AL-AHLEIA INSURANCE COMPANY S.A.K.P.

FINANCIAL STATEMENTS

31 December 2014

Building a better working world

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Parker Randall

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

Report on the Financial Statements

We have audited the accompanying financial statements of Al-Ahleia Insurance Company S.A.K.P. (the "Company"), which comprise the statement of financial position as at 31 December 2014, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Company and the financial statements, together with the contents of the report of the Company's board of directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Companies Law No. 25 of 2012, as amended and its executive regulation, and by the Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012, as amended and its executive regulation, or of the Company's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2014 that might have had a material effect on the business of the Company or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL-AIBAN, AL-OSAIMI & PARTNERS

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

4 March 2015
Kuwait

Al-Ahleia Insurance Company S.A.K.P.

STATEMENT OF INCOME

For the year ended 31 December 2014

	Notes	*2014 KD*	*2013 KD*
Revenue:			
Gross premiums written		**31,536,247**	30,229,996
Premiums ceded to reinsurers		**(19,150,390)**	(16,875,350)
Net premiums written		**12,385,857**	13,354,646
Movement in unearned premiums		**596,718**	(330,279)
Net premiums earned		**12,982,575**	13,024,367
Commission received on ceded reinsurance		**6,230,194**	6,323,471
Policy issuance fees		**592,504**	619,784
Net investment income	3	**2,684,719**	3,980,745
Other income		**139,716**	863,995
Total revenue		**22,629,708**	24,812,362
Expenses:			
Net claims incurred	9	**(5,568,016)**	(7,027,581)
Commission expense		**(2,390,176)**	(3,751,181)
Movement in life mathematical reserve		**(728,000)**	(442,000)
Maturity and cancellations of life insurance policies		**(429,672)**	(186,017)
Administrative expenses		**(4,211,523)**	(3,314,539)
Total expenses		**(13,327,387)**	(14,721,318)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT AND DIRECTORS' FEES		**9,302,321**	10,091,044
Contribution to KFAS		**(90,621)**	(95,344)
NLST		**(199,067)**	(221,145)
Zakat		**(79,627)**	(88,458)
Directors' fees	12	**(409,847)**	(180,000)
PROFIT FOR THE YEAR		**8,523,159**	9,506,097
BASIC AND DILUTED EARNINGS PER SHARE	4	**43.46 fils**	48.54 fils

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	*2014* *KD*	*2013* *KD*
Profit for the year		**8,523,159**	9,506,097
Other comprehensive income:			
Other comprehensive income to be reclassified to the income statement in subsequent period			
Net changes in fair value of financial assets available for sale		**2,495,519**	817,787
Share of other comprehensive gain (loss) of associates	6	**139,252**	(84,934)
Realised gain on financial assets available for sale for the year		**(587,563)**	(1,698,876)
Impairment loss on financial assets available for sale	3	**1,085,822**	1,440,126
Foreign currency translation adjustment	6	**147,607**	45,942
Net other comprehensive income for the year		**3,280,637**	520,045
Total comprehensive income for the year		**11,803,796**	10,026,142

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

Al-Ahleia Insurance Company S.A.K.P.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	*2014 KD*	*2013 KD*
ASSETS			
Property and equipment	5	**2,649,174**	2,805,026
Investment in associates	6	**16,366,220**	16,449,296
Financial assets available for sale	7	**79,291,783**	72,890,578
Loans secured by life insurance policyholders		**216,448**	155,088
Premiums and insurance receivables	8	**10,979,968**	11,790,946
Reinsurance recoverable on outstanding claims	9	**28,582,341**	27,186,890
Other debit balances	10	**1,995,805**	2,374,254
Fixed deposits	11	**22,149,263**	25,135,948
Bank balances and cash		**1,100,666**	558,219
TOTAL ASSETS		**163,331,668**	159,346,245
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**20,000,000**	20,000,000
Statutory reserve	13	**18,171,431**	18,171,431
General reserve	13	**18,862,138**	17,931,906
Special voluntary reserve	13	**11,000,000**	11,000,000
Treasury shares	14	**(1,414,701)**	(1,478,157)
Treasury shares reserve		**1,434,528**	1,414,775
Cumulative changes in fair values reserve		**11,861,293**	8,728,263
Foreign currency translation reserve		**283,463**	135,856
Retained earnings		**17,710,933**	16,393,187
Total equity		**97,909,085**	92,297,261
LIABILITIES			
Liabilities arising from insurance contracts:			
Outstanding claims reserve	9	**38,115,762**	35,948,524
Unearned premiums reserve	9	**3,922,843**	4,519,561
Life mathematical reserve	9	**4,946,000**	4,218,000
Incurred but not reported reserve	9	**4,090,996**	6,700,000
Total liabilities arising from insurance contracts		**51,075,601**	51,386,085
Insurance payables	15	**7,936,348**	9,119,457
Other credit balances	16	**6,335,249**	6,458,356
Premiums received in advance		**75,385**	85,086
Total liabilities		**65,422,583**	67,048,984
TOTAL EQUITY AND LIABILITIES		**163,331,668**	159,346,245

Sulaiman Hamad Al-Dalali
Chairman

Ayman Abdullatif Al-Shayea
Vice Chairman

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

Al-Ahleia Insurance Company S.A.K.P.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Share capital KD	*Statutory reserve KD*	*General reserve KD*	*Special voluntary reserve KD*	*Treasury shares KD*	*Treasury shares reserve KD*	*Cumulative changes in fair values reserve KD*	*Foreign currency translation reserve KD*	*Retained earnings KD*	*Total equity KD*
Balance at 1 January 2014	20,000,000	18,171,431	17,931,906	11,000,000	(1,478,157)	1,414,775	8,728,263	135,856	16,393,187	92,297,261
Profit for the year	-	-	-	-	-	-	-	-	8,523,159	8,523,159
Other comprehensive income for the year	-	-	-	-	-	-	3,133,030	147,607	-	3,280,637
Total comprehensive income for the year	-	-	-	-	-	-	3,133,030	147,607	8,523,159	11,803,796
Cash dividend (Note 12)	-	-	-	-	-	-	-	-	(6,275,181)	(6,275,181)
Sale of treasury shares	-	-	-	-	63,456	19,753	-	-	-	83,209
Transfer to reserves	-	-	930,232	-	-	-	-	-	(930,232)	-
Balance at 31 December 2014	**20,000,000**	**18,171,431**	**18,862,138**	**11,000,000**	**(1,414,701)**	**1,434,528**	**11,861,293**	**283,463**	**17,710,933**	**97,909,085**
Balance at 1 January 2013	18,953,248	17,162,327	16,922,802	10,500,000	(1,579,956)	1,385,068	8,254,160	89,914	15,090,504	86,778,067
Profit for the year	-	-	-	-	-	-	-	-	9,506,097	9,506,097
Other comprehensive income for the year	-	-	-	-	-	-	474,103	45,942	-	520,045
Total comprehensive income for the year	-	-	-	-	-	-	474,103	45,942	9,506,097	10,026,142
Issue of bonus shares (Note 12)	1,046,752	-	-	-	-	-	-	-	(1,046,752)	-
Cash dividend (Note 12)	-	-	-	-	-	-	-	-	(4,638,454)	(4,638,454)
Sale of treasury shares	-	-	-	-	101,799	29,707	-	-	-	131,506
Transfer to reserves	-	1,009,104	1,009,104	500,000	-	-	-	-	(2,518,208)	-
Balance at 31 December 2013	20,000,000	18,171,431	17,931,906	11,000,000	(1,478,157)	1,414,775	8,728,263	135,856	16,393,187	92,297,261

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	*2014* *KD*	*2013* *KD*
OPERATING ACTIVITIES			
Profit for the year		**8,523,159**	9,506,097
Adjustments to reconcile profit for the profit to net cash flows:			
Depreciation of property and equipment	5	**172,800**	179,081
Share of loss of associates	3	**(80,039)**	(1,135,413)
Gain on sale of financial assets available for sale	3	**(587,563)**	(1,698,876)
Impairment loss on financial assets available for sale	3	**1,085,822**	1,440,126
Interest income on bonds and fixed deposits	3	**(436,359)**	(468,595)
Dividend income	3	**(2,577,091)**	(2,033,319)
Interest expense		**17,049**	23,625
Provision for employees' end of service benefits		**252,960**	141,761
		6,370,738	5,954,487
Changes in operating assets and liabilities:			
Premiums and insurance receivables		**810,978**	(1,652,714)
Reinsurance recoverable on outstanding claims		**(1,395,451)**	(358,949)
Other debit balances		**667,658**	(11,535)
Liabilities arising from insurance contracts		**(310,484)**	1,809,826
Insurance payables		**(1,183,109)**	(6,158,824)
Other credit balances		**376,331**	(537,418)
Premiums received in advance		**(9,701)**	(325,848)
Cash flows from (used in) operations		**5,326,960**	(1,280,975)
Employees' end of service benefits paid		**(385,529)**	(110,364)
Net cash flows from (used in) operating activities		**4,941,431**	(1,391,339)
INVESTING ACTIVITIES			
Purchase of property and equipment	5	**(16,948)**	(46,052)
Additional subscription in associates	6	**-**	(3,696)
Purchase of financial assets available for sale		**(10,421,333)**	(6,326,964)
Proceeds from sale of financial assets available for sale		**6,515,647**	8,963,041
Movement in loans secured by life insurance policyholders		**(61,360)**	25,270
Fixed deposits		**2,986,685**	(4,971,318)
Dividends received		**2,536,029**	2,033,319
Dividends received from associates		**449,974**	-
Interest income received		**188,212**	210,897
Net cash flows from (used in) investing activities		**2,176,906**	(115,503)
FINANCING ACTIVITIES			
Dividend paid		**(6,642,050)**	(4,557,651)
Interest expense paid		**(17,049)**	(23,625)
Sale of treasury shares		**83,209**	131,506
Net cash flows used in financing activities		**(6,575,890)**	(4,449,770)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**542,447**	(5,956,612)
Cash and cash equivalents at 1 January		**558,219**	6,514,831
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**1,100,666**	558,219

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

1 CORPORATE INFORMATION

The financial statements of Al-Ahleia Insurance Company S.A.K.P. (the "Company") for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Board of Directors on 4 March 2015.

The financial statements of the Company for the year ended 31 December 2013 have been approved by the shareholders' at the Annual General Meeting held on 8 April 2014.

The Company is a Kuwaiti Shareholding Company registered in 1962 under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments. It is engaged in various insurance activities, including reinsurance as set forth in the Company's Articles of Association, article No. 3. Its registered head office address is at P. O. Box 1602, Safat 13017, Kuwait.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

Basis of preparation
The financial statements have been prepared on the historical cost basis, except for financial assets available for sale that have been carried at fair value.

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

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Product classification
Insurance contracts
Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

Investment contracts
Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or the other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception if insurance risk becomes significant.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

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

Commissions and policy issuance fees
Insurance and investment contracts policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods.

Interest income
Interest income is recognised using the effective interest rate method.

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

Realised gains and losses
Realised gains and losses recorded in the income statement include gains and losses on financial assets. Gains and losses on sale of investments are calculated as the difference between net sales proceeds and the carrying value and are recorded on occurrence of the sale transactions.

Claims
Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income statement as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the reporting date.

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

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amounts is less than the carrying value an impairment loss is recognised in the income statement, then they are deferred and recognised over those future periods (DAC). DAC is also considered in the liability adequacy test for each reporting period.

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

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

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

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

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

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

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

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

The Company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

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

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

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

Zakat

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

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

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

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

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

Investment in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

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

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)
The aggregate of the Company's share of profit or loss of an associate is included as part of net investment income in the statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

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

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

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

Financial instruments – initial recognition and subsequent measurement

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

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

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

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

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

After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the financial assets available for sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the financial assets available for sale reserve to the statement of income in finance costs. Interest earned whilst holding financial assets available for sale is reported as interest income using the EIR method.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

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

For a financial asset reclassified from the financial assets available for sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of income.

Loans and other debit balances
This category is the most relevant to the Company. Loans and other debit balances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of income. The losses arising from impairment are recognised in the statement of income in finance costs for loans and in cost of sales or other operating expenses for other debit balances.

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

Term deposits
Term deposits are deposits with an original maturity of more than three months but less than one year.

Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand and bank balances.

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

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

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

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Subsequent measurement (continued)
Derecognition (continued)
The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

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

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of income. Interest income (recorded as finance income in the statement of income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of income.

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

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(ii) Impairment of financial assets (continued)
The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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

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

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

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

The Company's financial liabilities include insurance payables and other credit balances. Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

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

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

Outstanding claims reserve (OCR)
Outstanding claims comprise the estimated cost of claims incurred and reported but not settled at the reporting date. Provisions for reported claims not paid as at the reporting date is made on the basis of individual case estimates.

Any difference between the provisions at the reporting date and settlements and provisions in the following year is included in the underwriting account for that year.

Unearned premiums reserve
The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

Life mathematical reserve
The reserve for the life business at the reporting date represents the mathematical liability of policies in force at that date as determined by the Company's actuaries.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Incurred but not reported reserve
The incurred but not reported reserve includes amounts reserved for claims incurred but not reported at the reporting date in addition to other contingencies and any differences that may arise. Provision based on management's judgement and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the statement of financial position date.

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

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

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

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

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

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

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

Contingencies
Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

Non-life insurance contract liabilities
For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and outstanding claims reserve for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or maker factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Estimation and assumptions (continued)

Non-life insurance contract liabilities (continued)
Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a regular basis.

Life insurance contract liabilities (Life mathematical reserve)
The main assumptions used relate to mortality and morbidity rates, longevity, investment return, expenses, lapse and surrender rates and discount rates. The Company base mortality and morbidity tables on standard industry and national tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

2.3 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended International Accounting Standards Board ("IASB") standard effective as of 1 January 2014:

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Company, since the Company does not have any offsetting arrangements.

IFRIC 21 Levies
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements 2010-2012 Cycle
In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company.

Annual Improvements 2011-2013 Cycle
In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Company, since the Company is an existing IFRS preparer.

The adoption of the above mentioned amendments did not have any impact on the financial position or performance of the Company. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2 ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The relevant standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. However, the Company expects no significant impact from the adoption of the amendments on its financial position or performance.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Annual improvements 2010-2012 Cycle
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

IFRS 8 Operating Segments
The amendments are applied retrospectively and clarify that:
- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

2 ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Annual improvements 2011-2013 Cycle (continued)

IFRS 13 Fair Value Measurement
The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

Additional disclosures will be made in the financial statements when these standards, revisions and amendments become effective. The Company, however, expects no material impact from the adoption of the amendments on its financial position or performance.

3 NET INVESTMENT INCOME

	2014 *KD*	*2013* *KD*
Share of results of associates (Note 6)	**80,039**	1,135,413
Gain on sale of financial assets available for sale	**587,563**	1,698,876
Impairment loss on financial assets available for sale	**(1,085,822)**	(1,440,126)
Interest on bonds and fixed deposits	**436,359**	468,595
Dividend income	**2,577,091**	2,033,319
Other investment income	**89,489**	84,668
	2,684,719	3,980,745

4 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares). Diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares) plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The Company did not have any diluted shares as at 31 December.

	2014 *KD*	*2013* *KD*
Profit for the year	**8,523,159**	9,506,097
	Shares	Shares
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	**196,108,649**	195,859,733
Basic and diluted earnings per share	**43.46 fils**	48.54 fils

5 PROPERTY AND EQUIPMENT

	Freehold land KD	*Buildings on freehold land KD*	*Leasehold properties KD*	*Furniture, Fixtures equipment and motor vehicles KD*	*Total KD*
Cost:					
At 1 January 2014	1,725,500	2,910,884	248,242	1,939,787	6,824,413
Additions	-	-	-	16,948	16,948
At 31 December 2014	1,725,500	2,910,884	248,242	1,956,735	6,841,361
Depreciation:					
At 1 January 2014	-	1,966,324	177,001	1,876,062	4,019,387
Charge for the year	-	116,435	3,871	52,494	172,800
At 31 December 2014	-	2,082,759	180,872	1,928,556	4,192,187
Net carrying amount:					
At 31 December 2014	**1,725,500**	**828,125**	**67,370**	**28,179**	**2,649,174**
At 31 December 2013	1,725,500	944,560	71,241	63,725	2,805,026

6 INVESTMENTS IN ASSOCIATES

The Company has the following investment in associates:

	Ownership percentage		*Country of*	*2014*	*2013*
	2014	*2013*	*incorporation*	*KD*	*KD*
Iraq International Insurance Company S.A (Closed)	**20.00%**	20.00%	Iraq	**135,833**	122,387
AL-Watania Insurance Company Y.S.C. (Closed)	**22.50%**	22.50%	Yemen	**155,869**	139,128
Burgan Insurance Company S.A.L. (formerly Arab Life Insurance Company S.A.L.)	**49.37%**	49.37%	Lebanon	**433,309**	396,141
Arab Life and Accident Insurance Company P.S.C.	**27.94%**	27.94%	Jordan	**994,839**	946,984
Trade Union Insurance Company E.C.	**20.95%**	20.95%	Bahrain	**3,185,368**	3,079,512
Kuwait Reinsurance Company K.S.C.P.	**30.00%**	30.00%	Kuwait	**11,461,002**	11,765,144
				16,366,220	16,449,296

6 INVESTMENTS IN ASSOCIATES (continued)

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

	2014 *KD*	*2013* *KD*
Carrying value at 1 January	16,449,296	15,349,179
Additional subscription in associates	-	3,696
Share of results of associates (Note 3)	80,039	1,135,413
Dividends received	(449,974)	-
Share of other comprehensive income (loss)	139,252	(84,934)
Foreign currency translation adjustment	147,607	45,942
Carrying value at 31 December	16,366,220	16,449,296

The following table illustrates summarised financial information of the Company's material investment in its associates:

	Kuwait Reinsurance Company K.S.C.P. *KD*	*Trade Union Insurance Company E.C.* *KD*	*2014* *KD*	*2013* *KD*
Current assets	68,270,755	14,077,860	82,348,615	82,258,106
Non-current assets	33,464,558	1,742,340	35,206,898	37,775,045
Current liabilities	(6,743,685)	(612,679)	(7,356,364)	(5,323,237)
Non-current liabilities	(56,785,741)	(2,900)	(56,788,641)	(60,011,655)
Equity	38,205,887	15,204,621	53,410,508	54,698,259
Company's carrying value of the investment	11,461,002	3,185,368	14,646,370	14,844,656
Share of associates' results for the year				
Revenue	209,924	-	209,924	6,447,274
Company's share for the profit of the year	10,388	-	10,388	1,093,368
Company's share of associates' other comprehensive income (loss) for the year	143,340	-	143,340	(92,983)

Investment in associates includes Kuwait Reinsurance Company, a listed Company on the Kuwait Stock Exchange. The fair value of this associate based on bid prices as at 31 December 2014 amounted to KD 8,999,472 (2013: KD 6,749,604).

7 FINANCIAL ASSETS AVAILABLE FOR SALE

	2014 *KD*	*2013* *KD*
Local equity securities:		
Quoted	**23,128,020**	20,086,608
Unquoted	**8,015,112**	8,264,321
	31,143,132	28,350,929
Foreign equity securities:		
Quoted	**7,400,871**	4,693,854
Unquoted	**18,487,635**	19,078,049
	25,888,506	23,771,903
Unquoted foreign funds	**21,910,145**	20,417,746
Bonds	**350,000**	350,000
	79,291,783	72,890,578

As at 31 December 2014, quoted equity securities are carried at fair value. Management has performed a review of these investments to assess whether any impairment has occurred in their value and accordingly, an impairment loss of KD NIL (2013: KD 82,714) was recognised in the income statement for the year ended 31 December 2014.

Unquoted equity securities amounting to KD 10,291,834 (2013: KD 11,462,776) are carried at cost less impairment since fair values cannot be reliably estimated and the investment managers have been unable to indicate any estimates of the range within which fair values might lay. The management recorded an impairment loss of KD 702,884 (2013: KD 1,004,450) against these investments based on the most recently available information to them.

As at 31 December 2014, unquoted equity securities of KD 2,045,982 (2013: KD 2,222,941) are carried at cost due to the non-availability of reliable measures of their fair values. Management has performed a review of these investments to assess whether any impairment has occurred in their value and no impairment indications noted.

Managed funds are carried at net asset values reported by the fund manager. Management has performed a review of these investments to assess whether any impairment has occurred in their value and accordingly, an impairment loss of KD 382,938 (2013: KD 352,962) has been recorded in the income statement for the year ended 31 December 2014.

Certain equity securities which the Company is not able to exercise significant influence over the investee and which do not have readily determinable fair values are accounted for under the cost method.

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

8 PREMIUMS AND INSURANCE RECEIVABLES

	2014 *KD*	*2013* *KD*
Policyholders' accounts receivable		
Premiums receivable	**7,177,827**	7,693,304
Allowances for impaired receivables	**(600,120)**	(644,701)
Net policyholders' accounts receivable	**6,577,707**	7,048,603
Insurance and reinsures accounts receivable		
Reinsures receivable	**4,537,736**	4,880,814
Allowances for impaired receivables	**(135,475)**	(138,471)
Net insurance and reinsures accounts receivable	**4,402,261**	4,742,343
Total premiums and insurance receivables	**10,979,968**	11,790,946

8 PREMIUMS AND INSURANCE RECEIVABLES (continued)

As at 31 December 2014, premiums as well as insurance and reinsurance receivables at nominal value of KD 735,595 (2013: KD 783,172) were impaired and fully provided for.

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

	2014 *KD*	*2013* *KD*
At the beginning of the year	783,172	826,568
Reversal of impairment	(47,577)	(43,396)
At the end of the year	735,595	783,172

9 LIABILITIES ARISING FROM INSURANCE CONTRACTS

31 December 2014	*Marine and aviation* *KD*	*Accident* *KD*	*Fire* *KD*	*Life and medical* *KD*	*Total* *KD*
OUTSTANDING CLAIMS RESERVE:					
Gross balance at the beginning of the year	5,499,052	9,833,881	10,231,215	10,384,376	35,948,524
Reinsurance recoverable on outstanding Claims	(4,622,372)	(4,460,226)	(9,724,594)	(8,379,698)	(27,186,890)
Net balance at the beginning of the year	876,680	5,373,655	506,621	2,004,678	8,761,634
Gross claims incurred during the year	2,912,705	4,508,865	587,735	4,992,361	13,001,666
Reinsurance recoverable	(2,608,995)	(105,553)	(486,977)	(4,232,125)	(7,433,650)
Claims incurred	303,710	4,403,312	100,758	760,236	5,568,016
Gross claims paid during the year	(1,926,451)	(5,047,593)	(577,158)	(3,283,226)	(10,834,428)
Reinsurance recoverable	1,689,244	1,119,666	450,412	2,778,877	6,038,199
Paid during the year	(237,207)	(3,927,927)	(126,746)	(504,349)	(4,796,229)
NET BALANCE AT THE END OF THE YEAR	943,183	5,849,040	480,633	2,260,565	9,533,421
Presented in the statement of financial position as follows:					
Outstanding claims reserve	6,485,306	9,295,153	10,241,792	12,093,511	38,115,762
Reinsurance recoverable on outstanding claims	(5,542,123)	(3,446,113)	(9,761,159)	(9,832,946)	(28,582,341)
NET BALANCE AT THE END OF THE YEAR	943,183	5,849,040	480,633	2,260,565	9,533,421
Unearned premiums reserve	224,419	3,307,463	390,961	-	3,922,843
Life mathematical reserve	-	-	-	4,946,000	4,946,000
Incurred but not reported reserve	800,000	2,490,996	800,000	-	4,090,996

9 LIABILITIES ARISING FROM INSURANCE CONTRACTS (continued)

31 December 2013	*Marine and aviation KD*	*Accident KD*	*Fire KD*	*Life and medical KD*	*Total KD*
OUTSTANDING CLAIMS RESERVE:					
Gross balance at the beginning of the year	2,789,385	8,708,181	10,857,026	12,556,385	34,910,977
Reinsurance recoverable on outstanding Claims	(2,362,812)	(3,666,994)	(10,417,423)	(10,380,712)	(26,827,941)
Net balance at the beginning of the year	426,573	5,041,187	439,603	2,175,673	8,083,036
Gross claims incurred during the year	4,119,108	5,412,967	825,627	2,404,472	12,762,174
Reinsurance recoverable	(3,259,521)	(976,998)	(328,919)	(1,169,155)	(5,734,593)
Claims incurred	859,587	4,435,969	496,708	1,235,317	7,027,581
Gross claims paid during the year	(1,409,441)	(4,287,267)	(1,451,438)	(4,576,481)	(11,724,627)
Reinsurance recoverable	999,961	183,766	1,021,748	3,170,169	5,375,644
Paid during the year	(409,480)	(4,103,501)	(429,690)	(1,406,312)	(6,348,983)
NET BALANCE AT THE END OF THE YEAR	876,680	5,373,655	506,621	2,004,678	8,761,634
Presented in the statement of financial position as follows:					
Outstanding claims reserve	5,499,052	9,833,881	10,231,215	10,384,376	35,948,524
Reinsurance recoverable on outstanding claims	(4,622,372)	(4,460,226)	(9,724,594)	(8,379,698)	(27,186,890)
NET BALANCE AT THE END OF THE YEAR	876,680	5,373,655	506,621	2,004,678	8,761,634
Unearned premiums reserve	323,776	3,790,295	405,490	-	4,519,561
Life mathematical reserve	-	-	-	4,218,000	4,218,000
Incurred but not reported reserve	383,040	5,191,350	25,610	1,100,000	6,700,000

10 OTHER DEBIT BALANCES

	2014 KD	*2013 KD*
Accrued income	**335,681**	297,217
Reserve retained by reinsurers	**325,784**	366,042
Other debit balances	**1,334,340**	1,710,995
	1,995,805	2,374,254

11 FIXED DEPOSITS

Fixed deposits as at 31 December 2014 are placed with local financial institutions and mature within one year from the placement date. Fixed deposits are denominated in Kuwaiti Dinars and carry an average effective interest rate of 1.73% (2013: 1.91%) per annum.

12 SHARE CAPITAL, CASH DIVIDEND AND BONUS SHARES

Share capital

The authorised, issued and fully paid up share capital consists of 200,000,000 shares of 100 fils each (31 December 2013: 200,000,000) which was issued in form of cash and bonus shares.

Cash dividend and bonus shares

On 4 March 2015, the Company's board of directors have proposed a distribution of cash dividend of 32% for the year ended 31 December 2014 (2013: 32%), totalling KD 6,400,000 (2013: KD 6,275,181) and board of directors' fees of KD 409,847 (2013: KD 180,000). This proposal is subject to the approval by Annual Ordinary General Assembly Meeting of the Company's Shareholders.

On 8 April 2014, the Ordinary Annual General Assembly of the Company's shareholders approved the payment of cash dividend of 32% for the year ended 31 December 2013, totalling KD 6,275,181 (25% for the year ended 31 December 2012, totalling KD 4,638,454 and 5.52280843% bonus share of paid up share capital) and board of directors' remuneration of KD 180,000 (2012: KD 180,000).

13 RESERVES

Statutory reserve

As required by the Companies Law and the Company's articles of association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees should be transferred to statutory reserve. The Company has resolved to discontinue such annual transfers in accordance with a resolution of the Board of Directors on 4 Marsh 2015.

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

General reserve

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

Special voluntary reserve

In accordance with the Company's articles of association, the board of directors can resolve to transfer certain amount of the profit for the year to the special voluntary reserve. The Company has resolved to discontinue such annual transfers in accordance with a resolution of the Board of Directors on 4 Marsh 2015.

14 TREASURY SHARES

	2014	*2013*
Number of shares	**3,819,235**	3,990,545
Percentage of issued shares (%)	**1.91**	2.00
Market value (KD)	**1,890,521**	1,895,509

Reserves equivalent to the cost of treasury shares held are not available for distribution.

15 INSURANCE PAYABLES

	2014 *KD*	*2013* *KD*
Policyholders payables	**1,853,703**	3,001,014
Reinsurance payables	**4,641,632**	4,486,923
Claims payables	**800,801**	936,241
Other insurance payables	**640,212**	695,279
	7,936,348	9,119,457

16 OTHER CREDIT BALANCES

	2014 *KD*	*2013* *KD*
Reserve retained on reinsurance business	**1,290,025**	1,186,438
Other payables	**5,045,224**	5,271,918
	6,335,249	6,458,356

17 SEGMENT INFORMATION

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

- The general risk insurance segment offers general insurance to individuals and businesses. General insurance products offered include marine and aviation, motor vehicles, property, engineering and general accidents. These products offer protection of policyholder's assets and indemnification of other parties that have suffered damage as a result of policyholder's accident.
- The life and medical insurance segment offers savings, protection products and other long-term contracts. It comprises of whole life insurance, term insurance, group life, group medical including third party administration (TPA). Revenue from this segment is derived primarily from insurance premium, fees, commission income, investment income and fair value gains and losses on investments.

17 SEGMENT INFORMATION (continued)

A) Segment information – Income statement

	General risk insurance					
Year ended 31 December 2014:	*Marine and aviation KD*	*General accident KD*	*Fire KD*	*Total general risk insurance KD*	*Life and medical KD*	*Total KD*
Revenue:						
Gross premiums	7,357,228	11,473,296	4,334,431	23,164,955	8,371,292	31,536,247
Premiums ceded to reinsurers	(6,184,007)	(4,527,639)	(3,540,094)	(14,251,740)	(4,898,650)	(19,150,390)
Net premiums	1,173,221	6,945,657	794,337	8,913,215	3,472,642	12,385,857
Movement in unearned premiums	99,357	482,832	14,529	596,718	-	596,718
Net premiums earned	1,272,578	7,428,489	808,866	9,509,933	3,472,642	12,982,575
Commission income on ceded reinsurance	2,300,279	1,970,134	886,960	5,157,373	1,072,821	6,230,194
Policy issuance fees	-	592,504	-	592,504	-	592,504
Total revenue	3,572,857	9,991,127	1,695,826	15,259,810	4,545,463	19,805,273
Expenses:						
Claims incurred	(303,710)	(4,403,312)	(100,758)	(4,807,780)	(760,236)	(5,568,016)
Commissions	(564,441)	(1,400,229)	(205,731)	(2,170,401)	(219,775)	(2,390,176)
Movement in life mathematical reserve	-	-	-	-	(728,000)	(728,000)
Maturity and cancellations of life insurance policies	-	-	-	-	(429,672)	(429,672)
Administrative expenses for insurance business	(769,034)	(1,317,277)	(424,318)	(2,510,629)	(816,374)	(3,327,003)
Total expenses	(1,637,185)	(7,120,818)	(730,807)	(9,488,810)	(2,954,057)	(12,442,867)
Net underwriting results	1,935,672	2,870,309	965,019	5,771,000	1,591,406	7,362,406
Net investment income				2,478,087	206,632	2,684,719
Other income				115,339	24,377	139,716
Other administrative expenses				(246,908)	(219)	(247,127)
Unallocated expenses				(637,393)	-	(637,393)
Profit before contribution to KFAS, NLST, Zakat and Directors' fees						9,302,321

17 SEGMENT INFORMATION (continued)

A) Segment information – Income statement (continued)

	General risk insurance					
Year ended 31 December 2013:	*Marine and aviation KD*	*General accident KD*	*Fire KD*	*Total general risk insurance KD*	*Life and medical KD*	*Total KD*
Revenue:						
Gross premiums	7,876,297	9,584,274	4,547,363	22,007,934	8,222,062	30,229,996
Premiums ceded to reinsurers	(6,131,329)	(2,078,008)	(3,763,311)	(11,972,648)	(4,902,702)	(16,875,350)
Net premiums	1,744,968	7,506,266	784,052	10,035,286	3,319,360	13,354,646
Movement in unearned premiums	87,284	(457,936)	40,373	(330,279)	-	(330,279)
Net premiums earned	1,832,252	7,048,330	824,425	9,705,007	3,319,360	13,024,367
Commission income on ceded reinsurance	2,180,131	1,111,707	900,442	4,192,280	2,131,191	6,323,471
Policy issuance fees	-	619,784	-	619,784	-	619,784
Total revenue	4,012,383	8,779,821	1,724,867	14,517,071	5,450,551	19,967,622
Expenses:						
Claims incurred	(859,587)	(4,435,969)	(496,708)	(5,792,264)	(1,235,317)	(7,027,581)
Commissions	(589,120)	(1,762,480)	(205,000)	(2,556,600)	(1,194,581)	(3,751,181)
Movement in life mathematical reserve	-	-	-	-	(442,000)	(442,000)
Maturity and cancellations of life insurance policies	-	-	-	-	(186,017)	(186,017)
Administrative expenses for insurance business	(585,001)	(921,622)	(326,966)	(1,833,589)	(742,062)	(2,575,651)
Total expenses	(2,033,708)	(7,120,071)	(1,028,674)	(10,182,453)	(3,799,977)	(13,982,430)
Net underwriting results	1,978,675	1,659,750	696,193	4,334,618	1,650,574	5,985,192
Net investment income				3,778,467	202,278	3,980,745
Other income				714,089	149,906	863,995
Other administrative expenses				(279,321)	(233)	(279,554)
Unallocated expenses				(459,334)	-	(459,334)
Profit before contribution to KFAS, NLST, Zakat and Directors' fees						10,091,044

17 SEGMENT INFORMATION (continued)

B) Segment information – Statement of financial position

	General risk insurance KD	*Life and medical insurance KD*	*Total KD*
31 December 2014			
Assets	**143,188,214**	**20,143,454**	**163,331,668**
Liabilities	**45,295,594**	**20,126,989**	**65,422,583**
31 December 2013			
Assets	139,537,092	19,809,153	159,346,245
Liabilities	47,325,253	19,723,731	67,048,984

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

18 RELATED PARTY TRANSACTIONS

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

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

	Associates KD	*Other related parties KD*	*2014 KD*	*2013 KD*
Gross premiums	**839,138**	**3,054,782**	**3,893,920**	4,000,447
Claims incurred	**777,310**	**991,284**	**1,768,594**	1,638,298

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

	Associates KD	*Other related parties KD*	*2014 KD*	*2013 KD*
Premiums and insurance balances receivable	**536,586**	**3,472,135**	**4,008,721**	3,857,534
Other credit balances	**103,048**	**55,390**	**158,438**	229,467

Compensation of key management personnel:

	2014 KD	*2013 KD*
Salaries and other short term benefits	**725,437**	318,267
Employees' end of service benefits	**196,474**	14,700
	921,911	332,967

19 CAPITAL COMMITMENTS AND CONTINGENCIES

(a) As at 31 December 2014, the Company had future capital commitments with respect to purchase of financial assets available for sale amounting to KD 4,276,722 (2013: KD 4,736,393).

(b) The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

20 STATUTORY GUARANTEES

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

(a) Investments of KD 500,000 (2013: KD 90,000) have been deposited with a Kuwaiti bank as security to underwrite general insurance business;
(b) Investments of KD 500,000 (2013: KD 45,000) have been deposited with a Kuwaiti bank in respect of the Company's right to transact life assurance business;
(c) Other investments, in the form of deposits and bonds amounting to KD 7,476,049 (2013: KD 6,411,343) are held in Kuwait.
(d) The Company's premises with net carrying amount of KD 828,124 (2013: KD 944,559) have been mortgaged with the Ministry of Commerce and Industry.

21 RISK MANAGEMENT

(a) Governance framework

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

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

(b) Regulatory framework

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

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

- For the life and capital insurance contracts issued in Kuwait, the full mathematical reserves are to be retained in Kuwait.
- For marine insurance contracts, at least 15% of the premiums collected in the previous year are to be retained in Kuwait.
- For all other types of insurance, at least 30% of the premiums collected in the previous year are to be retained in Kuwait.
- The funds retained in Kuwait should be invested as under:
  - A minimum of 40% of the funds are to be in the form of cash deposits in a bank operating in Kuwait.
  - A maximum of 25% could be invested in foreign securities (foreign government bonds or foreign securities - bonds and shareholding companies).
  - A maximum of 30% should be invested in Kuwaiti companies' shares or bonds.
  - A maximum of 15% should be in a current account with a bank operating in Kuwait.

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

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

21 RISK MANAGEMENT (Continued)

(c) Insurance risk

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

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, prudent claims management practices as well as the use of reinsurance arrangements.

The majority of insurance business ceded is placed on a quota share basis with retention limits varying by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

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

(1) Life insurance contracts

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

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

Pension plans are contracts when retirement benefits are expressed in the form of an annuity payable at retirement age. If death occurs before retirement, contracts generally return the value of the fund accumulated or sum assured whichever is greater. Some contracts give the policyholder the option at retirement to take a cash sum or pension annuity allowing the policyholders the option of taking the more valuable of the two. Provision of additional death benefits may be provided by cancellation of units or through supplementary term assurance contracts. Certain personal pension plans also include contribution protection benefits that provide for payment of contributions on behalf of policyholders in periods of total disability. For contracts with discretionary participation features (DPF), changes in the level of pensions are based on the rate of return declared annually by the insurer which is not guaranteed.

Guaranteed annuities are single premium products which pay a specified payment to the policyholder whilst they and/or their spouse are still alive. Payments are generally either fixed or increased each year at a specified rate or in line with the rate of inflation. Most contracts guarantee an income for a minimum period usually of five years, irrespective of death.

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

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

21 RISK MANAGEMENT (Continued)

(c) Insurance risk (Continued)

(1) Life insurance contracts (Continued)

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

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

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

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

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

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

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

The insurance risks described above are also affected by the contract holders' right to pay reduced or no future premiums, to terminate the contract completely or to exercise guaranteed annuity options. As a result, the amount of insurance risk is also subject to contract holder behaviour.

The table below sets out the concentration of life insurance and investment contracts by type of contract:

31 December 2014 **Type of contract**	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*
Term insurance	**17,336**	**(12,000)**	**5,336**
Life and disability	**1,277,296**	**(1,021,837)**	**255,459**
Medical	**542,194**	**(422,911)**	**119,283**
Endowment individual policies	**1,032,309**	**(546,103)**	**486,206**
Pensions (individual policies)	**141,158**	**-**	**141,158**
Total life insurance contracts	**3,010,293**	**(2,002,851)**	**1,007,442**
Total investment contracts and participation feature	**3,900,678**	**-**	**3,900,678**
Other life insurance contracts liabilities	**37,605**	**-**	**37,605**

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

31 December 2013 Type of contract	*Gross liabilities* *KD*	*Reinsurers' share of liabilities* *KD*	*Net liabilities* *KD*
Term insurance	18,947	(17,613)	1,334
Life and disability	1,058,629	(1,055,729)	2,900
Medical	401,704	(399,817)	1,887
Endowment individual policies	832,076	(823,329)	8,747
Pensions (individual policies)	154,863	(154,863)	-
Total life insurance contracts	2,466,219	(2,451,351)	14,868
Total investment contracts and participation feature	4,203,132	-	4,203,132
Other life insurance contracts liabilities	11,484,376	(8,379,698)	3,104,678

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

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

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

• ***Mortality and morbidity rates***
Assumptions are based on standard industry and national tables, according to the type of contract written and the territory in which the insured person resides, reflecting recent historical experience and are adjusted when appropriate to reflect the Company's own experiences. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by occupation, underwriting class and contract type.

An increase in the actual mortality rates will lead to a larger number of claims and claims could occur sooner than anticipated, which will increase the expenditure and reduce profits for the shareholders.

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

An increase in longevity rates will lead to an increase in the number of annuity payments made, which will increase the expenditure and reduce profits for the shareholders.

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

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

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions (continued)

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

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

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

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

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

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

The assumptions that have the maximum effect on the financial position and statement of income of the Company are listed below.

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions (continued)

Portfolio assumptions by type of business impacting net liabilities	*Mortality and morbidity rates*		*Investment return*		*Lapse and surrender rates*		*Discount rates*		*Renewal expenses*		*Inflation rate*	
	2014	*2013*	***2014***	*2013*	***2014***	*2013*	***2014***	*2013*	***2014***	*2013*	***2014***	*2013*
Investment contracts:												
With fixed and guaranteed terms	**A49/52**	A49/52	**3%**	3%	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Non-guaranteed terms	**A49/52**	A49/52	**N/A**	N/A	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Life term assurance:												
Males	**A49**	A49	**4%**	4%	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Females	**A52**	A52	**4%**	4%	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions (continued)

Sensitivities
The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist they are the main reason for the asymmetry of sensitivities.

(2) Non-life insurance contracts

The Company principally issues the following types of general insurance contracts: marine and aviation, accident and fire. Risks under non-life insurance policies usually cover twelve month duration.

For general insurance contracts the most significant risks arise from climate changes, natural disasters and terrorist activities which are only covered in fire line of business.

Insurance contracts at times also cover risk for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risk that may involve significant litigation.

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

The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

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

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(3) General risk insurance contracts

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

31 December 2014	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*
Marine and Aviation	5,499,052	(4,622,372)	876,680
Accident	9,833,881	(4,460,226)	5,373,655
Fire	10,231,215	(9,724,594)	506,621
Total	**25,564,148**	**(18,807,192)**	**6,756,956**
31 December 2013			
Marine and Aviation	6,205,868	(4,622,372)	1,583,496
Accident	18,815,526	(4,460,226)	14,355,300
Fire	10,662,315	(9,724,594)	937,721
Total	35,683,709	(18,807,192)	16,876,517

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

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

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

31 December 2014	*Change in assumption*	*Impact on gross liabilities KD*	*Impact on net liabilities KD*	*Impact on profit KD*
Average claim cost	**+10%**	**118,250**	**95,653**	**95,653**
Average number of claims	**+10%**	**216**	**216**	**216**

31 December 2013	*Change in assumption*	*Impact on gross liabilities KD*	*Impact on net liabilities KD*	*Impact on profit KD*
Average claim cost	+10%	120,019	99,836	99,836
Average number of claims	+10%	218	218	218

21 RISK MANAGEMENT (continued)

(d) Financial risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

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

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

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

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

Exposure credit risk by classifying financial assets according to type of insurance	***31 December 2014***		
	General insurance KD	***Life and medical insurance KD***	***Total KD***
Financial assets available for sale (debt securities)	-	**350,000**	**350,000**
Loans secured by life insurance policyholders	-	**216,448**	**216,448**
Policyholders accounts receivable (gross)	**5,175,995**	**2,001,832**	**7,177,827**
Reinsurance receivables (gross)	**3,881,172**	**656,564**	**4,537,736**
Reinsurance recoverable on outstanding claims	**18,749,395**	**9,832,946**	**28,582,341**
Other debit balances	**1,321**	**13**	**1,334**
Fixed deposits	**17,409,373**	**4,739,890**	**22,149,263**
Bank balances	**1,089,869**	**10,797**	**1,100,666**
Total credit risk exposure	**46,307,125**	**17,808,490**	**64,115,615**

Exposure credit risk by classifying financial assets according to type of insurance	*31 December 2013*		
	General insurance KD	*Life and medical insurance KD*	*Total KD*
Financial assets available for sale (debt securities)	-	350,000	350,000
Loans secured by life insurance policyholders	-	155,088	155,088
Policyholders accounts receivable (gross)	6,041,052	1,652,252	7,693,304
Reinsurance receivables (gross)	3,782,966	1,097,848	4,880,814
Reinsurance recoverable on outstanding claims	18,807,192	8,379,698	27,186,890
Other debit balances	1,997,915	79,122	2,077,037
Fixed deposits	17,419,733	7,716,215	25,135,948
Bank balances	557,924	295	558,219
Total credit risk exposure	48,606,782	19,430,518	68,037,300

21 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(1) Credit risk (continued)

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

Exposure credit risk by classifying financial assets according to international credit rating agencies	***A*** ***KD***	***B*** ***KD***	***Not rated*** ***KD***	***Total*** ***KD***
31 December 2014				
Financial assets available for sale (debt securities)	-	-	**350,000**	**350,000**
Loans secured by life insurance policyholders	-	-	**216,448**	**216,448**
Policyholders accounts receivable (gross)	-	-	**7,177,827**	**7,177,827**
Premiums and insurance receivable (gross)	**4,083,962**	**453,774**	-	**4,537,736**
Reinsurance recoverable on outstanding claims	**25,724,106**	**2,858,235**	-	**28,582,341**
Other debit balances	-	-	**1,334**	**1,334**
Fixed deposits	**22,149,263**	-	-	**22,149,263**
Bank balances	**1,100,666**	-	-	**1,100,666**
Total credit risk exposure	**53,057,997**	**3,312,009**	**7,745,609**	**64,115,615**

Exposure credit risk by classifying financial assets according to international credit rating agencies	*A* *KD*	*B* *KD*	*Not rated* *KD*	*Total* *KD*
31 December 2013				
Financial assets available for sale (debt securities)	-	-	350,000	350,000
Loans secured by life insurance policyholders	-	-	155,088	155,088
Policyholders accounts receivable (gross)	-	-	7,693,304	7,693,304
Premiums and insurance receivable (gross)	4,392,733	488,081	-	4,880,814
Reinsurance recoverable on outstanding claims	24,468,201	2,718,689	-	27,186,890
Other debit balances	-	-	2,077,037	2,077,037
Fixed deposits	25,135,948	-	-	25,135,948
Bank balances	558,219	-	-	558,219
Total credit risk exposure	54,555,101	3,206,770	10,275,429	68,037,300

The Company does not have any material past due but not impaired financial assets at 31 December 2014 and 31 December 2013.

21 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(2) Liquidity risk

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

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

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

31 December 2014	***Within 1 year***	***More than 1 year***	***Total***
	KD	***KD***	***KD***
Insurance payables	**7,142,714**	**793,634**	**7,936,348**
Other credit balances	**3,000,000**	**3,335,249**	**6,335,249**
	10,142,714	**4,128,883**	**14,271,597**

31 December 2013	*Within 1 year*	*More than 1 year*	*Total*
	KD	*KD*	*KD*
Insurance payables	7,790,335	1,329,122	9,119,457
Other credit balances	2,958,356	3,500,000	6,458,356
	10,748,691	4,829,122	15,577,813

3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises three types of risk: currency risk, interest rate risk and equity price risk.

(i) Currency risk

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

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

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit due to changes in fair value of currency sensitive assets and liabilities.

21 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

3) Market risk (continued)

(i) Currency risk (continued)

The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear. The effect of decreases in profit and other comprehensive income is expected to be equal and opposite to the effect of the increases shown.

		2014		*2013*	
	Change in Variables	*Impact on profit for the year KD*	*Impact on other comprehensive income KD*	*Impact on profit for the year KD*	*Impact on other comprehensive income KD*
USD	±5%	**309,265**	**1,357,185**	305,127	1,234,180
JD	±5%	**11,002**	**29,201**	14,635	34,042
EGP	±5%	**3,102**	**4,723**	4,986	72,773
Euro	±5%	**7,116**	**132,678**	7,210	160,000
GBP	±5%	**2,314**	**38,787**	2,413	43,210
Others	±5%	**41,986**	**165,600**	41,786	199,766

(ii) Interest rate risk

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates, on the Company's profit before contribution to KFAS, NLST, Zakat and directors' fees, based on floating rate financial assets and financial liabilities held at 31 December 2014 and 2013.

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

(iii) Equity price risk

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

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

Market indices	*2014*	*2013*
Kuwait	± **2,312,802**	± 2,008,661
Other GCC countries	± **740,087**	± 469,385

22 CAPITAL MANAGEMENT

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

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

No changes were made in the objectives, policies or processes during the years ended 31 December 2014 and 31 December 2013.

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

	2014	*2013*
	KD	*KD*
Liabilities arising from insurance contracts	**51,075,601**	51,386,085
Payables	**14,346,982**	15,662,899
Less: Bank balances and cash	**(1,100,666)**	(558,219)
Net debt	**64,321,917**	66,490,765
Total capital	**97,909,085**	92,297,261
Total capital and net debt	**162,231,002**	158,788,026
Gearing ratio	**40%**	42%

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

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

Financial liabilities consist of insurance payables and other credit balances.

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

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

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

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

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

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

31 December 2014	***Total fair value*** ***KD***	***Quoted prices in active markets (Level 1)*** ***KD***	***Significant observable inputs (Level 2)*** ***KD***	***Significant unobservable inputs (Level 3)*** ***KD***
Financial assets available for sale:				
Quoted	**30,529,891**	**30,529,891**	**-**	**-**
Unquoted	**46,716,910**	**-**	**10,291,834**	**36,425,076**
Total	**77,246,801**	**30,529,891**	**10,291,834**	**36,425,076**
31 December 2013				
Financial assets available for sale:				
Quoted	24,780,462	24,780,462	-	-
Unquoted	45,887,175	-	11,462,776	34,424,399
Total	70,667,637	24,780,462	11,462,776	34,424,399

During the year ended 31 December 2014, unquoted financial assets available for sale of KD 10,291,834 (2013: KD 11,462,776) have been transferred from level 3 to level 2 as the management has used an observable inputs in determining the fair value of these investments.

Level 3 includes investments in unquoted foreign funds amounting to KD 21,910,145 (2013: KD 20,417,746) that have been valuated using the Net Asset Value provided by the investment managers.

Description of significant unobservable inputs to valuation is as follows:

	Valuation technique	***Significant unobservable inputs***	***Range***	***Sensitivity of the input to fair value***
Unquoted shares	DCF	Terminal growth rate	4%	1% increase (decrease) in the terminal growth rate would not result in a significant change in fair value of these investments.
		Weighted Average Cost of Capital (WACC)	17%	
Unquoted shares in real estate projects	Market comparison	Price per square metre	KD 28-107	1% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by KD 140,070.

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	At 1 January KD	*Transfer to level 2 KD*	*Net results recorded in the statement of comprehensive income KD*	*Net results recorded in the income statement KD*	*Net purchases and (disposals) KD*	*At 31 December KD*
2014						
Financial assets available for sale:						
Unquoted	**34,424,399**	**-**	**1,982,482**	**(382,938)**	**401,133**	**36,425,076**
2013						
Financial assets available for sale:						
Unquoted	45,439,106	(11,462,776)	509,103	(352,962)	291,928	34,424,399