الأولى تكافل
FIRST TAKAFUL

ANNUAL REPORT

2018

بسم الله الرحمن الرحيم

الأولـــى تـكافـــل
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.

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P.O. Box 5713 Safat 13058 Kuwait

His Highness
Shiekh Sabah Al-Ahmed Al-Jaber Al-Sabah
The Amir of Kuwait

His Highness
Shiekh 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
Kefan Co-op Society
Al-Faihaa Co-op Society

Contents

Company Profile

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.

Speech of Chairman of the Board

Praise be to Allah, the god of the Worlds, and blessings and peace be upon the master of the messengers and on his family and companions.

Dear Shareholders   Honorable

Peace and mercy of Allah and his blessings may be upon you ,,,

In the name of Allah, the Most Merciful, the most compassionate, Peace and blessings be upon the master of prophets and messengers Our master and beloved Muhammad peace and blessings of Allah be upon him, the best human being, and his family and companions.

Then after,,

Dear Shareholders, I am pleased to extend my thanks and gratitude to you for accepting our invitation to attend the Ordinary General Assembly of the Company for the financial year ended on : 31 December 2018. I and the brothers, Members of the Board of Directors also have the honor to present to you the annual report on the results of the company's business, its achievements, its financial statements, the report of the Governance, the report of the Audit Committee and the report of rewards and benefits as well as the report of the Fatwa and Shari'a control authority.

My brothers shareholders :

Thanks to God and his favor, positive remarkable results have been achieved for your company "First Takaful" during the year 2018 for two shareholders' portfolios and policy holders despite the work environment in the local insurance market fraught with challenges and conservative policy of subscription and the appropriation of additional investment and technical allocations to enhance the solvency of the company. The integrated strategy implemented by the Technical Department under the guidance and instructions of the Board of Directors related to clearing of the insurance portfolios and avoidance of negative competition has enabled them to face the difficulties, challenges and sailing with the ship of “First Takaful”, in a surging insurance market, safely and securely.

“First Takaful” adopts a safe, secure and selective subscription policy for insurance premiums and provide outstanding service to its customers.

“First Takaful” adopts the policy of continuous development of its operational performance through modernization of products and pricing methods and the method of providing outstanding customer service in order to maximize the growth rates and profitability of shareholders and policies holders and increase marketing share.

Corporate governance and social responsibility

“First Takaful” has maintained its reputation and leadership through its outstanding performance in previous years as well as through its implementation of all laws and regulatory decisions issued by Ministry of Commerce and Industry, Capital Market Authority and Kuwait Stock Exchange, and through its commitment to internal control policies, risk management, procedures and powers, principles of good governance, the application of the tax compliance law and also through its full adherence to the provisions of Islamic law “Sharia” in its dealings in insurance, reinsurance and investments.

Whereas the social responsibility is considered one of pillars of the company, the company initiated to contribute to its social responsibility as it supported many national health, charitable and educational events, as the company launched an awareness campaign on the parking of disabled people on the company's publications as well as organizing awareness campaign for breast cancer and prostate cancer, and Gifts were distributed to sick children

in Al-Sabbah Hospital and other campaigns.

One of "First Takaful" top priorities is to fulfill its social responsibility by raising awareness of insurance to individuals and the private sector in the State of Kuwait. Accordingly,

until 2018, the company's management issued twelve periodicals to increase insurance awareness in the insurance market in Kuwait.

The company's performance and operational efficiency in 2018 have progressed, through the operation of the latest programs and technologies and the modern technology means, related to subscription, compensation and reports of all insurance departments to provide a more distinctive service to its customers.

Shareholders' Results:

"First Takaful" in 2018 has achieved a profit of KD 821,200 compared to a profit of KD 1,209,552 for 2017 having a decrease in profits with a rate of 32% due to the decrease of currency in the investment in an associate company, and earnings per share of 7.70 fils in 2018 compared to earnings per share of 11.35 fils in 2017. Shareholders' equity for the current year amounted to KD 8,463,477 compared to KD 9,836,090 in the previous year

by a decrease of 14%. Total assets of shareholders in the current year amounted to KD 14,087,985 compared to KD 15,596,153 in the previous year with a decrease of 9.7%.

The management of the Company has hedged the fair value of the goodwill amount for investment in Neova Sigorta Insurance Company. Accordingly, a decline loss in the value of that goodwill value was recorded in the amount of KD 607,189 for 2018 and KD 1,442,811 for 2017 and both were included in the statement of profit and loss.

It is worth mentioning that no penalties or irregularities were imposed by the regulatory authorities during the year 2018 against the company.

The remuneration of the members of the Board of Directors and the remuneration of the attendance of the committees emanating from it during 2018 and the bonuses, benefits and monthly salaries received by the Executive Directorate are attached to the report of the Nominations and Remuneration Committee in the annual report for your review.

Results of portfolio of insurance policies holders:

Written premium for the fiscal year 2018 amounted to KD 5,240,471 compared to that achieved by the company in the fiscal year 2017, which amounted to KD 6,397,412 with a decrease of KD 1,156,941 by 18% . This decrease is attributed to the clearing of the cars portfolio and the elimination of customers' contributions of customers with high loss rates.

It is worth mentioning that the insurance policy holders' portfolio has recorded positive results for 2018, as an insurance surplus of 35,718 was achieved against insurance deficit in 2017 amounting to (KD 1,052,700).

My brothers shareholders :

Takaful is committed to the development of human resources, as the human element is the cornerstone of the company and the success of the development strategy. The company continues to pay attention to training and develop the managerial and technical skills of all its employees to improve the company's technical, financial, and to create a qualified second row to lead the company in the future.

The company will continue to make more efforts to achieve positive results as well as enhance its market share in the insurance sector.

Insurance Control

We continue to hope that a regulatory body will be established to deal with insurance industry to face wrong practices in the market that do not serve the insurance industry. The challenges and difficulties faced by the insurance market in the State of Kuwait require a single reference for the insurance companies working in the market in order to promote insurance awareness, research and study the conditions of the insurance market and issuing legislation that serve both policies holders and shareholders and improve the performance of operating companies. Absence of Insurance supervision would result in negative competition, which would seriously damage the rights of shareholders and the rights of policies holders.

Thanks and appreciation:

In conclusion, we ask Allah to help us achieve what we 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, His Highness the Crown Prince and His Highness the Prime Minister . We also thank the shareholders, the members of the Shari'ah Supervisory Board, the Executive Management, the employees of the Company, the Insurance Department of the Ministry of Commerce and Industry, the Capital Markets Authority, the Kuwait Stock Exchange and the Company's clients. We also thank the reinsurers, insurance brokers and all other competent authorities. We also pray to God Almighty for further progress.

Peace, mercy and blessings of God ,,,

Abdullah Abdul Razzaq Al Asfour

Chairman of Board of Directors

AGENDA OF THE ORDINARY GENERAL ASSEMBLY FOR THE ENDED FINANCIAL YEAR on 2018/12/31

1: Hearing the report of the Board of Directors for the ended financial year on 31 December 2018 and approve it.

2: Hearing and discussing the audit report of the ended financial year on 31 December 2018.

3: Hearing the report of the Board of Fatwa and Shari'a Supervisory Board for the work of the ended financial year on 31 December 2018 and approve it.

4: Discussing the financial statements and account of profits or losses for the ended financial year on 31 December 2018 and approve them.

5: Hearing the report of sanctions and violations that have been signed by the regulatory authorities for the ended financial year on 31 December 2018 (if any).

6: Hearing the transaction report that has been made or will be made with related parties.

7: Discussion the recommendation of the Board of Directors not to distribute profits for the ended financial year on 31 December 2018.

8: Discussion the payment of remuneration to the members of the Board of Directors for the ended financial year on 31 December 2018 and the value of 21,000 KD (twenty one thousand Kuwaiti Dinars).

9. Transfer of 10% of the distributable profit for the financial ended year on 31 December 2018 to the statutory reserve of 88,096 / - KD .

10: Discussion transfer of 10% of the distributable profit for the financial year ended on 31 December 2018 To the voluntary reserve account of 88,096 / - KD .

11: Hearing and approving the Corporate Governance Report and Audit Committee Report for the ended financial year on 31 December 2018.

12: Hearing and approving the remuneration and benefits report for the members of the Board of Directors and the Executive Management for the ended financial year on 31 December 2018.

12: Discussion of the Disclaimer of the members of the Board of Directors from any responsibility resulting from the performance of their legal duties for the ended financial year 31 December 2018.

14: Election of members of the Board of Directors for the next three years.

15: Appointment / re-appointment of the auditor of the company and authorize the board of directors to determine his fees for the financial year that will end on 31/12/2019. The auditor shall be among the registered in the private register with the Capital Market Authority, subject to the period of mandatory change.

16: Appointment / re-appointment of the Shari'a Supervisory Board for the ended financial year on 31/12/2019 and delegating the Board of Directors to determine their fees.

Abdullah Abdul Razzaq Al Asfour

Chairman of Board of Directors

Board Of Directors

Abdullah Abdul Razzaq Al Asfour
Chairman

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 God , Blessings and peace be upon the most noble of Messengers, the Prophet Mohammad and on his kinsman and disciples

The Fatwa and Shari›a Supervisory Board at First Takaful Insurance Company (KPSC) is pleased to submit our report on the transactions and operations of the company for the financial year ended on 2017/12/31 to be presented to the general assembly of the company.

According to the statement of the delegated Board Head to control and follow up all the company›s business From the Shariah point of view, Sheikh Dr. Anwar Shuaib Abdul Salam, and what has been presented to the Board Head from transactions and operations in the field of takaful insurance, The Board believes that it is in line with its decisions and recommendations. And so we sign.

Finally, we ask God Almighty to help those who are in charge of the company And their employees to succeed and repay their business ,Confirming the integrity of approach and the health of the application according to Sharia.

God listens and responds to pray, Praise be to God , Blessings and peace be upon the most noble of Messengers, the Prophet Mohammad and on his kinsman and disciples

God bless you ,,,

Sheikh Dr. Anwar Shuaib Abdul Salam
Chairman of the Board

أنور

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**
Abdullah Abdul Razzaq Al Asfour	Chairman	
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 :
(2019/03/28)

First Takaful Insurance Co.
الشركة الأولى للتأمين التكافلي

Undertaking of Executive Management on Financial Reports

The executive management of First Takaful Insurance Company KPSC (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

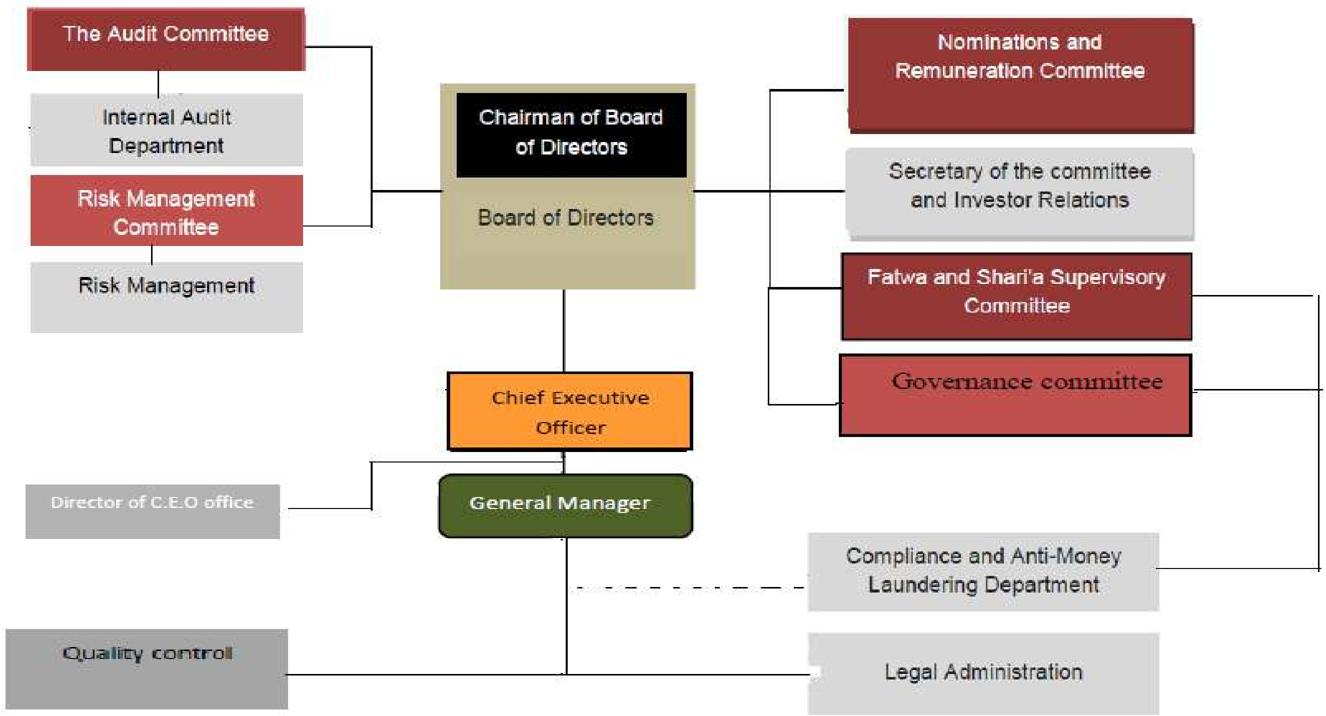
Signature

Kuwait, 28 March 2019

GOVERNANCE:

Takaful Insurance Company operates within the framework of good governance through the application of corporate governance from principles, regulations and procedures through which achieving the best protection and balance between the interests of the management of the company and shareholders as well as stakeholders, First Takaful Through the application of good governance, seeks to enhance investor confidence in the company's efficiency and ability to meet Crises, the framework of good governance regulates the internal decision-making methodology of the company, and stimulates the commitment to transparency and credibility to those decisions, as well the separation of power between the executive management, which works on the business of the company and the board of directors which prepares ,reviews and approves the policies and plans of the company gives a comfortable and reassuring character and enhances the sense of confidence, this enables shareholders and owners to actual control over the company , This comes to document and consolidate ethical behavior, control, accountability and proper administrative organization, and work to enhance administrative efficiency and strengthen the procedures of supervision and auditing and strengthen social responsibility, and this The commitment of the first Takaful to implement the provisions of the Fifteenth Book (Corporate Governance) of the Executive Regulations of Law No. 7 of 2010 on the establishment of the Capital Market Authority and the regulation of securities activity and its amendments - State of Kuwait .

Governance Framework:



RULE ONE - BUILDING A BALANCED STRUCTURE FOR THE BOARD OF DIRECTORS: ABOUT THE BOARD OF DIRECTORS:

The Takaful Insurance Company's Board of Directors is chaired by a Board of Directors of seven members with diverse expertise and skills, elected by shareholders to achieve the sustainable value of stakeholders (shareholders, customers, employees and the community). The Board enjoys a majority of non-executive members and independent members; this reinforces the principle of independence in decision-making and monitoring the performance of the executive management to achieve the desired objectives.

As well The Board of Directors exercises these powers and responsibilities in accordance with the Company's policies and the work system of Board of Directors. The Board of Directors is fully responsible for the "First Takaful". The scope of the Board of Directors includes, but is not limited to:
- Setting the company's strategy and setting the desired goals and drawing future plans for the company.
- Determining the risk appetite of the company.
- To adhere to the standards of good governance and follow up their implementation.
- Supervising the executive management and supervising its performance and its work, including the CEO.

The Board's commitment to the implementation of good governance is one of the main axes to ensure that the company's objectives are achieved and the foundations of the governorate on the trust granted by the shareholders, and the Board of Directors shall bear all responsibilities related to the operations of "First Takaful" and it's Financial safety, and ensure compliance with the requirements of the regulatory bodies, and maintain the interests of shareholders and employees, and other parties of Stakeholders and ensure that the management of "First Takaful" is within the scope of laws and regulations in force and internal policies adopted by "First Takaful"

BOARD OF DIRECTORS

Member Name	Title	Qualification and practical experience	election / appointment date
Mr. Abdullah Abdul Razzaq Al Asfour	Chairman of the Board - Non-Executive Member	-Bachelor of Accounting - Experience more than 30 years	06 November 2017
Mr. Saleh Saleh Al-Silmi	Vice-Chairman of Board of Directors- Non-Executive Member	Bachelor of Business Administration and Finance – Experience over 30 years	14 April 2016
Mr. Hussein Ali Al-Attal	Member of the Board of Directors and Chief Executive Officer - Executive Member -	-Bachelor of Business Administration and Marketing -Experience over 30 years	14 April 2016
Mr. Ahmed Mohamed Al- Khalid	Board Member - Non-Executive Member	-Bachelor of International Trade and International Political System - Over 30 years of experience	14 April 2016
Mr. Osama Abdul Latif Al Abdul Jalil	Member of the Board of Directors – Independent Member	-Bachelor of Law - Experience more than 25 years	14 April 2016
Mr. Saud Sulaiman Al Mu'aili	Member of the Board of Directors - Non-Executive Member	-Bachelor of Journalism and Public Relations - Over 30 years experience	14 April 2016
Mr. Rami Khaled Ali	Member of the Board of Directors - Non-executive member	-Bachelor of Business Administration -Experience more than 15 years	14 April 2016
Mr. Malik Salim Erekat	Secretary of the Board	-Bachelor of Commerce in advanced accounting and auditing - experience more than 30 years	14 April 2016

ORGANIZATION OF BOARD MEETINGS:

Based on the commitment of the First Takaful Insurance Company to organize periodic meetings, implement the highest standards of governance and comply with the requirements of the laws and regulations of the regulatory authorities, the Ministry of Commerce and Industry, the Companies Law and the Capital Market Authority, Corporate Governance, that the number of meetings of the Board of Directors shall not be less than (6) annually , The Board of Directors shall convene one meeting at least every quarter.

SUMMARY OF FIRST TAKAFUL BOARD MEETINGS DURING 2018:

The Board of Directors of First Takaful Insurance Company held (7) meetings during 2018, the following table details the Meetings and number of meetings attended by each member during 2018.

Member name /title	Meeting no. (1/2018) Dated 10/1/2018	Meeting no. (2/2018) Dated 01/2/2018	Meeting no. (3/2018) Dated 09/3/2018	Meeting no. (4/2018) Dated 31/5/2018	Meeting no. (5/2018) Dated 07/08/2018	Meeting no. (6/2018) Dated 30/10/2018	Meeting no. (7/2018) Dated 12/11/2018	Number of Meeting	Attendance Percentage
Mr. Abdullah Al-Asfour Board Chairman	√	√	√	√	√	√	√	7	100%
Mr. Saleh alselmi Vice Board Chairman	-	√	√	√	√	√	-	5	71.4%
Mr. Hussein Al-Attal Member of Board	√	√	√	√	√	√	√	7	100%
Mr. Ahmed Al-Khalid Member of Board	√	√	√	-	-	-	√	4	57.1%
Mr. Osama Al Abdul Jalil Independent Member	-	-	√	-	-	-	-	1	14.2 %
Mr. Saud Al Mu'aili Member of Board	√	√	-	-	√	-	√	4	57.1%
Mr. Rami Khaled Ali Member of Board	√	√	-	√	√	√	-	5	71.4%

SUMMARY OF THE MOST IMPORTANT ACHIEVEMENTS AND DECISIONS TAKEN BY THE BOARD OF DIRECTORS DURING 2018:

The Board of Directors of the first Takaful to follow up the implementation of strategic plans and desired objectives, and works to communicate with the Executive Management to achieve these goals and plans, and the Board of Directors focused on the application of standards of good governance to the work method of the company, and through 2018 issued several resolutions and achievements The most important of which are:

- Adoption of the company's business plan for the coming years 2019-2023.

- Discussed and approved the semi-annual report from Risk Management.

- Discussed reports from the Risk Management Committee relating to:

i. The risks that the Company may suffer as a result of the division of the market within the Kuwait Stock Exchange and the extent of the impact on the revenues of the company.

ii. The risk that the Company may be exposed to from the investments in the associate company Neova -Turkey, and the measurement of this decline on investments

- Discussed and approved all Audit Committee reports on the Company's draft financial statements for all quarters of the year.

- Follow-up of the most recent developments and amendments and violations issued by the Capital Markets Authority of Kuwait, through a training program.

-Reviewing and approving the organizational structure of the company updates.

- Reviewing and the approving charter of the Fatwa and Shari'a Supervisory Committee.

- Reviewing and approving the Charter of the Committee on Governance.

- Updating the matrix of financial and administrative powers.

RECORD, COORDINATE AND SAVE MINUTES OF BOARD MEETINGS / SECRETARY'S WORK:

The Secretary of the Board of Directors has prepared a special record for the meetings of the Board of Directors of the First Takaful Insurance Company. The register also contains :

- the agenda information of each meeting.
- its date, the venue.
- the timing of the beginning and the end of the meeting.

The secretary also provides the Board members with the agenda Backed by documents and documents associated with it, before enough time allowing for members to study the items on the agenda.

The minutes of the meeting shall be signed by all the members of the Board of Directors and the Secretary. The Secretary also has an important role by ensuring the delivery, distribution and coordination of information among the members of the Board of Directors and between the stakeholders and other entities associated with the Company.

RULE TWO - PROPER IDENTIFICATION OF TASKS AND RESPONSIBILITIES:
"A summary of how to apply requirements that allow board members to access information Accurately and timely data"

The Company is committed to building a balanced structure for the Board of Directors through good governance. Board members are provided with a specific agenda with the necessary documentation and information through the means of communication used by the company, communication used by the company and this should be done by secretary, at least three working days prior to the meetings of the Board of Directors, excluding from that the urgent meetings so that the members may study and discuss the issues well before the meeting, and therefore beneficial to the operations of the company and take appropriate decisions in them because of the effectiveness of meetings of the Board of Directors.

WORK POLICY OF THE BOARD OF DIRECTORS / EXECUTIVE MANAGEMENT:

Takaful Insurance Company has been keen to provide clear policies and procedures that define the duties, responsibilities and tasks of the Board of Directors and the Executive Management, and to ensure that the organizational structure of the company is transparent and objective enabling decision-making and the implementation of governance principles.

POLICY OF THE BOARD OF DIRECTORS WORK:

The text of the Charter of the Board of Directors of the first Takaful that the Council direct supervision and control of business management to protect the interests of stakeholders in terms of principles of good governance, and maintain internal control, financial and accounting and follow-up reports, and is committed to comply with the laws and instructions implemented by the regulatory bodies and the statute and internal regulations and policies of the company.

POLICIES AND PROCEDURES REGULATING THE WORK OF THE EXECUTIVE MANAGEMENT:

The first Takaful Company has developed and implemented a policy and procedures manual for all the company's departments, In addition to the

Policies related to the requirements of the executive regulations of - book fifteen - of Corporate Governance issued by the Capital Market Authority - Kuwait, as well as policies related to the requirements of the other regulatory bodies , every manual contains the tasks of competent department and the its obligations in details , which works as follows:

- Provide efficiency and effectiveness within the company's activities;

- Full separation of powers between jobs.

The company also has a mandate delegation matrix which covers all departments operating within the company and has been updated and implemented on 10/05/2018.

The Board of Directors of the First Takaful Insurance Company formed committees which are independent in accordance with the internal regulations of the company. It includes a comprehensive definition of the functions and responsibilities of the committees and the powers granted to them during the period, as well as the manner of supervising them. The committees of the board of directors are also obliged to inform the Board of what they are doing and what they reach from results and recommendations committees were formed by the members of the board on 29-06-2016 . The duration and period of these committees were determined , the period and duration of these committees shall be updated with the election of the members of the Board of Directors every three years.

THE FORMATION OF COMMITTEES OF THE BOARD:

RULE THREE - SELECTION OF QUALIFIED PERSONS FOR BOARD MEMBERSHIP AND EXECUTIVE MANAGEMENT:

NOMINATION AND BONUSES COMMITTEE:

The Nomination and Bonuses Committee shall be considered as emerging and specialized committee composed of members of the Board of Directors. The Committee shall undertake a number of the following main tasks:

- To prepare recommendations to the Board of Directors regarding the proposed nominations through the comprehensive framework and transparent appointment of directors and senior management;

- Establish a clear policy for the bonuses of the Board of Directors and Executive Management;

- Preparation of a detailed report on bonuses to members of the Board of Directors and Executive Management;

-Making sure not precluded independence of the independent member of the Board of Directors.

FORMATION OF THE COMMITTEE:

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

* Number of members of the Committee is three members from the board of directors ;

* One member of the Committee is an independent member;

* The Chairman of the Committee is a non-executive member of the Board of Directors.

BELOW ARE THE MEETINGS OF THE NOMINATION AND REMUNERATIONS OF THE COMPANY “FIRST TAKAFUL” FOR 2018:

THE NOMINATION AND REMUNERATIONS			
Members	Mr. Saleh Saleh Al-Silmi Head of committee	Mr. Hussein Ali Al-Attal Member of committee	Mr. Osama Abdul Latif Al Abdul Jalil Member of committee
Meeting no.			
01/2018	√	√	√
Attendance percentage	100%	100%	0%

THE MOST IMPORTANT ACHIEVEMENTS OF THE COMMITTEE DURING 2018:

• The detailed annual report on all bonuses granted to the members of the Board of Directors and the Executive Management, whether amounts, benefits or advantages , has been prepared and read by the Chairman of the Board and submitted to the General Assembly of the Company for approval on 19/04/2018.

The requirements for executive positions were reviewed, and a recommendation was made to the Board of Directors to accept the promotion of Mr. Khalid Al-Aswad to the post of Director-General and Mr. Mohammed Abdul Ghani to the position of Deputy Chief Executive Officer.

Review and update the organizational structure of the company and the matrix of financial and administrative powers of the Board of Directors.

REPORT OF THE BONUSES GRANTED TO MEMBERS OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT DURING THE YEAR 2018:

FIRST, INCENTIVES AND REWARDS SYSTEM HAVE BEEN FOLLOWED THE COMPANY:

The reward and incentive system granted to the Board of Directors and the executive management of Takaful Insurance Company is based on the indicators and the level of performance and achievement at the company level in general and also at the level of individuals in particular during the year ended, which works to achieve the company’s strategic objectives.

SECOND: THE REMUNERATIONS GIVEN TO MEMBERS OF THE BOARD OF DIRECTORS AND THE EXECUTIVE MANAGEMENT, WHETHER AMOUNTS, BENEFITS OR ADVANTAGES .

Below are details of the values for all Bonuses:

Bonuses of the Board of Directors:

The value of fixed bonuses awarded KD	The value of the variable bonuses awarded KD	Total awarded bonuses K.D
-	27,250 K.D	27,250 K.D

Bonuses of the executive management :

The value of fixed bonuses awarded KD	The value of the variable bonuses awarded KD	Total awarded bonuses K.D
226,103 K.D	30,930 K.D	257,03 K.D

THIRD : OTHER AWARDS HAVE BEEN GRANTED DIRECTLY OR INDIRECTLY:

There are no other rewards.

FOURTH : SUBSTANTIAL DEVIATIONS FROM THE APPROVED BONUSES POLICY:

There is no substantial deviations.

RULE 4 ENSURING THE INTEGRITY OF FINANCIAL REPORTS:

DECLARATION AND PLEDGE OF EXECUTIVE MANAGEMENT ABOUT FINANCIAL REPORTING:

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

DECLARATION AND PLEDGE OF BOARD OF DIRECTORS ABOUT FINANCIAL REPORTS:

The Board of Directors of the Company declared and pledged the full responsibility on the integrity and validity of all annual financial statements and reports of the Company based on information provided by the Executive Management to the Board of Directors and the Executive Management's pledge to present all financial reports in a correct and fair manner.

THE AUDIT COMMITTEE :

The Audit Committee is an important part of the Board of Directors of the First Takaful Insurance Company. The Committee also undertakes a number of key functions as follows:

- Ensure the integrity of the financial statements of the company;

- Recommend to the Board of directors the appointment, reappointment or change of external auditors and the determination of their fees;

- the efficiency and effectiveness of internal control systems and ensure compliance;

-Recommend the appointment of the Director of Internal Audit and evaluate the performance and effectiveness of the internal audit management of the company.

- the company's compliance with legal requirements, policies, systems and related instructions.

The Charter of the Audit Committee also clarifies the main characteristics of the Committee and whether there is any contradiction between the two Recommendations of the Audit Committee and Board of Directors, including the Board of Directors' refusal to follow the recommendations of the Audit Committee, The governance report should include a detailed statement by the Board of Directors detailing the recommendations and the reason or reasons behind the Board of Directors' decision not to comply with them .

FORMATION OF THE COMMITTEE:

The company is committed to the formation of the board of directors committees in accordance with the provisions of the fifteenth book on corporate governance. The Audit Committee was formed as follows:

- The number of members of the Committee is three members of the Board of Directors;

- One member of the Committee is an independent member;

- The Chairman of the Board and the Executive Directors are not members of the Committee.

BELOW ARE THE MEETINGS OF THE AUDIT COMMITTEE OF THE COMPANY "FIRST TAKAFUL" IN 2018:

AUDIT COMMITTEE			
Committee Members	Mr. Rami Khaled Ali Head of Committee	Mr. Saud Al Mu'aili Member of committee	Mr. Osama Abdul Latif Al Abdul Jalil Member of committee
Meeting no. 01/2018	√	√	-
Meeting no. 02/2018	√	√	-
Meeting no. 03/2018	√	√	-
Meeting no. 04/2018	√	√	-
Attendance percentage	100%	100 %	0 %

THE MOST IMPORTANT ACHIEVEMENTS OF THE COMMITTEE DURING 2018 :

-Approve and supervise the internal audit plan issued by the internal auditor (Brocapita company for Management Consulting)..

- Review, discuss and approve reports issued by Brokapita Consulting Company.

- Discuss the report of the Independent Audit Office (annual) on the evaluation of internal control report.

- Review and adopt the Internal Audit Charter.

- Review and approve the internal audit report “Independence and objectivity” for 2017.

- Review and submit its opinion and recommendations to the Board of Directors In respect of the Company’s ended financial year ended on 31 December 2017.

- Discussion of interim financial information for the first quarter Ending on March 31, 2018, the recommendation Board of Directors to approve.

- Discuss the interim financial information for the first quarter Ending 30 June 2018 with recommendation to Board of Directors to approve

- Discussion of interim financial information for the third quarter ended 30 September 2018 with recommendation to Board of Directors to approve.;

EXTERNAL AUDITOR:

The First Takaful Insurance Company has an auditor registered in the register of auditors of the Capital Market Authority, and is fully independent of the company “First Takaful” and its board of directors. The company also allows the auditor to discuss his views with the Audit Committee and is able to attend the meetings of the General Assembly And read the report prepared by him, to the shareholders, the auditor has great powers to inform the Capital Market Authority about any violations or obstacles in detail.

The representative of the Office of the External Auditor

Of First Takaful Insurance attended All 2018 Commission meetings as well discussed all financial statements with the members of the Committee

RULE FIVE - DEVELOPMENT OF SOUND SYSTEMS FOR RISK MANAGEMENT AND INTERNAL AUDITING :

RISK MANAGEMENT:

Risk management in the company is responsible for identifying, measuring and monitoring the risks surrounding the company. It also makes appropriate recommendations to the Board of Directors. Risk managers enjoy full independence and direct subordination to the Board of Directors

They also have great authority to perform their duties properly.

It is worth mentioning that a contract has been signed for the provision of advisory services in risk management with Brokapita for management Consulting Company .

RISK MANAGEMENT COMMITTEE:

The Risk Management Committee is a specialized risk management committee that is formed and formed by the Board of Directors.

- identify and assess the major 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 and that the management staff fully understand the risks surrounding the company;

- Prepare periodic reports on the nature of the risks facing the company and submit them to the Board of Directors.

FORMATION OF THE COMMITTEE:

The Company is committed to forming the Board of Directors committees in accordance with the provisions of Book fifteen of Corporate Governance. The Risk Management Committee has been formed as follows:

- The number of members of the Committee is three members of the Board of Directors;

- Chairman of the Committee is a non-executive board member;

- The Chairman of the Board shall not be a member of the Committee.

BELOW ARE THE MEETINGS OF THE FIRST TAKAFUL RISK MANAGEMENT COMMITTEE FOR 2018:

RISK MANAGEMENT COMMITTEE				
Committee Members	Mr. Saleh Alsilmi Head of committee	Mr. Hussein Ali Al-Attal Committee Member	Mr. Rami Khaled Ali committee Member	Mr. Ahmed Al-Khalid committee Member
Meeting no. 01/2018	√	√	√	√
Meeting no. 02/2018	√	√	X	√
Meeting no. 03/2018	√	√	√	X
Meeting no. 04/2018	√	√	√	X
Meeting no. 04/2018	x	√	X	√
Attendance percentage	80%	100%	60 %	60 %

THE MOST IMPORTANT ACHIEVEMENTS OF THE COMMITTEE DURING THE YEAR 2018:

-Review of financial and operating risks Associated with company operations.

- Review of investment risks and their relationship With Exiting from the sale of shares and other related to the sale of Subsidiary and make recommendation to the Board of Directors.

-Review the potential risks related to:

i. The risks that the company may suffer as a result of division the market within the Kuwait Stock Exchange and the extent of the impact on Revenue of the Company.

ii. The risks that the company may suffer from Investments in associates Neova Turkey - , And measure the amount of the decline on investments.

-Review risk appetite and submit it to the Board of directors for approval .

- Review and approve a management report of the second half ended at 31 December 2017.

-Review and approve the management report for the period ended 30 June 2018.

INTERNAL CONTROL:

The first Takaful depends on a set of control systems and auditing rules covering all the company's business and management, These systems and rules maintain the integrity of the financial position of the company and the accuracy of data and the efficiency of its operations in various aspects, the company's organizational structure reflects the dual control and includes the proper identification of powers and responsibilities, complete separation of duties and non-conflict of interest, examination and double control and double signing

EVALUATION AND REVIEW OF INTERNAL CONTROL SYSTEMS:

The report of the evaluation of internal control systems in Takaful Insurance Company was prepared by an independent audit office for the year ended 31 December 2018. The report was submitted to the Board of Directors and Capital Market Authority. The report showed the company's application of internal control systems in accordance with the Capital Market Authority - Kuwait. , The report showed the company's compliance with the internal control regulations in line with the rules of the Capital Market Authority of Kuwait.

They are important observations that the relevant administration will resolve as soon as possible.

INTERNAL AUDIT DEPARTMENT:

The internal audit department of the company reviews and evaluates the internal control systems, assesses the performance of the executive management in the implementation of the internal control systems, the management reports to the committee, the auditors are fully independent and the internal audit department follows the audit committee and the board of directors.

It is worth noting that a consultancy contract was signed in the internal audit with Brokapita for management Consulting Company .

RULE -6 PROMOTION OF PROFESSIONAL CONDUCT AND ETHICAL VALUES:

CHARTER OF WORK :

The company has a work charter with comprehensive

standards and behavioral standards that has been established by the Board of Directors to establish ethical concepts and values. The executive body is

working on these standards and determinants to achieve the company's ambitions and objectives. It contributes to the performance of the tasks to the fullest.

The Board of Directors of the First Takaful Insurance Company adopted policies and procedures that work to achieve the highest percentage of the determinants and behavioral standards of the company's work charter , below are some policies and procedures as an example of the application of the company's operations:

- Guide to disclosure policies and procedures;

- Internal reporting policy;

- shareholder relations policy;

- The policy of the relevant parties and investor affairs;

- Conflict of interest policy .

- Related party transaction policy;

- Charter behavioral rules.

CONFLICT OF INTEREST:

The policy of conflict of interest in the first Takaful works to reduce the conflict of interest between the company and the parties involved, as well as identifying situations that may lead to future conflicts of interest ,and it is working to address and limit such operations, and contribute to a policy of conflict of interest in protecting the integrity and reputation of the company and related parties.

The policy of conflict of interest obligates members of the board of directors and executive management to disclose any common interests with the company and to separate the personal interests and official responsibilities of the company, It works to give priority to the interests of the company to the interests of its members.

GOVERNANCE COMMITTEE:

The Corporate Governance Committee is a corporate governance committee It is formed by the Board of Directors, and the committee is established Its main role and tasks as follows:

- Follow up the company's implementation and compliance with rules Corporate governance;

- Prepare a detailed annual report on the extent of application Corporate governance rules in the first company Takaful insurance;

- Submit recommendations to the Board of Directors in all related to Corporate governance framework;

FORMATION OF THE COMMITTEE:

The company is formed by forming the governance committee in the board of directors matches the best practices working on it , Governance committee has been formed as follows:

-The number of members of the Committee is three members Board of Directors;

- The Chairman of the Board is the Chairman of the Committee;

- The CEO is a member of the Committee.

Meetings of the Committee:

- The Governance Committee meets once a year

At least the number of meetings can be increased as needed.

-Directors who are not members of the Committee are entitled attend meetings based on the invitation of the President.

- It is worth mentioning that the Corporate Governance Committee has been approved to be established from the Board of Directors and to discuss and approve the Charter of the Committee as well as have been formed by members of the Board in the history 12/11/2018.

Accordingly, the Committee shall carry out its duties and duties beginning of 2019.

RULE 7 DISCLOSURE AND TRANSPARENCY IN A TIMELY MANNER:

PRESENTATION AND DISCLOSURE MECHANISMS:

The company is keen to apply the best disclosure mechanisms, The Board of Directors of the Company has adopted disclosure policies and procedures that include the Methods and techniques of disclosure of material data and information. It also provides complete transparency of all information and data for timely presentation. The Board reviews these disclosure mechanisms periodically to keep up with international best practice.

DISCLOSURE REGISTER :

The Company regulates the disclosures of the members of the Board of Directors and the Executive Management through a record of their disclosures, as this register is available for the benefit of all the shareholders of the Company without fees or fees. The Company updates this register periodically to reflect the actual status of the related parties.

INVESTOR AFFAIRS UNIT:

The company has an investor affairs unit and is responsible for providing all necessary data, information and reports to potential investors. This unit is highly independent, providing accurate and timely data and reports through all the usual means.

TECHNOLOGY:

The company relies heavily on technology, as it contributes to communication with shareholders, investors and stakeholders through the use of information technology. First Takaful has also provided a full section of its corporate governance website and disclosures to present all the latest data and information that enable Shareholders and current and potential investors to exercise their rights to assess the performance of the company, A full page has also been provided through the company's website for the Investor Affairs Unit containing all the contact details of the unit administrator.

RULE EIGHT RESPECT FOR SHAREHOLDERS' RIGHTS:

SHAREHOLDERS' EQUITY:

The statutes, policies, regulations and internal controls of the company guarantee justice and equality of Shareholders rights, Shareholders have general rights to exercise the accountability of the Board of Directors and to monitor the performance of the Company, as well as the election of Board members and others.

"First Takaful" grants shareholders their full rights without any discrimination and in a manner that does not harm the interests of the company 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 data of the shareholders through the establishment of a special record kept by the clearing agency, where it registered the names of the shareholders in the company and the number of shares owned by each of them, and is keen to update the data recorded in it immediately after a change through the marking in the record Shareholders to reach the highest levels of accuracy.

ENCOURAGE 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 inviting shareholders to attend the General Assembly meeting including all data and information related to the agenda items. Shareholders also have the right to appoint others to attend the General Assembly meeting. A special power of attorney or delegation in this regard,

The company enables shareholders holding 5% of the company's capital to add items to the agenda. The company provides shareholders with disclosure data for directors and executive management members.

RULE NINE RECOGNIZING THE ROLE OF STAKEHOLDERS:

STAKEHOLDERS:

The recognition of the rights of stakeholders contributes to strengthening the framework of mutual cooperation between the company and stakeholders , the company also works 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, to establish good relations with the customers and suppliers of the company and to maintain the confidentiality of information related to them, and clarified the policy of the mechanism for the submission and settlement of complaints as well as procedures that preserve the rights of stakeholders.

ENCOURAGE STAKEHOLDER PARTICIPATION:

The Company provides access to stakeholders to obtain all information and data relevant to their activities, and provides a mechanism to inform any improper practices to which stakeholders are exposed by the Company, with full protection for the person who informed.

RULE TEN - ENHANCEMENT AND IMPROVEMENT OF PERFORMANCE:

PROMOTE PERFORMANCE IMPROVEMENT:

The company's interest in encouraging the development and improvement of efficiency and performance contributed to the establishment of mechanisms and systems that allow the members of the Board of Directors and Executive Management to obtain programs and training courses related to the activities and work of the company, through programs such as the company strategy, financial and operational aspects of newly appointed members, Workshops and conferences for current members and management Executive.

Accordingly, a number of workshops were held, including a special workshop for the members of the Board of Directors and another for the executive management, explaining to them the risk management and how to achieve the strategic and operational objectives of the company. The workshop included the following:

• Special workshop for members of the Board of Directors:

a. On the most prominent amendments and violations issued by the Capital Markets Authority - State of Kuwait.

• Some workshops for executive management-:

i. On the most prominent amendments and violations issued by the Capital Markets Authority - State of Kuwait.

ii. Workshop entitled "Insiders".

iii. Forum Reinsurance companies Sharm El Sheikh Egypt 2018.

PERFORMANCE EVALUATION:

The performance assessment of the Board of Directors and the Executive Management is based on qualitative and quantitative performance indicators identified by the Company, the most important qualitative indicators based on performance evaluation systems

Is the interaction and responsiveness to the goals to be achieved and the control of problems and the participation in courses and the extent of their association with the activity of the company and work.

While quantitative indicators are subject to material returns of net profit and annual returns.

FOUNDATIONAL VALUES:

The vision and mission of the company is to create a suitable environment for corporate values of an effective and productive nature, it contributes to improve performance rates and instill the institutional values of its employees, and this contributes to the promotion of work and maintain the financial integrity of the company, the reflection of our values in all the activities and products of the company has created a culture of compliance with the laws and decisions of the regulatory bodies as well as providing services with high quality, honesty, integrity and transparency in dealing with Customers ,It helps to achieve the company's strategic objectives.

RULE ELEVEN FOCUS ON THE IMPORTANCE OF SOCIAL RESPONSIBILITY:

SOCIAL RESPONSIBILITY:

Social responsibility activity in First Takaful centered to achieve its social duty as a key partner in the development of the Kuwaiti society, through contributing to the development of living conditions, social and economic in the country, it comes through the support of the company to all sectors, the importance of social responsibility is to strengthen the relationship between society and society.

For example, not limited to, you will find some of the first Takaful Insurance Company activities as follows:

• "Gergeaan" The first Takaful company In cooperation with Noor Youth Volunteer Group organized a visit to sick children in some of the Kuwait hospitals, as well as giving Symbolism gifts to the children aiming to share the Children the joy of " Gergeaan " and drawing Joy and pleasure in the hearts of children in month of Ramadan 2018.

• "Support and Awareness" first Takaful company participate in Awareness campaign to combat cancer "Breast and prostate" through awareness leaflets Using social networking programs as well through the participation of company staff support logo combating cancer throughout the awareness months.

• "Periodical " The first Takaful issued Periodic educational publications promoting awareness of Insurance and highlight the culture of insurance and its importance within Society in the State of Kuwait.

Insurance Publications
2018

First Takaful Insurance Company - KPSC and Subsidary

Consolidated financial statement and independent auditor’s report

31 December 2018

Contents

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Al-Qatami, Al-Aiban & Partners

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Independent auditor's report

To the Shareholders of
First Takaful Insurance Company – KPSC
Kuwait

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of First Takaful Insurance Company - KPSC ("the Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our 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 financial statements of the current year. These matters were addressed in the context of our audit of the 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 matter described below as the key audit matter.

Investment in associates

The investment in associates which represents a significant part of the Company's total assets is accounted for under the equity method of accounting and considered for any impairment in case of any indication thereto. The investment in associates is significant to our audit due to the Company's share of results in the associates and the carrying value of these associates. In addition, the management has to assess the impairment in investment in associates using judgments 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 the investment in associates and using such considerations, we assessed whether any significant or prolonged decline in value exists, or any significant adverse changes in the insurance market or legal environment in which the investees operate. We also considered the structural changes in the industry in which the investees operate or changes in the political or legal environment affecting the investees' business in addition to any changes in the investees' financial position.

The Company's disclosures relating to associates are included in note 9 to the financial statements.

Independent Auditor's Report to the Shareholders of First Takaful Insurance Company - KPSC (continued)

Other information included in the Company's Annual Report for the year ended 31 December 2018
Management is responsible for the other information. Other information consists of the information included in the Company's Annual Report for the year ended 31 December 2018, other than the financial statements and our auditor's report thereon. We obtained the report of the Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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 in 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 Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

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 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 Company's internal control.

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

Independent Auditor's Report to the Shareholders of First Takaful Insurance Company - KPSC (continued)

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

• 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Company and the financial statements, together with the contents of the report of the Company's board of directors relating to these *financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, and by the 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 Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business or financial position of the Company.

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

Kuwait
28 March 2019

First Takaful Insurance Company – KPSC
Financial Statements
31 December 2018

Statement of profit or loss

	Notes	**Year ended 31 Dec. 2018 KD**	Year ended 31 Dec. 2017 KD
Revenue			
Net investment income		**-**	212,513
Share of results of associates	9	**1,681,249**	2,642,811
		1,681,249	2,855,324
Expenses and other charges			
General and administrative expenses		**(193,098)**	(125,324)
Impairment in value of associates	9.2	**(607,189)**	(1,442,811)
		(800,287)	(1,568,135)
Profit before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Board of Directors' remuneration		**880,962**	1,287,189
Provision for contribution to KFAS		**(7,928)**	(11,585)
Provision for NLST		**(22,024)**	(32,180)
Provision for Zakat		**(8,810)**	(12,872)
Provision for board of directors' remuneration		**(21,000)**	(21,000)
Profit for the year		**821,200**	1,209,552
Basic and diluted earnings per share	6	**7.70 Fils**	11.35 Fils

Statement of profit or loss and other comprehensive income

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
Profit for the year	**821,200**	1,209,552
Other comprehensive loss:		
Items that may be reclassified subsequently to the statement of profit or loss:		
Exchange differences arising on translation of foreign operations (note 9.1)	**(2,193,813)**	(509,784)
Available for sale investments:		
- Transferred to statement of profit or loss on sale	**-**	(274,451)
Total other comprehensive loss	**(2,193,813)**	(784,235)
Total comprehensive (loss)/income for the year	**(1,372,613)**	425,317

The notes set out on pages 50 to 93 form an integral part of these financial statements.

First Takaful Insurance Company – KPSC
Financial Statements
31 December 2018

Statement of financial position

	Notes	31 Dec. 2018 KD	31 Dec. 2017 KD
Assets			
Bank balance		**4,297**	4,297
Investments at fair value through other comprehensive income	7	**3**	-
Available for sale investments	8	**-**	3
Investment in associates	9	**11,865,912**	13,333,476
Qard Hassan to policyholders' fund	10	**2,217,773**	2,253,491
Other assets		**-**	4,886
Total assets		**14,087,985**	15,596,153
Equity and liabilities			
Equity			
Share capital	11	**10,660,000**	10,660,000
Statutory reserve	12	**246,061**	157,965
Voluntary reserve	12	**216,815**	128,719
Fair value reserve		**173,153**	173,153
Foreign currency translation reserve		**(4,651,268)**	(2,457,455)
Retained earnings		**1,818,716**	1,173,708
Total equity		**8,463,477**	9,836,090
Liabilities			
Policyholders' deficit reserve	10	**2,217,773**	2,253,491
Amount due to policyholders	13	**3,223,847**	3,334,117
Other liabilities		**182,888**	172,455
Total liabilities		**5,624,508**	5,760,063
Total equity and liabilities		**14,087,985**	15,596,153

Abdullah A. Al-Asfour
Chairman

The notes set out on pages 50 to 93 form an integral part of these financial statements.

Statement of changes in equity

	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Fair value Reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Total KD
Balance at 31 December 2017	**10,660,000**	**157,965**	**128,719**	**173,153**	**(2,457,455)**	**1,173,708**	**9,836,090**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**821,200**	**821,200**
Total other comprehensive loss	**-**	**-**	**-**	**-**	**(2,193,813)**	**-**	**(2,193,813)**
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**-**	**(2,193,813)**	**821,200**	**(1,372,613)**
Transfer to reserves	**-**	**88,096**	**88,096**	**-**	**-**	**(176,192)**	**-**
Balance at 31 December 2018	**10,660,000**	**246,061**	**216,815**	**173,153**	**(4,651,268)**	**1,818,716**	**8,463,477**
Balance at 31 December 2016	10,660,000	29,246	-	447,604	(1,947,671)	221,594	9,410,773
Profit for the year	-	-	-	-	-	1,209,552	1,209,552
Other comprehensive loss	-	-	-	(274,451)	(509,784)	-	(784,235)
Total comprehensive (loss)/profit for the year	-	-	-	(274,451)	(509,784)	1,209,552	425,317
Transfer to reserves	-	128,719	128,719	-	-	(257,438)	-
Balance at 31 December 2017	10,660,000	157,965	128,719	173,153	(2,457,455)	1,173,708	9,836,090

The notes set out on pages 50 to 93 form an integral part of these financial statements.

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Statement of cash flows

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
OPERATING ACTIVITIES		
Profit for the year	**821,200**	1,209,552
Adjustments for:		
Profit on investment deposit	**-**	(2,281)
Gain on sale of available for sale investments	**-**	(210,232)
Impairment in value of associates	**607,189**	1,442,811
Share of results of associates	**(1,681,249)**	(2,642,811)
	(252,860)	(202,961)
Changes in operating assets and liabilities:		
Other assets	**4,886**	524
Movement in policyholders' account	**(110,270)**	(537,672)
Other liabilities	**10,433**	67,598
Net cash used in operating activities	**(347,811)**	(672,511)
INVESTING ACTIVITIES		
Increase in investment in associates	**(298,826)**	-
Proceeds from sale of available for sale investments	**-**	535,230
Proceeds from investment deposit withdrawn	**-**	135,000
Dividend received from associate	**646,637**	-
Profit on investment deposit received	**-**	2,281
Net cash from investing activities	**347,811**	672,511
Increase/(decrease) in bank balance	**-**	-
Bank balance at the beginning of the year	**4,297**	4,297
Bank balance at the end of the year	**4,297**	4,297

The notes set out on pages 50 to 93 form an integral part of these financial statements.

Notes to the financial statements (continued)

1 Incorporation and activities

First Takaful Insurance Company ("the Company") is a Kuwaiti Public Shareholding Company that was incorporated on 25 July 2000 and is registered under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments. The shares of the Company are listed on Kuwait Stock Exchange.

The Company is a subsidiary of International Financial Advisors Company-KPSC (Parent Company).

The 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 Company in various activities that are commensurate with the 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 Company's articles of association and the approval of Fatwa and Sharee'a Supervisory Board.

The 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 Company holds the physical custody and title of all assets related to the policyholders' and shareholders' operations, such assets and liabilities together with the results of policyholders' lines of business are disclosed in the notes.

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

The financial statements for the year ended 31 December 2018 were authorised for issue by the board of directors of the Company on 28 March 2019 and are subject to the approval of the General Assembly of the shareholders.

2 Statement of compliance

These 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.

First Takaful Insurance Company – KPSC
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Notes to the financial statements (continued)

3 Changes in accounting policies

3.1 New and amended standards adopted by the Company

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2018 which have been adopted by the Company. Information on these new standards is presented below:

Standard or Interpretation	*Effective for annual periods beginning*
IFRS 4 and IFRS 9 – Amendments	1 January 2018
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

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.

Management of the Company decided to implement IFRS 9 (see below) and therefore, does not anticipate that the application of the amendments in the future will have a significant impact on the Company's financial statements.

IFRS 9 Financial Instruments: Classification and Measurement

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.

The main areas of impact are as follows:

- the classification and measurement of the financial assets are 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 is 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 is no longer possible to measure equity investments at cost less impairment and all such investments are instead measured at fair value. Changes in fair value are presented in profit or loss unless an irrevocable designation is made to present them in other comprehensive income.
- if the fair value option continues to be elected for certain financial liabilities, fair value movements are presented in other comprehensive income to the extent those changes relate to own credit risk.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and Fair value through profit or loss (FVTPL). The standard eliminates IAS 39 categories of held to maturity, loans and receivables and available for sale.

Further, the gains and losses on subsequent measurement of debt type financial instruments measured at Fair Value Through Other Comprehensive Income (FVOCI) are now recognised in equity and will be recycled to profit or loss on derecognition or reclassification.

However, gains or losses on subsequent measurement of equity type financial assets measured at FVOCI are now recognised in equity and not recycled to profit or loss on derecognition. Dividend income on these assets continues to be recognised in profit or loss.

Notes to the financial statements (continued)

3 Changes in accounting policies (continued)

3.1 New and amended standards adopted by the Company (continued)

IFRS 9 Financial Instruments: Classification and Measurement (continued)

Based on the analysis of the Company's financial assets and liabilities as at 1 January 2018 and of the circumstances that existed at that date, management of the Company have determined the impact of implementation of IFRS 9 on the financial statements of the Company as follows:

Classification and measurement:

Equity investments amounting to KD3 and KD1,359,881 have been reclassified from Available for sale to FVOCI in shareholders' and policyholders' books respectively.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Management analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at 1 January 2018.

	IAS 39		IFRS 9	
Shareholders:	**Classification**	**Carrying amount KD**	**Classification**	**Carrying amount KD**
Financial assets				
Bank balance	Loans and receivables	4,297	Amortised cost	4,297
Equity securities – unquoted	AFS	3	FVOCI	3
Qard Hassan to policyholders' fund	Loans and receivables	2,253,491	Amortised cost	2,253,491
Other assets (excluding prepayments)	Loans and receivables	2,221	Amortised cost	2,221
Total financial assets		2,260,012		2,260,012

	IAS 39		IFRS 9	
Policyholders: Financial assets	**Classification**	**Carrying amount KD**	**Classification**	**Carrying amount KD**
Cash and bank balances	Loans and receivables	451,107	Amortised cost	451,107
Investment deposits	Loans and receivables	1,026,000	Amortised cost	1,026,000
Premiums receivable	Loans and receivables	759,850	Amortised cost	759,850
Accounts receivable and other assets (excluding prepayments)	Loans and receivables	989,036	Amortised cost	989,036
Amount due from shareholders	Loans and receivables	3,334,117	Amortised cost	3,334,117
Reinsurance recoverable on outstanding claims	Loans and receivables	3,686,787	Amortised cost	3,686,787
Equity securities- Quoted	AFS	909,850	FVOCI	909,850
Equity securities- unquoted	AFS	450,031	FVOCI	450,031
Total financial assets		11,606,778		11,606,778

Notes to the financial statements (continued)

3 Changes in accounting policies (continued)

3.1 New and amended standards adopted by the Company (continued)

IFRS 9 Financial Instruments: Classification and Measurement (continued)

Classification and measurement: (continued)
There is no impact on the financial liabilities of the Company and will continue to be measured at amortised cost.

Impairment:
IFRS 9 requires the Company to record expected credit losses (ECL) on all of its financial assets measured at amortised cost. ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. Under IFRS 9, the Company measures ECL as follows:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument

The Company has applied simplified approach to impairment for financial assets as required or permitted under the standard. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Management determined that the additional impairment required by this standard was not material and accordingly, the Company did not recognise any additional impairment losses on its financial assets.

Summary of impact on application of IFRS 9:
As allowed by the transition provisions of IFRS 9, the Company elected not to restate comparative information for prior periods with respect to classification and measurement, and impairment requirements.

The implementation of IFRS 9 has resulted in the following impact:

	31 Dec. 2017 KD	Adjustments/ reclassification KD	1 Jan. 2018 KD
Shareholders			
Assets			
Bank balance	4,297	-	4,297
Available for sale investment	3	(3)	-
Investments at fair value through other comprehensive income	-	3	3
Qard Hassan to policyholders' fund – with contra account	2,253,491	-	2,253,491
Other assets (excluding prepayments)	2,221	-	2,221

Notes to the financial statements (continued)

3 Changes in accounting policies (continued)

3.1 New and amended standards adopted by the Company (continued)

IFRS 9 Financial Instruments: Classification and Measurement (continued)

Summary of impact on application of IFRS 9: (continued)

	31 Dec. 2017 KD	Adjustments/ reclassification KD	1 Jan. 2018 KD
Policyholders			
Assets			
Cash and bank balances	451,107	-	451,107
Investment deposits	1,026,000	-	1,026,000
Premiums receivable	759,850	-	759,850
Accounts receivable and other assets (excluding prepayments)	989,036	-	989,036
Amount due from shareholders	3,334,117	-	3,334,117
Reinsurance recoverable on outstanding claims	3,686,787	-	3,686,787
Available for sale investments	1,359,881	(1,359,881)	-
Investments at fair value through other comprehensive income	-	1,359,881	1,359,881

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced IAS 18 "Revenues", IAS 11 "Construction Contract" and several revenues – related Interpretations and provides a new control-based revenue recognition model using five-step approach to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard includes important guidance, such as:

- Contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts

- Timing – whether revenue is required to be recognized over time or at a single point in time

- Variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing an overall constraint on revenue

- Time value – when to adjust a contract price for a financing component

Notes to the financial statements (continued)

3 Changes in accounting policies (continued)

3.1 New and amended standards adopted by the Company (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

- Specific issues, including –
  - non-cash consideration and asset exchanges
  - contract costs
  - rights of return and other customer options
  - supplier repurchase options
  - warranties
  - principal versus agent
  - licensing
  - breakage
  - non-refundable upfront fees, and
  - consignment and bill-and-hold arrangements.

Adoption of this standard did not have a significant impact on the Company's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration
The Interpretations looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income. A diversity was observed in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognized. IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Adoption of these amendments did not have a significant impact on the Company's financial statements.

3.2 IASB Standards issued but not yet effective

At the date of authorisation of these 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 Company.

Management anticipates that all of the relevant pronouncements will be adopted in the Company'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 Company's 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 Company's financial statements.

Standard or Interpretation	*Effective for annual periods beginning*
IAS 1 and IAS 8 - Amendments	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021

Notes to the financial statements (continued)

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective (continued)

IAS 1 and IAS 8 – Amendments
The amendments to IAS 1 and IAS 8 clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Company's financial statements.

IFRS 17 Insurance Contracts
IFRS 17 supersedes the IFRS 4 and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. It requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

Management does not anticipate that the adoption of the new standard in the future will have a significant impact on the Company's financial statements.

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

4.1 Basis of preparation
The financial statements of the Company have been prepared under historical cost convention except for investments at fair value through other comprehensive income that have been measured at fair value.

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

The Company has elected to present the "statement of profit or loss and other comprehensive income" in two separate statements: the "statement of profit or loss" and "statement of profit or loss and other comprehensive income".

4.2 Investment in associates
Associates are those entities over which the Company 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 Company's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

4.2 Investment in associates (continued)

Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognise the Company'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 Company.

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

The share of results of an associate is shown on the face of the statement of profit or loss. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associates are prepared either to the reporting date of the Company or to a date not earlier than three months of the Company's reporting date, using consistent accounting policies. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Company's financial statements.

After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in its associate. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount under separate heading in the statement of profit or loss.

Upon loss of significant influence over the associate, the Company measures and recognises any retained 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 retained investment and proceeds from disposal are recognised in the statement of profit or loss.

4.3 Dividend income

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

4.4 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.

4.5 Operating expenses

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

4.6 Taxation

4.6.1 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

4.6 Taxation (continued)

4.6.2 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 Company after deducting directors' remuneration paid 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.

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

4.6.4 Taxation on overseas associates
Taxation on overseas associates is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these associates operate.

4.7 Financial instruments

4.7.1 Recognition, initial measurement and derecognition
Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by directly attributable transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

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

- rights to receive cash flows from the assets have expired;
- the Company 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 Company has transferred substantially all the risks and rewards of the asset or
  (b) the Company has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

Where the Company 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 Company'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 statement of profit or loss.

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Notes to the financial statements (continued)

4 Significant accounting policies (continued)

4.7 Financial instruments (continued)

4.7.2 Classification of financial assets

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

- financial assets at amortised cost
- financial assets at fair value through other comprehensive income (FVTOCI)

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

The Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

4.7.3 Subsequent measurement of financial assets

a) Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

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.

The Company's financial assets at amortised cost comprise of the following:

Other assets

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

Bank balance

Bank balance is subject to an insignificant risk of changes in value.

b) Financial assets at FVTOCI

The Company's financial assets at FVTOCI mainly comprise investment in equity shares. These represent investment in unquoted equity shares.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

4.7 Financial instruments (continued)

4.7.3 Subsequent measurement of financial assets (continued)

b) Financial assets at FVTOCI (continued)

The Company accounts for financial assets at FVTOCI if the assets meet the following conditions:

• they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell; and
• the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled to the statement of profit or loss upon derecognition of the asset (except for equity investments at FVTOCI as detailed below).

Equity investments at FVTOCI

On initial recognition, the Company may make an irrevocable election (on an instrument - by - instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has evidence of a recent actual pattern of short - term profit - taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Equity instruments at FVTOCI are initially measured at fair value plus transaction costs.

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve. The cumulative gain or loss is transferred to retained earnings within the statement of changes in equity on de-recognition.

Dividends on these investments in equity instruments are recognised in the statement of profit or loss.

4.7.4 Impairment of financial assets

All financial assets except for those at FVTPL and equity investments at FVTOCI 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.

The Company recognises a loss allowance for expected credit losses ("ECL") on financial assets at amortised cost or at FVTOCI.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

4.7 Financial instruments (continued)

4.7.4 Impairment of financial assets (continued)

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at the probability of default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

The Company recognises lifetime ECL for other assets and Qard Hassan to policyholders' fund. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Company recognises an impairment gain or loss in the statement of profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

4.7.5 Classification and subsequent measurement of financial liabilities

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

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

Financial liabilities at amortized cost

These are stated using effective interest rate method. Other liabilities and amount due to policyholders are classified as financial liabilities other than at FVTPL.

Other liabilities

Other 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.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

4.8 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.

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

4.10 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.

4.11 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 Company'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.

4.12 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.

4.13 Equity, reserves and dividend payments
Share capital represents the nominal value of shares that have been issued and paid up.

Statutory and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the Companies' Law and the Company's articles of association.

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Notes to the financial statements (continued)

4 Significant accounting policies (continued)

4.13 Equity, reserves and dividend payments (continued)

Fair value reserve – comprises of gains and losses relating to investments at fair value through other comprehensive income.

Foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Company's foreign associates into Kuwait Dinars.

Retained earnings include all current and prior period retained profits and losses. All transactions with owners of the 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.

4.14 Foreign currency translation

4.14.1 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.

4.14.2 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 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.

4.14.3 Foreign operations

In the Company's 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 statement of profit or loss and are recognised as part of the gain or loss on disposal.

4.15 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Company 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 Company 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.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

4.15 Provisions, contingent assets and contingent liabilities (continued)

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

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

4.16 Related party transactions

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

5 Significant management judgements and estimation uncertainty

The preparation of the Company's 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.

5.1 Significant management judgments

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

5.1.1 Business model assessment

The Company classifies financial assets after performing the business model test (please see accounting policy for financial instruments sections in note 4.7). This test includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured and the risks that affect the performance of the assets. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

5.2 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.

5.2.1 Impairment of financial assets

Measurement of estimated credit losses involves estimates of loss given default and probability of default. Loss given default is an estimate of the loss arising in case of default by customer. Probability of default is an estimate of the likelihood of default in the future. The Company based these estimates using reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

An estimate of the collectible amount of trade accounts 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.

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Notes to the financial statements (continued)

5 Significant management judgements and estimation uncertainty (continued)

5.2 Estimates uncertainty (continued)

5.2.2 Fair value of financial instruments

Management applies 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.

5.2.3 Impairment of associates

After application of the equity method, the Company determines whether it is necessary to recognise any impairment loss on the Company'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 Company 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 statement of profit or loss.

6 Basic and diluted earnings per share

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

	Year ended 31 Dec. 2018	Year ended 31 Dec. 2017
Profit for the year (KD)	**821,200**	1,209,552
Weighted average number of shares outstanding during the year	**106,600,000**	106,600,000
Basic and diluted earnings per share	**7.70 Fils**	11.35 Fils

7 Investments at fair value through other comprehensive income

	31 Dec. 2018 KD	31 Dec. 2017 KD
Unquoted securities	**3**	-
	3	-

- These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the Company has elected to designate these investments in equity instruments as at FVTOCI as it believes that recognising short-term fluctuations in the fair value of these investments in statement of profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.
- There was no disposal of any investment classified as at fair value through other comprehensive income during the year.

Notes to the financial statements (continued)

8 Available for sale investments

	31 Dec. 2018 KD	31 Dec. 2017 KD
Unquoted securities	-	3
	-	3

Starting from 1 January 2018, these investments have been reclassified to new categories as a result of applying IFRS 9 (note 7 and note 3.1).

9 Investment in associates

9.1 Details of the investment in associates are given below:

Name	Percentage ownership		Country of incorporation	Principal activity
	31 Dec. 2018 %	31 Dec. 2017 %		
Weqaya Takaful Insurance and Reinsurance Company – SSC (“Weqaya”) (Quoted) (see a below)	**20**	20	Kingdom of Saudi Arabia	Insurance
Neova Sigorta Insurance Company (Unquoted) (see b below)	**35**	35	Turkey	Insurance

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

	31 Dec. 2018 KD	31 Dec. 2017 KD
Carrying amount at the beginning of the year	**13,333,476**	12,643,260
Addition	**298,826**	-
Share of results of associates – (b)	**1,681,249**	2,642,811
Dividend received	**(646,637)**	-
Impairment in value of associate – (b)	**(607,189)**	(1,442,811)
Foreign exchange translation adjustments	**(2,193,813)**	(509,784)
Carrying amount at the end of year	**11,865,912**	13,333,476

9.2 Summarised financial information of the associates are set out below:

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

The Company has discounted to recognise its share of further losses of Weqaya Takaful Insurance and Reinsurance Company which is stated at a carrying value of KD1 from 1 April 2014 in accordance with IAS 28. The Company’s share of unrecognised losses of the associate and its fair value as at 31 December 2018 cannot be determined because the investee Company’s shares have been suspended from trading since 3 June 2014. If the investee company subsequently report profits, the Company will resume recognising its share of these profits only after its share of the profits equal the share of losses not recognised.

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Notes to the financial statements (continued)

9 Investment in associates (continued)

9.2 Summarised financial information of the associates are set out below: (continued)

b) Neova Sigorta Insurance Company (Unquoted):

	31 Dec. 2018 KD	31 Dec. 2017 KD
Non-current assets	**2,587,400**	2,066,688
Current assets	**116,630,307**	122,946,360
Total assets	**119,217,707**	125,013,048
Non-current liabilities	**(2,379,733)**	(1,981,561)
Current liabilities	**(97,910,704)**	(101,646,001)
Total liabilities	**(100,290,437)**	(103,627,562)
Net assets	**18,927,270**	21,385,486

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
Revenue	**58,876,808**	85,682,256
Profit for the year	**4,803,568**	7,550,887
Total comprehensive income for the year	**(1,464,469)**	6,094,362

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. 2018 KD	31 Dec. 2017 KD
Company's ownership interest (%)	**35**	35
Net assets of the associate	**18,927,270**	21,385,486
Company's share of net assets	**6,624,546**	7,484,921
Embeded goodwill	**5,241,365**	5,848,554
Carrying amount	**11,865,911**	13,333,475

As the carrying amount of the Company's investment in Neova Sigorta Insurance Company includes an embedded goodwill of KD5,848,554, management of the Company assessed the fair value of this investment based on a conservative approach. Accordingly, the Company recognised an impairment of this goodwill of KD607,189 (2017: KD1,442,811) in the statement of profit or loss for the year.

Neova Sigorta Insurance Company is a private company. Therefore, no quoted market price is available for its share.

During the year, the Company received cash dividend equivalents to KD646,637 (2017: KD Nil) from its associate in Turkey (Neova Sigorta Insurance Company).

Notes to the financial statements (continued)

10 Qard Hassan to policyholders' fund and deficit reserve

In accordance with the Company's articles of association, the 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. 2018 KD	31 Dec. 2017 KD
Opening balance at the beginning of the year	**2,253,491**	1,200,791
Net (surplus)/deficit for the year from insurance operations (note 15)	**(66,637)**	1,052,700
Loss on redemption of equity investments at FVOCI	**30,919**	-
Closing balance at the end of the year	**2,217,773**	2,253,491

11 Share capital

	31 Dec. 2018 KD	31 Dec. 2017 KD
Authorised shares of 100 Fils each	**10,760,000**	10,760,000
Issued and fully paid shares of 100 Fils each	**10,660,000**	10,660,000

12 Statutory and voluntary reserves

The Companies Law and the Company's articles of association require that 10% of the profit for the year before KFAS, NLST, Zakat and board of directors' remuneration to be transferred to the statutory reserve. The shareholders of the Company may resolve to discontinue such annual transfer when the reserve totals 50% of the paid up share capital.

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

According to the Company's articles of association, 10% of the profit for the year before KFAS, NLST, Zakat and board of directors' remuneration to be transferred to the voluntary reserve at the discretion of the board of directors subject to the approval of the general assembly.

There is no restriction on distribution of voluntary reserve.

13 Amount due to policyholders

	31 Dec. 2018 KD	31 Dec. 2017 KD
Opening balance at the beginning of the year	**3,334,117**	3,871,789
Net movements during the year	**(110,270)**	(537,672)
Closing balance at the end of the year	**3,223,847**	3,334,117

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

Notes to the financial statements (continued)

14 Annual General Assembly of the Shareholders

The board of directors of the Company proposed not to distribute any dividends for the year ended 31 December 2018, and this proposal is subject to the approval of the general assembly of the Company's shareholders.

The annual general assembly of the shareholders held on 19 April 2018 approved the financial statements of the Company for the year ended 31 December 2017 and the directors' proposal not to distribute any dividends for the year then ended.

Further, the shareholders approved the board of directors' remuneration of KD21,000 for the year ended 31 December 2017 (2016: KD Nil) and was paid following that approval.

15 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 Company.

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 Company 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 statement of policyholders' results as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the financial position date.

The Company generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. In addition, a provision based on management's judgement and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the 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.

Notes to the financial statements (continued)

15 Policyholders' results by line of business and fund (continued)

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

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

Premiums and reinsurance receivables
These 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 Company'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: 4-5 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 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 Company's prior experience is maintained for the cost of settling claims incurred but not reported at the financial position date.

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Notes to the financial statements (continued)

15 Policyholders' results by line of business and fund (continued)

Provision for employees' end of service benefits
The Company 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, in addition to the end of service benefits, the Company makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. The Company'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 financial assets
Measurement of estimated credit losses involves estimates of loss given default and probability of default. Loss given default is an estimate of the loss arising in case of default by customer. Probability of default is an estimate of the likelihood of default in the future. The Company based these estimates using reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

An estimate of the collectible amount of trade accounts 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.

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

Notes to the financial statements (continued)

15 Policyholders' results by line of business and fund (continued)

Policyholders' results by line of business:

	Marine and aviation KD	General accidents KD	Motor vehicles KD	Fire KD	Life and medical KD	Total KD
Year ended 31 December 2018:						
Premiums written	194,947	1,523,668	1,303,220	630,589	1,588,047	5,240,471
Less: reinsurance ceded	(154,789)	(949,036)	(95,334)	(441,499)	(359,476)	(2,000,134)
Net premiums	40,158	574,632	1,207,886	189,090	1,228,571	3,240,337
Movement in unearned premiums	832	(40,014)	221,192	15,266	(102,647)	94,629
Net premiums earned	40,990	534,618	1,429,078	204,356	1,125,924	3,334,966
Policy issuance fees	3,068	3,080	224,853	1,786	1,565	234,352
Total revenues	44,058	537,698	1,653,931	206,142	1,127,489	3,569,318
Net claims incurred	(17,748)	141,394	(1,169,550)	11,710	(612,453)	(1,646,647)
Movement in life mathematical reserve	-	-	-	-	3,000	3,000
Other insurance expenses	(1,536)	(17,761)	(34,077)	(2,577)	(73,601)	(129,552)
Policy acquisition costs	(3,528)	(151,212)	(170,717)	(63,257)	(122,081)	(510,795)
Total expenses	(22,812)	(27,579)	(1,374,344)	(54,124)	(805,135)	(2,283,994)
Surplus by line of business	21,246	510,119	279,587	152,018	322,354	1,285,324
Allocation of general and administrative expenses	(92,921)	(186,707)	(537,060)	(138,615)	(306,640)	(1,261,943)
Net (deficit)/surplus from insurance operations	(71,675)	323,412	(257,473)	13,403	15,714	23,381
Investment and other income(note 15.1)	2,163	6,488	21,628	4,326	8,651	43,256
Net (deficit)/surplus from takaful insurance operations	(69,512)	329,900	(235,845)	17,729	24,365	66,637
Other comprehensive income/(loss) for the year:						
Net change in fair value arising during the year	(8,424)	(15,876)	(45,900)	(11,880)	(25,920)	(108,000)
Other comprehensive loss for the year	(8,424)	(15,876)	(45,900)	(11,880)	(25,920)	(108,000)
Net (deficit)/surplus by line of business including other comprehensive loss	(77,936)	314,024	(281,745)	5,849	(1,555)	(41,363)

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Notes to the financial statements (continued)

15 Policyholders' results by line of business and fund (continued)

Policyholders' results by line of business: (continued)

	Marine and aviation KD	General accidents KD	Motor vehicles KD	Fire KD	Life and medical KD	Total KD
Year ended 31 December 2017:						
Premiums written	382,862	1,126,403	2,353,961	713,628	1,820,558	6,397,412
Less: reinsurance ceded	(326,823)	(592,363)	(161,500)	(497,847)	(455,999)	(2,034,532)
Net premiums	56,039	534,040	2,192,461	215,781	1,364,559	4,362,880
Movement in unearned premiums	6,416	5,756	987,888	(6,083)	(14,403)	979,574
Net premiums earned	62,455	539,796	3,180,349	209,698	1,350,156	5,342,454
Policy issuance fees	1,897	1,884	348,729	1,216	1,321	355,047
Total revenues	64,352	541,680	3,529,078	210,914	1,351,477	5,697,501
Net claims incurred	16,136	(98,186)	(3,554,479)	2,115	(786,876)	(4,421,290)
Movement in life mathematical reserve	-	-	-	-	4,000	4,000
Other insurance expenses	(2,437)	(4,797)	(67,940)	(39,485)	(82,135)	(196,794)
Policy acquisition costs	(8,662)	(92,644)	(583,512)	(76,303)	(96,400)	(857,521)
Total expenses	5,037	(195,627)	(4,205,931)	(113,673)	(961,411)	(5,471,605)
Surplus/(deficit) by line of business	69,389	346,053	(676,853)	97,241	390,066	225,896
Allocation of general and administrative expenses	(109,088)	(202,993)	(583,769)	(153,968)	(364,169)	(1,413,987)
Net (deficit)/surplus from insurance operations	(39,699)	143,060	(1,260,622)	(56,727)	25,897	(1,188,091)
Investment and other income(note 15.1)	6,770	20,308	67,696	13,539	27,078	135,391
Net (deficit)/surplus from takaful insuranc operations	(32,929)	163,368	(1,192,926)	(43,188)	52,975	(1,052,700)
Other comprehensive income/(loss) for the year:						
Net change in fair value arising during the year	-	-	-	-	-	-
Other comprehensive income/(loss) for the year	-	-	-	-	-	-
Net (deficit)/surplus by line of business including other comprehensive income	(32,929)	163,368	(1,192,926)	(43,188)	52,975	(1,052,700)

Notes to the financial statements (continued)

15 Policyholders' results by line of business and fund (continued)

Policyholders' assets, liabilities and fund:

	Notes	31 Dec. 2018 KD	31 Dec. 2017 KD
Assets			
Cash and bank balances		**257,604**	451,107
Investment deposits	15.2	**982,000**	1,026,000
Investments at fair value through other comprehensive income	15.3	**832,769**	-
Available for sale investments	15.4	**-**	1,359,881
Premiums receivable	15.5	**774,191**	759,850
Accounts receivable and other assets	15.6	**1,071,581**	1,026,250
Amount due from shareholders	13	**3,223,847**	3,334,117
Reinsurance recoverable on outstanding claims		**3,733,815**	3,686,787
Equipment		**180,341**	125,342
Total assets		**11,056,148**	11,769,334
Liabilities			
Reinsurance balances payable		**2,017,702**	2,030,084
Unearned premiums		**1,552,488**	1,647,116
Outstanding claims reserve		**6,078,912**	6,393,127
Life mathematical reserve		**69,286**	72,286
Reserve retained on reinsurance business		**257,389**	290,159
Other liabilities	15.8	**3,596,937**	3,811,765
Total liabilities		**13,572,714**	14,244,537
Policyholders' fund			
Net deficit for policyholders at the beginning of the year	15.9	**(2,253,491)**	(1,200,791)
Net surplus/(deficit) from insurance operations for the year		**66,637**	(1,052,700)
Loss on redemption of equity investments at FVOCI	15.3	**(30,919)**	-
		(2,217,773)	(2,253,491)
Fair value reserve	15.9	**(221,712)**	(221,712)
Change in fair value during the year		**(108,000)**	-
Loss on redemption of equity investments at FVOCI	15.3	**30,919**	-
		(298,793)	(221,712)
Total policyholders' fund at the end of year	15.9	**(2,516,566)**	(2,475,203)
Total liabilities and policyholders' fund		**11,056,148**	11,769,334

15.1 Investment and other income:

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
Investment income	**32,388**	60,576
Loss on disposal of subsidiary	**-**	(2,364)
Other income	**10,868**	77,179
	43,256	135,391

Notes to the financial statements (continued)

15 Policyholders' results by line of business and fund (continued)

15.2 Investment deposits:

In accordance with Kuwaiti law, an amount of KD982,000 (31 December 2017: KD1,026,000) has been retained as an investment deposit with a Kuwaiti financial institution. The effective profit rate on the deposits during the year was 2.25% (31 December 2017: 2.25%).

15.3 Investments at fair value through other comprehensive income:

	31 Dec. 2018 KD	31 Dec. 2017 KD
Local unquoted securities	**832,769**	-
	832,769	-

- These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the Company has elected to designate these investments in equity instruments as at FVTOCI as it believes that recognising short-term fluctuations in the fair value of these investments in policyholders' results would not be consistent with the Company's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

- During the year, the Company received an amount of KD419,112 (2017: KD Nil) representing the proceeds on liquidation of the Company's foreign unquoted securities which resulted in a realized loss of KD30,919 recongised directly in policyholders' fund (2017: KD Nil).

- Unquoted investment with carrying value of KD832,766 (previously available for sale investments as at 31 December 2017: KD909,847) is held as security as per the order of the Minister of Commerce and Industry in accordance with the Ministerial Order No. 27 of 1966 and its amendments.

15.4 Available for sale investments:

	31 Dec. 2018 KD	31 Dec. 2017 KD
Quoted securities	-	3
Local unquoted securities	-	909,847
Foreign unquoted securities	-	450,031
	-	1,359,881

Starting from 1 January 2018, these investments have been reclassified to a new category "investments at fair value through other comprehensive income" as a result of adoption of IFRS 9 (notes 15.3 and 3.1).

15.5 Premiums receivable:

	31 Dec. 2018 KD	31 Dec. 2017 KD
Premiums receivable	**1,024,711**	1,001,787
Less: provision for doubtful debts	**(250,520)**	(241,937)
	774,191	759,850

Notes to the financial statements (continued)

15 Policyholders' results by line of business and fund (continued)

15.5 Premiums receivable: (continued)

Provision for doubtful debts for comparative figures is calculated based on measurement basis required by IAS (39), which applies the incurred loss model, while provision for doubtful debts for the current year is calculated as per IFRS (9) which is calculated based on expected credit loss model.

In measuring the expected credit losses, the premium receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and nature of customers.

On the above basis, the provision for doubtful debts for premium receivables as at 31 December 2018 and 31 December 2017 was determined as follows:

	Current	3-6 months	6-12 months	12-24 months	>24 months	Total
31 December 2018:						
Gross carrying amount (KD)	**257,497**	**285,870**	**226,527**	**55,215**	**199,602**	**1,024,711**
Provision for doubtful debts (KD)	**(3,862)**	**(8,576)**	**(14,891)**	**(37,736)**	**(185,455)**	**(250,520)**
	253,635	**277,294**	**211,636**	**17,479**	**14,147**	**774,191**
31 December 2017:						
Gross carrying amount (KD)	460,093	104,311	186,234	165,758	85,391	1,001,787
Provision for doubtful debts (KD)	-	-	(501)	(156,045)	(85,391)	(241,937)
	460,093	104,311	185,733	9,713	-	759,850

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

	31 Dec. 2018 KD	31 Dec. 2017 KD
Balance at 1 January	**241,937**	133,848
Charge during the year	**8,583**	108,089
Balance at 31 December	**250,520**	241,937

15.6 Accounts receivable and other assets:

	31 Dec. 2018 KD	31 Dec. 2017 KD
Financial assets		
Reinsurance receivable	**963,874**	945,360
Cheques under collection	**5,969**	6,041
Accrued income	**22,095**	22,572
Other assets	**46,711**	15,063
	1,038,649	989,036
Non-financial assets		
Prepaid expenses	**32,932**	37,214
	1,071,581	1,026,250

Provision for doubtful debts for comparative figures is calculated based on measurement basis required by IAS (39), which applies the incurred loss model, while provision for doubtful debts for the current year is calculated as per IFRS (9) which is calculated based on expected credit loss model.

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Notes to the financial statements (continued)

15 Policyholders' results by line of business and fund (continued)

15.6 Accounts receivable and other assets: (continued)

In measuring the expected credit losses, the re-insurance receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and nature of customers.

Management of the Company determined that the impairment required for the years 2018 and 2017 was not material and accordingly the Company did not recognise any impairment losses on its re-insurance receivables during the year.

15.7 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 Company's prior experience at the financial position date.

During the years 2018 and 2017, management of the Company decided that the above provision is no longer required which was included within total balance of outstanding claim reserve in addition to claims which were recorded and incurred but not reported reserve, also the provision was reconciled with reinsurance recoverable on outstanding claims.

15.8 Other liabilities:

	31 Dec. 2018 KD	31 Dec. 2017 KD
Reinsurance payables	**653,195**	607,785
Garages and agencies	**1,468,163**	1,760,528
Brokerage commissions	**227,285**	175,185
Provision for employees' end of service benefits	**392,139**	350,657
Provision for staff leave	**134,839**	124,356
Accrued expenses	**137,154**	165,593
Due to related party	**298,463**	300,000
Other liabilities	**285,699**	327,661
	3,596,937	3,811,765

15.9 Movement in policyholders' fund:

	31 Dec. 2018 KD	31 Dec. 2017 KD
Balance at beginning of the year	**(2,253,491)**	(1,200,791)
Net surplus/(deficit) from insurance operations for the year	**66,637**	(1,052,700)
Loss on redemption of equity investments at FVOCI	**(30,919)**	-
	(2,217,773)	(2,253,491)
Fair value reserve at the beginning of the year	**(221,712)**	(221,712)
Change in fair value during the year	**(108,000)**	-
Loss on redemption of equity investments at FVOCI	**30,919**	-
	(298,793)	(221,712)
Balance at the end of the year	**(2,516,566)**	(2,475,203)

In accordance with the Company's 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.

Notes to the financial statements (continued)

16 Related party balances and transactions

Related parties represent Parent Company, associates, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management. Details of balances and transactions between the Company and its related parties are disclosed below.

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
SHAREHOLDERS		
Statement of profit or loss:		
Consultancy fees	**60,000**	-
Key management compensation:		
Salaries and other short term benefits	**56,037**	51,441
End of service benefits	**3,126**	3,056
	59,163	54,497

	31 Dec. 2018 KD	31 Dec. 2017 KD
POLICYHOLDERS		
Statement of assets, liabilities and fund:		
Premiums receivable	**84,359**	5,164
Other liabilities	**161,124**	227,615
Due to related party (included in other liabilities)	**298,463**	300,000

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
Statement of policyholders' results:		
Premiums written	**369,206**	186,927
Consultancy fees	**-**	60,000
Rent expense	**88,012**	88,012
Key management compensation:		
Salaries and other short term benefits	**149,360**	154,323
End of service benefits	**9,379**	9,168
	158,739	163,491

17 Segmental analysis

Operating segments are identified based on internal management reporting information that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance, and is reconciled to Company's profit or loss.

Notes to the financial statements (continued)

17 Segmental analysis (continued)

The Company operates in the sectors of investment and takaful insurance as follows:

	Investment KD	Takaful insurance KD	Unallocated KD	Total KD
Shareholders				
Year ended at 31 December 2018				
Total revenue	**1,681,249**	**-**	**-**	**1,681,249**
Profit/(loss) for the year	**1,074,060**	**-**	**(252,860)**	**821,200**
As at 31 December 2018				
Total assets	**11,865,915**	**2,217,773**	**4,297**	**14,087,985**
Total liabilities	**-**	**(5,441,620)**	**(182,888)**	**(5,624,508)**
Net assets	**11,865,915**	**(3,223,847)**	**(178,591)**	**8,463,477**
Shareholders				
Year ended at 31 December 2017				
Total revenue	2,855,324	-	-	2,855,324
Profit/(loss) for the year	1,412,513	-	(202,961)	1,209,552
As at 31 December 2017				
Total assets	13,333,479	2,253,491	9,183	15,596,153
Total liabilities	-	(5,587,608)	(172,455)	(5,760,063)
Net assets	13,333,479	(3,334,117)	(163,272)	9,836,090
Policyholders				
Year ended at 31 December 2018				
Total revenue	**43,256**	**3,569,318**	**-**	**3,612,574**
Net surplus/(deficit) for the year	**43,256**	**1,285,324**	**(1,261,943)**	**66,637**

	Investment KD	Takaful insurance KD	Unallocated KD	Total KD
As at 31 December 2018				
Total assets	**1,814,769**	**8,803,434**	**437,945**	**11,056,148**
Total liabilities	**-**	**(9,975,777)**	**(3,596,937)**	**(13,572,714)**
Net assets	**1,814,769**	**(1,172,343)**	**(3,158,992)**	**(2,516,566)**
Policyholders				
Year ended at 31 December 2017				
Total revenue	135,391	5,697,501	-	5,832,892
Net surplus/(deficit) for the year	135,391	225,896	(1,413,987)	(1,052,700)
As at 31 December 2017				
Total assets	2,385,881	8,807,004	576,449	11,769,334
Total liabilities	-	(10,432,772)	(3,811,765)	(14,244,537)
Net assets	2,385,881	(1,625,768)	(3,235,316)	(2,475,203)

Notes to the financial statements (continued)

18 Contingent liabilities

The Company is a defendant in a number of legal cases filed by Takaful contract holders in respect of claims subject to dispute with the Company for which Company has made provisions which, in its opinion, are adequate to cover any resultant liabilities.

19 Risk management objectives and policies

The Company's risk and financial management framework is to protect the Company'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 Company's board of directors is 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 Company:
   - For the life and capital insurance contracts issued in Kuwait, the full mathematical reserves are to be retained in Kuwait.
   - For marine insurance contracts, at least 15% of the premiums collected in the previous year are to be retained in Kuwait.
   - For all other types of insurance, at least 30% of the premiums collected in the previous year are to be retained in Kuwait.

The funds retained in Kuwait should be invested as under:

a. 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 Company's senior management is responsible for monitoring compliance with the above regulation and has the 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.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly marine and aviation, fire and general accidents, 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.

Notes to the financial statements (continued)

19 Risk management objectives and policies (continued)

(1) Non-life insurance contracts
The Company 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 Company has reinsurance cover to limit losses for any individual claim to KD1,750,000 (31 December 2017: KD1,750,000).

Fire and accidents
For property insurance contracts the main risks are fire and business interruption. In recent years the Company 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 Company has reinsurance cover for such damage to limit losses for any individual claim to KD13,000,000 (31 December 2017: 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 Company has primarily underwritten comprehensive polices for owner/drivers over 21 years of age. The Company has reinsurance cover to limit losses for any individual claim to KD400,000 (31 December 2017: 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 Company, 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 Company. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

Notes to the financial statements (continued)

19 Risk management objectives and policies (continued)

Motor (continued)

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g hurricanes, earthquakes and flood damages).

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

	31 Dec. 2018			31 Dec. 2017		
	Gross liabilities KD	**Reinsurers' share of liabilities KD**	**Net liabilities KD**	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
Marine and aviation	**838,968**	**(808,710)**	**30,258**	1,014,028	(1,000,724)	13,304
General accident	**1,269,193**	**(936,225)**	**332,968**	1,703,756	(1,068,775)	634,981
Motor vehicles	**2,215,019**	**(611,240)**	**1,603,779**	2,318,235	(727,796)	1,590,439
Fire	**951,328**	**(930,141)**	**21,187**	153,439	(146,211)	7,228
Total	**5,274,508**	**(3,286,316)**	**1,988,192**	5,189,458	(2,943,506)	2,245,952

Key assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example 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 Company, type of risk insured and by industry. Life insurance contracts offered by the Company include Company whole life insurance, credit life (banks), and Company medical including third party administration (TPA).

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

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

Notes to the financial statements (continued)

19 Risk management objectives and policies (continued)

(2) Life insurance contracts (continued)

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

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

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

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. 2018			31 Dec. 2017		
	Gross liabilities KD	**Reinsurers' share of liabilities KD**	**Net liabilities KD**	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
Type of contract						
Credit life (credit insurance)	**215,562**	**(146,276)**	**69,286**	265,285	(192,999)	72,286
Other life insurance contract liabilities	**588,842**	**(301,223)**	**287,619**	938,384	(550,282)	388,102
Total life insurance contracts	**804,404**	**(447,499)**	**356,905**	1,203,669	(743,281)	460,388

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.

Notes to the financial statements (continued)

19 Risk management objectives and policies (continued)

(2) Life insurance contracts (continued)
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.

Financial risks
The Company'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 Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

19.1 Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Company's 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. 2018 KD	31 Dec. 2017 KD
SHAREHOLDERS		
Bank balance	**4,297**	4,297
Qard Hassan to policyholders' fund	**2,217,773**	2,253,491
Other assets	**-**	2,221
	2,222,070	2,260,009
POLICYHOLDERS		
Bank balances	**248,456**	444,018
Investment deposits	**982,000**	1,026,000
Premiums receivable	**774,191**	759,850
Accounts receivable and other assets	**1,038,649**	989,036
Amount due from shareholders	**3,223,847**	3,334,117
Reinsurance recoverable on outstanding claims	**3,733,815**	3,686,787
	10,000,958	10,239,808

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

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Notes to the financial statements (continued)

19 Risk management objectives and policies (continued)

19.1 Credit risk (continued)

Credit quality per class of financial assets (continued)
At 31 December 2018 and 31 December 2017, credit quality per class is as follows:

	Neither past due nor impaired			
31 December 2018	**High Grade KD**	**Standard grade KD**	**Past due or impaired KD**	**Total KD**
SHAREHOLDERS				
Bank balance	**4,297**	**-**	**-**	**4,297**
Qard Hassan to policyholders' fund	**-**	**2,217,773**	**-**	**2,217,773**
	4,297	**2,217,773**	**-**	**2,222,070**
POLICYHOLDERS				
Bank balances	**248,456**	**-**	**-**	**248,456**
Investment deposits	**982,000**	**-**	**-**	**982,000**
Premiums receivable	**543,337**	**230,854**	**-**	**774,191**
Accounts receivable and other assets	**107,707**	**930,942**	**-**	**1,038,649**
Amount due from shareholders	**-**	**3,223,847**	**-**	**3,223,847**
Reinsurance recoverable on outstanding claims	**-**	**3,733,815**	**-**	**3,733,815**
	1,881,500	**8,119,458**	**-**	**10,000,958**

	Neither past due nor impaired			
	High Grade KD	**Standard grade KD**	**Past due or impaired KD**	**Total KD**
31 December 2017				
SHAREHOLDERS				
Bank balance	4,297	-	-	4,297
Qard Hassan to policyholders' fund	-	2,253,491	-	2,253,491
Other assets	2,221	-	-	2,221
	6,518	2,253,491	-	2,260,009
POLICYHOLDERS				
Bank balances	444,018	-	-	444,018
Investment deposits	1,026,000	-	-	1,026,000
Premiums receivable	460,093	299,757	-	759,850
Accounts receivable and other assets	80,890	908,146	-	989,036
Amount due from shareholders	-	3,334,117	-	3,334,117
Reinsurance recoverable on outstanding claims	-	3,686,787	-	3,686,787
	2,011,001	8,228,807	-	10,239,808

19.2 Liquidity risk

Liquidity risk is the risk that the Company 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.

Notes to the financial statements (continued)

19 Risk management objectives and policies (continued)

19.2 Liquidity risk (continued)

Maturity profile of assets and liabilities at 31 December 2018 and 31 December 2017:

	1–3 month KD	3-6 Months KD	6-12 months KD	Total Up to 1 year KD	Over 1 year KD	Total KD
31 December 2018						
SHAREHOLDERS						
Assets						
Bank balance	4,297	-	-	4,297	-	4,297
Investments at fair value through other comprehensive income	-	-	-	-	3	3
Investment in associates	-	-	-	-	11,865,912	11,865,912
Qard Hassan to policyholders' fund	-	-	-	-	2,217,773	2,217,773
	4,297	-	-	4,297	14,083,688	14,087,985
Liabilities						
Policyholders' deficit reserve	-	-	-	-	2,217,773	2,217,773
Amount due to policyholders	-	-	-	-	3,223,847	3,223,847
Other liabilities	11,219	14,859	21,200	47,278	135,610	182,888
	11,219	14,859	21,200	47,278	5,577,230	5,624,508
Net exposure	(6,922)	(14,859)	(21,200)	(42,981)	8,506,458	8,463,477
POLICYHOLDERS						
Assets						
Cash and bank balances	257,604	-	-	257,604	-	257,604
Investment deposits	-	-	-	-	982,000	982,000
Investments at fair value through other comprehensive income	-	-	-	-	832,769	832,769
Premiums receivable	253,635	277,294	229,115	760,044	14,147	774,191
Accounts receivable and other assets	217,283	200,423	421,796	839,502	232,079	1,071,581
Amount due from shareholders	-	-	-	-	3,223,847	3,223,847
Reinsurance recoverable on outstanding claims	373,381	560,072	933,454	1,866,907	1,866,908	3,733,815
Equipment	-	-	-	-	180,341	180,341
	1,101,903	1,037,789	1,584,365	3,724,057	7,332,091	11,056,148
Liabilities						
Reinsurance balances payable	343,009	181,593	423,717	948,319	1,069,383	2,017,702
Unearned premiums	232,873	310,498	388,122	931,493	620,995	1,552,488
Outstanding claims reserve	607,891	911,837	1,519,728	3,039,456	3,039,456	6,078,912
Life mathematical reserve	-	-	-	-	69,286	69,286
Reserve retained on reinsurance business	-	-	-	-	257,389	257,389
Other liabilities	359,694	539,540	899,234	1,798,468	1,798,469	3,596,937
	1,543,467	1,943,468	3,230,801	6,717,736	6,854,978	13,572,714
Net exposure	(441,564)	(905,679)	(1,646,436)	(2,993,679)	477,113	(2,516,566)

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Notes to the financial statements (continued)

19 Risk management objectives and policies (continued)

19.2 Liquidity risk (continued)

	1–3 month KD	3-6 Months KD	6-12 months KD	Total Up to 1 year KD	Over 1 year KD	Total KD
31 December 2017						
SHAREHOLDERS						
Bank balance	4,297	-	-	4,297	-	4,297
Available for sale investments	-	-	-	-	3	3
Investment in associates	-	-	-	-	13,333,476	13,333,476
Qard Hassan to policyholders' fund	-	-	-	-	2,253,491	2,253,491
Other assets	2,221	2,665	-	4,886	-	4,886
	6,518	2,665	-	9,183	15,586,970	15,596,153
Liabilities						
Policyholders' deficit reserve	-	-	-	-	2,253,491	2,253,491
Amount due to policyholders	-	-	-	-	3,334,117	3,334,117
Other liabilities	-	10,250	135,226	145,476	26,979	172,455
	-	10,250	135,226	145,476	5,614,587	5,760,063
Net exposure	6,518	(7,585)	(135,226)	(136,293)	9,972,383	9,836,090
POLICYHOLDERS						
Assets						
Cash and bank balances	451,107	-	-	451,107	-	451,107
Investment deposits	-	-	-	-	1,026,000	1,026,000
Available for sale investments	-	-	-	-	1,359,881	1,359,881
Premiums receivable	460,093	104,311	195,446	759,850	-	759,850
Accounts receivable and other assets	373,644	142,150	219,090	734,884	291,366	1,026,250
Amount due from shareholders	-	-	-	-	3,334,117	3,334,117
Reinsurance recoverable on outstanding claims	368,678	553,018	921,696	1,843,392	1,843,395	3,686,787
Equipment	-	-	-	-	125,342	125,342
	1,653,522	799,479	1,336,232	3,789,233	7,980,101	11,769,334
Liabilities						
Reinsurance balances payable	345,337	181,915	425,265	952,517	1,077,567	2,030,084
Unearned premiums	247,067	329,429	411,779	988,275	658,841	1,647,116
Outstanding claims reserve	639,313	958,969	1,598,282	3,196,564	3,196,563	6,393,127
Life mathematical reserve	-	-	-	-	72,286	72,286
Reserve retained on reinsurance business	-	-	-	-	290,159	290,159
Other liabilities	381,176	571,765	952,941	1,905,882	1,905,883	3,811,765
	1,612,893	2,042,078	3,388,267	7,043,238	7,201,299	14,244,537
Net exposure	40,629	(1,242,599)	(2,052,035)	(3,254,005)	778,802	(2,475,203)

19.3 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.

Notes to the financial statements (continued)

19 Risk management objectives and policies (continued)

19.3 Market risk (continued)

Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (profit rate risk) and market prices (equity price risk).

The Company 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 Company'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 Company'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 Company's significant exposures to foreign currency exchange rate risk at the financial position date:

	Denominated in KD					
	USD	**Sterling Pound**	**Saudi Riyal**	**Turkish Lira**	**Other**	**Total**
Shareholders						
31 December 2018	**-**	**-**	**1**	**11,865,911**	**-**	**11,865,912**
31 December 2017	-	-	1	13,333,475	-	13,333,476
Policyholders						
31 December 2018	**321,917**	**365,856**	**8,395**	**-**	**201,974**	**898,142**
31 December 2017	377,785	459,483	8,395	-	213,155	1,058,818

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit/results for the year and equity.

Refer to note (9.1) relating to exchange differences arising on translation of foreign operations (an associate).

	Changes in variables %	**31 December 2018**		31 Dec. 2017	
		Impact on profit KD	**Impact on equity KD**	Impact on profit KD	Impact on equity KD
SHAREHOLDERS					
Turkish Lira	±5	**-**	**593,296**	-	666,674
POLICYHOLDERS					
US Dollar	±5	**16,096**	**-**	18,889	-
Sterling Pound	±5	**18,293**	**-**	22,974	-
Saudi Riyal	±5	**420**	**-**	420	-
Other	±5	**10,099**	**-**	22,924	-

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Notes to the financial statements (continued)

19 Risk management objectives and policies (continued)

19.3 Market risk (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 Company has no significant profit bearing assets other than investment deposits.

The following table illustrates the sensitivity of the profit/results for the year to a reasonably possible change in profit rates of +1% and –1% (31 December 2017: +1% and –1%) with effect from the beginning of the year. The calculations are based on the Company'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 direct impact on the Company's equity:

	31 Dec. 2018		31 Dec. 2017	
	+1% KD	**-1% KD**	+1% KD	-1% KD
POLICYHOLDERS				
Net surplus/(deficit) from insurance operations for the year	**9,820**	**(9,820)**	10,260	(10,260)

c) Equity price risk
The Company is exposed to equity price risk with respect to its equity investments. Equity investments are classified as investments at fair value through other comprehensive income (previously as available for sale investments).

To manage its price risk arising from investments in equity securities, the Company 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 2017: 10%) higher/lower, the effect on the equity would have been as follows:

	31 Dec. 2018		31 Dec. 2017	
	Increase 10%	**Decrease 10%**	Increase 10%	Decrease 10%
POLICYHOLDERS				
Impact on policyholders' fund	**83,277**	**(83,277)**	90,984	(90,984)

Notes to the financial statements (continued)

20 Fair value measurement

20.1 Fair value measurement of financial instruments

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

	31 Dec. 2018 KD	31 Dec. 2017 KD
Shareholders' assets and liabilities		
Financial assets:		
Loans and receivables at amortised cost:		
- Bank balance	**4,297**	4,297
- Qard Hassan to policyholders' fund	**2,217,773**	2,253,491
- Other assets	**-**	2,221
Financial assets at fair value:		
Investments at fair value through other comprehensive income	**3**	-
Available for sale investments at:		
Fair value	**-**	3
	2,222,073	2,260,012
Financial liabilities:		
Financial liabilities at amortised cost:		
Amount due to policyholders'	**3,223,847**	3,334,117
Other liabilities	**182,888**	172,455
	3,406,735	3,506,572
Policyholders' assets and liabilities		
Financial assets:		
Loans and receivables at amortised cost:		
Cash and bank balances	**257,604**	451,107
Investment deposits	**982,000**	1,026,000
Premiums receivable	**774,191**	759,850
Accounts receivable and other assets	**1,038,649**	989,036
Amount due from shareholders	**3,223,847**	3,334,117
Reinsurance recoverable on outstanding claims	**3,733,815**	3,686,787
Financial assets at fair value:		
Investments at fair value through other comprehensive income	**832,769**	-
Available for sale investments at:		
Fair value	**-**	909,850
Cost	**-**	450,031
	10,842,875	11,606,778
Financial liabilities:		
Financial liabilities at amortised cost:		
Reinsurance balances payable	**2,017,702**	2,030,084
Unearned premiums	**1,552,488**	1,647,116
Other liabilities	**3,596,937**	3,811,765
	7,167,127	7,488,965

Management considers that the carrying amounts of loans and receivable and all financial liabilities, which are stated at amortized cost, approximate their fair values.

Notes to the financial statements (continued)

20 Fair value measurement (continued)

20.1 Fair value measurement of financial instruments (continued)

20.2 Fair value measurement

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. The Company measures financial instruments at fair value and measurement details are disclosed below. In the opinion of the Company's management, the carrying amounts of all other financial assets and liabilities which are carried at amortised costs are considered a reasonable approximation of their fair values.

20.3 Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows,

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

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

31 December 2018

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
SHAREHOLDERS				
Investments at fair value through other comprehensive income				
Unquoted securities	-	-	3	3
	-	-	3	3
POLICYHOLDERS				
Investments at fair value through other comprehensive income				
Unquoted securities	-	-	832,769	832,769
	-	-	832,769	832,769

Notes to the financial statements (continued)

20 Fair value measurement (continued)

20.3 Fair value hierarchy (continued)

31 December 2017

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
SHAREHOLDERS				
Available for sale investments:				
Unquoted securities	-	-	3	3
	-	-	3	3
POLICYHOLDERS				
Available for sale investments:				
Unquoted securities	-	-	909,850	909,850
	-	-	909,850	909,850

There have been no 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.

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 Company's financial assets 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:

	Shareholders		**Policyholders**	
	Unquoted securities		Unquoted securities	
	Investments at fair value through OCI	Available for sale investments	**Investments at fair value through OCI**	Available for sale investments
	31 Dec. 2018 KD	31 Dec. 2017 KD	**31 Dec. 2018 KD**	31 Dec. 2017 KD
Opening balance	**3**	599,452	**909,850**	1,131,562
Disposal	**-**	(599,449)	**-**	-
Change in fair value	**-**	-	**(77,081)**	(221,712)
Closing balance	**3**	3	**832,769**	909,850

Notes to the financial statements (continued)

20 Fair value measurement (continued)

20.3 Fair value hierarchy (continued)

Level 3 fair value measurements (continued)
The Company'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 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 statement of profit or loss and 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 statement of profit or loss, total assets, total liabilities or total equity.

21 Capital management objectives

The Company's capital management objectives are to ensure the Company'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 Company 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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

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

	31 Dec. 2018 KD	31 Dec. 2017 KD
Profit for the year	**821,200**	1,209,552
Total equity	**8,463,477**	9,836,090
Return on equity	**9.7%**	12.3%

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