AL-AHLEIA INSURANCE COMPANY S.A.K.P.
AND ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015

EY
Building a better working world

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18–21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena

Abdullatif Al-Majid & Co.
Allied Accountants
Certified Public Accountants - Experts
P.O. Box : 5506 safat- 13056 Kuwait
Tel: 22432082/3/4
Fax: 22402640
E-mail: mail.kw@parkerrandall.com

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 consolidated financial statements of Al-Ahleia Insurance Company S.A.K.P. (the "Parent Company") and its subsidiary (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, 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 Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, the executive regulation of Law No. 25 of 2012 and by the Parent 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. 1 of 2016, and the executive regulation of Law No. 25 of 2012, or of the Parent Company's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2015 that might have had a material effect on the business of the Parent 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)

17 February 2016
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2015

	Notes	*2015* *KD*	*2014* *KD*
Revenue:			
Gross premiums written		**43,359,049**	31,536,247
Premiums ceded to reinsurers		**(24,087,698)**	(19,150,390)
Net premiums written		**19,271,351**	12,385,857
Movement in unearned premiums		**10,810,382**	596,718
Net premiums earned		**30,081,733**	12,982,575
Commission received on ceded reinsurance		**6,403,170**	6,230,194
Policy issuance fees		**625,180**	592,504
Net investment income	4	**7,170,312**	3,770,541
Rental income from investment properties		**306,678**	-
Net gain on business combinations	3	**6,973,401**	-
Other income		**196,190**	139,716
Total Revenue		**51,756,664**	23,715,530
Expenses:			
Net claims incurred	16	**(16,567,394)**	(5,568,016)
Commissions and Premiums' acquisition costs		**(8,186,242)**	(2,390,176)
Movement in life mathematical reserve		**(36,000)**	(728,000)
Maturity and cancellations of life insurance policies		**(287,505)**	(429,672)
Investment property expenses		**(50,382)**	-
Revaluation loss on investment properties		**(27,517)**	-
General and administrative expenses		**(5,374,360)**	(4,211,523)
Impairment loss on financial assets available for sale	9	**(8,801,136)**	(1,085,822)
Total Expenses		**(39,330,536)**	(14,413,209)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT AND DIRECTORS' FEES		**12,426,128**	9,302,321
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		**(117,432)**	(90,621)
National Labour Support Tax (NLST)		**(276,906)**	(199,067)
Zakat		**(110,762)**	(79,627)
Directors' fees	13	**(569,000)**	(409,847)
PROFIT FOR THE YEAR		**11,352,028**	8,523,159
Attributable to:			
Shareholders of the Parent Company		**11,190,496**	8,523,159
Non-controlling interests		**161,532**	-
		11,352,028	8,523,159
Basic and diluted earnings per share attributable to the shareholders of the Parent Company	5	**57.04 fils**	43.46 fils

The attached notes 1 to 27 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	*2015 KD*	*2014 KD*
Profit for the year		**11,352,028**	8,523,159
Other comprehensive income (loss) :			
Other comprehensive (loss) income to be reclassified to the consolidated statement of income in subsequent period:			
- Net unrealised (loss) gain of financial assets available for sale		**(6,457,150)**	2,495,519
- Gain on sale of financial assets available for sale	4	**(2,342,957)**	(587,563)
- Impairment loss on financial assets available for sale	9	**8,801,136**	1,085,822
- Cumulative change in fair value of associate, recycled to consolidated statement of comprehensive income	3	**(139,616)**	-
- Share of other comprehensive income of associates	8	**67,657**	139,252
- Foreign currency translation adjustments		**172,835**	147,607
Net other comprehensive income for the year		**101,905**	3,280,637
Total comprehensive income for the year		**11,453,933**	11,803,796
Attributable to:			
Shareholders of the Parent Company		**11,322,076**	11,803,796
Non-controlling interests		**131,857**	-
		11,453,933	11,803,796

The attached notes 1 to 27 form part of these consolidated financial statements.

Al-Ahleia Insurance Company S.A.K.P. and its Subsidiary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	*2015* *KD*	*2014* *KD*
ASSETS			
Property and equipment		**4,251,006**	2,649,174
Investment properties	7	**13,313,380**	-
Investment in associates	8	**6,240,661**	16,366,220
Financial assets held to maturity		**7,498,293**	-
Financial assets available for sale	9	**86,961,030**	79,291,783
Loans secured by life insurance policyholders		**97,487**	216,448
Premiums and insurance balances receivable	10	**10,719,665**	10,979,968
Reinsurance recoverable on outstanding claims	16	**31,602,446**	28,582,341
Receivables arising from reinsurance contracts and premium accruals	11	**24,776,947**	-
Accounts receivable and other debit balances	12	**7,271,394**	1,995,805
Term deposits		**47,262,857**	22,149,263
Bank balances and cash		**3,042,867**	1,100,666
TOTAL ASSETS		**243,038,033**	163,331,668
EQUITY AND LIABILITIES			
Equity attributable to Shareholders of Parent Company			
Share capital	13	**20,000,000**	20,000,000
Statutory reserve	14	**20,000,000**	18,171,431
General reserve	14	**20,000,000**	18,862,138
Special voluntary reserve	14	**11,000,000**	11,000,000
Treasury shares		**(1,394,366)**	(1,414,701)
Treasury shares reserve		**1,438,443**	1,434,528
Cumulative changes in fair values reserve		**11,827,152**	11,861,293
Foreign currency translation reserve		**449,184**	283,463
Retained earnings		**19,657,245**	17,710,933
Equity attributable to Shareholders of Parent Company		**102,977,658**	97,909,085
Non-controlling interests		**3,473,569**	-
Total equity		**106,451,227**	97,909,085
LIABILITIES			
Liabilities arising from insurance contracts:			
Outstanding claims reserve	16	**73,431,281**	38,115,762
Unearned premiums reserve	16	**20,663,210**	3,922,843
Life mathematical reserve	16	**4,982,000**	4,946,000
Incurred but not reported reserve	16	**11,592,173**	4,090,996
Total technical reserve arising from insurance contracts		**110,668,664**	51,075,601
Insurance payables	17	**11,428,005**	7,936,348
Accounts payable and other credit balances	18	**8,255,242**	6,335,249
Premiums received in advance		**87,780**	75,385
Bank overdraft		**6,147,115**	-
Total liabilities		**136,586,806**	65,422,583
TOTAL EQUITY AND LIABILITIES		**243,038,033**	163,331,668

Sulaiman Hamad Al-Dalali
Chairman

Ayman Abdullatif Al-Shayea
Vice Chairman

The attached notes 1 to 27 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	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	Subtotal KD	Non controlling interest KD	Total equity KD
Balance at 1 January 2015	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	-	97,909,085
Profit for the year	-	-	-	-	-	-	-	-	11,190,496	11,190,496	161,532	11,352,028
Other comprehensive income	-	-	-	-	-	-	(34,141)	165,721	-	131,580	(29,675)	101,905
Total comprehensive income for the year	-	-	-	-	-	-	(34,141)	165,721	11,190,496	11,322,076	131,857	11,453,933
Non-controlling interest arising from consolidating of a new subsidiary (Note 3)	-	-	-	-	-	-	-	-	-	-	3,341,712	3,341,712
Cash dividends (Note 13)	-	-	-	-	-	-	-	-	(6,277,753)	(6,277,753)	-	(6,277,753)
Sale of treasury shares	-	-	-	-	20,335	3,915	-	-	-	24,250	-	24,250
Transfer to reserves (Note 14)	-	1,828,569	1,137,862	-	-	-	-	-	(2,966,431)	-	-	-
Balance at 31 December 2015	**20,000,000**	**20,000,000**	**20,000,000**	**11,000,000**	**(1,394,366)**	**1,438,443**	**11,827,152**	**449,184**	**19,657,245**	**102,977,658**	**3,473,569**	**106,451,227**

	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	Subtotal KD	Non controlling interest 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	-	92,297,261
Profit for the year	-	-	-	-	-	-	-	-	8,523,159	8,523,159	-	8,523,159
Other comprehensive income	-	-	-	-	-	-	3,133,030	147,607	-	3,280,637	-	3,280,637
Total comprehensive income for the year	-	-	-	-	-	-	3,133,030	147,607	8,523,159	11,803,796	-	11,803,796
Cash dividend (Note 13)	-	-	-	-	-	-	-	-	(6,275,181)	(6,275,181)	-	(6,275,181)
Sale of treasury shares	-	-	-	-	63,456	19,753	-	-	-	83,209	-	83,209
Transfer to reserves (Note 14)	-	-	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	-	97,909,085

The attached notes 1 to 27 form part of these consolidated financial statements.

Al-Ahleia Insurance Company S.A.K.P. and its Subsidiary

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	*2015 KD*	*2014 KD*
OPERATING ACTIVITIES			
Profit for the year		11,352,028	8,523,159
Non cash adjustments to reconcile profit for the year to net cash flows:			
Depreciation of property and equipment		398,136	172,800
Share of results of associates	8	(1,279,848)	(80,039)
Gain on bargain purchase	3	(9,455,551)	-
Loss on re-measurement of previously held equity interests	3	2,621,766	-
Recycled cumulative change in fair value of associate acquired	3	(139,616)	-
Rental income from investment properties		(306,678)	-
Revaluation loss on investment properties	7	27,517	-
Gain on sale of financial assets available for sale	4	(2,342,957)	(587,563)
Impairment loss on financial assets available for sale	9	8,801,136	1,085,822
Interest income on bonds and term deposits	4	(782,492)	(436,359)
Dividend income	4	(2,738,409)	(2,577,091)
Interest expense		209,637	17,049
Provision for employees' end of service benefits		484,070	252,960
		6,848,739	6,370,738
Changes in operating assets and liabilities:			
Premiums and insurance receivables		260,303	810,978
Receivables arising from reinsurance contracts and premium accruals		8,317,200	-
Reinsurance recoverable on outstanding claims		(1,262,635)	(1,395,451)
Accounts receivable and other debit balances		3,397,522	667,658
Liabilities arising from insurance contracts		863,568	(310,484)
Insurance payables		193,439	(1,183,109)
Technical reserve		(10,437,024)	-
Payables arising from reinsurance contracts		(82,913)	-
Accounts payable and other credit balances		507,688	376,331
Premiums received in advance		12,395	(9,701)
Cash flows from operations		8,618,282	5,326,960
Employees' end of service benefits paid		(391,622)	(385,529)
Net cash flows from operating activities		8,226,660	4,941,431
INVESTING ACTIVITIES			
Purchase of property and equipment		(228,835)	(16,948)
Purchase of financial assets available for sale		(8,958,499)	(10,421,333)
Purchase of investment in associates		(399,413)	-
Purchase of financial assets held to maturity		(3,000,000)	-
Net cash and cash equivalents outflows on acquisition of a subsidiary	3	(16,681,826)	-
Proceeds from sale of financial assets available for sale		8,629,650	6,515,647
Proceeds from redemption of financial assets held to maturity		258,520	-
Movement in loans secured by life insurance policyholders		118,961	(61,360)
Term deposits		10,147,331	2,986,685
Dividends received		2,738,481	2,536,029
Dividend income from investment in associates		457,080	449,974
Interest income received		749,293	188,212
Rent received		311,985	
Net cash flows (used in) from investing activities		(5,857,272)	2,176,906
FINANCING ACTIVITIES			
Dividend paid		(6,229,707)	(6,642,050)
Sale of treasury shares		24,250	83,209
Interest expense paid		(209,637)	(17,049)
Proceeds from term loan		3,000,000	-
Term loan paid		(3,000,000)	-
Net cash flows used in financing activities		(6,415,094)	(6,575,890)
Foreign currency translation adjustment		(159,208)	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(4,204,914)	542,447
Cash and cash equivalents at the beginning of the year		1,100,666	558,219
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	(3,104,248)	1,100,666

The attached notes 1 to 27 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial information of Al-Ahleia Insurance Company S.A.K.P. (the "Parent Company") and its subsidiary – Kuwait Reinsurance Company (collectively "the Group") (Note 3) for the year ended 31 December 2015 were authorised for issuance with a resolution of the Board of Directors on 17 February 2016. The general assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

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

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 of November 2012, the executive regulation of Law No. 25 of 2012 will continue until a new set of executive regulation is issued.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

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

The Group presents its consolidated 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 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2014 except for the newly adopted accounting policies summarized in significant accounting policies below, relating to "Insurance Premiums from reinsurance operations, rental income, investment properties, financial assets held to maturity, receivable arising from reinsurance contracts, premiums accruals, payables arising from reinsurance, business combinations (IFRS 3), and basis of consolidation.

Recently amended IFRS, issued by International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2015:

IFRS 3 Business Combinations (Effective for annual periods beginning on or after 1 July 2014)
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value at each reporting date whether or not they fall within the scope of IAS 39.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle
These improvements did not have a material impact on the Group. They include:

- *IFRS 2 Share-based Payment*
- *IFRS 8 Operating Segments*
- *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*
- *IAS 24 Related Party Disclosures*

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Annual improvements 2011-2013 Cycle
These improvements did not have a material impact on the Group. They include:

- *IFRS 13 Fair Value Measurement*
- *IAS 40 Investment Property*
- *Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests*
- *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*
- *Amendments to IAS 27: Equity Method in Separate Financial Statements*

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2015 did not have any material impact on the accounting policies, financial position or performance of the Group.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

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. The current transitional guidance will change once the final aspects of the standard are completed. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. Retrospective application is required, but comparative information is not compulsory. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 14 Regulatory Deferral Accounts (Effective for annual periods beginning on or after 1 January 2016)

IFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate - regulated activities. The standard is available only for first time adopters of IFRSs who recognised regulatory deferral account balances under their previous financial reporting standards. The standard is not expected to have any impact on the financial position or performance of the Group.

IFRS 15: Revenue from Contracts with customers
IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 Construction contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the effect of IFRS 15 on the Group and do not expect any significant impact on adoption of this standard.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. The standard is not expected to have any impact on the financial position or performance of the Group.

Additional disclosures will be made in the consolidated financial statements when these standards, revisions and amendments become effective.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the consolidated financial statements of the Parent Company and its subsidiary as at 31 December 2015. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Parent Company controls an investee if and only if the Parent Company has:

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

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it:

- Derecognises the assets (including goodwill, if any) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss

Reclassifies the Parent Company's share of components previously recognised in OCI to consolidated statement of income or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets or liabilities.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded swaps and profit rate contracts in host contracts by the acquiree.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

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

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

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

Product classification

Insurance contracts

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits 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 expired. Investment contracts can however be reclassified as insurance contracts after inception if insurance risk becomes significant.

Revenue recognition

Gross premiums

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Gross premiums (continued)

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

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

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

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

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

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

Rental income
Rental income arising from operating leases on investment properties are accounted for on a straight line basis over the term of the lease.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Reinsurance contracts held

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

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

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

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

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

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.

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

Investment properties
Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date that is determined based on valuation performed by an independent valuer using valuation methods consistent with the nature and usage of the investment properties. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated statement of income in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognised in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

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 Group 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 consolidated statement of income when the asset is derecognised.

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

The Group'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 Group'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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

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

The aggregate of the Group's share of profit or loss of an associate is included as part of net investment income in the consolidated 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 disclosed for the same reporting period as the Group or to a date not earlier than three months of the Group's reporting date using consistent accounting policies. Where practicable, adjustments are made to bring the accounting policies in line with those of the Group.

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

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

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, financial assets available for sale, 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 Group commits to purchase or sell the asset.

The Group's financial assets include financial assets available for sale, financial assets held to maturity, investment in associates, loans, premiums and insurance balances receivable, reinsurance recoverable on outstanding claims, receivables arising from reinsurance contracts and premium accruals and accounts receivable and other debit balances. At 31 December, the Group 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 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)
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 to or debited to the financial assets available for sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of income as gain or (loss) of financial assets available for sale , or the investment is determined to be impaired, when the cumulative loss is reclassified from the financial assets available for sale reserve to the consolidated statement of income as impairment in financial assets available for sale. Interest earned whilst holding financial assets available for sale is reported as interest income using the effective interest rate method (EIR).

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

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 consolidated statement of income.

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

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 consolidated statement of income. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Subsequent measurement (continued)

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(ii) Impairment of financial assets (continued)

Financial assets available for sale

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

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

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

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

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

(iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through the consolidated 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 Group'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 consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

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

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 Group's actuaries.

Incurred but not reported reserve (IBNR)
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 Group's prior experience is maintained for the cost of settling claims incurred but not reported at the consolidated statement of financial position date.

Employees' end of service benefits
The Group 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 Group makes contributions to social security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(iv) Offsetting of financial instruments

Reinsurance
In the ordinary course of business, the Group assumes and cedes reinsurance. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. Reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts. Failure of reinsurers to honour their obligations could result in losses to the Group; consequently necessary allowances as estimated by management are established for amounts deemed uncollectible. Ceded reinsurance is treated as the risk and liability of the assuming companies. The reinsurers' portion of loss reserves are estimated in a manner consistent with the claim liability associated with the reinsured policy.

At each reporting date, the Group assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

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

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

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

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 Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

(*ii*) Estimation and assumptions (continued)

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

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 Group base mortality and morbidity tables on standard industry and national tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk 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.

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

3 BUSINESS COMBINATION

On 16 June 2015 the Parent Company had offered the shareholders of Kuwait Reinsurance Company K.S.C.P. (Formerly had been classified as associate) a mandatory acquisition proposal in accordance with the regulations of Capital Markets Authority "CMA" to acquire the shares for 200 fills per share. As a result, the Parent Company acquired additional 91,899,135 shares that represent 61.27% of the investees share capital:

	Previously held equity interest by the Parent Company	*Additional interest through Mandatory Acquisition proposal*	*Post-acquisition equity interest*
Kuwait Reinsurance Company K.S.C.P.	30.47%	61.27%	91.74%

Kuwait Reinsurance Company K.S.C.P. (KRE) is incorporated in the State of Kuwait and listed on Kuwait Stock Exchange. The main objective of KRE is to carry out the reinsurance operations, to establish or subscribe in the formation of insurance or reinsurance companies, and to hold funds, realities or any other investments.

The business combinations of Kuwait Reinsurance Company K.S.C.P. (referred to as "Acquiree Company") were achieved in stages. Accordingly, the Group recognized in the consolidated statement of income a net gain of KD 6,973,401 attributable to shareholders of Parent Company, representing gain on bargain purchase and the recycled amount of the cumulative change in fair value of the prior interest hold in the investee, net of the loss on re-measurement of previously held equity interests at the acquisition date fair value.

The acquisitions have been accounted based on the provisional values assigned to the identifiable assets and liabilities of the acquiree Company as on the financial statements preceding the acquisition date and the management is in the process of determining the fair values of assets and liabilities acquired.

The Group recorded the identifiable assets and liabilities of the acquiree Company at their provisional values as at 30 June 2015. Based on the Group management's assessment there is no significant change in the provisional values of identifiable assets and liabilities of acquired Company between 30 June 2015 and the date of acquisition.

3 BUSINESS COMBINATION (continued)

The details of the provisional values of the assets acquired and liabilities assumed, equivalent to their carrying values, at 30 June 2015, as well as the non-controlling interests at the provisional value of the acquired Company identifiable net assets, are summarised as follows:

	30 June 2015
	KD
Assets	
Cash and equivalents *	2,018,128
Term deposits with original maturities of more than three Months	35,260,925
Financial assets available for sale	14,401,698
Financial assets held to maturity	4,752,602
Receivables arising from reinsurance contracts and premium accruals	33,312,606
Reinsurance recoverable on outstanding claims	1,757,470
Other receivables	8,139,442
Investment properties	13,352,221
Property and equipment	1,771,133
	114,766,225
Liabilities	
Technical reserves	69,166,519
Payables arising from reinsurance contracts	3,599,590
Other payables	1,543,546
	74,309,655
Net assets acquired	40,456,570
Considerations paid during the mandatory proposal offer **	(18,699,954)
Non-controlling interests in the acquired Company at provisional value	(3,341,712)
Fair value of acquirer's previously held interest	(8,959,353)
Gain on bargain purchase	9,455,551
Loss on re-measurement of previously held equity interests	(2,621,766)
Cumulative change in fair value of associate, recycled to consolidated statement of comprehensive income	139,616
Net gain on business combination	6,973,401

Considerations paid during the mandatory proposal offer **	(18,699,954)
Cash and cash equivalents inflows on acquisition of a subsidiary *	2,018,128
Net cash and cash equivalents outflows on acquisition of a subsidiary	(16,681,826)

4 NET INVESTMENT INCOME

	2015	*2014*
	KD	*KD*
Share of results of associates (Note 8)	1,279,848	80,039
Gain on sale of financial assets available for sale	2,342,957	587,563
Interest income on bonds and term deposits	724,163	436,359
Dividend income	2,738,409	2,577,091
Other investment income	84,935	89,489
	7,170,312	3,770,541

5 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year attributable to shareholders of Parent Company by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares).

	2015	*2014*
	KD	*KD*
Profit for the year attributable to shareholders of Parent Company	11,190,496	8,523,159
	Shares	Shares
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	196,202,950	196,108,649
Basic and diluted earnings per share	57.04 fils	43.46 fils

As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

6 CASH AND CASH EQUIVALENTS

	2015	*2014*
	KD	*KD*
Bank balances and cash	3,042,867	1,100,666
Term deposits	47,262,857	22,149,263
	50,305,724	23,249,929
Less:		
Term deposits with original maturities of more than three Months	(47,262,857)	(22,149,263)
Bank overdraft	(6,147,115)	-
Cash and cash equivalents	(3,104,248)	1,100,666

Term deposits amounting to KD 5,555,356 are held as security against letters of credit granted by banks (Note 22).

7 INVESTMENT PROPERTIES

	2015	*2014*
	KD	*KD*
As at 1 January	-	-
Arising on consolidation of a new subsidiary	13,345,754	-
Revaluation loss	(27,517)	-
Foreign currency translation adjustment	(4,857)	-
As at 31 December	13,313,380	-

The fair value of investment properties has been determined based on valuations obtained from two independent professional real estate valuers, who are industry specialised in valuing such type of investment properties. One of these valuers is a local bank and the other is a local reputable accredited valuer. Both valuers have valued the investment properties using the income capitalization approach assuming full capacity of the property. For valuation purpose, the Group has selected the value made by the local bank, being the lower of these two valuations (2014: the lower of two valuations) as required by the Capital Markets Authority (CMA). The Group has entered into operating lease for its investment properties (Note 23).

7 INVESTMENT PROPERTIES (continued)

The significant assumptions used in the valuations are set out below:

	2015	*2014*
Average rent (per sqm) – KD	**757**	-
Yield rate - %	**5.09%**	-
Vacancy rate	**9.52%**	-

Any changes to the significant assumptions used in the valuation above such as 5% for average rent and vacancy rate and 50 basis points for yield do not have material impact on the consolidated statement of income of the Group.

The fair value of the investment properties is determined using the income capitalisation approach and hence categorised under level 3 of the fair value hierarchy.

8 INVESTMENTS IN ASSOCIATES

The Group has the following investment in associates:

	Ownership percentage		*Country of*	*2015*	*2014*
	2015	*2014*	*incorporation*	*KD*	*KD*
Iraq International Insurance Company S.A (Closed)	**30.13%**	20.00%	Iraq	**408,163**	135,833
AL-Watania Insurance Company Y.S.C. (Closed)	**22.50%**	22.50%	Yemen	**161,326**	155,869
Burgan Insurance Company S.A.L. (formerly Arab Life Insurance Company S.A.L.)	**49.37%**	49.37%	Lebanon	**531,856**	433,309
Arab Life and Accident Insurance Company P.S.C.	**27.94%**	27.94%	Jordan	**1,009,856**	994,839
Trade Union Insurance Company B.S.C.C.	**20.95%**	20.95%	Bahrain	**4,129,460**	3,185,368
Kuwait Reinsurance Company K.S.C.P. *	-	30.00%	Kuwait	-	11,461,002
				6,240,661	16,366,220

**During the year the Parent Company acquired additional interest of Kuwait Reinsurance Company K.S.C.P (KRE) through mandatory acquisition proposal. The Group reassessed its interest in KRE and concluded that the Group is able to exercise control. Accordingly the Group derecognized its interest in KRE as investment in associate and consolidated KRE (note3).*

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

	2015	*2014*
	KD	*KD*
Carrying value at 1 January	**16,366,220**	16,449,296
Additional subscription in associates	**399,413**	-
Share of results of associates (Note 4)	**1,279,848**	80,039
Dividends received	**(457,080)**	(449,974)
Share of other comprehensive income	**67,657**	139,252
Foreign currency translation adjustment	**165,721**	147,607
De-recognition of Associated Company, transferred to subsidiary (note3)	**(11,581,118)**	-
Carrying value at 31 December	**6,240,661**	16,366,220

8 INVESTMENTS IN ASSOCIATES (continued)

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

	2015	*2014*		
	Trade Union Insurance Company B.S.C.C.	*Kuwait Reinsurance Company K.S.C.P.*	*Trade Union Insurance Company B.S.C.C.*	*Total*
	KD	*KD*	*KD*	*KD*
Current assets	**19,746,480**	68,270,755	14,077,860	82,348,615
Non-current assets	**60,728**	33,464,558	1,742,340	35,206,898
Current liabilities	**(1,224,839)**	(6,743,685)	(612,679)	(7,356,364)
Non-current liabilities	-	(56,785,741)	(2,900)	(56,788,641)
Equity	**18,582,369**	38,205,887	15,204,621	53,410,508
Group's carrying value of the investment	**4,129,460**	11,461,002	3,185,368	14,646,370
Share of associates' results for the year				
Revenue	**3,791,002**	209,924	-	209,924
Group's share for the profit of the year	**844,142**	10,388	-	10,388
Group's share of associates of other comprehensive income (loss) for the year	-	143,340	-	143,340

9 FINANCIAL ASSETS AVAILABLE FOR SALE

	2015	*2014*
	KD	*KD*
Local equity securities:		
Quoted	**23,681,741**	23,128,020
Unquoted	**7,820,659**	8,015,112
	31,502,400	31,143,132
Foreign equity securities:		
Quoted	**4,799,220**	7,400,871
Unquoted	**20,107,925**	18,487,635
	24,907,145	25,888,506
Unquoted foreign funds	**29,533,262**	21,910,145
Bonds	**1,018,223**	350,000
	86,961,030	79,291,783

As at 31 December 2015, 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 7,331,777 (2014: KD NIL) was recognised in the consolidated statement of income for the year ended 31 December 2015.

Unquoted equity and debt securities amounting to KD 16,879,974 (2014: KD 12,337,816) 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 652,407 (2014: KD 702,884) against these investments based on the most recently available market information.

9 FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

Managed funds are carried at fair value 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 816,952 (2014: KD 382,938) has been recorded in the consolidated statement of income for the year ended 31 December 2015.

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

10 PREMIUMS AND INSURANCE RECEIVABLES

	2015 *KD*	*2014* *KD*
Policyholders' accounts receivable		
Premiums receivable	**7,019,093**	7,177,827
Allowances for impaired receivables	**(555,655)**	(600,120)
Net policyholders' accounts receivable	**6,463,438**	6,577,707
Insurance and reinsures accounts receivable		
Reinsures receivable	**4,368,598**	4,537,736
Allowances for impaired receivables	**(112,371)**	(135,475)
Net insurance and reinsures accounts receivable	**4,256,227**	4,402,261
Total premiums and insurance receivables	**10,719,665**	10,979,968

As at 31 December 2015, premiums as well as insurance and reinsurance receivables at nominal value of KD 668,026 (2014: KD 735,595) were impaired and fully provided for.

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

	2015 *KD*	*2014* *KD*
At the beginning of the year	**735,595**	783,172
Reversal of impairment	**(67,569)**	(47,577)
At the end of the year	**668,026**	735,595

11 RECEIVABLES ARISING FROM REINSURANCE CONTRACTS AND PREMIUM ACCRUALS

	2015 *KD*	*2014* *KD*
Gross receivables arising from reinsurance contracts	**9,633,811**	-
Provision for doubtful debts	**(275,964)**	-
Net receivables arising from reinsurance contracts	**9,357,847**	-
Accrued premiums arising from reinsurance contracts	**15,419,100**	-
	24,776,947	-

11 RECEIVABLES ARISING FROM REINSURANCE CONTRACTS AND PREMIUM ACCRUALS (continued)

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

		Past due but not impaired		
	Total	*1-3 months*	*3-12 months*	*More than 12 months*
	KD	*KD*	*KD*	*KD*
2015	**9,357,847**	**4,833,151**	**3,100,115**	**1,424,581**
2014	-	-	-	-

12 ACCOUNTS RECEIVABLES AND OTHER DEBIT BALANCES

	2015	*2014*
	KD	*KD*
Accrued income	**745,060**	335,681
Reserve retained by reinsurers	**309,649**	325,784
Other debit balances	**6,216,685**	1,334,340
	7,271,394	1,995,805

13 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 2014: 200,000,000) which was issued in form of cash and bonus shares.

Cash dividend

On 17 February 2016, the Parent Company's board of directors has proposed a distribution of cash dividend of 35% for the year ended 31 December 2015 (2014: 32%), totalling KD 7,000,000 (2014: KD 6,277,753) and the Parent Company board of directors' fees of KD 454,000 (2014: KD 409,847). This proposal is subject to the approval by Annual Ordinary General Assembly Meeting of the Parent Company's Shareholders.

On 6 April 2015, the Ordinary Annual General Assembly of the Parent Company's shareholders approved the payment of cash dividend of 32% for the year ended 31 December 2014, totalling KD 6,277,753 (2013: 32% totalling KD 6,275,181) and board of directors' remuneration of KD 409,847 (2013: KD 180,000).

14 RESERVES

Statutory reserve

As required by the Companies Law and the Parent Company's articles of association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees should be transferred to statutory reserve. As the statutory reserve at the beginning of the year reached 91% of the share capital (above 50% of share capital) the Parent Company's board of directors has proposed to transfer an amount of KD 1,828,569 from retained earnings to the Statutory reserve to reach 100% of share capital subject to approval by Annual Ordinary General Assembly Meeting of the Parent Company's Shareholders.

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 Retained earnings are not sufficient for the payment of a dividend of that amount.

General reserve

In accordance with the Parent 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 general reserve. As the General reserve at the beginning of the year reached 94% of the share capital the Parent Company's board of directors has proposed to transfer an amount of KD 1,137,862 from retained earnings to the General reserve to reach 100% of share capital subject to approval by Annual Ordinary General Assembly Meeting of the Parent Company's Shareholders.

Special voluntary reserve

In accordance with the Parent 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 Parent Company has resolved to discontinue such annual transfers in accordance with a resolution of the Board of Directors on 4 March 2015.

15 TREASURY SHARES

	2015	*2014*
Number of shares	**3,765,323**	3,819,235
Percentage of issued shares (%)	**1.88**	1.91
Market value (KD)	**1,995,621**	1,890,521

An amount of KD 1,394,366 (31 December 2014: KD 1,414,701) equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from reserves and retained earnings throughout the holding period of treasury shares.

The weighted average market price of the Parent Company's shares for the year ended 31 December 2015 was 449 fils per share (31 December 2014: 480 fils per share).

16 LIABILITIES ARISING FROM INSURANCE CONTRACTS

31 December 2015	*Marine and Aviation KD*	*Accident KD*	*Fire KD*	*Life and Medical KD*	*Reinsurance operations KD*	*Total KD*
OUTSTANDING CLAIMS RESERVE:						
Gross balance at the beginning of the year	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 beginning of the year	943,183	5,849,040	480,633	2,260,565	-	9,533,421
Arising from Consolidated subsidiary	-	-	-	-	31,752,990	31,752,990
Gross claims incurred during the year	1,467,589	5,969,405	1,470,625	5,776,585	10,891,018	25,575,222
Reinsurance recoverable	(968,889)	(1,610,370)	(1,154,289)	(3,837,698)	(1,436,582)	(9,007,828)
Net claims incurred	498,700	4,359,035	316,336	1,938,887	9,454,436	16,567,394
Gross claims paid during the year	(2,922,834)	(4,017,617)	(961,853)	(4,923,375)	(10,944,484)	(23,770,163)
Reinsurance recoverable	2,325,652	354,027	728,998	3,284,393	1,052,123	7,745,193
Paid during the year	(597,182)	(3,663,590)	(232,855)	(1,638,982)	(9,892,361)	(16,024,970)
NET BALANCE AT THE END OF THE YEAR	844,701	6,544,485	564,114	2,560,470	31,315,065	41,828,835
Presented in the consolidated statement of financial position as follows:						
Outstanding claims reserve	5,030,061	11,246,941	10,750,564	12,946,721	33,456,994	73,431,281
Reinsurance recoverable on outstanding claims	(4,185,360)	(4,702,456)	(10,186,450)	(10,386,251)	(2,141,929)	(31,602,446)
NET BALANCE AT THE END OF THE YEAR	844,701	6,544,485	564,114	2,560,470	31,315,065	41,828,835
Unearned premiums reserve	321,620	2,744,777	371,771	-	17,225,042	20,663,210
Life mathematical reserve	-	-	-	4,982,000	-	4,982,000
Incurred but not reported reserve	700,000	2,144,714	700,000	-	8,047,459	11,592,173

16 LIABILITIES ARISING FROM INSURANCE CONTRACTS (continued)

31 December 2014	*Marine and Aviation KD*	*Accident KD*	*Fire KD*	*Life and Medical KD*	*Reinsurance operations 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
Arising from Consolidated subsidiary	-	-	-	-	-	-
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)
Net 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 consolidated 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

17 INSURANCE PAYABLES

	2015 KD	*2014 KD*
Policyholders payables	**1,563,909**	1,853,703
Reinsurance payables	**7,620,905**	4,641,632
Claims payables	**737,284**	800,801
Other insurance payables	**1,505,907**	640,212
	11,428,005	7,936,348

18 OTHER CREDIT BALANCES

	2015 KD	*2014 KD*
Reserve retained on reinsurance business	**1,181,588**	1,290,025
Other payables	**7,073,654**	5,045,224
	8,255,242	6,335,249

19 SEGMENT INFORMATION

The Group operates in three segments: General risk insurance, and Life and Medical insurance and Reinsurance. The following are the details of these segments:

A) Segment information – Consolidated statement of income

	General risk insurance						
	Marine and Aviation KD	*General accident KD*	*Fire KD*	*Total general risk insurance KD*	*Life and medical KD*	*Reinsurance operations KD*	*Total KD*
Year ended 31 December 2015:							
Revenue:							
Gross premiums	7,102,774	12,397,901	5,076,684	24,577,359	8,714,437	10,067,253	43,359,049
Premiums ceded to reinsurers	(5,573,748)	(5,929,787)	(4,313,005)	(15,816,540)	(5,608,379)	(2,662,779)	(24,087,698)
Net premiums	1,529,026	6,468,114	763,679	8,760,819	3,106,058	7,404,474	19,271,351
Movement in unearned premiums	(97,201)	562,686	19,190	484,675	-	10,325,707	10,810,382
Net premiums earned	1,431,825	7,030,800	782,869	9,245,494	3,106,058	17,730,181	30,081,733
Commission income on ceded reinsurance	2,060,171	1,876,082	1,027,906	4,964,159	1,192,260	246,751	6,403,170
Policy issuance fees	-	625,180	-	625,180	-	-	625,180
Total revenue	3,491,996	9,532,062	1,810,775	14,834,833	4,298,318	17,976,932	37,110,083
Expenses:							
Claims incurred	(498,700)	(4,359,035)	(316,336)	(5,174,071)	(1,938,887)	(9,454,436)	(16,567,394)
Commissions	(529,401)	(1,143,330)	(199,117)	(1,871,848)	(220,169)	(6,094,225)	(8,186,242)
Movement in life mathematical reserve	-	-	-	-	(36,000)	-	(36,000)
Maturity and cancellations of life insurance policies	-	-	-	-	(287,505)	-	(287,505)
Administrative expenses for insurance business	(691,811)	(1,331,756)	(399,214)	(2,422,781)	(665,129)	(1,240,184)	(4,328,094)
Total expenses	(1,719,912)	(6,834,121)	(914,667)	(9,468,700)	(3,147,690)	(16,788,845)	(29,405,235)
Net underwriting results	1,772,084	2,697,941	896,108	5,366,133	1,150,628	1,188,087	7,704,848
Net investment income				6,111,465	168,299	890,548	7,170,312
Net gain on business combinations				-	-	6,973,401	6,973,401
Rental income from investment properties				-	-	306,678	306,678
Other income				181,997	14,193	-	196,190
Impairment loss on financial assets available for sale				(8,801,136)	-	-	(8,801,136)
Other administrative expenses, investment properties expenses and valuation loss				(406,630)	(218)	(77,899)	(484,747)
Unallocated expenses				(639,418)	-	-	(639,418)
Profit before contribution to KFAS, NLST, Zakat and Directors' fees							12,426,128

19 SEGMENT INFORMATION (continued)

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

	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*	*Reinsurance operations 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				3,563,909	206,632	-	3,770,541
Rental income from investment properties				-	-	-	-
Other income				115,339	24,377	-	139,716
Impairment loss on financial assets available for sale				(1,085,822)	-	-	(1,085,822)
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

19 SEGMENT INFORMATION (continued)

B) Segment information – Consolidated statement of financial position

	General risk insurance KD	*Life and medical insurance KD*	*Reinsurance operations*	*Total KD*
31 December 2015				
Assets	**116,074,046**	**21,067,375**	**105,896,612**	**243,038,033**
Liabilities	**51,457,254**	**21,067,375**	**64,062,177**	**136,586,806**
31 December 2014				
Assets	143,188,214	20,143,454	-	163,331,668
Liabilities	45,295,594	20,126,989	-	65,422,583

Takaful Insurance Department
In 2009, The Group 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 operations' results on the Group's consolidated financial statements is immaterial to be disclosed separately.

20 ARAB WAR RISKS INSURANCE SYNDICATE (AWRIS)

According to the latest advice received from AWRIS, the Group's interest in the undistributed profits of AWRIS amounted to KD 1,543,987 (USD 5,077,608) [2014: KD 1,140,652 (USD 3,881,090)].

21 RELATED PARTY TRANSACTIONS

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

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

	Associates KD	*Parent Company's shareholders KD*	*Others KD*	*2015 KD*	*2014 KD*
Gross premiums	**1,203,558**	**4,791,137**	**42,409**	**6,037,104**	3,893,920
Claims incurred	**458,768**	**789,180**	**30,244**	**1,278,197**	1,768,594

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

	Associates KD	*Parent Company's shareholders KD*	*Others KD*	*2015 KD*	*2014 KD*
Premiums and insurance balances receivable	**704,623**	**4,698,307**	**20,850**	**5,423,780**	4,008,721
Other credit balances	**-**	**55,972**	**-**	**55,972**	158,438

21 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel of the Group:

	2015 *KD*	*2014* *KD*
Salaries and other short term benefits	**505,007**	725,437
Employees' end of service benefits	**407,885**	196,474
	912,892	921,911

22 CAPITAL COMMITMENTS AND CONTINGENCIES

(a) As at 31 December 2015, the Group has future capital commitments with respect to purchase of financial assets available for sale amounting to KD 5,514,216 (2014: KD 4,276,722) and has contingent liabilities in respect of letter of credit arising from the subsidiary, granted by a bank amounting to KD 4,629,463 (2014: 4,830,022), and letter of guarantee granted by a bank to the Parent company amounting to KD 260,000 from which it is anticipated that no material liabilities will arise.

(b) The Group 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, The Parent Company's management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

23 FUTURE LEASE RENT RECEIVABLES

The Group has entered into commercial property leases on its investment properties (Note 7). These are non-cancellable leases having remaining lease term of 2 to 5 years.

Future minimum lease rentals receivables under non-cancellable operating leases as at 31 December are as follows:

	2015 *KD*	*2014* *KD*
Within one year	**376,008**	-
After one year but not more than five years	**363,345**	-
	739,353	-

24 STATUTORY GUARANTEES

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

(a) Investments of KD 500,000 (2014: KD 500,000) have been deposited with a Kuwaiti bank as security to underwrite general insurance business;

(b) Investments of KD 500,000 (2014: KD 500,000) have been deposited with a Kuwaiti bank in respect of the Parent Company's right to transact life assurance business;

(c) Other investments, in the form of deposits and bonds amounting to KD 8,112,337 (2014: KD 7,476,049) are held in Kuwait.

(d) The Parent Company's premise with net carrying amount of KD 711,689 (2014: KD 828,124) have been mortgaged with the Ministry of Commerce and Industry.

25 RISK MANAGEMENT

(a) Governance framework

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

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

(b) Regulatory framework

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

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

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

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

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

(c) Insurance risk

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

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

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

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

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

25 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts

Life insurance contracts offered by the Group 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 Group have minimum maturity values subject to certain conditions being satisfied.

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

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

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

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

25 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

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

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

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

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

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

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

31 December 2015 **Type of contract**	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*
Term insurance	19,912	(13,601)	6,311
Life and disability	1,981,088	(1,269,387)	711,701
Medical	389,842	(245,292)	144,550
Endowment individual policies	1,498,927	(1,132,324)	366,603
Pensions (individual policies)	111,370	-	111,370
Total life insurance contracts	**4,001,139**	**(2,660,604)**	**1,340,535**
Total investment contracts and participation feature	**4,101,711**	-	**4,101,711**
Other life insurance contracts liabilities	**31,864**	-	**31,864**

25 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

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

Key assumptions

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

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

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

• ***Mortality and morbidity rates***

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

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

• ***Longevity***

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

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

• ***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.

25 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 Group's experience and vary by product type, policy duration and sales trends.

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

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

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

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

25 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*	
	2015	***2014***	***2015***	***2014***	***2015***	***2014***	***2015***	***2014***	***2015***	***2014***	***2015***	***2014***
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	A49/52	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%

25 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions (continued)

Sensitivities

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

(2) Non-life insurance contracts

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

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

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

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

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

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

25 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 2015	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*
Marine and Aviation	**5,030,061**	**(4,185,360)**	**844,701**
Accident	**11,246,941**	**(4,702,456)**	**6,544,485**
Fire	**10,750,564**	**(10,186,450)**	**564,114**
Reinsurance operations	**55,456,489**	**(12,853,051)**	**42,603,438**
Total	**82,484,055**	**(31,927,317)**	**50,556,738**
31 December 2014			
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
Reinsurance operations	-	-	-
Total	25,564,148	(18,807,192)	6,756,956

Key assumptions

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

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

Sensitivities

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

31 December 2015	*Change in assumption %*	*Impact on gross liabilities KD*	*Impact on net liabilities KD*	*Impact on profit KD*
Average claim cost	**+10**	**345**	**305**	**305**
Average number of claims	**+10**	**415**	**415**	**415**

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	95	95
Average number of claims	+10	216	216	216

25 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 Group credit risk policy setting out the assessment and determination of what constitutes credit risk for the Group. 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 consolidated statement of financial position:

	31 December 2015			
Exposure credit risk by classifying financial assets according to type of insurance	***General insurance KD***	***Life and Medical insurance KD***	***Reinsurance operations KD***	***Total KD***
Financial assets available for sale (debt securities)	-	350,000	668,222	1,018,222
Loans secured by life insurance policyholders	-	97,487	-	97,487
Policyholders accounts receivable (gross)	4,876,809	2,142,284	-	7,019,093
Reinsurance receivables (gross)	1,786,543	440,126	2,141,929	4,368,598
Reinsurance recoverable on outstanding claims	20,997,736	10,386,251	24,995,406	56,379,393
Other debit balances	797,318	438,401	4,980,966	6,216,685
Fixed deposits	7,961,000	3,700,000	35,601,857	47,262,857
Bank balances	613,300	384	2,429,183	3,042,867
Total credit risk exposure	**37,032,706**	**17,554,933**	**70,817,563**	**125,405,202**

	31 December 2014			
Exposure credit risk by classifying financial assets according to type of insurance	*General insurance KD*	*Life and Medical insurance KD*	*Reinsurance operations KD*	*Total KD*
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

25 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 2015				
Financial assets available for sale (debt securities)	-	-	1,018,222	1,018,222
Loans secured by life insurance policyholders	-	-	97,487	97,487
Policyholders accounts receivable (gross)	-	-	7,019,093	7,019,093
Premiums and insurance receivable (gross)	3,846,911	521,687	-	4,368,598
Reinsurance recoverable on outstanding claims	32,867,125	23,512,268	-	56,379,393
Other debit balances	-	-	6,216,685	6,216,685
Fixed deposits	47,262,857	-	-	47,262,857
Bank balances	3,042,867	-	-	3,042,867
Total credit risk exposure	**87,019,760**	**24,033,955**	**14,351,487**	**125,405,202**

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

The Group does not have any material past due but not impaired financial assets at 31 December 2015 and 31 December 2014.

25 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(2) Liquidity risk

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

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

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

31 December 2015	***Within 1 year KD***	***More than 1 year KD***	***Total KD***
Insurance payables	**10,456,153**	**971,852**	**11,428,005**
Other credit balances	**3,322,120**	**4,933,122**	**8,255,242**
	13,778,273	**5,904,974**	**19,683,247**

31 December 2014	*Within 1 year KD*	*More than 1 year KD*	*Total KD*
Insurance payables	p	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

3) Market risk

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

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

(i) Currency risk

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

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

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

25 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.

		2015		*2014*	
	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	**301,268**	**1,352,165**	309,265	1,357,185
JD	±5	**9,215**	**28,105**	11,002	29,201
EGP	±5	**3,008**	**4,598**	3,102	4,723
Euro	±5	**6,985**	**131,123**	7,116	132,678
GBP	±5	**2,005**	**37,762**	2,314	38,787
Others	±5	**39,872**	**161,000**	41,986	165,600

(ii) Interest rate risk

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

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates, on the Group's profit before contribution to KFAS, NLST, Zakat and directors' fees, based on floating rate financial assets and financial liabilities held at 31 December 2015 and 2014.

The Group 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 Group manages this risk through diversification of investments in terms of geographical distribution and industrial concentration.

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

Market indices	*2015*	*2014*
Kuwait	**± 2,465,703**	± 2,312,802
Other GCC countries	**± 650,123**	± 740,087

26 CAPITAL MANAGEMENT

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

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

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

	2015 *KD*	*2014* *KD*
Liabilities arising from insurance contracts	**110,668,664**	51,075,601
Payables	**19,771,027**	14,346,982
Bank overdraft	**6,147,115**	-
Less: Bank balances and cash	**(3,042,867)**	(1,100,666)
Net debt	**133,543,939**	64,321,917
Total capital	**106,451,227**	97,909,085
Total capital and net debt	**239,995,166**	162,231,002
Gearing ratio	**56%**	40%

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of financial assets available for sale, loans secured by life insurance policyholders, premiums and insurance balances receivable, reinsurance recoverable on outstanding claims, accounts receivables and other debit balances, fixed deposits and bank balances. Financial liabilities consist of insurance payables and other credit balances.

The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost amounting to KD 16,879,974 (Note 9), are not materially different from their carrying values.

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

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

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

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

27 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 2015	***Quoted prices in active markets (Level 1) KD***	***Significant unobservable inputs (Level 3) KD***	***Total fair value KD***
Financial assets available for sale:			
Quoted	**28,480,961**	**-**	**28,480,961**
Unquoted	**-**	**41,600,095**	**41,600,095**
Total	**28,480,961**	**41,600,095**	**70,081,056**
31 December 2014			
Financial assets available for sale:			
Quoted	31,380,230	-	31,380,230
Unquoted	-	35,573,737	35,573,737
Total	31,380,230	35,573,737	66,953,967

Description of significant unobservable inputs to valuation is as follows:

	Valuation Technique	***Significant unobservable inputs***	***Range***	***Sensitivity of the input to fair value***
Unquoted equity investments	Price to book value	Discount for lack of marketability& lack of Control	10%	An increase (decrease) by 10% in the Discount for lack of marketability & lack of Control would result in increase (decrease) in fair value by KD 1,306 thousands.
	Price to book value	Price to book multiple "Represents amounts used when the Group has determined that market participants would use such multiples when pricing the investments"	10%	An increase (decrease) by 10% in the price to book multiple would result in increase (decrease) in fair value by KD 1,175 thousands.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	At the beginning of the year KD	*Arising from consolidated subsidiary KD*	*Net result recorded in the statement of comprehensive income KD*	*Net result recorded in income statement KD*	*Net purchase, transfer, sale & settlements KD*	*At the end of the year KD*
2015						
Financial assets available for sale:						
Unquoted equity securities	14,514,931	-	2,887,095	-	(1,347,118)	16,054,908
Unquoted managed funds	21,058,806	-	194,575	(625,831)	(2,985,885)	17,641,665
Arising from consolidated subsidiary						
Unquoted managed funds	-	8,471,674	(346,578)	35,837	(257,411)	7,903,522
	35,573,737	8,471,674	2,735,092	(589,994)	(4,590,414)	41,600,095
2014						
Financial assets available for sale:						
Unquoted equity securities	14,006,653	-	508,278	-	-	14,514,931
Unquoted managed funds	20,417,746		1,474,204	(382,938)	(450,206)	21,058,806
	34,424,399	-	1,982,482	(382,938)	(450,206)	35,573,737