROPERTY AND EQUIPMENT

	Land and buildings KD	***Furniture and equipment KD***	***Computers KD***	***Total KD***
Cost:				
As at 1 January 2017	8,625,006	606,651	1,685,634	10,917,291
Additions	-	9,328	31,295	40,623
As at 31 December 2017	8,625,006	615,979	1,716,929	10,957,914
Depreciation:				
As at 1 January 2017	1,217,844	501,065	1,301,993	3,020,902
Charge for the year	141,384	24,309	127,508	293,201
As at 31 December 2017	1,359,228	525,374	1,429,501	3,314,103
Net carrying amount:				
As at 31 December 2017	**7,265,778**	**90,605**	**287,428**	**7,643,811**

	Land and buildings KD	*Furniture and equipment KD*	*Computers KD*	*Total KD*
Cost:				
As at 1 January 2016	8,625,006	582,468	1,628,712	10,836,186
Additions	-	24,183	56,922	81,105
As at 31 December 2016	8,625,006	606,651	1,685,634	10,917,291
Depreciation:				
As at 1 January 2016	1,076,460	453,791	1,176,844	2,707,095
Charge for the year	141,384	47,274	125,149	313,807
As at 31 December 2016	1,217,844	501,065	1,301,993	3,020,902
Net carrying amount:				
As at 31 December 2016	7,407,162	105,586	383,641	7,896,389

Building and land with a value of KD 2,790,780 (2016 – KD 2,790,780) are under lien to the Ministry of Commerce and Industry.

11 INSURANCE AND REINSURANCE RECEIVABLES

	2017 *KD*	**Restated* *2016* *KD*	**Restated* *2015* *KD*
Outstanding premium	**14,076,729**	13,706,616	14,557,514
Insurance and reinsurance companies	**7,658,559**	5,498,574	1,644,366
	21,735,288	19,205,190	16,201,880
Less: Provision for doubtful accounts receivable	**(2,845,152)**	(2,867,274)	(2,739,437)
	18,890,136	16,337,916	13,462,443
Advance premiums amount	**1,322,443**	1,794,363	2,287,546
	20,212,579	18,132,279	15,749,989

As at 31 December 2017, insurance and reinsurance receivables amounting to KD 2,845,152 (2016 - KD 2,867,274) were impaired and fully provided for.

Movement in the allowance for impairment of insurance and re insurance receivables were as follows:

	2017 *KD*	*Restated* *2016* *KD*	*Restated* *2015* *KD*
As at the beginning of the year	**2,867,273**	2,739,437	1,402,467
Charge for the year	-	350,000	1,336,970
Written off during the year	**(22,121)**	(222,163)	-
As at the end of the year	**2,845,152**	2,867,274	2,739,437

As at 31 December, the ageing of unimpaired receivables from reinsurance contracts is as follows:

		Past due but not impaired		
	Total *KD*	*Less than 3 months* *KD*	*3-6 months* *KD*	*More than 6 months* *KD*
2017	**18,890,136**	**5,850,081**	**2,825,607**	**10,214,448**
2016 (restated)	16,337,916	8,897,304	2,840,647	4,599,965
2015 (restated)	13,462,443	8,040,511	1,437,259	3,984,673

12 OTHER ASSETS

	2017 *KD*	*Restated** *2016* *KD*	*Restated** *2015* *KD*
Due from related parties	**2,601,280**	2,655,461	1,965,054
Deferred acquisition cost	**484,010**	587,956	772,000
Accrued income	**171,932**	176,504	159,789
Prepaid expenses	**452,695**	441,693	25,964
Refundable deposit	**237,430**	242,903	16,835
Accrued dividends	**191,142**	-	-
Others	**103,366**	26,514	21,747
	4,241,855	4,131,031	2,961,389

13 SHARE CAPITAL AND CASH DIVIDEND

The authorized, issued, and fully paid-up share capital comprises of 172,788,740 shares of 100 fils each (2016 - 172,788,740 shares of 100 fils each) fully paid up in cash.

The Board of Directors' meeting held on 2 April 2018 recommended not to distribute cash dividends or bonus shares and no directors' remuneration be paid for the year ended 31 December 2017. This recommendation is subject to the approval of the Parent Company's Annual General Assembly.

The Parent Company's shareholders at their general assembly meeting held on 2 April 2018 approved the consolidated financial statements for the year ended 31 December 2016 and cash dividend of NIL fils per share (2016: 10 fils per share), for the year ended 31 December 2017 to all the registered shareholders as of the date of the meeting.

14 RESERVES

Statutory reserve
As required by the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Board of Directors' remuneration has been transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. Since the reserve has reached 50% of the capital, the Board of Directors have resolved to discontinue transfer to statutory reserve and was approved by the Parent Company Annual General Assembly on 26 March 2012. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association.

Voluntary reserve
As required by the Parent Company's Articles of Association, 10% of the profit for the year attributable to the shareholders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' Annual General Assembly Meeting upon recommendation by the Board of Directors. The Parent Company's General Assembly held on May 19, 2015 resolved to discontinue transfer to voluntary reserve. As at 2 April 2018.

The Parent Company's board of directors decided to use the voluntary reserve to extinguish the accumulated losses of KD 8,441,159, which is subject to Annual General Assembly meeting approval.

15 TREASURY SHARES

	2017	*2016*
Number of shares	**10,698,171**	10,698,171
Percentage of issued shares (%)	**6.19**	6.19
Market value (KD)	**641,890**	1,059,119

The Parent Company's management has allotted an amount equal to treasury shares balance from the voluntary reserve as of the consolidated financial statement date. Such amount will not be available for distribution during the treasury shares holding period. Treasury shares are not pledged.

The weighted average market price of the Parent Company's shares for the year ended 31 December 2017 was 102 fils per share (31 December 2016: 106 fils per share).

16 OTHER LIABILITIES

	2017 *KD*	*2016* *KD*
Due to related parties	**129,658**	107,428
Provision for end of service indemnity	**1,727,018**	1,674,735
Dividends payable	**1,096,841**	1,121,971
Accrued staff leave	**496,761**	499,170
Accrued expenses	**778,939**	262,321
Accrued payments to acquire investments	**1,750,299**	-
Other liabilities	**18,817**	21,387
	5,998,333	3,687,012

17 INSURANCE AND REINSURANCE PAYABLES

	2017	*2016*
	KD	*KD*
Trade payable	**4,584,672**	4,732,285
Unearned premium	**1,565,022**	2,124,979
Insurance and reinsurance companies	**7,252,016**	5,941,458
Reserve for life insurance department	**233,242**	241,858
Reserve for reinsurance premiums ceded	**30,674**	33,139
Provision for supervision fees	**193,649**	211,616
	13,859,275	13,285,335

18 INSURANCE CONTRACT LIABILITIES

		**Restated*	**Restated*
	2017	*2016*	*2015*
	KD	*KD*	*KD*
Reserve for outstanding claims	**27,182,848**	23,501,782	24,529,579
Reserve for unexpired risks	**3,762,855**	5,093,860	3,872,800
Reserve for life insurance fund	**2,213,728**	2,034,000	1,475,638
	33,159,431	30,629,642	29,878,017

18 INSURANCE CONTRACT LIABILITIES (continued)

The reserve for outstanding claims comprises of:

2017	*Marine and aviation KD*	*Motor KD*	*Fire and general accident KD*	*Life and medical KD*	*Total KD*
Reserve for outstanding claims:					
Gross balance at beginning of the year	1,164,000	3,928,000	11,187,000	7,222,782	**23,501,782**
Reinsurance share	(737,000)	(266,000)	(8,557,000)	(4,738,511)	**(14,298,511)**
Net balance at beginning of the year	**427,000**	**3,662,000**	**2,630,000**	**2,484,271**	**9,203,271**
Incurred during the year – net	285,748	2,997,251	(39,569)	4,775,473	**8,018,903**
Paid during the year – net	(211,719)	(3,156,004)	(328,023)	(3,542,366)	**(7,238,112)**
Net balance at end of the year	**501,029**	**3,503,247**	**2,262,408**	**3,717,378**	**9,984,062**
Represented by:					
Gross outstanding claims at end of the year	1,782,018	4,600,569	11,474,501	9,325,760	**27,182,848**
Reinsurance share	(1,280,989)	(1,097,322)	(9,212,093)	(5,608,382)	**(17,198,786)**
	501,029	**3,503,247**	**2,262,408**	**3,717,378**	**9,984,062**
Reserve for unexpired risks	**67,822**	**1,321,266**	**573,447**	**1,800,320**	**3,762,855**

18 INSURANCE CONTRACT LIABILITIES (continued)

2016 Restated	*Marine and aviation KD*	*Motor KD*	*Fire and general accident KD*	*Life and medical KD*	*Total KD*
Reserve for outstanding claims:					
Gross balance at beginning of the year	1,820,467	4,146,760	11,355,913	7,206,439	24,529,579
Reinsurance share	(1,116,202)	(334,953)	(8,965,112)	(5,080,703)	(15,496,970)
Net balance at beginning of the year	704,265	3,811,807	2,390,801	2,125,736	9,032,609
Incurred during the year – net	29,004	3,939,638	461,411	7,217,489	11,647,542
Paid during the year – net	(306,269)	(4,089,445)	(222,212)	(6,858,954)	(11,476,880)
Net balance at end of the year	427,000	3,662,000	2,630,000	2,484,271	9,203,271
Represented by:					
Gross outstanding claims at end of the year	1,164,000	3,928,000	11,187,000	7,222,782	23,501,782
Reinsurance share	(737,000)	(266,000)	(8,557,000)	(4,738,511)	(14,298,511)
	427,000	3,662,000	2,630,000	2,484,271	9,203,271
Reserve for unexpired risks	71,845	1,476,126	559,873	2,986,016	5,093,860

19 SEGMENT INFORMATION

The Group operates in three segments: General risk insurance, Life and Medical insurance and Investment. Within General risk insurance is Marine and Aviation, Fire, General Accidents and Motor.

The Executive Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with consolidated statement of income.

The following are the details of these segments:

- Marine and aviation: Insurance against the risks related to goods transportation and different types of marine and aviation vessels.
- General accident: Insurance against risks of contractors, machine and computer damages and cessation of work; insurance for cash, fidelity bonds, professional risks, work accidents, civil responsibility and cars.
- Fire: Insurance against fire for different types of buildings, stores, industrial risks and oil and gas industry.
- Motor: Insurance against accidents for different types of motor vehicles.
- Life and medical insurance: Providing various life insurance cover for individuals and Companies.

19 SEGMENT INFORMATION (continued)

A) Segment information – Consolidated statement of income

Year ended 31 December 2017	*Marine and aviation KD*	*General accidents and fire KD*	*Motor KD*	*Total general risk insurance KD*	*Life medical and insurance KD*	*Total KD*
Revenue:						
Gross premium written	1,331,996	11,798,833	7,088,441	20,219,270	10,597,647	30,816,917
Premium ceded to reinsurers	(879,847)	(9,887,342)	(2,684,223)	(13,451,412)	(4,231,834)	(17,683,246)
Net premiums written	452,149	1,911,491	4,404,218	6,767,858	6,365,813	13,133,671
Movement in unearned premiums	4,022	(13,573)	154,860	145,309	1,185,696	1,331,005
Movement in life mathematical reserve	-	-	-	-	(179,728)	(179,728)
Net premiums earned	456,171	1,897,918	4,559,078	6,913,167	7,371,781	14,284,948
Commission income on ceded reinsurance	252,652	1,351,796	43,723	1,648,171	490,977	2,139,148
Policy issuance fees	4,453	1,161	175,559	181,173	3,038	184,211
Total revenues	713,276	3,250,875	4,778,360	8,742,511	7,865,796	16,608,307
Expenses:						
Net claims incurred	285,748	(39,569)	2,997,251	3,243,430	4,775,473	8,018,903
Commissions and premiums' acquisition costs	77,112	241,587	467,119	785,818	981,325	1,767,143
Operating and administrative expenses for insurance business	227,867	2,077,775	1,410,668	3,716,310	1,532,705	5,249,015
Total expenses	590,727	2,279,793	4,875,038	7,745,558	7,289,503	15,035,061
Net underwriting results	122,549	971,082	(96,678)	996,953	576,293	1,573,246
Net investment income				(1,295,075)	53,244	(1,241,831)
Share of results of associates				1,001,413	-	1,001,417
Other income				66,713	-	66,709
Insurance service expense				(699,001)	-	(699,001)
Insurance service income				549,279	-	549,279
Other administrative expenses, investment properties expenses and valuation loss				(1,945,891)	-	(1,945,891)
Impairment loss on goodwill				(62,240)	-	(62,240)
Loss for the year				(1,387,849)	629,537	(758,312)

19 SEGMENT INFORMATION (continued)

A) Segment information – Consolidated statement of income (continued)

Year ended 31 December 2016	*Marine and aviation KD*	*General accidents and fire KD*	*Motor KD*	*Total general risk insurance KD*	*Life medical and insurance KD*	*Total KD*
Revenue:						
Gross premium written	1,023,043	12,861,699	6,891,945	20,776,687	14,414,241	35,190,928
Premium ceded to reinsurers	(544,077)	(10,995,456)	(1,971,522)	(13,511,055)	(3,708,937)	(17,219,992)
Net premiums written	478,966	1,866,243	4,920,423	7,265,632	10,705,304	17,970,936
Movement in unearned premiums	30,956	19,259	178,696	228,911	(1,449,971)	(1,221,060)
Movement in life mathematical reserve	-	-	-	-	(558,362)	(558,362)
Net premiums earned	509,922	1,885,502	5,099,119	7,494,543	8,696,971	16,191,514
Commission income on ceded reinsurance	134,470	662,892	4,199	801,561	431,679	1,233,240
Policy issuance fees	5,006	1,235	210,256	216,497	2,524	219,021
Total revenues	649,398	2,549,629	5,313,574	8,512,601	9,131,174	17,643,775
Expenses:						
Net claims incurred	29,006	461,411	3,939,638	4,430,055	7,217,487	11,647,542
Commissions and premiums' acquisition costs	130,426	267,031	722,898	1,120,355	1,508,721	2,629,076
Operating and administrative expenses for insurance business	239,538	1,469,902	1,548,498	3,257,938	2,229,260	5,487,198
Total expenses	398,970	2,198,344	6,211,034	8,808,348	10,955,468	19,763,816
Net underwriting results	250,428	351,285	(897,460)	(295,747)	(1,824,294)	(2,120,041)
Net investment income				719,214	97,622	816,836
Share of results of associates				201,245	-	201,245
Other income				79,304	-	79,304
Insurance service expense				(871,369)	-	(871,369)
Insurance service income				773,886	-	773,886
Other administrative expenses, investment properties expenses and valuation loss				(801,424)	-	(801,424)
Loss for the year				(194,891)	(1,726,672)	(1,921,563)

19 SEGMENT INFORMATION (continued)

B) Segment information – Consolidated statement of financial position

	General risk insurance KD	*Life and medical insurance KD*	*Investment*	*Total KD*
31 December 2017				
Assets	**43,342,252**	**13,934,189**	**29,501,489**	**86,777,930**
Liabilities	**35,472,546**	**18,024,614**	**-**	**53,497,160**
31 December 2016 (Restated)				
Assets	39,274,974	16,842,815	27,773,790	83,891,579
Liabilities	32,736,538	16,919,174	-	49,655,712

20 RELATED PARTY TRANSACTIONS

The Group has entered into various transactions with related parties, i.e. shareholders, Board of directors, key management personnel, associates and other related parties in the normal course of its business concerning financing and other related services. Prices and terms of payment are approved by the Group's management. Significant related party transactions and balances are as follows:

Balances included in the consolidated statement of financial position:

	2017 *KD*	*2016* *KD*
Insurance activities	**2,601,280**	2,655,461
Insurance services receivable	-	200,000
Other receivables	**129,658**	107,428
Insurance services payable		
Investment activities		
Investments at fair value through profit or loss	**6,042,908**	1,067,899
Investments available for sale	**9,054,130**	8,363,193
Deposits and bank balances	**6,882,408**	5,330,565

Transactions included in the consolidated statement of income:

	2017 *KD*	*2016* *KD*
Premiums written	**423,267**	302,653
Dividend income	**304,863**	274,377
Compensation to key management personnel:		
Short term employee benefits	**815,743**	292,548
Employee end of service benefits	**205,013**	35,014
	1,020,756	327,562

21 CAPITAL COMMITMENTS AND CONTINGENCIES

	2017 *KD*	*2016* *KD*
Letter of guarantee for others	**237,831**	1,504,000
Capital commitments	**65,207**	536,868

22 STATUTORY GUARANTEES

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

(a) Deposits and investments amounting to KD 5,673,212 (2016: KD 5,904,682) have been deposited with a Kuwaiti bank as security to underwrite general insurance business;

(b) Deposits and investment amounting to KD 4,014,048 (2016: KD 3,436,970) have been deposited with a Kuwaiti bank in respect of the Parent Company's right to transact life assurance business;

23 RISK MANAGEMENT

(a) Governance framework

The Group's risk and financial management framework is to protect the Group'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 Group has established a risk management function with clear terms of reference from the Group'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 the management. Also, a Group policy framework including risk profiles for the Group, risk management, control and business conduct standards for the Group's operations.

(b) Regulatory framework

Law No. 24 of 1961, Law No.13 of 1962 and the Ministerial Decree Nos. 5 of 1989, 510 & 511 of 2011 and its amendment as included within decree Nos. 578 & 579 of 2013, and the rules and regulations issued by the Ministry of Commerce provide the regulatory framework for the insurance industry in Kuwait. All insurance companies operating in Kuwait are required to follow these rules and regulations.

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

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

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

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

(c) Insurance risk

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

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, prudent claims management practices 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 Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

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

23 RISK MANAGEMENT (continued)

(1) Life insurance contracts
Life insurance contracts offered by the Group include term insurance, life and disability, medical, endowment, individual policies, pension (individual policies) and Group Life.

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.

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

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

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

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

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

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

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

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

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

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 2017 **Type of contract**	*Gross liabilities* *KD*	*Reinsurers' share of liabilities* *KD*	*Net liabilities* *KD*
Term insurance	379,665	378,934	731
Life and disability	6,543	4,774	1,769
Medical	5,735,134	1,647,469	4,087,665
Endowment individual policies	2,659,927	432,145	2,227,782
Pensions (individual policies)	1,236	-	1,236
Group Life	6,513,604	5,101,361	1,412,243
Total life insurance contracts	15,296,109	7,564,683	7,731,426
Total investment contracts and participation feature	-	-	-
Other life insurance contracts liabilities	3,047,371	815,853	2,231,518
Other Group Life Contracts	12,248,738	6,748,830	5,499,908

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

31 December 2016 Restated Type of contract	*Gross liabilities* *KD*	*Reinsurers' share of liabilities* *KD*	*Net liabilities* *KD*
Term insurance	43,244	26,479	16,765
Life and disability	13,906	32	13,874
Medical	4,947,515	681,333	4,266,182
Endowment individual policies	2,005,050	(575)	2,005,625
Pensions (individual policies)	470	-	470
Group Life	6,443,566	5,124,982	1,318,584
Total life insurance contracts	13,453,751	5,832,251	7,621,500
Total investment contracts and participation feature	-	-	-
Other life insurance contracts liabilities	2,062,670	25,937	2,036,733
Other Group Life Contracts	11,391,081	5,806,314	5,584,767

Key assumptions

Material judgement 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 Group'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 Group'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.

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions (continued)

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

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

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

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

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

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

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

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

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

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

Portfolio assumptions by type of business impacting net liabilities	*Mortality and morbidity rates*		*Investment return*		*Lapse rates*		*Discount rates*		*Renewal expenses*		*Inflation rate*	
	2017	*2016*	***2017***	*2016*	***2017***	*2016*	***2017***	*2016*	***2017***	*2016*	***2017***	*2016*
Investment contracts:												
With fixed and guaranteed terms	40% AM/80 Ult	A(67-70) Ult	**3.50%**	5%	**0%**	0%	**3.50%**	5%	**5%**	5%	**N/A**	N/A
Non-guaranteed terms	40% AM/80 Ult	A(67-70) Ult	**3.50%**	5%	**0%**	0%	**3.50%**	5%	**5%**	5%	**N/A**	N/A
Life term assurance:												
Males	40% AM/80 Ult	A(67-70) Ult	**3.50%**	5%	**0%**	0%	**3.50%**	5%	**5%**	5%	**N/A**	N/A
Females	40% AM/80 Ult	A(67-70) Ult	**3.50%**	5%	**0%**	0%	**3.50%**	5%	**5%**	5%	**N/A**	N/A

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions (continued)

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 Group 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 Group to multiple insurance risks. The Group 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 Group, 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 Group. The Group further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

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

Claims development table
The following tables show the estimate of cumulative incurred claims for both Non-life and Life and Medical segments, including claims notified for each successive accident year at each statement of financial position date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to the presentation currency at the spot rates of the current financial year.

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

Claims development table (continued)

31 December 2017

	2014 *KD*	*2015* *KD*	*2016* *KD*	*2017* *KD*	*Total* *KD*
Current estimate of cumulative claims incurred	**27,948,332**	**16,563,488**	**14,967,312**	**12,151,919**	**71,631,051**
At end of accident year	7,767,340	8,925,504	8,670,332	4,357,930	-
One year later	12,722,936	12,803,217	12,559,573	-	-
Two years later	13,477,775	14,122,598	-	-	-
Three years later	13,408,102	-	-	-	-
Cumulative payment to date	**13,408,102**	**14,122,598**	**12,559,573**	**4,357,930**	**44,448,203**
Gross outstanding claims and IBNR at 31 December 2017	**14,540,230**	**2,440,890**	**2,407,739**	**7,793,989**	**27,182,848**

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

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

31 December 2017	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*
Marine and Aviation	**3,114,014**	**(2,160,836)**	**953,178**
Accident	**26,818,923**	**(15,842,327)**	**10,976,596**
Fire	**8,143,420**	**(7,038,652)**	**1,104,768**
Total	**38,076,357**	**(25,041,815)**	**13,034,542**
31 December 2016 Restated			
Marine and Aviation	2,187,043	(1,281,077)	905,966
Accident	27,655,828	(15,891,300)	11,764,528
Fire	7,212,816	(5,898,680)	1,314,136
Total	37,055,687	(23,071,057)	13,984,630

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

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

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

31 December 2017	*Change in assumption %*	*Impact on gross liabilities KD'000*	*Impact on net liabilities KD'000*	*Impact on profit KD'000*
Ultimate Loss Ratio Increase	**2**	**378**	**298**	**298**
31 December 2016 Restated	*Change in assumption %*	*Impact on gross liabilities KD'000*	*Impact on net liabilities KD'000*	*Impact on profit KD'000*
Ultimate Loss Ratio	2	396	312	312

23 RISK MANAGEMENT (continued)

(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.

- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

- The credit risk in respect of customer balances, incurred on non-payment of premiums will only persist during the grace period specified in the policy document until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

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

	31 December 2017			
Exposure credit risk by classifying financial assets according to type of insurance	*General insurance KD*	*Life and Medical insurance KD*	*Reinsurance operations KD*	*Total KD*
Bank balances	**523,776**	**274,359**	**448,951**	**1,247,086**
Fixed deposits	**2,799,129**	**1,466,210**	**2,399,253**	**6,664,592**
Financial assets available for sale – bonds	**1,430,520**	**749,320**	**1,226,160**	**3,406,000**
Financial assets at fair value through profit or loss – bonds	**2,538,021**	**1,329,440**	**2,175,447**	**6,042,908**
Insurance and reinsurance receivable	**9,128,821**	**4,781,763**	**7,824,704**	**21,735,288**
Other assets	**1,578,295**	**826,726**	**1,352,824**	**3,757,845**
Loans secured by life insurance policies	**11,733**	**6,146**	**10,057**	**27,936**
Reinsurance share in reserve for outstanding claims	**7,223,490**	**3,783,733**	**6,191,563**	**17,198,786**
Total credit risk exposure	**25,233,785**	**13,217,697**	**21,628,959**	**60,080,441**

	31 December 2016 Restated			
Exposure credit risk by classifying financial assets according to type of insurance	*General insurance KD*	*Life and Medical insurance KD*	*Reinsurance operations KD*	*Total KD*
Bank balances	1,861,275	1,302,893	1,489,020	4,653,188
Fixed deposits	2,746,100	1,922,270	2,196,880	6,865,250
Financial assets available for sale – bonds	1,367,200	957,040	1,093,760	3,418,000
Financial assets at fair value through profit or loss - bonds	421,392	294,974	337,113	1,053,479
Insurance and reinsurance receivable	7,682,076	5,377,453	6,145,661	19,205,190
Other assets	1,417,230	992,061	1,133,784	3,543,075
Loans secured by life insurance policies	15,402	10,781	12,322	38,505
Reinsurance share in reserve for outstanding claims	5,719,404	4,003,583	4,575,524	14,298,511
Total credit risk exposure	21,230,079	14,861,055	16,984,064	53,075,198

23 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. "A" ratings denote expectations of low default risk. "B" ratings indicate that material default risk is present, but a limited margin of safety remains. Assets that fall outside the range of A to B are classified as not rated.

Exposure credit risk by classifying financial assets according to international credit rating agencies	***A*** ***KD***	***B*** ***KD***	***Not rated*** ***KD***	***Total*** ***KD***
31 December 2017				
Bank balances	**1,247,086**	-	-	**1,247,086**
Fixed deposits	**6,664,592**	-	-	**6,664,592**
Financial assets available for sale – bonds	**3,406,000**	-	-	**3,406,000**
Financial assets at fair value through profit or loss – bonds	**6,042,908**	-	-	**6,042,908**
Insurance and reinsurance receivable	**17,388,230**	**4,347,058**	-	**21,735,288**
Other assets	**2,630,492**	**751,569**	**375,784**	**3,757,845**
Loans secured by life insurance policies	**27,936**	-	-	**27,936**
Reinsurance share in reserve for outstanding claims	**15,478,907**	**1,719,879**	-	**17,198,786**
Total credit risk exposure	**52,886,151**	**6,818,506**	**375,784**	**60,080,441**

Exposure credit risk by classifying financial assets according to international credit rating agencies	*A* *KD*	*B* *KD*	*Not rated* *KD*	*Total* *KD*
31 December 2016 Restated				
Bank balances	4,653,188	-	-	4,653,188
Fixed deposits	6,865,250	-	-	6,865,250
Financial assets available for sale – bonds	3,418,000	-	-	3,418,000
Financial assets at fair value through profit or loss – bonds	1,053,479	-	-	1,053,479
Insurance and reinsurance receivable	17,284,671	1,920,519	-	19,205,190
Other assets	2,834,460	531,461	177,154	3,543,075
Loans secured by life insurance policies	38,505	-	-	38,505
Reinsurance share in reserve for outstanding claims	12,868,660	1,429,851	-	14,298,511
Total credit risk exposure	49,016,213	3,881,831	177,154	53,075,198

23 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(2) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments.

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

The table below summarises the maturity profile of the Group's financial liabilities based on remaining undiscounted contractual obligations for 31 December. The maturity profile of financial liabilities at 31 December was as follows:

31 December 2017	***Within 1 year***	***More than 1 year***	***Total***
	KD	***KD***	***KD***
Bank overdraft	**480,121**	**-**	**480,121**
Insurance and reinsurance payables	**13,595,359**	**263,916**	**13,859,275**
Other liabilities	**4,271,315**	**1,727,018**	**5,998,333**
	18,346,795	**1,990,934**	**20,337,729**

31 December 2016	*Within 1 year*	*More than 1 year*	*Total*
	KD	*KD*	*KD*
Bank overdraft	2,053,723	-	2,053,723
Insurance and reinsurance payables	13,010,338	274,997	13,285,335
Other Liabilities	2,012,277	1,674,735	3,687,012
	17,076,338	1,949,732	19,026,070

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

23 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.

		2017		2016	
	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	**357,046**	**220**	261,905	1,135
BHD	±5	**-**	**184,935**	-	233,590

(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 Group is exposed to interest rate risk on its interest bearing assets and liabilities.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates, on the Group's profit before contribution to KFAS, NLST, Zakat and directors' fees, based on floating rate financial assets and financial liabilities held as at 31 December 2017 and 2016.

The Group is not exposed to significant 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 Group 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	***2017***	*2016*
Kuwait	**790,738**	1,032,409
Others	**370,310**	469,450

24 CAPITAL MANAGEMENT

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

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

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, liabilities arising from insurance contracts, payables and term loans less cash and cash equivalent. Capital includes equity of the Group.

	2017	*Restated 2016*	*Restated 2015*
	KD	*KD*	*KD*
Liabilities arising from insurance contracts	**33,159,431**	30,629,642	29,878,017
Insurance and Reinsurance payables	**19,857,608**	16,972,347	10,120,410
Bank overdraft	**480,121**	2,053,723	-
Less:			
Bank balances and cash	**(1,286,882)**	(4,693,584)	(4,505,901)
Net debt	**52,210,278**	44,962,128	35,492,526
Total capital	**33,280,770**	34,235,867	38,213,015
Total capital and net debt	**85,491,048**	79,197,995	73,705,541
Gearing ratio	**61%**	57%	48%

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of financial assets available for sale, loans secured by life insurance policyholders, insurance and reinsurance receivable, reinsurance recoverable on outstanding claims, and 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 amounting to KD 836,705 (2016: KD 844,105) (Note 8), are not materially different from their carrying values.

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

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

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

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

25 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 2017	***Quoted prices in active markets (Level 1)*** ***KD***	***Significant observable inputs (Level 2)*** ***KD***	***Significant unobservable inputs (Level 3)*** ***KD***	***Total fair value*** ***KD***
Financial assets at fair value though profit or loss	**6,893,446**	**-**	**-**	**6,893,446**
Financial assets available for sale	**10,976,958**	**3,406,000**	**624,702**	**15,007,660**
Total	**17,870,404**	**3,406,000**	**624,702**	**21,901,106**

31 December 2016	*Quoted prices in active markets (Level 1)* *KD*	*Significant observable inputs (Level 2)* *KD*	*Significant unobservable inputs (Level 3)* *KD*	*Total fair Value* *KD*
Financial assets at fair value though profit or loss	2,749,293	-	-	2,749,293
Financial assets available for sale	11,273,162	3,418,000	3,745,439	18,436,601
Total	14,022,455	3,418,000	3,745,439	21,185,894

Description of significant unobservable inputs to valuation performed at the reporting date is as follows:

	Valuation Technique	***Significant unobservable inputs***	***Range***	***Sensitivity of the input to fair value***
Unquoted equity securities	Price to book value	Discount for lack of marketability & lack of Control	10%	An increase (decrease) by 10% in the Discount for lack of marketability & lack of Control would result in increase (decrease) in fair value by KD 62 thousands.
	Price to book value	Price to book multiple "Represents amounts used when the Group has determined that market participants would use such multiples when pricing the investments"	10%	An increase (decrease) by 10% in the price to book multiple would result in increase (decrease) in fair value by KD 62 thousands.
Unquoted foreign funds	Adjusted net assets value	Discount for lack of marketability	10%	An increase (decrease) by 10% in the Discount for lack of would result in increase (decrease) in fair value by KD 341 thousands.

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	At the beginning of the year KD	*Net fair value recorded in the consolidated statement of comprehensive income KD*	*Net result recorded in the consolidated statement of income KD*	*Net purchase, transfer, sale & settlements KD*	*At the end of the year KD*
2017					
Financial assets available for sale:	**3,745,439**	**(893,237)**	**-**	**(2,227,500)**	**624,702**
	3,745,439	**(893,237)**	**-**	**(2,227,500)**	**624,702**

	At the beginning of the year KD	*Net fair value recorded in the consolidated statement of comprehensive income KD*	*Net result recorded in the consolidated statement of income KD*	*Net purchase, transfer, sale & settlements KD*	*At the end of the year KD*
2016					
Financial assets available for sale:	3,687,639	83,300	(25,500)	-	3,745,439
	3,687,639	83,300	(25,500)	-	3,745,439

26 COMPARATIVE INFORMATION

In accordance with IAS 8: *Accounting policies, changes in accounting estimates and errors*, the comparative information for the years ended 31 December 2015 and 31 December 2016 has been restated as below to correct the error related to uncollected reinsurance receivables, other assets, reinsurance share in reserve for outstanding claims and insurance contract liabilities, respectively which were fully impaired due to the expiry of the statute of limitations to recover such balance, but such position was not reflected in the consolidated statement of income as of the year ended 31 December 2015 and 31 December 2016.

At 31 December 2015

Consolidated statement of financial position	*As previously reported*	*Effect of restatement*	*Restated*
ASSETS	*KD*	*KD*	*KD*
Insurance and reinsurance receivables	16,861,959	(1,111,970)	15,749,989
Other assets	2,189,389	772,000	2,961,389
Reinsurance share in reserve for outstanding claims	18,146,184	(2,649,214)	15,496,970
LIABILITIES			
Insurance contract liabilities	(25,765,072)	(4,112,945)	(29,878,017)
Equity attributable to equity holders of the Parent Company			
Retained earnings / accumulated losses	2,848,907	(7,102,129)	(4,253,222)

At 31 December 2016

Consolidated statement of financial position	*As previously reported*	*Effect of restatement*	*Restated*
ASSETS	*KD*	*KD*	*KD*
Insurance and reinsurance receivables	19,244,249	(1,111,970)	18,132,279
Reinsurance share in reserve for outstanding claims	16,671,463	(2,372,952)	14,298,511
LIABILITIES			
Insurance contract liabilities	(24,814,635)	(5,815,007)	(30,629,642)
Equity attributable to equity holders of the Parent Company			
Retained earnings / accumulated losses	1,549,175	(9,299,929)	(7,750,754)
Consolidated statement of income			
Profit / loss for the year	276,237	(2,197,800)	(1,921,563)