2016 ANNUAL REPORT

الأولـــى تـكافــل
FIRST TAKAFUL

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FIRST TAKAFUL

First Takaful Insurance Company
Authorized Capital KD 10,760,000

Kuwaiti Shareholding Company incorporated on 25 July 2000 and is registered under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments.

+965 1880055
+965 65900800
+965 22444599
www.firsttakaful.com.kw
firsttakaful
1st_takaful
1st_takaful
info@firsttakaful.com.kw

Al-Qibla - Abdullah Mubarak St. - Souq Al-Safat Building
P.O. Box 5713 Safat 13058 Kuwait

His Highness

Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah

The Amir of Kuwait

His Highness

Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah

The Crown Prince

Branches

Head Office, Al Qibla, Abdullah Al-Mubarak St., Souq Al-Safat Building	Tel.: 1880055 Fax: 22444599
Al-Rawda Co-op. Society	Tel.: 22510295
Kefan Co-op Society	Tel.: 24929708
Al-Faiha›a Co-op Society	Tel.: 25101232

Contents

Company Profile

OUR COMPANY

First Takaful Insurance Co (First Takaful) was established in August 2000 with the objective of providing Takaful insurance solutions to individuals, commercial establishments and the various industrial sectors in Kuwait. The company has the distinction of being the first company licensed to offer Takaful (Islamic alternative to the conventional Insurance) in Kuwait.

Over the years, First Takaful has demonstrated several superior qualities such as adaptability, agility, commitment to customer service, credibility and dependability thereby distinguishing it from others. One of our key differentiators is that we work through dedicated professional teams that understand our customer's needs and offer personalized solutions.

Nowadays, First Takaful is an independent, financially strong entity operating fully out of its own funds with a paid capital of KD 10,660,000 and having its own independent management. FTIC is listed in the Kuwait Stock Exchange under (stock symbol: first takaful).

Having firmly established itself in the local market, First Takaful has started entering into international markets by way of expansion. We have already started operations in Turkey and Saudi Arabia.

TAKAFUL

Takaful Insurance is a form of Islamic insurance where members contribute regularly to a fund, from which reimbursements are paid in case of loss or damage incurred by any member. The loss can be related to one's assets, life, health, etc. The fund is managed by a Takaful operator.

The literal translation of Takaful means "guaranteeing each other". It is based on a mutual risk transfer arrangement, involving participants and operators.

Takaful Insurance provides insurance solutions that comply with Islamic Shari'ah, the Hadith and Qur'anic verses.

VISION

To lead in providing Takaful services thus being the first choice of preferred insurance operators in the region.

MISSION

To continuously provide innovative Takaful Insurance products, value-added services and quality customer care thereby building sustainable and long lasting relationships with our stakeholders.

OUR VALUES

We have embedded the following core values in our system and are committed to creating a culture that promotes the same. Our values are:

- Commitment
- Quality services
- Customer focus
- Integrity and transparency
- Inspiration and excellence

OUR STRATEGY

First Takaful Strategy is aiming at achieving the highest customer satisfaction standards throughout providing the best and unique Takaful services, this strategy helped First Takaful to acquire wide customer's segment in both corporate and individual.

"For All That Matters" is the new slogan that First Takaful chose to promise its customers with innovated services that satisfy their needs considering the risk element they might face.

OUR OBJECTIVES

Continuous improvement of the Customer Services to maintain the highest customer satisfaction standards.

- Introducing new products to meet the special needs of individuals and corporate.
- Dealing with excellent reliable reinsurers to secure best services and protection.
- Focusing on employee's development (especially Kuwaiti fresh candidates) through trainings.
- Concentrating on continuously improving the information technology.
- Being closer to customers throughout our branch network.
- Increasing the insurance awareness in the Kuwaiti Society.

Chairman's Statement

Praise be to Allah, the Lord of the Worlds, and prayers and peace be upon the master of the messengers, his family and companions.

Dear Shareholders,

May the Peace, Mercy and Blessing of Allah be Upon You,,,

On my own behalf and on behalf of the members of the Board of Directors, I am pleased to extend my thanks and gratitude to all of you for accepting our invitation to attend the Company's Annual Ordinary General Assembly Meeting for the financial year ended 31 December 2016. The members of Board of Directors also have the honor to submit to you the annual report on the company's business, achievements, financial statements, governance report, audit committee report, remuneration and benefits report, and Fatwa and Shari'a Supervisory Board report.

Dear shareholders:

First Takaful Insurance Company (First Takaful) has continued its successful journey, despite the difficult conditions experienced by the insurance sector in Kuwait, based on the diligent efforts exerted by the Executive Management and based on the implementation of the plans and directives of the Board of Directors. First Takaful has avoided, as much as possible, the negative competition in the insurance market, represented in price burning policy adopted by some companies to raise their insurance premiums without paying attention to fair pricing standards or to the rate of loss, as well as the leniency in applying the terms and conditions of the insurance policies. However, the company was not immune to negative results in the policyholders' portfolio in terms of the value of premiums and financial results from insurance operations.

First Takaful has committed in 2016 to implement all laws and regulatory decisions issued by the Ministry of Commerce and Industry, Capital Markets Authority, Kuwait Stock Exchange, and other regulatory bodies, in relation to internal control policies, risk management, procedures and authorities, governance principles, and implementation of the Fataka Compliance Act. The company is fully committed to the provisions of the Islamic Shari'a in its insurance, reinsurance and investment transactions. Also, in 2016, the members of the Board of Directors and the Board committees were formed, namely the Nomination and Remuneration Committee, Internal Audit Committee, and Risk Management Committee.

Shareholders' Results:

In 2016, First Takaful achieved a profit of KD 1,083,190 compared to a loss of KD 832,350 in 2015 with a 230% increase in profits, and share profitability was 10.16 fils in 2016 compared to a share loss of 8.50 fils in 2015. Shareholders' equity for the current year was KD 9,410,773 compared to KD 9,705,927 in the last year, with a 3% decline. The total assets of the shareholders in the current year were KD 14,588,210 compared to KD 12,834,060 in the previous year, with an increase of 14%.

It is worth mentioning that no penalties or violations were imposed by the regulatory bodies during the year 2016. The remuneration of the Board of Directors resulting from the attendance of the committees was KD 3,750 during the year 2016. The value of the bonuses and benefits received by the Executive Management was KD 53,679 in 2016. The monthly salaries of the Executive Management amounted to KD 16,875. The Nomination and Remuneration Committee report is attached to the Annual Report for your review.

Results of policyholders' portfolio:

Premiums underwritten for the fiscal year 2016 amounted to KD 9,128,580 compared to KD 10,404,108 achieved in the fiscal year 2015, with a decline of KD 1,275,528, representing 12%. This decline is due to that the company's management in early 2016 cleaned the motor portfolio, eliminated the subscriptions of customers with a high rate of loss, and didn't accept new subscriptions for taxi and leasing cars, which caused the negative consequences to the policyholders.

Through 2016, First Takaful continued to apply the principle of transparency with the shareholders and policyholders, informing them periodically and regularly of the company's news through radio, television, daily newspapers, magazines, websites, and various social media. First Takaful participated in several insurance exhibitions, in order to spread the insurance culture and the importance of insurance products. In 2016, the company's management issued four newsletters to increase insurance awareness in the market. First Takaful has committed to its social responsibility and applied the governance principles by participating in sponsoring conferences, providing gifts in Eid al-Adha, and providing discounts on the National Day and Independence Day. The company is constantly raising awareness about public safety.

Through its team, the company implements high standards of performance, quality and protection using the latest information technology, continuous development of various insurance and administrative systems and programs, and paying attention to continuous training of human resources and national manpower. The company provided many educational programs during 2016 to enhance and develop the employees' skills to improve the company's technical, financial, administrative, and control activities.

Dear Shareholders,

First Takaful is moving toward a stronger and more balanced future. However, we look forward to 2017 with cautious optimism as the insurance sector is not regulated in Kuwait. Unfortunately, we are still witnessing a continuous decline in prices in all types of business due to negative competition. We hope that the establishment of the Insurance Supervisory Board will be expedited in order to protect the rights of shareholders and the holders of insurance policies.

First Takaful is committed to enhancing the technical profits, which aims to achieve operating profits resulting from the insurance activity by adopting a safe and secure subscription policy, orderly and selective growth of insurance premiums, and focus on providing value added service to customers. One of the most important investments of the company is to invest in the trained and qualified human element, which is the main pillar for maintaining the strength of the company and the integrity of its structure. The company is also required to cover all types of insurance business and to create the second and third generations who will lead the company to occupy a leading position in the local and regional insurance market.

Dear Shareholders,

In conclusion, we ask Allah to help us achieve what we have set for us, for the good of our beloved homeland, the company and our valued shareholders, under the leadership and guidance of His Highness the Amir of Kuwait, His Highness the Crown Prince, and His Excellency the Prime Minister. I would also like to thank the shareholders, the members of Shari'a Supervisory Board, the members of Board of Directors, the members of committees emanating from the Board of Directors, the Executive Management, the Company's employees, the Insurance Department of the Ministry of Commerce and Industry, the Capital Markets Authority, Kuwait Stock Exchange and the Company's clients. We also pray to Almighty Allah to help us achieve further progress and prosperity.

May the Peace, Mercy and Blessing of Allah be Upon You,,,

Laila Abdel Karim Al-Ibrahim
Chairperson

Board Of Directors

Laila Abdul Karim Al-Ibrahim
Chairperson

Saleh Saleh Al Selmi
Vice Chairman

Hussain Ali Al-Attal
Board Member & Chief Executive Officer

Rami Khalid Abdullah Ali
Board Member

Ahmed Mohammed Al-Khalid
Board Member

Osama Abdullateef Al-Abdul Jaleel
Board Member - Independent

Saud Suleiman Al-Maali
Board Member

In the Name of Allah Most Gracious Most Merciful

Fatwa and Shari'a Supervisory Board Report

Praise be to Allah, Lord of the Worlds, and prayers and peace be upon the noble prophets and messengers our master Muhammad and his family and companions.

The Fatwa and Shari'a Supervisory Board of First Takaful Insurance Company KSPC is pleased to submit to you its report on the company's transactions and operations for the financial year ended 31/12/2016 for presentation to the company's general assembly.

On the basis of a statement by the Chairman of Fatwa and Shari'a Supervisory Board, Sheikh Dr. Anwar Shuaib Abdul Salam, delegated to monitor and follow up all the company's business from Shariah perspective, and based on the Takaful insurance transactions and operations presented, the Fatwa and Shari'a Supervisory Board believes that the company's transactions and operations are aligned to its decisions and recommendations. And so we sign.

Finally, we ask the Almighty Allah to help the company's management and employees achieve success in their work, ensuring the validity of the processes and accuracy of implementation in line with Sharia law.

Allah is All-Hearing and All-Seeing, praise be to Allah, Lord of the Worlds, and may Allah bless our master Muhammad and all his family and companions.

We pray to Almighty Allah to help us achieve further progress and prosperity,,,

Sheikh Dr. Anwar Shuwaib Abdulsalam
Panel Chairman

Sheikh Dr. Mohammad Abdul Razaq Al Tabtabae
Panel member

Sheikh Dr. Essam Al Ghareeb
Panel member

Shareea'a Supervisory Board

Dr. Anwar Shuaib Abdulsalam

Chairman

Dr. Mohammad Abdul Razaq Al Tabtabae

Shareea'a Board Member

Dr. Essam Al Ghareeb

Shareea'a Board Member

Undertaking of Board of Directors on Financial Reports

The Board of Directors of First Takaful Insurance Company K.S.C. (Public) undertakes its responsibility for the integrity and accuracy of all the annual financial statements and reports of the Company, based on the information provided by the Executive Management to the Board of Directors as well as on the commitment of the Executive Management towards the Board of Directors to present all financial reports in a sound and fair manner.

Board Members of First Takaful Insurance Company		
Member Name	**Designation**	**Signature**
Ms. Laila Abdulkarim Al-Ibrahim	Chairperson	
Mr. Saleh Saleh Al-Salmi	Vice Chairman	
Mr. Hussein Ali Al-Attal	Board Member and CEO	
Mr. Osama Abdullatif Al Abdul Jalil	Independent Board Member	
Mr. Ahmed Mohamed Al-Khaled	Non-Executive Board Member	
Mr. Saud Sulaiman Al-Mu'aili	Non-Executive Board Member	
Mr. Rami Khaled Ali	Non-Executive Board Member	

Kuwait, 09 March 2017

Undertaking of Executive Management on Financial Reports

The executive management of First Takaful Insurance Company K.S.C. (Public) undertakes that all financial reports submitted to the Board of Directors of the Company are presented in a sound and fair manner, that they include all the financial aspects of the Company from operating data and results, and that all financial reports have been prepared in accordance with the international accounting standards adopted by the Capital Market Authority

Chief Executive Officer : Mr. Hussein Ali Al-Attal

Signature :

VP- Finance and Administration : Malik Salim Oraikat

Signature :

Kuwait, 09 March 2017

Governance:

First Takaful Insurance Company operates within the governance framework to document and consolidate ethical behavior, control, accountability and proper administrative organization. It also aims at enhancing management efficiency, optimizing control and auditing procedures, and boosting social responsibility. This comes as a commitment by the company to implement the provisions of the fifteenth book (Corporate Governance), of the Executive Regulations of Law No. 7 of 2010 regarding the establishment of the Capital Market Authority and the regulation of securities activity and amendments thereof - State of Kuwait.

Rule 1 - Building Balanced Structure of Board of Directors:

About Board of Directors:

The management of the First Takaful Insurance Company is headed by a Board of Directors of seven members with diverse expertise and skills elected by the shareholders to achieve the sustainable value of the company's stakeholders. The Board of Directors also exercises these authorities and responsibilities in accordance with the Company's policies and the Board of Directors' charter. The Board of Directors assumes the full responsibility for "First Takaful", including the development of the Company's strategic objectives and risk strategy, compliance with governance rules and principles, and follow-up the proper implementation of these objectives and principles with ensuring full integrity. The Board of Directors assumes the responsibility for overseeing the executive management, including the Chief Executive Officer.

The Board of Directors shall assume all the responsibilities related to "First Takaful" operations and its financial integrity, ensure that the requirements of the regulatory bodies are met, that the interests of shareholders, employees and other stakeholders are maintained, and that the management of "First Takaful" is within the scope of applicable laws and regulations and the Company's approved internal policies.

Members of the Board of Directors:

Member Name	Designation	Qualifications and Experience	Date of Election / Appointment
Ms. Laila Abdulkarim Al-Ibrahim	Chairman of the Board -Non- Executive Member	Bachelor of Economics and Political Science Has more than 25 years of experience	14 April2016
Mr. Saleh Saleh Al-Salmi	Vice Chairman -Non- Executive Member	Bachelor of Business Administration and Finance Has more than 30 years of experience	14 April2016
Mr. Hussein Ali Al-Attal	Board Member and Chief Executive Officer - Executive Member	Bachelor of Business Administration and Marketing Has more than 30 years of experience	14 April2016
Mr. Ahmed Mohamed Al-Khaled	Non-Executive Board Member	BA in international trade and international political system Has more than 30 years of experience	14 April2016
Mr. Osama Abdullatif Al Abdul Jalil	Independent Board Member	Bachelor of Law Has more than 25 years of experience	14 April2016
Mr. Saud Sulaiman Al-Mu'aili	Non-Executive Board Member	Bachelor of Press Management and Public Relations Has more than 30 years of experience	14 April2016
Mr. Rami Khaled Ali	Non-Executive Board Member	Bachelor of Business Administration Has more than 15 years of experience	14 April2016
Mr. Malik Salim Oraikat	Board Secretary	Bachelor of Commerce in Advanced Accounting and Auditing Has more than 30 years of experience	14 April2016

Organization of Board Meetings:

Based on First Takaful Insurance Company's commitment to organize periodic meetings, implement the highest standards of governance, and comply with the requirements of the laws and regulations of the regulatory authorities (Ministry of Commerce and Industry, Companies Law) and (Capital Markets Authority - Corporate Governance), the Board of Directors hold six meetings at least per year, one meeting at least every quarter.

Summary of First Takaful Board Meetings during 2016:

The Board of Directors of the First Takaful Insurance Company held 6 meetings during 2016. The table below shows the attendance of each member of the Board during 2016:

Member Name and Designation	08 March 2016	26 April 2016	11 May 2016	29 June 2016	07 August 2016	25 Oct. 2016	Number of meetings (6)	Attendance Ratio
Ms. Laila Abdulkarim Al-Ibrahim Chairman	√	√	√	√	√	√	6	100%
Mr. Saleh Saleh Al-Salmi Vice Chairman	√	√	√	√	√	√	6	100%
Mr. Hussein Ali Al-Attal Member of the Board	√	√	–	√	√	√	5	83%
Mr. Ahmed Mohamed Al-Khaled Member of the Board	√	√	√	√	√	√	6	100%
Mr. Osama Abdullatif Al Abdul Jalil Member of the Board - Independent	–	√	–	√	–	–	2	33%
Mr. Saud Sulaiman Al-Mu'aili Member of the Board	√	√	√	√	√	–	5	83%
Mr. Rami Khaled Ali Member of the Board	√	√	√	√	√	√	6	100%

Summary of final decisions taken by the Board of Directors on key issues discussed during meetings held in 2016:

Date of the meeting	Key issues discussed during the meeting	Final Decision
08 March2016	Discuss the consolidated financial statements for the year ended 31 December 2015	Approved
26 April2016	Composition of the Board of Directors	Approved
11 May2016	Discuss the Company interim financial information for the first quarter ended 31 March 2016	Approved
29 June2016	Forming the committees of the Board of Directors	Approved
07 August2016	Discuss the Company interim financial information for the second quarter ended 30 June 2016	Approved
07 August2016	Approve the updated departments policies and procedures and the financial authority matrix	Approved
25 Oct.2016	Discuss the Company interim financial information for the third quarter ended 30 September 2016	Approved

Duties of the Board's Secretary

The Board Secretary shall record and keep all the minutes of the Board meetings, and the enclosed records and reports submitted by and to the Board. The Board Secretary shall provide all information and data in full, accurate and timely manner to all members of the Board of Directors, sign minutes of meetings with all members, ensure the receipt and distribution of information, and coordinate between the members of the Board of Directors and the other related parties.

Rule 2 - Proper Identification of Duties and Responsibilities:

First Takaful Insurance Company is committed to providing policies and procedures that define the tasks, responsibilities and duties of the Board of Directors and the executive management, and to ensure that the organizational structure of the company is transparent and objective in order to facilitate the decision making process and achieve the principles of governance. On August 14, 2016, the Company implemented the updated and approved departments' policies and procedures to ensure:

- Efficiency and effectiveness within the company's activities.
- Full segregation of authorities between positions.

The departments' policies and procedures that have been updated are as follows:

- Internal Audit Department;
- Risk Management Department;
- Compliance Management;
- Finance Department;
- Sales Department;
- Marketing and Customer Service Department;
- Legal Affairs Department;
- Information Systems Department;
- Administrative Affairs Department;
- Reinsurance Department;
- Life and Medical Insurance Department;
- Life and Medical Claims Department;
- Marine and Aviation Insurance Department;
- Marine and Aviation Claims Department;
- Fire and General Accident Insurance Department;
- Fire and General Accident Claims Department;
- Motor Insurance Department;
- Motor Claims Department.

In addition to the following policies required under the Executive Regulations -Book 15-Corporate Governance, issued by the Capital Market Authority-State of Kuwait:

- Board Committees Policy (Nomination and Remuneration Committee -Audit Committee- Risk Management Committee);
- Board Members Policy;
- Professional Conduct Policy;
- Conflict of Interest Policy;
- Social Responsibility Policy;
- Disclosure Policy;

- Board Members Performance Appraisal Policy;
- Shareholders Policy;
- Stakeholders Policy;
- Training Policy for Board Members and Senior Management;
- Whistleblower Policy.

The company also has a delegation of authority matrix which covers all the company's departments and has been updated and implemented on August 14, 2016.

Board of Directors Achievements during 2016

- Updating the company's overall strategy;
- Contracting on an automated system that regulates the company's operations;
- Upgrading the quality of services provided within the company;
- Supporting and motivating the company's staff for continuous development and training;
- Maintaining the company's entity through strengthening relationships with the related parties;
- Developing solutions for the company's products to suit the requirements of the company's customers.

The Board of Directors of the First Takaful Insurance Company formed its own independent committees according to the internal regulations of the company. This includes a comprehensive identification of the functions and authorities of the committees during the period, as well as the manner of supervision. The Board committees are committed to inform the Board of Directors of the committees' work and the results and recommendations they have. The duration of the committees has been determined from the date of formation of June 29, 2016 until April 14, 2019, the date of the election of Board members for the next three years.

Board Committees:

- Nomination and Remuneration Committee;
- Audit Committee;
- Risk Management Committee.

Rule 3 - Selection of Qualified Members for the Board of Directors and Executive Management:

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is emerged from the Board of Directors and composed of members of the Board of Directors. The Committee has a number of main functions as follows:

- Prepare recommendations to the Board of Directors with regard to proposed nominations based on a comprehensive and transparent framework for the appointment of Board members and Executive Management of the Company;
- Establish a clear remuneration policy for the Board of Directors and Executive Management;
- Prepare a detailed report on the remuneration to Board members and Executive Management;
- Ensure that the independence of the independent Board member is not lacking.

Formation of Committee

First Takaful Insurance Company is committed to forming the Board Committees in accordance with the provisions of the book 15 of Corporate Governance. The Nomination and Remuneration Committee has been formed as follows:

- The number of the committee's members is three members of the Board of Directors;
- One member of the Committee is an independent member;
- The Chairman of the Committee is a non-executive Board member.

Below is the formation of the Nomination and Remuneration Committee in "First Takaful", knowing that the Committee met (once) during 2016

Committee Members / Designation	Meetings Attended Out of (1) Time	Attendance Ratio
Mr. Saleh Saleh Al-Salmi Chairman of the Committee - Non-Executive	1	100%
Mr. Hussein Ali Al-Attal Member of the Committee - Executive	1	100%
Mr. Osama Abdullatif Al Abdul Jalil Member of the Committee - Independent	–	0%

Key achievements of the Committee during 2016:

Review the job descriptions of executive board members, non-executive board members and independent board members.

Remuneration given to Board Members and Executive Management during 2016:

First: The Company's Remuneration and Incentives System:

The system for remuneration and incentive given to the company's Board of Directors and the executive management is based on key performance indicators, performance level and achievement, at the company's level in general and at the individual's level in particular, during the year ended, in order to achieve the company's strategic objectives.

Second: The remuneration given to the members of the Board of Directors and the Executive Management, whether amounts, or benefits. The table below shows the details of all remuneration given:

- **Remuneration of Board members**

Value of fixed Remuneration KD	Value of variable Remuneration KD	Total given Remuneration KD
-	**3,750**	**3,750**

- **Remuneration of Executive management**

Value of fixed Remuneration KD	Value of variable Remuneration KD	Total given Remuneration KD
11,654	**42,025**	**53,679**

Third: other remuneration given directly or indirectly:

- There is no other remuneration.

Fourth: significant deviations from the approved remuneration policy:

- There are no significant deviations.

Rule 4 - Ensure integrity of financial reports:
Undertaking of Executive Management on financial reports:

The Company's Executive Management has undertaken in writing to the Board of Directors that all the financial reports submitted to the Board of Directors are presented fairly and accurately and include all the financial aspects of the Company's data and operating results, and that all the financial reports have been prepared in accordance with the International Accounting Standards adopted by the Capital Market Authority.

Undertaking of Board of Directors on financial reports:

The Board of Directors of the Company has acknowledged fully responsibility for the integrity and accuracy of all annual financial statements and reports of the Company based on information provided by the Executive Management to the Board of Directors and based on the Executive Management's undertaking to present all financial reports in a sound and fair manner.

Audit Committee:

Audit Committee is one of the most important features of the application of governance rules, and is an important part of the Board of Directors of First Takaful Insurance Company. The Committee also undertakes a number of key functions as follows:

- Ensure the integrity of the company's financial statements;
- Recommend to the Board of Directors the appointment, reappointment or change of external auditors and the determination of their fees;
- Ensure efficiency and effectiveness of internal control systems and compliance to the same;
- Recommend the appointment of the Internal Audit Manager and assess the performance and effectiveness of the Company's Internal Audit Department;
- Ensure the company's compliance with related legal requirements, policies, regulations and instructions.

Formation of Committee:

First Takaful Insurance Company is committed to forming the Board Committees in accordance with the provisions of the book 15 of Corporate Governance. The Audit Committee has been formed as follows:
The number of the committee's members is three members of the Board of Directors;
One member of the Committee is an independent member;
The Chairman and the Executive members of the Board are not members of the Committee.

Below is the formation of the Audit Committee in "First Takaful", knowing that the Committee met (twice) during 2016:

Committee Members / Designation	Meetings Attended Out of (2) Times	Attendance Ratio
Mr. Rami Khaled Ali Non-Executive Member - Chairman of the Committee	2	100%
Mr. Saud Sulaiman Al-Mu'aili Non-Executive Member - Member of the Committee	2	100%
Mr. Osama Abdullatif Al Abdul Jalil Independent Member - Member of the Committee	1	50%

Key achievements of the Committee during: 2016

- Review and approve the internal audit plan;
- Discuss the interim financial information for the second quarter ended 30 June 2016;
- Follow-up all reports issued by the Internal Audit Department for 2016;
- Discuss the interim financial information for the third quarter ended 30 September 2016.

External Auditor:

The First Takaful Insurance Company has external auditors registered in the auditors' register of the Capital Market Authority. They are also fully independent from First Takaful Insurance Company and its Board of Directors. The Company also allows auditors to discuss their views with the Audit Committee, attend the meetings of the General Assembly, and read the report prepared by them to shareholders. The auditors have great powers to inform the Capital Markets Authority of any irregularities or obstacles in detail.

Rule 5 - Development of sound risk management and internal control systems:

Risk Management Department:

The Risk Management Department of the company is responsible for identifying, measuring and monitoring the risks surrounding the company. It also makes appropriate recommendations to the board of directors in this regard. Risk managers enjoy the complete independence and direct reporting to the board of directors. They also have great powers to carry out their duties to the fullest.

Risk Management Committee:

The Risk Management Committee is emerged from and formed by the Board of Directors, and is specialized in risk management. The Committee plays its main role and functions as follows:

- Identify and assess key risks surrounding the company as well as strategic and operational risks;
- Prepare and review risk management policies before they are approved by the Board of Directors;
- Ensure the independence of risk management department and that management staff have full understanding of the risks surrounding the company;
- Prepare periodic reports on the nature of the risks to which the company is exposed and submit them to the Board of Directors.

Formation of Committee:

First Takaful Insurance Company is committed to forming the Board Committees in accordance with the provisions of the book 15 of Corporate Governance. The Risk Management Committee has been formed as follows:

- The number of the committee's members is three members of the Board of Directors;
- The Chairman of the Committee is a non-executive board member;
- The Chairman of the Board is not a member of the Committee.

Below is the formation of the Risk Management Committee in "First Takaful", knowing that the Committee met (twice) during 2016:

Committee Members / Designation	Meetings Attended Out of (2) Times	Attendance Ratio
Mr. Saleh Saleh Al-Salmi Non-Executive Member - Chairman of the Committee	2	100%
Mr. Hussein Ali Al-Attal Executive Member - Member of the Committee	2	100%
Mr. Rami Khaled Ali Non-Executive Member - Member of the Committee	2	100%
Mr. Ahmed Mohamed Al-Khaled Non-Executive Member - Member of the Committee	2	100%

Key achievements of the Committee during 2016:

- Follow up with Risk Management Department on the latest developments on key risks that may have a negative impact on the company;
- Review and approve the Risk Management Plan;
- Follow-up all reports issued by the Risk Management Department for 2016.

Internal Control:

The company operates within the framework of high internal control systems where these systems maintain the company financial integrity and the data and all activities. The organizational structure of the company identifies authorities and responsibilities in a clear manner, segregates the duties, and ensures non-conflicts of interest. "First Takaful" is committed to applying dual control and double signature in its operations.

Internal Audit Department:

The company's Internal Audit Department reviews and evaluates the internal control systems. It also evaluates the performance of the executive management in its implementation of the internal control systems, and submits reports to the committee. The staff of the Internal Audit Department is fully independent and reports to the Audit Committee and the Board of Directors accordingly.

Rule 6 - Promotion of Professional Conduct and Ethical Values:

Code of Conduct:

The company has a code of conduct with comprehensive standards and behavioral parameters set by the Board of Directors to establish ethical concepts and values. The executive management is working on these standards and determinants to achieve the company's ambitions and objectives. It contributes to the performance of the duties to the fullest.

The Board of Directors of the First Takaful Insurance Company has approved policies and procedures that aim to achieve the highest percentage of the behavioral parameters and standards of the Company's Code of Conduct. Below are some applicable policies and procedures as an example:

- Disclosure policies and procedures manual;
- Internal whistleblower policy;
- Shareholder relations policy;
- Related party and investor affairs policy;

- Conflict of interest policy;
- Related party transaction policy;
- Code of Conduct.

Conflict of interest:

The Company's conflict of interest policy seeks to reduce conflicts of interest between the Company and the related parties, as well as to identify situations that may lead to conflicts of interest in the future. The policy addresses such conflicts in order to protect the integrity and reputation of the Company and related parties. In order to protect the interests of the company, the conflict of interest policy obligates the members of the Board of Directors to disclose any joint interests with the company. It works to give priority to the interests of the company than the interests of its members.

Rule 7 - Disclosure and transparency in an accurate and timely manner:

Presentation and disclosure methods:

The company is keen to apply the best disclosure methods. The Board of Directors has approved the disclosure policies and procedures that include the methods of disclosing essential data and information. It also provides complete transparency of all information and data for timely presentation. The Board of Directors reviews these disclosure methods periodically to keep abreast of the international best practices.

Disclosure Register:

The company regulates the disclosures of the members of the Board of Directors and the Executive Management through a register of their disclosures. This register is accessible to all the Company's shareholders without fees. The Company updates this register periodically to reflect the actual status of the related parties.

Investor Affairs Unit:

The company has a unit that regulates investor affairs. It is responsible for providing all necessary data, information and reports to potential investors. This unit is highly independent. It provides these data and reports in a timely and accurate manner through all the usual means of communication.

Technology:

The Company relies heavily on technology, as it contributes to effective communication with shareholders, investors and stakeholders through the use of information technology. First Takaful has provided a full section of its website for the corporate governance and disclosures to present all the latest data and information, and enable existing and shareholders and potential investors to exercise their rights in assessing the company performance.

Rule 8 - Respect for Shareholders' Rights:

Shareholders' Rights:

The company's articles of association, policies, regulations and internal controls guarantee equity and fairness of shareholders' rights. Shareholders have general rights to exercise such as the Board's accountability, monitoring the company's performance, and electing the Board members.
"First Takaful" fulfills the rights of its shareholders in full without any discrimination and in such a way not harmful to the Company's interests or contrary to the laws and regulations in force.

Clearing Agency:

The Company is keen to take into account the accuracy and continuous follow-up of the shareholders' information through the establishment of a special register kept by the Clearing Agency, where it registered the names of the company's shareholders and the number of shares owned by each of them. The Company is keen to update the data recorded in the Shareholders' register immediately in case of a change to reach the highest levels of accuracy.
Encouragement of shareholder participation:
The right to participate and vote in the General Assembly of the company is an inherent right of all shareholders. The Company has endeavored to activate this role by directing an invitation to shareholders to attend the General Assembly meeting including all data and information related to the agenda items. Shareholders also are entitled to delegate others to attend the General Assembly meeting through a special power of attorney or an authorization in this regard. The company enables the shareholders who own 5% of the company's capital to add items to the agenda. The company provides the shareholders with disclosure statements to the members of the board of directors and members of the executive management.

Rule 9 - Recognizing stakeholders' role:

Stakeholders:

The recognition of the stakeholders' rights contributes to strengthening the framework of mutual cooperation between the company and stakeholders. The company endeavors to respect and protect the rights of stakeholders. The policies and procedures set by the company guarantee full protection and equal treatment with the members of the board without discrimination, build good relationships with the company's clients and suppliers, and maintain the confidentiality of information related to them. The policy showed the process adopted for submission and settlement of complaints as well as procedures that preserve the stakeholders' rights.
Promoting stakeholder participation:
The Company provides stakeholders with an access to all information and data relevant to their activities, and provides the process for reporting any improper practices to which stakeholders are exposed by the Company, while providing full protection to whistleblowers.

Rule 10- Enhancement and improvement of performance:

Promote performance improvement:

The company's interest in encouraging the development and improvement of efficiency and performance has contributed to the establishment of processes and systems that allow the members of the Board and the Executive Management to obtain training courses and programs related to the company activities, through the induction and orientation programs provided to the newly appointed members. Training programs include orientation on the company's strategy and financial and operational aspects. Training programs, workshops and conferences for the current members and executive management have been taken into consideration.

Performance Appraisal:

The performance appraisal of the members of the Board of Directors and the Executive Management is based on qualitative and quantitative key performance indicators identified by the company. The most important qualitative indicators that underpin the performance evaluation systems are the interaction and response to the objectives to be achieved, the control and resolution of problems, and participation in the training courses relevant to the company's activity and business. Quantitative indicators are subject to financial returns from net profit and annual returns.

Creating Corporate Values:

The company's vision and mission is to create a suitable environment for effective and productive corporate values. It contributes to the improvement of performance rates and instills the corporate values of its employees. This contributes to the improvement of business and the maintenance of the company's financial integrity and credibility. Reflecting our corporate values on the company's activities and products has created a culture of compliance with the laws and decisions of the regulatory bodies as well as enabled the company to provide services with high quality, honesty, and transparency. This helps achieve the company's strategic objectives.

Rule 11- Focus on importance of social responsibility:

Social Responsibility:

The company is keen to fulfill its social duty as a key partner in the development of Kuwaiti society. The company's social responsibility programs cover all sectors. The importance of these programs is to strengthen the relationship between the company and the society to contribute to the development of living, social and economic conditions, by employing, supporting and encouraging national labors, as well as participating in the sponsorship of medical conferences. The company also publishes periodic educational publications that promote awareness of insurance and highlight the culture of insurance and its importance within the State of Kuwait.

Chapter 13 - Regulatory Requirements

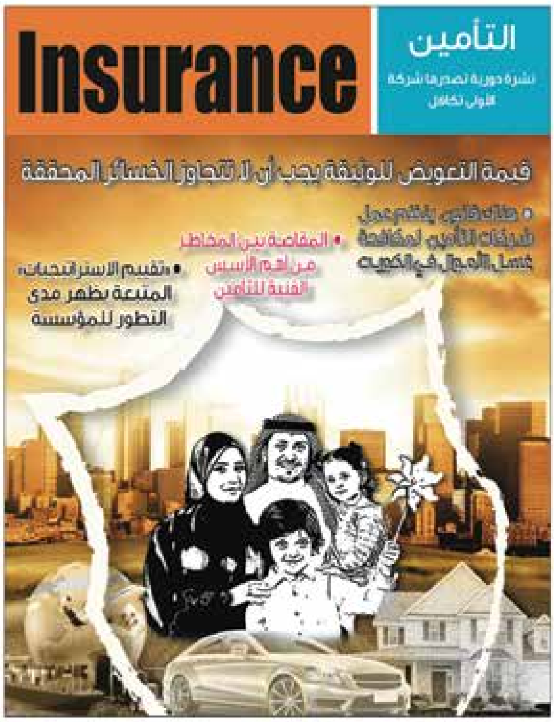
Article 13-3 Non-compliance

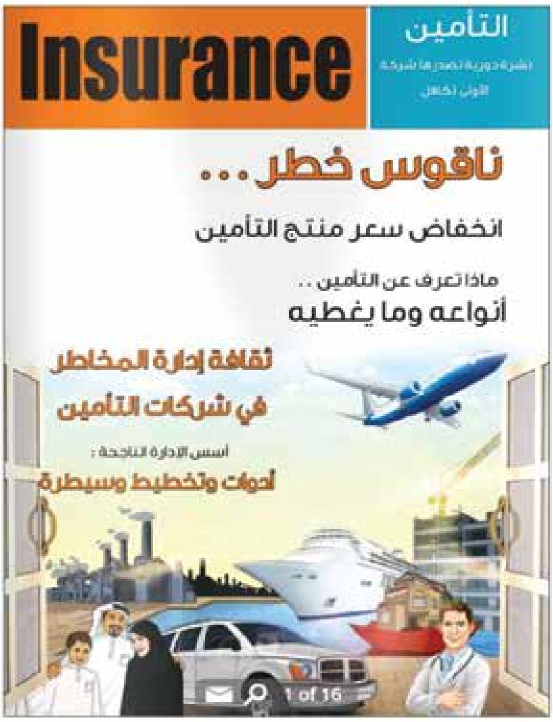
Most of these rules are originally based on the principle of "Comply or Explain". Companies must disclose their compliance with these rules. If a company does not comply with any of these rules, it must identify the rule and principle that is not complied with, and include this in detail in the governance report with reasons for non-compliance etc.

Exceptions to compliance with corporate governance rules

Sr.	Exception	Rule	Management Response	Responsibility	Target Date
1	Compliance with the approved risk tendency	Rule 2: Proper identification of duties and responsibilities Article 3-10 Principle 7	The company will prepare the required record	Senior Management	Third quarter 2017
2	Training of Board members	Rule 10: Promotion and improvement of performance Article 11-3 Principle 2	A training plan has been developed to train the current members of the Board to develop their skills	HR Department	Second quarter 2017

Awareness Letters - 2016





First Takaful Insurance Company - KPSC and Subsidiary

Consolidated financial statements and independent auditors' report

31 December 2016

Contents

Grant Thornton
Al-Qatami, Al-Aiban & Partners

Auditors & Consultants
Souq Al Kabeer Building - Block ! - 9th Floor
Tel.: +965 22443900/9
Fax: +965 22438451
P.O. Box 2986, Safat 13030 Kuwait
e-mail: gt@kw.gt.com
www.grantthornton.com.kw

MAZARS
Hend Abdulla Al Surayea & Co.- Chartered Accountants

P.O. Box 23105 Safat, 13092 Kuwait
Tel.: +965 22470462/4
Fax: +965 22470463
www.mazars.com.kw

Independent auditors' report

To the Shareholders of
First Takaful Insurance Company – KPSC
Kuwait

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of First Takaful Insurance Company - KPSC ("Parent Company") and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other 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 financial position of the Group as at 31 December 2016, 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.

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 period. 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. We have determined the matters described below as the key audit matters.

Investments in associates

The investment in associates which represents 87% of the group's total assets are accounted for under the equity method of accounting and considered for any impairment in case of indication of impairment. The investment in associates is significant to our audit to the Group's share of results in the associates and the carrying value of these associates. In addition, the management to assess impairment of investment in associates uses judgment and estimates. Accordingly, we considered this as a key audit matter.

In our audit procedures, we evaluated management's considerations of the impairment indicators of investment in associates. In Such consideration, we assessed whether any significant or prolonged decline in value exists, significant adverse changes in the

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Independent auditors' report (continued)

insurance, market economic, or legal environment in which the investee operates, structural changes in the industry in which the investee operates, changes in the political or legal environment affecting the investee's business and changes in the investee's financial condition.

The disclosure relating to associates are given in note 12 of the consolidated financial statements.

Other information

Management is responsible for the other information.
Our opinion on the consolidated financial statements does not cover the other accompanying information and we do 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 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, 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.

Auditors' 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 auditors' 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 on the basis of these consolidated financial statements.

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Independent auditors' report (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 the purpose of 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 auditors' 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 auditors' 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.

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 company 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 period and are therefore the key audit matters. We describe these matters in our auditors' 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 (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 and its Executive Regulations, 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, the Executive Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business or financial position of the Parent Company.

We further report that, during the course of our audit and to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law 7 of 2010, as amended, relating to the Capital Markets Authority and its related regulations during the year ended 31 December 2016 that might have had a material effect on the business or financial position of the Parent Company.

Anwar Y. Al-Qatami, F.C.C.A.
(Licence No. 50-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Hend Abdullah Al Surayea
(Licence No. 141-A)
Hend Abdullah Al Surayea & Co.
Member of MAZARS

Consolidated statement of profit or loss

	Notes	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Revenue			
Net investment income	8	**317,961**	43,491
Share of results of associates	12	**3,389,337**	(257,795)
Net policyholders' insurance deficit transferred to shareholders	19.8	**(1,809,343)**	(560,962)
		1,897,955	(775,266)
Expenses and other charges			
General and administrative expenses		**(69,818)**	(57,084)
Impairment of available for sale investments	11	**(703,325)**	-
		(773,143)	(57,084)
Profit /(loss)before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat		**1,124,812**	(832,350)
Provision for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		**(2,632)**	-
Provision for National Labour Support Tax (NLST)		**(28,120)**	-
Provision for Zakat		**(10,870)**	-
Profit /(loss) for the year		**1,083,190**	(832,350)
Basic and diluted earnings /(loss) per share	9	**10.16 Fils**	(8.50) Fils

The notes set out on pages 41 to 77 form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Profit/(loss) for the year	**1,083,190**	(832,350)
Other comprehensive loss:		
Items that will be reclassified subsequently to the statement of profit or loss:		
Available for sale investments:		
- Net change in fair value arising during the year	**(794,568)**	260,927
- Transferred to consolidated statement of profit or loss on sale	**(274,118)**	-
- Transferred to consolidated statement of profit or loss on impairment	**703,325**	-
Exchange differences arising on translation of foreign operations	**(1,012,983)**	(415,837)
Total other comprehensive loss	**(1,378,344)**	(154,910)
Total comprehensive loss for the year	**(295,154)**	(987,260)

The notes set out on pages 41 to 77 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Notes	31 Dec. 2016 KD	31 Dec. 2015 KD
Assets			
Bank balance		**4,297**	1,448
Investment deposit	10	**135,000**	135,000
Available for sale investments	11	**599,452**	2,559,369
Investment in associates	12	**12,643,260**	10,133,094
Other assets		**5,410**	5,149
Qard Hassan to policyholders' fund	13	**1,200,791**	-
Total assets		**14,588,210**	12,834,060
Equity and liabilities			
Equity			
Share capital	14	**10,660,000**	10,660,000
Legal reserve	15	**29,246**	-
Other components of equity	16	**(1,500,067)**	(121,723)
Retained earnings /(accumulated losses)		**221,594**	(832,350)
Total equity		**9,410,773**	9,705,927
Liabilities			
Policyholders' deficit reserve	13	**1,200,791**	-
Amount due to policyholders	17	**3,871,789**	3,068,470
Other liabilities		**104,857**	59,663
Total liabilities		**5,177,437**	3,128,133
Total equity and liabilities		**14,588,210**	12,834,060

Laila Abdul Karim Al-Ibrahim
Chairperson

Saleh Saleh Al-Selmi
Vice Chairman

The notes set out on pages 41 to 77 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Share capital KD	Legal reserve KD	Other components of equity (Note 16) KD	(Accumulated losses)/ retained earnings KD	Total KD
Balance at 1 January 2016	**10,660,000**	**-**	**(121,723)**	**(832,350)**	**9,705,927**
Profit for the year	-	-	-	1,083,190	1,083,190
Total other comprehensive loss	-	-	(1,378,344)	-	(1,378,344)
Total comprehensive (loss)/income for the year	-	-	(1,378,344)	1,083,190	(295,154)
Transfer to reserve	-	29,246	-	(29,246)	-
Balance at 31 December 2016	**10,660,000**	**29,246**	**(1,500,067)**	**221,594**	**9,410,773**
Balance at 1 January 2015	10,000,000	842,836	33,187	(9,870,749)	1,005,274
Write off of accumulated losses	(9,027,913)	(842,836)	-	9,870,749	-
Share capital increase	9,687,913	-	-	-	9,687,913
Transactions with owners	660,000	(842,836)	-	9,870,749	9,687,913
Loss for the year	-	-	-	(832,350)	(832,350)
Total other comprehensive loss	-	-	(154,910)	-	(154,910)
Total comprehensive loss for the year	-	-	(154,910)	(832,350)	(987,260)
Balance at 31 December 2015	10,660,000	-	(121,723)	(832,350)	9,705,927

The notes set out on pages 41 to 77 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
OPERATING ACTIVITIES		
Profit/(loss) for the year	**1,083,190**	(832,350)
Adjustments for:		
Net investment income	**(317,961)**	(43,491)
Net policyholders' insurance deficit transferred to shareholders	**1,809,343**	560,962
Impairment of available for sale investments	**703,325**	-
Share of results of associates	**(3,389,337)**	257,795
	(111,440)	(57,084)
Changes in operating assets and liabilities:		
Other assets	**-**	3,208
Movement in policyholders' account	**125,535**	30,613
Other liabilities	**45,194**	221
Net cash from/(used in) operating activities	**59,289**	(23,042)
INVESTING ACTIVITIES		
Increase in investment in associate	**(133,812)**	(20,449)
Proceeds from sale of available for sale investments	**36,379**	-
Dividend income received	**37,829**	40,705
Profit on investment deposit received	**3,164**	2,786
Net cash (used in)/ from investing activities	**(56,440)**	23,042
Increase in cash and cash equivalents	**2,849**	-
Cash and cash equivalents at the beginning of the year	**1,448**	1,448
Cash and cash equivalents at the end of the year	**4,297**	1,448
Non-cash transactions		
Investment in associate	**-**	(9,687,913)
Share capital	**-**	9,687,913

The notes set out on pages 41 to 77 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Incorporation and activities

First Takaful Insurance Company -KSC (Public) was incorporated on 25 July 2000 and is registered under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments and is the group's parent company ('parent company'). Its shares are listed on the Kuwait Stock Exchange.

The group comprises the parent company and its 98% owned subsidiary, First Kuwait Insurance Brokerage Company-WLL, a Kuwaiti limited liability company (see note 7).

The parent company is a subsidiary of International Financial Advisors Company-KPSC (ultimate parent company).

The parent company is engaged in:

- Carrying out all types of insurance takaful activities (co-operative insurance) and related activities, including insurance and reinsurance.
- Investing the funds available to the parent company in various activities that are commensurate with the parent company's objectives and not in conflict with the provisions of the Islamic Sharee'a and the established rules and regulations.
- Providing insurance and reinsurance consultancy and technical studies to companies involved in similar activities.

Investing the contributed funds from policyholders and returns thereon.

Takaful is an Islamic alternative to a conventional insurance and investment program, based on the mutual funds concept, where each policyholder will receive his share in the surplus arising from the insurance activities, in accordance with the parent company's articles of association and the approval of Fatwa and Sharee'a Supervisory Board.

The parent company conducts business on behalf of the policyholders and advances funds to the policyholders' operations as and when required. The shareholders are responsible for liabilities incurred by policyholders in the event the policyholders' fund is in deficit and the operations are liquidated. The parent company holds the physical custody and title of all assets related to the policyholders' and shareholders' operations however such assets and liabilities together with the results of policyholders' lines of business are disclosed in the notes.

The parent company maintains separate books of accounts for policyholders and shareholders. Income and expenses clearly attributable to either activity are recorded in the respective accounts. Management and the board of directors determine the basis of allocation of expenses from joint operations.

All insurance and investment activities are conducted in accordance with Islamic Sharee'a, as approved by Fatwa and Sharee'a Supervisory Board.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and published in the Official Gazette on 1 February 2016 which cancelled Law No. 25 of 2012 and its amendments thereto, as stipulated in article (5) thereto. The new Law will be effective retrospectively from 26 November 2012.The executive regulations of Law No. 1 of 2016 issued on 12 July 2016.

The address of the parent company's registered office is PO Box 5713, Safat 13058, State of Kuwait.

The board of directors of the parent's company approved these consolidated financial statements for issue on 9 March 2017 and are subject to the approval of the General Assembly of the Shareholders.

2. Basis of preparation

The consolidated financial statements of the group have been prepared under historical cost convention except for financial assets available for sale that have been measured at fair value.
The consolidated financial statements have been presented in Kuwaiti Dinars ("KD") which is the functional and presentation currency of the parent company.

Notes to the consolidated financial statements (continued)

3. Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

4. Changes in accounting policies

4.1 New and amended standards adopted by the group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2016 which have been adopted by the group but did not have any significant impact on the financial position or the results for the year. Information on these new standards is presented below:

Standard or Interpretation	*Effective for annual periods beginning*
IAS 1 'Disclosure Initiative – Amendments	1 January 2016
IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments	1 January 2016
IAS 27 Equity Method in Separate Financial Statements - Amendments	1 January 2016

IAS 1 Disclosure Initiative – Amendments

The Amendments to IAS 1 make the following changes:

- **Materiality:** The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.
- **Statement of financial position and statement of profit or loss and other comprehensive income:** The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.
- **Notes:** The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets address the following matters:

- a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment
- an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is generally inappropriate except for limited circumstances
- expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

IAS 27 Equity Method in Separate Financial Statements - Amendments

The Amendments to IAS 27 Separate Financial Statements permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Notes to the consolidated financial statements (continued)

4. Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group.

Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's consolidated financial statements.

Standard or Interpretation	*Effective for annual periods beginning*
IAS 7 Statement of Cash Flows- Amendments	1 January 2017
IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments	No stated date
IFRS 4 and IFRS 9 – Amendments	1 January 2018
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018

IAS 7 Statement of Cash Flows- Amendments

The Amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and noncash changes).

The Amendments:

require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement.

- suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
- changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses
- a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations).
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

IASB has postponed the effective date indefinitely until other projects are completed. However, early implementation is allowed.

Notes to the consolidated financial statements (continued)

4. Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IAS 7 Statement of Cash Flows- Amendments (continued)

IFRS 4 and IFRS 9 - Amendments

The Amendments provide entities that issue insurance contracts with temporary accounting solutions for the practical challenges of implementing IFRS 9 before the forthcoming new Insurance Contracts Standard.

IFRS 9 Financial Instruments

The IASB published IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

- the classification and measurement of the financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed.
- an expected credit loss-based impairment will need to be recognised on the trade receivables and investments in debt-type assets currently classified as available for sale and held-to-maturity, unless classified as at fair value through profit or loss in accordance with the new criteria.
- it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss unless the group makes an irrevocable designation to present them in other comprehensive income. This will affect the group's investments amounting to KD450,031 (see note 19.4) if still held on 1 January 2018.
- if the fair value option continues to be elected for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to own credit risk.

5. Significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below.

5.1 Basis of consolidation

The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of the subsidiary are prepared for reporting dates which are typically not more than three months from that of the parent company, using consistent accounting policies. Adjustments are made for the effect of any significant transactions or events that occur between that date and the reporting date of the parent company's financial statements.

All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective.

Amounts reported in the financial statements of subsidiary have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the group. The group attributes total comprehensive income or loss of subsidiary between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Notes to the consolidated financial statements (continued)

5. Significant accounting policies (continued)

5.1 Basis of consolidation

When a controlling interest in the subsidiary is disposed off, the difference between the selling price and the net asset value plus cumulative translation difference and goodwill is recognised in the consolidated statement of profit or loss.

Changes in the group's ownership interests in subsidiary that do not result in the group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent company.

5.2 Business combinations

The group applies the acquisition method in accounting for business combinations. The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

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

The group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

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.

Goodwill is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in the consolidated statement of profit or loss immediately.

5.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when payment is made.

The group applies the revenue recognition criteria set out below to each separately identifiable component of revenue.

5.3.1 Income from investment deposit

Income from investment deposit is recognised on a time proportion basis taking account of the principal outstanding and profit rate applicable.

5.3.2 Dividend income

Dividend income, other than those from associates, are recognised at the time the right to receive payment is established.

Notes to the consolidated financial statements (continued)

5. Significant accounting policies (continued)

5.4 Operating expenses

Operating expenses are recognised in the consolidated statement of profit or loss upon utilisation of the service or at the date of their origin.

5.5 Taxation

5.5.1 Kuwait Foundation for the Advancement of Sciences (KFAS)

The contribution to KFAS is calculated at 1% of taxable profit of the parent company in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

5.5.2 National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the parent company after deducting directors' fees for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

5.5.3 Zakat

Contribution to Zakat is calculated at 1% of the profit of the parent company in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

5.6 Financial instruments

5.6.1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value.

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

- rights to receive cash flows from the assets have expired;
- 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 risks and rewards of the asset but has transferred control of the asset.

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

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

Notes to the consolidated financial statements (continued)

5. Significant accounting policies (continued)

5.6 Financial instruments (continued)

5.6.2 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables
- available-for-sale (AFS) financial assets.

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

• *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

The group categorises loans and receivables into following category:

Cash and cash equivalents and investment deposit

Cash and cash equivalents comprise bank balance and investment deposit which are subject to an insignificant risk of changes in value.

• *AFS financial assets*

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in consolidated statement of profit or loss. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in consolidated statement of profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to consolidated statement of profit or loss and presented as a reclassification adjustment within other comprehensive income.

The group assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale 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 equity investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in the consolidated statement of profit or loss.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in consolidated statement of profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

Notes to the consolidated financial statements (continued)

5. Significant accounting policies (continued)

5.6 Financial instruments (continued)

5.6.3 Classification and subsequent measurement of financial liabilities

The group's financial liabilities include other liabilities and amount due to policyholders.

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

Other liabilities

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

Amount due to policyholders

Amount due as a result of transactions with policyholders and cash advances from policyholders are included under amount due to policyholders.

5.7 Investment in associates

Associates are those entities over which the group is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the group's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognise the group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the group.

Unrealised gains and losses on transactions between the group and its' associates are eliminated to the extent of the group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

The difference in reporting dates of the associates and the group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the group's consolidated financial statements. The associate's accounting policies conform to those used by the group for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the group measures and recognises any retaining investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in the consolidated statement of profit or loss.

5.8 Goodwill

Goodwill represents the excess of the cost of an acquisition over the group's share of the fair value of the net identifiable assets of the acquired associate as at the date of the acquisition. Goodwill arising on the acquisition of an associate is included within the carrying amount of the investment. Any excess, at the date of acquisition, of the group's share in the fair value of the net identifiable assets acquired over the cost of the acquisition is recognised as negative goodwill.

Goodwill is stated at cost less impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the consolidated statement of profit or loss.

5.9 Qard Hassan to policyholders

Qard Hassan represents non-profit Islamic financing provided by the shareholders to the policyholders with respect to the deficit arising from the takaful operations which will be settled from the surplus arising from such business in future years.

Notes to the consolidated financial statements (continued)

5. Significant accounting policies (continued)

5.10 Trade and settlement date accounting
All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

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

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 23.

5.13 Impairment testing of non financial assets
An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

5.14 Equity, reserves and dividend payments
Share capital represents the nominal value of shares that have been issued and paid up.
Legal reserve comprises appropriations of current and prior period profits in accordance with the requirements of the companies' law and the parent company's articles of association.

Other components of equity include the following:
- foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the group's foreign associates into Kuwait Dinars.
- Fair value reserve – comprises gains and losses relating to available for sale financial assets.

Retained earnings/(accumulated losses) include all current and prior period retained profits and losses. All transactions with owners of the parent company are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting.

Notes to the consolidated financial statements (continued)

5. Significant accounting policies (continued)

5.15 Related party transactions

Related parties consist of directors, executive officers, their close family members and companies which they are principal owners. All related party transactions are approved by management.

5.16 Foreign currency translation

5.16.1 Functional and presentation currency

Each entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

5.16.2 Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the respective company entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in consolidated statement of profit or loss.
Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

5.16.3 Foreign operations

In the group's consolidated financial statements, all assets, liabilities and transactions of foreign entities with a functional currency other than the KD are translated into KD. The functional currency of the foreign entities has remained unchanged during the reporting period.

Assets and liabilities have been translated into KD at the closing rate at the reporting date. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to consolidated statement of profit or loss and are recognised as part of the gain or loss on disposal.

5.17 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Notes to the consolidated financial statements (continued)

6. Significant management judgements and estimation uncertainty

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

6.1 Significant management judgments

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

6.1.1 Classification of financial instruments

Judgements are made in the classification of financial instruments based on management's intention at acquisition.
The group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.
Classification of financial assets as fair value through profit or loss depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of statement of income in the management accounts, they are classified as fair value through profit or loss.
Classification of assets as loans and receivables depends on the nature of the asset. If the group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.
All other financial assets are classified as available for sale.

6.1.2 Control assessment

When determining control, management considers whether the group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgement.

6.2 Estimates uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

6.2.1 Impairment of available for sale equity investments

The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

6.2.2 Impairment of associates

After application of the equity method, the group determines whether it is necessary to recognise any impairment loss on the group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in associate is impaired. If this is the case the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of profit or loss.

6.2.3 Fair value of financial instruments

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 23).

Notes to the consolidated financial statements (continued)

7. Subsidiary

Name of subsidiary	Percentage ownership		Country of incorporation	Principal activities
	31 Dec. 2016 %	31 Dec. 2015 %		
First Kuwait Insurance Brokerage Company -WLL	**98%**	98%	Kuwait	Insurance brokerage

8. Net investment income

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Gain on sale of available for sale investments – (note 11)	**276,968**	-
Dividend income	**37,829**	40,705
Profit on investment deposit (see note 10)	**3,164**	2,786
	317,961	43,491

9. Basic and diluted earnings/(loss) per share

Basic and diluted earnings/(loss) per share is computed by dividing the profit/(loss) for the year by the weighted average number of shares outstanding during the year as follows:

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
Profit/(loss) for the year (KD)	**1,083,190**	(832,350)
Weighted average number of shares outstanding during the year (number)	**106,660,000**	98,383,988
Basic and diluted earnings/(loss) per share	**10.16 Fils**	(8.50) Fils

10. Investment deposit

In accordance with Kuwait law (Takaful insurance operations licence), an amount of KD135,000 (31 December 2015: KD135,000) has been deposited with a Kuwaiti financial institution as security to underwrite general insurance and life insurance business (also refer to note 19). The average rate of profit earned on the deposit during the year was 2.150% (31 December 2015: 1.962%).

11. Available for sale investments

	31 Dec. 2016 KD	31 Dec. 2015 KD
Quoted securities	**3**	3
Unquoted securities	**599,449**	2,559,366
	599,452	2,559,369

Notes to the consolidated financial statements (continued)

11. Available for sale investments (continued)

During the year, the group's shareholders sold their investment in Rasameel Financial Structure Company-KSC (Closed) which was included in in unquoted securities to policyholders' for total consideration of KD1,131,559 resulting in a profit of KD274,118 recognised in the consolidated statement of profit or loss for the year (note 8).
The group recognised impairment loss of KD703,325 (31 December 2015: KD nil) in respect of certain available for sale investments.

12. Investment in associates

12.1 Details of the investment in associates are given below:

Name	Country of incorporation	Voting capital and ownership interest		Purpose
		31 Dec. 2016 %	31 Dec. 2015 %	
Weqaya Takaful Insurance and Reinsurance Company – SSC ("Weqaya") (Quoted)	Saudi Arabia	**20**	20	Insurance
Neova Sigorta Insurance Company (Unquoted)	Turkey	**35**	35	Insurance

Movement in the carrying amount of investment in associates is as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Carrying amount at the beginning of the year	**10,133,094**	1,098,364
Additions (note 12.2-b)	**133,812**	9,708,362
Share of results of associates	**3,389,337**	(257,795)
Foreign exchange translation adjustments – note 16	**(1,012,983)**	(415,837)
Carrying amount at the end of year	**12,643,260**	10,133,094

12.2 Summarised financial information of group associates are set out below:

a) Weqaya Takaful Insurance and Reinsurance Company - SSC (Quoted):

The group has discounted to recognise its share of further losses of Waqaya Takaful Insurance and Reinsurance Company with carrying value of KD1 from 1 April 2014 in accordance with IAS 28. The group's share of unrecognised losses of the associate of its fair value as at 31 December 2016 cannot be determined because the investee company shares have been suspended from trading since 3 June 2014. If the investee company subsequently report profits, the group will resume recognising its share of these profits only after its share of the profits equal the share of losses not recognised.

b) Neova Sigorta Insurance Company (Unquoted):

	31 Dec. 2016 KD	31 Dec. 2015 KD
Non-current assets	**1,052,915**	501,358
Current assets	**100,672,249**	61,258,686
Total assets	**101,725,164**	61,760,044
Non-current liabilities	**(2,356,728)**	(441,981)
Current liabilities	**(84,077,308)**	(53,198,841)
Total liabilities	**(86,434,036)**	(53,640,822)
Net assets	**15,291,128**	8,119,222

Notes to the consolidated financial statements (continued)

12. Investment in associates (continued)

12.2 Summarised financial information of group associates are set out below: (continued)

b) Neova Sigorta Insurance Company (Unquoted): (continued)

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Revenue	**66,399,226**	44,708,252
Profit/(loss) for the year	**9,683,819**	(1,346,642)
Total comprehensive income/(loss) for the year	**1,437,353**	(3,854,952)

Reconciliation of the above summarised financial information of the associate with the carrying amount in the statement of financial position is give below:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Group's ownership interest (%)	**35**	35
Net assets of the associate	**15,291,128**	8,119,222
Group's share of net assets	**5,351,895**	2,841,729
Goodwill	**7,291,365**	7,291,365
Carrying amount	**12,643,260**	10,133,094

Additions in the carrying value of associate amounting to KD133,812 (31 December 2015: KD20,449) represents capital call for Neova.

Neova Sigorta Insurance Company is a private company therefore, no quoted market price is avaiable for its share. No divided was received from the associates.

13. Qard Hassan to policyholders' fund and deficit reserve

In accordance with the articles of association, policyholders' net deficit from insurance operations has been covered by "Qard Hassan" from the shareholders. The Qard Hassan given by shareholders will be settled through surplus arising from the insurance operations in future years.

	31 Dec. 2016 KD	31 Dec. 2015 KD
Opening balance	**-**	-
Increase in Qard Hassan to policyholders – (note 19.8)	**1,200,791**	-
Ending balance	**1,200,791**	-

14. Share capital

	31 Dec. 2016 KD	31 Dec. 2015 KD
Authorised: shares of 100 Kuwaiti Fils each	**10,760,000**	10,760,000
Issued and fully paid: shares of 100 Kuwaiti Fils each	**10,660,000**	10,660,000

Notes to the consolidated financial statements (continued)

15. Legal reserve

The Companies Law and the parent company's articles of association require that 10% of the profit for the year before KFAS, NLST and Zakat is transferred to the legal reserve. The shareholders of the parent company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

Distribution of legal reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

No transfer is required in a year when losses are incurred or where cumulative losses exist.

16. Other components of equity

	Fair value reserve KD	Foreign currency translation reserve KD	Total KD
Balance at 1 January 2016	**812,965**	**(934,688)**	**(121,723)**
Available for sale investments:			
- Net change in fair value arising during the year	**(794,568)**	**-**	**(794,568)**
- Transferred to consolidated statement of profit or loss on sale	**(274,118)**	**-**	**(274,118)**
- Transferred to consolidated statement of profit or loss on impairment	**703,325**	**-**	**703,325**
Exchange differences arising on translation of foreign operations (note 12)	**-**	**(1,012,983)**	**(1,012,983)**
Total other comprehensive loss for the year	**(365,361)**	**(1,012,983)**	**(1,378,344)**
Balance at 31 December 2016	**447,604**	**(1,947,671)**	**(1,500,067)**
Balance at 1 January 2015	552,038	(518,851)	33,187
Available for sale investments:			
- Net change in fair value arising during the year	260,927	-	260,927
Exchange differences arising on translation of foreign operations (note 12)	-	(415,837)	(415,837)
Total other comprehensive income/(loss) for the year	260,927	(415,837)	(154,910)
Balance at 31 December 2015	812,965	(934,688)	(121,723)

17. Amount due to policyholders

	31 Dec. 2016 KD	31 Dec. 2015 KD
Opening balance	**3,068,470**	2,476,895
Net movements during the year	**(1,006,024)**	30,613
Policyholders insurance deficit transferred to shareholders – note 19.8	**1,809,343**	560,962
Closing balance	**3,871,789**	3,068,470

Net movements in policyholders' account represent the net fund transfers from and to their account including buying and selling shares on their behalf during the year.

Notes to the consolidated financial statements (continued)

18. Annual General Assembly of the Shareholders

The directors did not propose dividend for the year ended 31 December 2016. This proposal is subject to the approval of the parent company's shareholders at the Annual General Assembly.

The Annual General Assembly of the Shareholders held on 14 April 2016 approved the consolidated financial statements of the group for the year ended 31 December 2015 and approved the directors' proposal not to distribute any dividend for the year ended 31 December 2015.

19. Consolidated policyholders' results by line of business and fund

The significant accounting policies used in accounting for the insurance business are set out below. Policies used in accounting for other accounts and transactions are the same as those adopted by the group.

Revenue recognition

Premiums earned

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of net written premiums relating to the unexpired period of coverage that extend beyond the end of the financial year; they are calculated based on a time apportionment basis over the exposure to policies.

Policy issuance fees and policy acquisition costs

Policy issuance fees and policy acquisition costs are recognised at the time of recognition of the related premium.

Reinsurance

In the normal course of business, the group cedes and assumes certain levels of risk in various areas of exposure with other insurance companies or reinsurers. Such reinsurance includes quota share, excess of loss, facultative and other forms of reinsurance on essentially all lines of business.

Reinsurance ceded or assumed are deducted from gross premium to arrive at net premium.

Claims

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

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

Liability adequacy test

At each financial position 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 the light of estimated future cash flows, the entire deficiency is immediately recognised in the consolidated statement of policyholders' results and an unexpired risk provision 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 financial position date.

Notes to the consolidated financial statements (continued)

19. Consolidated policyholders' results by line of business and fund (continued)

Premium and reinsurance receivables
Receivables are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debt is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Equipment
Equipment are initially recognised at acquisition cost including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the group's management.

Equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of equipment. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of equipment.
The following useful lives are applied:
- Equipment: 4 years
- Vehicles: 3 years

Material residual value estimates and estimates of useful life are updated as required, but at least annually.
When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of policyholders' results.

Life mathematical reserve
The provision for life contracts is calculated on the basis of an actuarial valuation method.

Additional reserve
The additional reserve includes amounts reserved for claims Incurred But Not Reported ("IBNR") at the financial position date in addition to other contingencies and any differences that may arise. Provision based on management's judgement and the group's prior experience is maintained for the cost of settling claims incurred but not reported at the financial position date.

Provision for employees' end of service benefits
The group provides end of service benefits to 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 in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date.
With respect to its Kuwaiti national employees, the group makes contributions to the 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.

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

Impairment of premiums receivable
An estimate of the collectible amount of premiums receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

Notes to the consolidated financial statements (continued)

19. Consolidated policyholders' results by line of business and fund (continued)

Estimation uncertainty (continued)

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

Provision for outstanding claims and IBNR

Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts.

Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible if significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The group generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

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.

The consolidated policyholders' results by line of business and assets and liabilities were as follows:
Consolidated policyholders' results by line of business:

Year ended 31 December 2016:	Marine and aviation KD	General accident KD	Motor vehicles KD	Fire KD	Life KD	Total KD
Premiums written	341,974	1,195,828	5,001,067	762,492	1,827,219	9,128,580
Less: reinsurance ceded	(273,111)	(634,251)	(434,968)	(569,355)	(555,218)	(2,466,903)
Net premiums	68,863	561,577	4,566,099	193,137	1,272,001	6,661,677
Movement in unearned premiums	(1,621)	(10,769)	560,556	5,701	(220,492)	333,375
Net premiums earned	67,242	550,808	5,126,655	198,838	1,051,509	6,995,052
Policy issuance fees	2,617	2,367	381,982	1,284	15,598	403,848
Total revenues	69,859	553,175	5,508,637	200,122	1,067,107	7,398,900
Claims incurred	(15,902)	(198,532)	(5,743,097)	813	(895,463)	(6,852,181)
Movement in life mathematical reserve	-	-	-	-	6,000	6,000
Other insurance expenses	(3,059)	(5,617)	(91,667)	(12,475)	(86,352)	(199,170)
Policy acquisition costs	(16,195)	(86,629)	(1,359,670)	(56,296)	(68,893)	(1,587,683)
Total expenses	(35,156)	(290,778)	(7,194,434)	(67,958)	(1,044,708)	(8,633,034)
Surplus/(deficit) by line of business	34,703	262,397	(1,685,797)	132,164	22,399	(1,234,134)
Allocation of general and administrative expenses	(176,183)	(278,370)	(730,846)	(199,742)	(454,815)	(1,839,956)
Net deficit from insurance operations	(141,480)	(15,973)	(2,416,643)	(67,578)	(432,416)	(3,074,090)
Investment and other income (note 19.1)	3,198	9,593	31,978	6,396	12,791	63,956
Net deficit from insurance operations	(138,282)	(6,380)	(2,384,665)	(61,182)	(419,625)	(3,010,134)

Notes to the consolidated financial statements (continued)

19. Consolidated policyholders' results by line of business and fund (continued)

Estimation uncertainty (continued)

Reinsurance (continued)

Year ended 31 December 2015:	Marine and aviation KD	General accident KD	Motor vehicles KD	Fire KD	Life KD	Total KD
Premiums written	252,931	1,053,117	6,585,201	802,754	1,710,105	10,404,108
Less: reinsurance ceded	(170,061)	(558,451)	(501,214)	(592,564)	(833,729)	(2,656,019)
Net premiums	82,870	494,666	6,083,987	210,190	876,376	7,748,089
Movement in unearned premiums	21,257	12,462	(17,210)	305	(43,131)	(26,317)
Net premiums earned	104,127	507,128	6,066,777	210,495	833,245	7,721,772
Policy issuance fees	3,088	2,507	354,924	1,162	7,110	368,791
Total revenues	**107,215**	**509,635**	**6,421,701**	**211,657**	**840,355**	**8,090,563**
Claims incurred	751	(171,364)	(3,893,217)	(4,052)	(406,877)	(4,474,759)
Movement in life mathematical reserve	-	-	-	-	5,000	5,000
Other insurance expenses	(5,262)	(4,349)	(82,987)	(14,001)	(88,297)	(194,896)
Policy acquisition costs	(14,581)	(101,708)	(1,990,807)	(59,112)	(76,670)	(2,242,878)
Total expenses	**(19,092)**	**(277,421)**	**(5,967,011)**	**(77,165)**	**(566,844)**	**(6,907,533)**
Surplus by line of business	88,123	232,214	454,690	134,492	273,511	1,183,030
Allocation of general and administrative expenses	(196,813)	(266,130)	(752,165)	(191,380)	(472,985)	(1,879,473)
Net deficit from insurance operations	(108,690)	(33,916)	(297,475)	(56,888)	(199,474)	(696,443)
Investment and other income(note 19.1)	6,774	20,322	67,740	13,549	27,096	135,481
Net deficit from insurance operations	**(101,916)**	**(13,594)**	**(229,735)**	**(43,339)**	**(172,378)**	**(560,962)**

Consolidated policyholders' assets, liabilities and fund:

	Notes	**31 Dec. 2016 KD**	31 Dec. 2015 KD
Assets			
Cash and bank balances		**240,343**	341,561
Premiums receivable	19.2	**1,053,429**	1,205,660
Accounts receivable and other assets	19.3	**1,552,073**	1,952,813
Available for sale investments	19.4	**1,581,593**	450,034
Investment deposits	19.5	**1,218,395**	1,235,745
Amount due from shareholders	17	**3,871,789**	3,068,470
Reinsurance recoverable on outstanding claims		**2,773,027**	3,849,856
Equipment		**117,527**	126,711
Total assets		**12,408,176**	12,230,850

Notes to the consolidated financial statements (continued)

19. Consolidated policyholders' results by line of business and fund (continued)

Consolidated policyholders' assets, liabilities and fund: (continued)

	Notes	31 Dec. 2016 KD	31 Dec. 2015 KD
Liabilities			
Reinsurance balances payable		1,718,944	1,465,105
Unearned premiums (net)		2,626,690	2,960,066
Outstanding claims reserve (gross)		4,846,881	4,117,384
Life mathematical reserve (net)		76,286	82,286
Additional reserve (net)	19.6	-	1,166,000
Reserve retained on reinsurance business		300,353	304,657
Other liabilities	19.7	4,039,813	2,135,352
Total liabilities		13,608,967	12,230,850
Policyholders' fund			
Net deficit for policyholders		-	-
Net deficit from insurance operations for the year		(3,010,134)	(560,962)
Net deficit from insurance operations transferred to shareholders		1,809,343	560,962
Total policyholders' fund	19.8	(1,200,791)	-
Total liabilities and policyholders' fund		12,408,176	12,230,850

19.1 Investment and other income:

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Investment income	63,956	18,116
Other income	-	117,365
	63,956	135,481

19.2 Premiums receivable:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Premiums receivable	1,187,277	1,339,508
Provision for doubtful debts	(133,848)	(133,848)
	1,053,429	1,205,660

The carrying values of the financial assets included above approximate their fair values and all of these are due within one year, such that the effect of any difference between the effective interest applied and the estimated current market is not significant.

Premiums receivable are not interest bearing and generally on 30 – 180 days terms.

Notes to the consolidated financial statements (continued)

19. Consolidated policyholders' results by line of business and fund (continued)

19.2 Premiums receivable: (continued)

As at 31 December, the movement in the provision for doubtful debts is as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Balance at 1 January	133,848	160,000
Reversal of provision no longer required	-	(26,152)
Balance at 31 December	133,848	133,848

As at 31 December the aging analysis of premiums receivable is as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Less than 3 months	468,367	665,717
3 – 6 months	165,575	112,798
6 – 12 months	169,293	167,860
12 – 24 months	202,095	208,932
over 24 months	181,947	184,201
Total premiums receivable	1,187,277	1,339,508

19.3 Accounts receivable and other assets:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Reinsurance receivable	1,219,883	1,454,164
Cheques under collection	218,291	389,852
Accrued income	26,641	23,185
Other assets	87,258	85,612
	1,552,073	1,952,813

The carrying values of the financial assets included above approximate their fair values and all of these are due within one year, such that the effect of any difference between the effective interest applied and the estimated current market is not significant.
Reinsurance balances receivable are non interest bearing and generally on 30-180 days terms.

As at 31 December the aging analysis of reinsurance balances receivable is as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Less than 3 months	344,615	491,814
3 – 6 months	50,288	160,504
6 – 12 months	252,799	346,894
12 – 24 months	384,583	128,254
over 24 months	187,598	326,698
Total reinsurance balances receivable	1,219,883	1,454,164

Notes to the consolidated financial statements (continued)

19. Consolidated policyholders' results by line of business and fund (continued)

19.4 Available for sale investments:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Quoted securities	3	3
Local unquoted securities	1,131,559	-
Foreign unquoted securities	450,031	450,031
	1,581,593	450,034

Unquoted investment with carrying value of KD 1,131,559 is held as security in order of the Minister of Commerce and Industry in accordance with the Ministerial Order No. 27 of 1966 and its amendments.

Foreign unquoted securities include investments amounting to KD450,031 (31 December 2015: KD450,031) stated at cost less impairment due to the unpredictable nature of future cash flows and the unavailability of other financial information to arrive at a reliable measure of fair value. Management has performed an analysis of the underlying investments which indicates that there is no impairment.

19.5 Investment deposits:

In accordance with Kuwaiti law, an amount of KD1,218,395 (31 December 2015: KD1,235,745) should be retained in a investment deposit with a Kuwaiti financial institution. The effective profit rate on the deposits during the year was 2.186% (31 December 2015: 1.962%).

19.6 Additional reserve:

The additional reserve includes amounts reserved for claims incurred but not reported for third party liabilities policies at the financial position date in addition to other contingencies and any differences that may arise. Provision was based on management's judgment and the group's prior experience at the financial position date.

In year 2016 the management decided that this provision is no longer required which was included within total balance of outstanding claim reserve in addition to claims which were recorded an incurred but not reported reserve, also the provision was reconciled with Reinsurance recoverable on outstanding claims.

19.7 Other liabilities:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Reinsurance payables	761,262	577,074
Garages and agencies	1,164,430	594,249
Brokerage commissions	789,806	208,025
Provision for employees' end of service benefits	327,753	331,265
Provision for staff leave	145,072	160,290
Accrued expenses	287,254	177,626
Due to related party	450,000	-
Other liabilities	114,236	86,823
	4,039,813	2,135,352

Notes to the consolidated financial statements (continued)

19. Consolidated policyholders' results by line of business and fund (continued)

19.8 Movement in policyholders' fund:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Balance at beginning of the year	-	(28,193)
Net deficit from insurance operations for the year	(3,010,134)	(560,962)
Net deficit from insurance operations transferred to shareholders	1,809,343	560,962
Available for sale investments:		
- Net change in fair value arising during the year	-	28,193
Balance at the end of the year	(1,200,791)	-

The parent company's board of directors agreed to transfer an amount of KD1,809,343 as of 30 September 2016 from the total policyholders net deficit from insurance operations for the year ended 31 December 2016 (31 December 2015:KD560,962) to the shareholders and the remaining balance amounting to KD1,200,791 covered by Qard Hassan from shareholders (note 13) under the parent company's board of directors' resolution issued on 9 March 2017.

20. Related party transactions

Related parties represent associates, major shareholders, directors and key management personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the group's management. Transactions between the parent company and its subsidiary which are related parties of the parent company have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below.

	31 Dec. 2016 KD	31 Dec. 2015 KD
SHAREHOLDERS		
Consolidated statement of financial position:		
Bank balance	4,297	1,448
Investment deposit	135,000	135,000
Profit on investment deposits (included in other assets)	2,910	2,649
Consolidated statement of profit or loss:		
Profit on investment deposit	3,164	2,786
Key management compensation:		
Salaries and other short term benefits	51,709	41,579
End of service indemnity	3,013	2,962
	54,722	44,541
POLICYHOLDERS		
Consolidated statement of financial position:		
Bank balances	223,635	276,901
Premiums receivable	41,735	66,444
Investment deposits	1,218,395	1,235,745
Profit on investment deposits (included in accounts receivable and other assets)	26,641	24,290
Other liabilities	82,670	6,667
Due to related party (included in other liabilities)	450,000	-

Notes to the consolidated financial statements (continued)

20. Related party transactions (continued)

	31 Dec. 2016 KD	31 Dec. 2015 KD
Consolidated statement of policyholders' results:		
Premiums written	**182,814**	254,576
Profit on investment deposits	**29,730**	24,290
Consultancy fees	**80,000**	80,000
Rent expense	**29,337**	
Finance charges	**-**	1,695
Key management compensation:		
Salaries and other short term benefits	**155,126**	187,736
End of service indemnity	**9,041**	8,887
	164,167	196,623

21. Contingent liabilities

Contingent liabilities at the financial position date in respect of outstanding letters of guarantee amounted to KD135,000 (31 December 2015: KD 235,000).

22. Risk management objectives and policies

The group's risk and financial management framework is to protect the group's shareholders and policyholders 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 parent company's board of directors are ultimately responsible for establishing an overall risk management function and approving risk strategies and principles.
Law No. 24 of 1961, Law No.13 of 1962 and Decree No. 5 of 1989, and the rules and regulations issued by the Ministry of Commerce provide the regulatory framework for the insurance industry in Kuwait. All insurance companies operating in Kuwait are required to follow these rules and regulations.

1. The following are the key regulations governing the operations 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. A minimum of 40% of the funds are to be in the form of cash deposits in a bank operating in Kuwait
b. A maximum of 25% could be invested in foreign securities (foreign government bonds or foreign securities – bonds and shareholding companies)
c. A maximum of 30% should be invested in Kuwaiti companies' shares or bonds
d. 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 senior management is responsible for monitoring compliance with the above regulation and has a delegated authorities and responsibilities from the board of directors to ensure compliance.

Insurance risk is the risk that actual claims payable to policyholders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims are more than expected.

Notes to the consolidated financial statements (continued)

22. Risk management objectives and policies (continued)

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The group underwrites mainly marine and aviation, fire and general accident, motor and life risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

(1) Non-life insurance contracts

The group principally issues the following types of general insurance contracts: Marine-Cargo, Hull Comprehensive & Third Party Liability, Fire, House-holders Comprehensive, Contractors All Risks, Erection All Risks, Machinery Breakdown, Electronic Equipment, Burglary, Personal Accident, Cash in Transit, Fidelity Guarantee, Plate Glass, Workmen Compensation, Third Party Liability, Professional Indemnity, Bankers Blanket, Travel Assistance, Motor Comprehensive, and Motor Third Party Liability. Healthcare contracts provide medical expense cover to policyholders. 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.

Marine and aviation

For marine insurance the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The group has reinsurance cover to limit losses for any individual claim to KD1,750,000 (31 December 2015: KD1,750,000).

Fire and accident

For property insurance contracts the main risks are fire and business interruption. In recent years the group has only underwritten policies for properties containing fire detection equipment.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The group has reinsurance cover for such damage to limit losses for any individual claim to KD13,000,000 (31 December 2015: KD13,000,000).

Motor

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years the group has primarily underwritten comprehensive polices for owner/drivers over 21 years of age. The group has reinsurance cover to limit losses for any individual claim to KD400,000 (31 December 2015: KD400,000).

The level of court awards for deaths and to injured parties and the replacement costs of, and repairs to motor vehicles are the key factors that influence the level of claims.

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 above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. 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. 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 (e.g hurricanes, earthquakes and flood damages).

Notes to the consolidated financial statements (continued)

22. Risk management objectives and policies (continued)

Motor (continued)

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

	31 Dec. 2016			31 Dec. 2015		
	Gross liabilities	Reinsurers' share of liabilities	Net liabilities	Gross liabilities	Reinsurers' share of liabilities	Net liabilities
	KD	KD	KD	KD	KD	KD
Marine and aviation	303,207	(244,715)	58,492	190,777	(147,833)	42,944
General accident	2,018,732	(1,019,258)	999,474	2,163,944	(1,324,328)	839,616
Motor vehicles	3,298,420	(436,205)	2,862,215	4,198,187	(1,133,256)	3,064,931
Fire	623,887	(549,172)	74,715	658,281	(575,119)	83,162
Total	6,244,246	(2,249,350)	3,994,896	7,211,189	(3,180,536)	4,030,653

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 one-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.

(2) Life insurance contracts

For life insurance the main risks are claims for medical, death or permanent disability.

The underwriting strategy for the life of business is to ensure that policies are well diversified in terms of type of risk and level of insured benefit. This is achieved through the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history.
For healthcare contracts the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

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.

Life insurance contracts offered by the company include company whole life insurance, credit life (banks), and group medical including third party administration (TPA).
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.

Notes to the consolidated financial statements (continued)

22. Risk management objectives and policies (continued)

(2) 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 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 insurance risks described above are also affected by the contract holders' right to pay reduced or no future premiums, to terminate the contract completely. 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 by type of contract.

	31 Dec. 2016			31 Dec. 2015		
	Gross liabilities	Reinsurers' share of liabilities	Net liabilities	Gross liabilities	Reinsurers' share of liabilities	Net liabilities
	KD	KD	KD	KD	KD	KD
Type of contract						
Credit life (Credit insurance)	289,286	(213,000)	76,286	295,286	(213,000)	82,286
Other life insurance contract liabilities	1,229,325	(523,676)	705,649	1,032,262	(669,319)	362,943
Total life insurance contract	1,518,611	(736,676)	781,935	1,327,548	(882,319)	445,229

All life insurance contracts are in Kuwait, the analysis above would not be materially different if based on the countries in which the counterparties are situated.

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

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

Notes to the consolidated financial statements (continued)

22. Risk management objectives and policies (continued)

Financial risks

The group's activities expose it to variety of financial risks: market risk (including currency risk, profit rate risk and equity price risk), credit risk and liquidity risk.

The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The most significant financial risks to which the group is exposed are described below.

22.1 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The group credit policy and exposure to credit risk is monitored on an ongoing basis. The company seeks to avoid undue concentrations of risks with individuals or group of customers in specific locations or business through diversification of its activities.

The tables below show the maximum exposure to credit risk for the components of the financial position.

	31 Dec. 2016	31 Dec. 2015
	KD	KD
SHAREHOLDERS		
Bank balance	4,297	1,448
Investment deposit	135,000	135,000
Other assets	2,910	2,649
Qard Hassan to policyholders' fund	1,200,791	-
	1,342,998	139,097
POLICYHOLDERS		
Bank balances	240,343	293,368
Investment deposits	1,218,395	1,235,745
Premiums receivable	1,053,429	1,205,660
Accounts receivable and other assets	1,503,150	1,891,107
Amount due from shareholders	3,871,789	3,068,470
Reinsurance recoverable on outstanding claims	2,773,027	3,849,856
	10,660,133	11,544,206

Notes to the consolidated financial statements (continued)

22. Risk management objectives and policies (continued)

22.1 Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the group using internal credit ratings. The table below shows the credit quality by class of asset for related financial position lines, based on the group's credit rating system.

At 31 December 2016 and 31 December 2015, credit quality per class is as follows:

	Neither past due nor impaired			
	High grade	Standard grade	Past due or impaired	Total
31 December 2016	KD	KD	KD	KD
SHAREHOLDERS				
Bank balance	4,297	-	-	4,297
Investment deposit	135,000	-	-	135,000
Other assets	2,910	-	-	2,910
Qard Hassan to policyholders' fund	-	1,200,791	-	1,200,791
	142,207	1,200,791	-	1,342,998
POLICYHOLDERS				
Bank balances	228,392	-	-	228,392
Investment deposits	1,218,395	-	-	1,218,395
Premiums receivable	319,148	686,181	48,100	1,053,429
Accounts receivable and other assets	979,762	523,388	-	1,503,150
Amount due from shareholders	-	3,871,789	-	3,871,789
Reinsurance recoverable on outstanding claims	-	2,773,027	-	2,773,027
	2,745,697	7,854,385	48,100	10,648,182
31 December 2015				
SHAREHOLDERS				
Bank balance	1,448	-	-	1,448
Investment deposit	135,000	-	-	135,000
Other assets	2,649	-	-	2,649
	139,097	-	-	139,097
POLICYHOLDERS				
Bank balances	293,368	-	-	293,368
Investment deposits	1,235,745	-	-	1,235,745
Premiums receivable	665,717	489,590	50,353	1,205,660
Accounts receivable and other assets	1,104,613	786,494	-	1,891,107
Amount due from shareholders	-	3,068,470	-	3,068,470
Reinsurance recoverable on outstanding claims	-	3,849,856	-	3,849,856
	3,299,443	8,194,410	50,353	11,544,206

Notes to the consolidated financial statements (continued)

22. Risk management objectives and policies (continued)

22.2 Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis. The undiscounted cash outflows for financial liabilities are not materially different from those presented below.

Maturity profile of assets and liabilities at 31 December 2016 and 31 December 2015:

	Within 1–3 month KD	Within 3-6 Months KD	Within 6-12 months KD	Total Up to 1 year KD	Over 1 year KD	Total KD
31 December 2016						
SHAREHOLDERS						
Assets						
Bank balance	4,297	-	-	4,297	-	4,297
Investment deposit	-	-	135,000	135,000	-	135,000
Available for sale investments	-	-	-	-	599,452	599,452
Investment in associates	-	-	-	-	12,643,260	12,643,260
Other assets	2,910	2,500	-	5,410	-	5,410
Qaurd Hassan to policyholders fund	-	-	-	-	1,200,791	1,200,791
	7,207	2,500	135,000	144,707	14,443,503	14,588,210
Liabilities						
Policyholders' deficit reserve	-	-	-	-	1,200,791	1,200,791
Amount due to policyholders	-	-	-	-	3,871,789	3,871,789
Other liabilities	4,514	294	43,607	48,415	56,442	104,857
	4,514	294	43,607	48,415	5,129,022	5,177,437
Net exposure	2,693	2,206	91,393	96,292	9,314,481	9,410,773
POLICYHOLDERS						
Assets						
Cash and bank balances	240,343	-	-	240,343	-	240,343
Premiums receivable (net)	267,053	686,181	52,095	1,005,329	48,100	1,053,429
Accounts receivable and other assets (net)	552,418	427,344	384,533	1,364,295	187,778	1,552,073
Available for sale investments	-	-	-	-	1,581,593	1,581,593
Investment deposits	-	-	-	-	1,218,395	1,218,395
Amount due from shareholders	-	-	-	-	3,871,789	3,871,789
Reinsurance recoverable on outstanding claims	277,303	415,954	693,256	1,386,513	1,386,514	2,773,027
Equipment	-	-	-	-	117,527	117,527
	1,337,117	1,529,479	1,129,884	3,996,480	8,411,696	12,408,176
Liabilities						
Reinsurance balances payable	167,750	122,045	261,656	551,451	1,167,493	1,718,944
Unearned premiums (net)	262,669	394,003	656,673	1,313,345	1,313,345	2,626,690
Outstanding claims reserve (gross)	484,688	727,032	1,211,720	2,423,440	2,423,441	4,846,881
Life mathematical reserve (net)	-	-	-	-	76,286	76,286
Reserve retained on reinsurance business	-	-	-	-	300,353	300,353
Other liabilities	111,111	253,288	517,083	881,482	3,158,331	4,039,813
	1,026,218	1,496,368	2,647,132	5,169,718	8,439,249	13,608,967
Net exposure	310,899	33,111	(1,517,248)	(1,173,238)	(27,553)	(1,200,791)

Notes to the consolidated financial statements (continued)

22. Risk management objectives and policies (continued)

22.2 Liquidity risk (continued)

	Within 1–3 month	Within 3-6 Months	Within 6-12 months	Total Up to 1 year	Over 1 year	Total
	KD	KD	KD	KD	KD	KD
31 December 2015						
SHAREHOLDERS						
Assets						
Bank balance	1,448	-	-	1,448	-	1,448
Investment deposit	-	-	135,000	135,000	-	135,000
Available for sale investments	-	-	-	-	2,559,369	2,559,369
Investment in associates	-	-	-	-	10,133,094	10,133,094
Other assets	3,899	1,250	-	5,149	-	5,149
	5,347	1,250	135,000	141,597	12,692,463	12,834,060
Liabilities						
Amount due to policyholders	-	-	-	-	3,068,470	3,068,470
Other liabilities	3,221	-	-	3,221	56,442	59,663
	3,221	-	-	3,221	3,124,912	3,128,133
Net exposure	2,126	1,250	135,000	138,376	9,567,551	9,705,927
POLICYHOLDERS						
Assets						
Cash and bank balances	341,561	-	-	341,561	-	341,561
Premiums receivable (net)	665,717	280,658	208,932	1,155,307	50,353	1,205,660
Accounts receivable and other assets (net)	641,376	460,605	413,823	1,515,804	437,009	1,952,813
Available for sale investments	-	-	-	-	450,034	450,034
Investment deposits	-	-	-	-	1,235,745	1,235,745
Amount due from shareholders	-	-	-	-	3,068,470	3,068,470
Reinsurance recoverable on outstanding claims	769,971	1,154,956	962,464	2,887,391	962,465	3,849,856
Equipment	-	-	-	-	126,711	126,711
	2,418,625	1,896,219	1,585,219	5,900,063	6,330,787	12,230,850
Liabilities						
Reinsurance balances payable	395,581	219,764	366,276	981,621	483,484	1,465,105
Unearned premiums (net)	296,007	444,010	740,016	1,480,033	1,480,033	2,960,066
Outstanding claims reserve (gross)	411,738	617,607	1,029,347	2,058,692	2,058,692	4,117,384
Life mathematical reserve (net)	-	-	-	-	82,286	82,286
Additional reserve (net)	-	-	-	-	1,166,000	1,166,000
Reserve retained on reinsurance business	-	-	-	-	304,657	304,657
Other liabilities	250,622	372,769	716,870	1,340,261	795,091	2,135,352
	1,353,948	1,654,150	2,852,509	5,860,607	6,370,243	12,230,850
Net exposure	1,064,677	242,069	(1,267,290)	39,456	(39,456)	-

(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: foreign exchange rates (currency risk), market interest rates (profit rate risk) and market prices (equity price risk).

Notes to the consolidated financial statements (continued)

22. Risk management objectives and policies (continued)

(3) Market risk (continued)

The group limits market risk by maintaining a diversified portfolio and by monitoring the developments in markets.

(a) Currency risk

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

The group's principal transactions are carried out in KD and its exposure to foreign exchange risk arises primarily with respect to US Dollar, Sterling Pound, Saudi Riyal and Turkish Lira.

The group's financial assets are primarily denominated in the same currencies as its insurance 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 contract liabilities are expected to be settled.

The tables below summaries the group's significant exposures to foreign currency exchange rate risk at the financial position date:

	USD	Sterling Pound	Saudi Riyal	Turkish Lira	Other	Total
	KD	KD	KD	KD	KD	KD
Shareholders						
31 December 2016	**-**	**-**	**1**	**12,643,259**	**-**	**12,643,260**
31 December 2015	-	-	1	10,133,093	-	10,133,094
Policyholders						
31 December 2016	**748,965**	**459,279**	**8,395**	**-**	**129,524**	**1,346,163**
31 December 2015	694,265	483,570	8,395	-	216,156	1,402,386

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit/(loss) for the year and equity. There has been no change during the year in the assumptions and methods used in the preparation of the sensitivity analysis.

		31 December 2016		31 Dec. 2015	
	Changes in variables	**Impact on profit/(loss)**	**Impact on equity**	Impact on loss	Impact on equity
	%	**KD**	**KD**	KD	KD
SHAREHOLDERS					
Turkish Lira	±5	**-**	**632,163**	-	506,655
POLICYHOLDERS					
US Dollar	±5	**37,448**	**-**	34,713	-
Saudi Riyal	±5	**420**	**-**	420	-
Other	±5	**6,476**	**-**	10,808	-

Notes to the consolidated financial statements (continued)

22. Risk management objectives and policies (continued)

(b) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The group has no significant profit bearing assets other than available for sale investments and investment deposits.

The following table illustrates the sensitivity of the profit/(loss) for the year to a reasonably possible change in profit rates of +1% and –1% (31 December 2015: +1% and –1%) with effect from the beginning of the year. The calculations are based on the group's financial instruments held at each financial position date. All other variables are held constant. There has been no change during the year in the assumptions and methods used in the preparation of the sensitivity analysis. There is no impact on the group's equity:

	31 December 2016		31 Dec. 2015	
	+1% KD	-1% KD	+1% KD	-1% KD
SHAREHOLDERS				
Profit/(loss) for the year	1,350	(1,350)	1,350	(1,350)
POLICYHOLDERS				
Net deficit from insurance operations for the year	18,427	(18,427)	16,858	(16,858)

c) Equity price risk

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified as available for sale investments.

To manage its price risk arising from investments in equity securities, the group diversifies its investments.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

If equity prices had been 10% (31 December 2015: 10%) higher/lower, the effect on the equity would have been as follows:

	31 Dec. 2016		31 Dec. 2015	
	Increase 10%	Decrease 10%	Increase 10%	Decrease 10%
SHAREHOLDERS				
Impact on equity	59,945	(59,945)	255,937	(255,937)
POLICYHOLDERS				
Impact on policyholders' fund	113,156	(113,156)	-	-

Notes to the consolidated financial statements (continued)

23. Fair value measurement

23.1 Fair value hierarchy

Fair value represents 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.

Financial assets and financial liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observe ability of significant inputs to the measurement, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

23.2 Fair value measurement of financial instruments

The carrying amounts of the group's financial assets and liabilities as stated in the consolidated statement of financial position are as follows:

	31 Dec. 2016	31 Dec. 2015
Shareholders'	**KD**	KD
Financial assets:		
Loans and receivables at amortised cost:		
- Bank balance	**4,297**	1,448
- Investment deposit	**135,000**	135,000
- Other assets	**2,910**	2,649
- Qard Hassan to policyholders' fund	**1,200,791**	-
Available for sale investments at:		
Fair value	**599,452**	2,559,369
	1,942,450	2,698,466
Financial liabilities:		
Financial liabilities at amortised cost:		
Amount due to policyholders'	**3,871,789**	3,068,470
Other liabilities	**104,857**	59,663
	3,976,646	3,128,133

Notes to the consolidated financial statements (continued)

23. Fair value measurement (continued)

23.2 Fair value measurement of financial instruments (continued)

	31 Dec. 2016 KD	31 Dec. 2015 KD
Policyholders' Financial assets:		
Loans and receivables at amortised cost:		
Cash and bank balances	**228,392**	293,368
Premiums receivable	**1,053,429**	1,205,660
Accounts receivable and other assets	**1,503,150**	1,891,107
Investment deposits	**1,218,395**	1,235,745
Amount due from shareholders	**3,871,789**	3,068,470
Reinsurance recoverable on outstanding claims	**2,773,027**	3,849,856
Available for sale investments at:		
Fair value	**1,131,562**	3
Cost	**450,031**	450,031
	12,229,775	11,994,240
Financial liabilities:		
Financial liabilities at amortised cost:		
Reinsurance balances payable	**1,718,994**	1,465,105
Unearned premiums	**2,626,690**	2,960,066
Other liabilities	**4,039,813**	2,135,352
	8,385,497	6,560,523

Management considers that the carrying amounts of loans and receivables and financial liabilities, which are stated at amortised cost, approximate their fair values. The available for sale investment is carried at cost for reason specified in note 19.4.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value on a recurring basis in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

31 December 2016

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
SHAREHOLDERS				
Available for sale investments:				
Quoted securities	3	-	-	3
Unquoted securities	-	-	599,449	599,449
	3	-	599,449	599,452
POLICYHOLDERS				
Available for sale investments:				
Quoted securities	3	-	-	3
Unquoted securities	-	-	1,131,559	1,131,559
	3	-	1,131,559	1,131,562

Notes to the consolidated financial statements (continued)

23. Fair value measurement (continued)

23.2 Fair value measurement of financial instruments (continued)

31 December 2015

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
SHAREHOLDERS				
Available for sale investments:				
Quoted securities	3	-	-	3
Unquoted securities	-	-	2,559,366	2,559,366
	3	-	2,559,366	2,559,369
POLICYHOLDERS				
Available for sale investments:				
Quoted securities	3	-	-	3
	3	-	-	3

There have been no significant transfers between levels 1 and 2 during the reporting period.

Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

a) Quoted Securities

All the listed equity securities are publicly traded on a recognized stock exchange. Fair value has been determined by referring to their quoted bid prices at the reporting date.

b) Unquoted securities

Unlisted securities are measured at fair value estimated using various models like discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates.

Level 3 fair value measurements

The group's financial assets and liabilities classified in level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	Available for sale investments	
	Unquoted securities	
	31 Dec. 2016 KD	31 Dec. 2015 KD
Shareholders		
Opening balance	**2,559,366**	2,298,439
Sold to policyholders	**(1,131,559)**	-
Gains or losses recognised in:		
Other comprehensive (loss)/income	**(828,358)**	260,927
Closing balance	**599,449**	2,559,366

Notes to the consolidated financial statements (continued)

23. Fair value measurement (continued)

23.2 Fair value measurement of financial instruments (continued)

Level 3 fair value measurements (continued)

	Available for sale investments	
	Unquoted securities	
	31 Dec. 2016	31 Dec. 2015
	KD	KD
Policyholders		
Opening balance	**-**	-
Purchased from shareholders	**1,131,559**	
Closing balance	**1,131,559**	-

The group's finance team performs valuations of financial items for financial reporting purposes, including level 3 fair values. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

The valuation techniques used for instruments categorised in level 3 are described below:
The fair value of financial instruments that are not traded in an active market (e.g unquoted securities) is determined by using valuation techniques. Fair value for the unquoted securities investments are approximately the summation of the estimated value of underlying investments as if realised on the consolidated statement of financial position date.
The investment managers in determining the fair value of these investments use a variety of methods and makes assumptions that are based on market conditions existing at each financial position date. Investment managers used techniques such as discounted cash flow analysis, recent transactions prices and market multiples to determine fair value.
The impact on consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income would be immaterial if the relevant risk variable used to fair value the level 3 investments were changed by 5%.
Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognized in the consolidated statement of profit or loss, total assets, total liabilities or total equity.

24. Capital management objectives

The group's capital management objectives are to ensure the group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

The capital consists of total equity. The group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The group monitors its capital by way of return on equity. This is calculated by reference to profit/(loss) for the year divided by total equity as follows:

	31 Dec. 2016 **KD**	31 Dec. 2015 KD
Profit/(loss) for the year	**1,083,190**	(832,350)
Total equity	**9,410,773**	9,705,927
Return on equity	**11.5%**	(8.60%)