

2018

ANNUAL REPORT



AL AHLEIA INSURANCE CO. S.A.K.P.



Established in Kuwait on 12th June 1962
By virtue of Amiri Decree No. 37

Authorized and Paid Up Capital KD. 20,000,000
Commercial Register No. 9389
Insurance License No. 3

Registered in accordance with the Insurance
Companies and Agents Law No. 24 for 1961



H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
AMIR OF KUWAIT

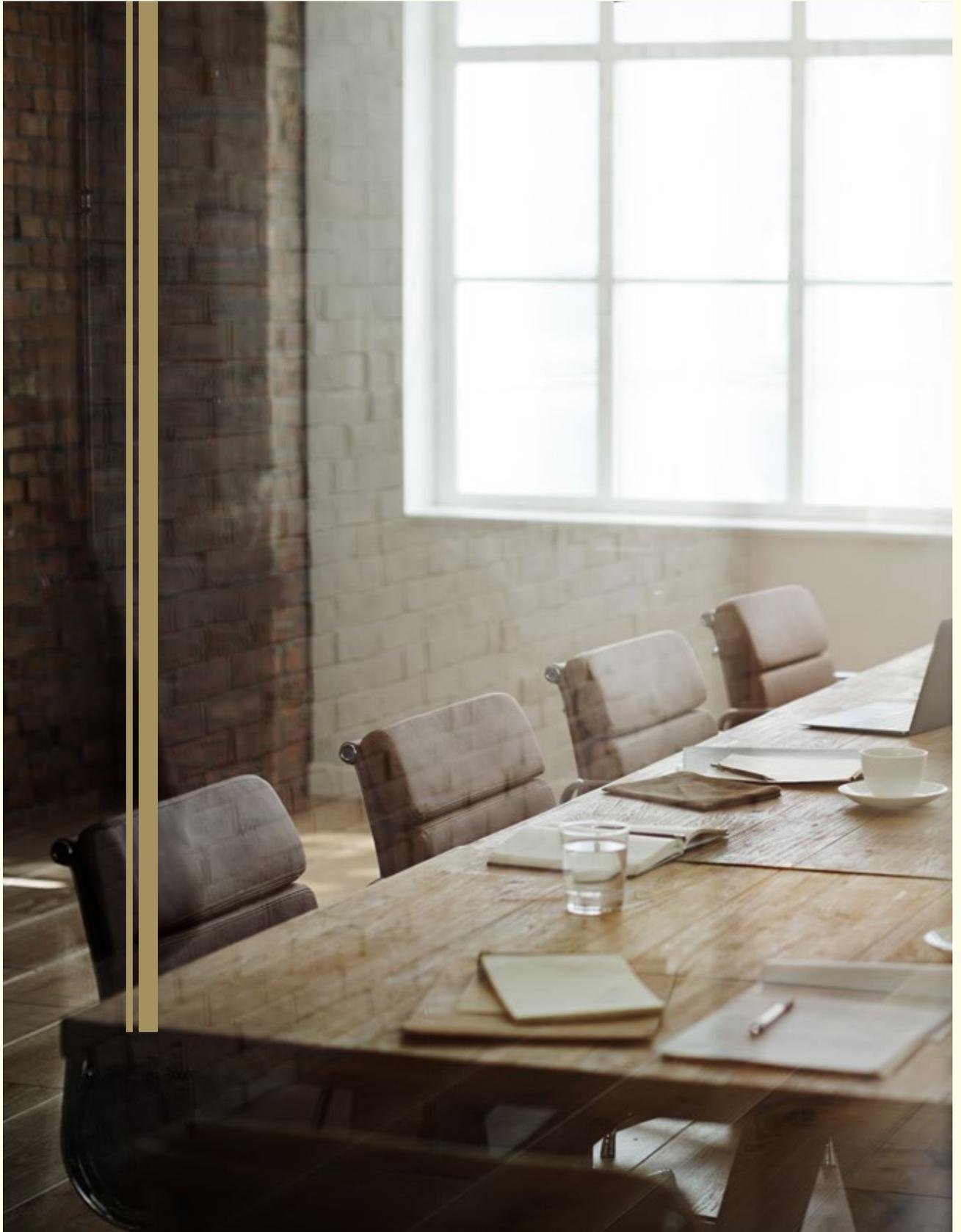


H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
CROWN PRINCE



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Board of Directors

Mr. Ayman Abdullatif Ali Al-Shayea

CHAIRMAN

Mr. Emad Mohammed Abdul Rahman Al-Bahar

VICE CHAIRMAN

Mr. Abdullah Mohammed Abdullah Al-Saad

DIRECTOR

Mr. Abdul Aziz Abdul Razzaq Al-Jassar

DIRECTOR

Mr. Emad Jassem Hamad Al-Sager

DIRECTOR

Mr. Ahmad Yousef Ibrahim Al-Ghanem

DIRECTOR

Mr. Adel Mohammed Ahmed Al-Ghanam

DIRECTOR

Mr. Abdul Mouhsen Jassem Mohammed Al-Kharafi

DIRECTOR

Mr. Yousef Saad Al-Saad

DIRECTOR

Executive Management

Mr. Yousef Saad Al-Saad

CHIEF EXECUTIVE OFFICER

Mr. Mohammed A. Al-Saad

VICE CHIEF EXECUTIVE OFFICER

Mr. Jamal Y. Al-Houlli

ASSISTANT CEO - MOTOR DEPT.

Mr. Jawad R. Saleh

ASSISTANT CEO - LIFE & MEDICAL DEPT.

Mr. Ghazi A. Al-Roumi

ASSISTANT CEO - PRODUCTION & BRANCHES DEPT.

Mr. Mohammed A. Samour

ASSISTANT CEO - MARINE & AVIATION DEPT.

Dr. Fayeq H. Tawdros

ACTUARY



HEAD OFFICE & BRANCHES

HEAD OFFICE

Ahmad Al-Jaber Street, Al-Sharq, Kuwait
P.O.Box 1602 Safat, Postal Code 13017
Cable: Al-Ahleia
Tel.: (965) 1888444
Fax: (965) 22430308 - 22411330
E-mail: aic@alahleia.com
www.alahleia.com

SHUWAIKH BRANCH

Banks Street, Shuwaikh
Tel./Fax: 24832183

SABHAN BRANCH

Near Banks Group, Sabhan
Tel./Fax : 24748239

HAWALLI BRANCH

Tunis street, Al-Rehab Complex, Hawalli
Tel./Fax: 22642157

AL-SOOR BRANCH

Al-Soor Street, Mounzer Tower, Al-Salheiah
Tel./Fax: 22440350

TECHNICAL TESTING BRANCH

Kuwait Motoring Co.
Tel./Fax: 24834400

FAHAHEEL BRANCH

Al-Daboos Street, Naif Al-Daboos Complex
Tel./Fax: 23910393

SALMIYA BRANCH

Salem Al-Mubarak Street, Salmiya
Tel.: 25733380 - Fax: 25747042

AL-JEWAN BRANCH

Al-Jewan Area, Ministry of Defence Co-op.
Tel./Fax: 24992481

CITIZEN SERVICES BRANCH

Sabhan
Tel.: 24710989 - Fax: 24710897

SUBSIDIARY COMPANIES

Kuwait Reinsurance Co. K.S.C.P.



P.O.Box 21929, Al Safat 13080, Kuwait
Tel.: (965) 22432011/2 - Fax: (965) 22427823
E-mail: kuwaitre@kuwaitre.com
www.kuwaitre.com

Trade Union Holding Co. B.S.C. (Closed)



P.O.Box 2211, Manama, Bahrain
Tel.: (973) 17506555
Fax: (973) 17100013

SISTER COMPANIES

Trade Union Cooperative Insurance Co.



P.O. Box 1022, Al Khobar 31952, KSA
Tel.: (966) 8164555
Fax: (966) 8580056
E-mail: info@tui-sa.com
www.tuci-sa.com

Arab Life & Accident Insurance Co. P.S.C.



P.O.Box 925250, Amman 11190, Jordan
Tel.: (9626) 5693180/7
Fax: (9626) 5693188
E-mail: ala@wanadoo.jo
www.arab-insurance.com.jo

Iraq International Insurance Co. S.A.



Iraq - Baghdad, Al Karada Al Sharkya,
Babil Neighborhood,
District No. 925
Tel.: (9647) 904277242
E-mail: aliraqintins@yahoo.com

Al-Watania Insurance Co. Y.S.C. (Closed)



Head Office - Sana'a, Yemen
P.O.Box 15497
Tel.: (9671) 272713/874
Fax: (9671) 272924
www.alwataniains.com



SISTER COMPANIES (continued)



Burgan Insurance Company S.A.L. (Formerly Arab Life Insurance Company S.A.L.)

E-mail: burgan@burgan-ins.com
www.burgan-ins.com

Beirut Branch

P.O.Box 11-7338 Riyad Al-Suluh,
Beirut 11072240, Lebanon
Tel.: (9611) 751851
Fax: (9611) 742569

Bhamdoon Branch

Tel.: (9615) 260300
Fax: (9615) 260311

Al-Brajna Tower Branch

Tel.: (9611) 451365

Tripoli Branch

P.O.Box: 206, Lebanon
Tel.: (9616) 627641
Fax: (9616) 441251

Saydah Branch

P.O.Box 969, Lebanon
Tel.: (9617) 728453
Fax: (9617) 728454

BANKERS

IN KUWAIT

National Bank of Kuwait S.A.K.P.
Commercial Bank of Kuwait S.A.K.P.
Gulf Bank K.S.C.P.
Al-Ahli Bank of Kuwait S.A.K.P.
Ahli United Bank S.A.K.P.
Burgan Bank S.A.K.P.
Kuwait Finance House K.S.C.P.
Bank of Bahrain and Kuwait S.A.B.
Warba Bank K.S.C.P.
Boubyan Bank K.S.C.P.

ABROAD

National Bank of Kuwait, Cairo
Ahli United Bank (UK) PLC, London
Arab African International Bank, Cairo
Bank Audi, Beirut



Agenda

FOR THE FIFTY FIFTH MEETING OF THE ANNUAL ORDINARY GENERAL ASSEMBLY

1. Listening to the Board of Directors' Report for the financial year ending 31 December 2018 and approving the same.
2. Listening to the Corporate Governance report and Auditing Committee report for the financial year ending 31 December 2018.
3. Listening to the Auditors' Report for the financial year ending 31 December 2018 and approving the same.
4. Discussing the Financial Statements for the financial year ending 31 December 2018 and approving the same.
5. Listening to the report of any sanctions or infractions found by the controlling authorities for the financial year ending 31 December 2018 (if any).
6. Authorizing the Board of Directors to deal with Related Parties during the financial year ending 31 December 2019 and Approving the transactions for the financial year ending 31 December 2018.
7. Approving discounting the sum of KD 1,000,000 from the profit of the financial year ending 31/12/2018 and to be added to the Special voluntary reserve.
8. Approving the cash dividend recommended by the Board of Directors for the financial year ended 31 December 2018, at a rate of 35% of paid up capital, i.e. 35 fils per share, after deduction of treasury shares, the maturity date shall be ten days after the date of the General Assembly, the distribution date shall be five working days from the date of maturity.
9. Discussing the proposal of the Board of Directors for distributing KD 339,900 a remuneration to the Members of the Board of Directors for the financial year ending 31 December 2018.
10. Discussing the authorization to the Board of Directors to purchase or sell shares of the Company at a percentage not exceeding 10% of the total number of the Company's shares, according to the articles of Law No. 7 for the year 2010 and its implementing regulations and amendments.
11. Discussing the approval of apportioning an amount up to 1% (One Percent) amounting to KD 94,028 of the profit of the financial year ending 31 December 2018 for Social Responsibility for the financial year ending 31 December 2019.
12. Discussing the release of the members of the Board of Directors and release them from their legal, financial and administrative actions for the financial year ended 31 December 2018.
13. Appointing or re-appointment of Auditors from the list of auditors approved by Capital Markets Authority (CMA), taking into consideration the compulsory replacement term of auditors for the financial year ending 31 December 2019, and authorizing the Board of Directors to determine their remuneration.
14. Approving the suspension of the Statutory (Compulsory) reserve.



AGENDA

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1. Listening to the Board of Directors' Report for the financial year ending 31 December 2018 and approving the same.
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11. Discussing the approval of apportioning an amount up to 1% (One Percent) amounting to KD 94,928 of the profit of the financial year ending 31 December 2018 for Social Responsibility for the financial year ending 31 December 2019.
12. Discussing the release of the members of the Board of Directors and release them from their legal, financial and administrative actions for the financial year ended 31 December 2018.
13. Appointing or re-appointment of Auditors from the list of auditors approved by Capital Markets Authority (CMA), taking into consideration the compulsory replacement term of auditors for the financial year ending 31 December 2019, and authorizing the Board of Directors to determine their remuneration.
14. Approving the suspension of the Statutory (Compulsory) reserve.





REPORT OF THE BOARD OF DIRECTORS

Submitted to the Shareholders during the 55th meeting of the Ordinary General Assembly at the Company's Head Office on Tuesday 26/3/2019 at 11:30 a.m.

Dear Shareholders,

On behalf of my fellow Members of the Board of Directors, it is my pleasure to present to you the 55th Annual Report of Al-Ahleia Insurance Company and its subsidiaries.

The report sheds light on the significant achievements realized by the Company during 2018, which generated profits and profitable revenues for shareholders, which reflects the strength and solidity of Al Ahlia Insurance's financial position, its conservative policy and strategy are aiming at diversifying sources of income, strengthening its leadership position at the local and regional levels and adhering to the highest standards of professional conduct.

Al-Ahleia Insurance Company continued its strong performance during the year 2018, realizing a net profit of KD 9,492,820 after amortizing unrealized losses in the profits and losses account of KD 3,902,862 compared to profits of KD 8,612,371 in 2017, with a growth rate of 10.2%.

“Al Ahleia Insurance Company continued its strong performance during the year 2018”



Report of the Board of Directors

The positive results achieved during the year, clearly reflect the success of the Company in overcoming challenges. The Company's strategy has aimed at focusing on the quality of business and insurance services provided with securing maximum protection for the Company, the year 2018 also marked a new phase in the growth and development of the company, by acquiring Trade Union Insurance Co., in Bahrain, to strength its position in the regional markets.

Also, the Company management believes that corporate governance has become an essential means to improve performance to the highest degree while mitigating risks to minimal and safeguard the interests and rights of shareholders and policyholders by developing its governance framework according to the highest standards established by leading professional authorities and regulatory entities also the governance framework under consistently periodic review by the Board of Directors of the Company.

Success of the company is reflected in profitability ratios achieved based on the capital and the quality of assets which amount 281 million Kuwaiti Dinar (2017 – 263 million Kuwaiti Dinar) and strategy which reflect the effectiveness of risk management and corporate governance standards applied by the Company that protect it always from deterioration some economic markets inflicted many companies and shows that in all other financial indicators for Al-Ahleia average return on assets 3.5% and return on equity 9%.

Moreover, the Board of Directors guarantees integrity and reliability of the financial reports prepared thereby and submitted to shareholders.

In the mainstream, the Executive Management ensured to the Audit Committee and the Board of Directors; integrity and reliability of the financial reports prepared thereby.

Referring to the position of Al-Ahleia Insurance Company and its leading regional prestige and international trust therein, Al-Ahleia Insurance Company managed to maintain its high credit ratings, as approved unanimously by the three world-class credit agencies, namely Standard & Poor's (A-), Moody's (A3) and AM Best (A-).

In doing so, the company relied on diversification of revenues and extending its wide network insurance coverage regionally, as well as offering new insurance products. This has resulted in achieving recorded results, and continued to strengthen the company's provision in order to reinforce its position both locally and regionally.

To present to you our brief report on the Company's activities during the year 2018, touching on the events that affected the insurance market in general and the performance of our Company in particular.

“Assets
amounting to
281 million
Kuwaiti Dinar ”



Report of the Board of Directors

The global insurance market is still suffering from the consequences of the natural disasters of 2017 in addition to the natural disasters in 2018, the fires of California and the tsunami of Indonesia, although its impact is limited, and at the local level was the heavy rains in Kuwait and the consequent losses, some of the insurance companies in the region have faltered and have withdrawn from the market and also observed after years of falling prices and rising coverage limits, the market has taken a reverse curve with higher prices and lower coverage and a tightening of reinsurance companies in renewing their agreements. However, Al Ahleia has been able to renew its agreements with better terms and more advantages, without increasing the prices due to its positive results over the previous years.

The policy of regional expansion also helped to enhance and improve the insurance portfolio through continuous efforts to increase individual insurances in addition to obtaining huge commercial and industrial insurances, of which shares can be exchanged with sister and co-insurance companies. Consequently, this would lead to the increasing of retentions.

In addition, Al-Ahlia Insurance increased its ownership stake in Trade Union Insurance Co. in Bahrain to 57.94%, resulting in a variety of sources of income. Al-Ahlia Insurance also began to reap the rewards of its acquisition of Kuwait Reinsurance Company, its results improved and its revenues diversified due to the implementation of a comprehensive marketing and risk management strategy. In addition to sister companies in Jordan, Lebanon, Saudi Arabia, Yemen and Iraq, and their statements are not in place.

Top Management of Al-Ahleia is still working on a feasibility study of other Arab markets in preparation

for increasing its expansion to achieve this general strategic objective.

Al-Ahleia continued to pursue its policy of attracting young promising Kuwaiti Nationals and encourage them to study and train in insurance, locally and abroad and assign to responsibilities that fit with their level of education and practice. This would achieve job stability on the long run.

In addition to the Company's efforts in expanding through new fields of traditional insurance and its concern with strengthening the management of branches and the marketing department, the development of inward reinsurance falls within its strategies and goals.

The figures below show that your Company has continued to reinforce capital and technical reserves to guarantee the success of its ambitions and achieve the other different objectives without being subject to any fluctuations in the future results and to fortify the foundations for growth and development.

Year 2018 ended with the following results:

FIRST: INSURANCE ACTIVITY

The gross annual production amounted to KD 84 million against KD 72 million in 2017 i.e. an increase at the rate of 16.7%. The net technical return on insurance premiums totaled KD 6.5 million (KD 6.3 million in 2017).



Report of the Board of Directors

Here in after is a detailed summary of these aggregates:

General Accident (Non-Life business):

Gross written premiums amounted to KD 67,371,357 against KD 55,947,489 in 2017, i.e. an increase of KD 11,423,868 at the rate of 20.4%. The profit of these departments totaled KD 5,942,263 against KD 5,471,004 in 2017.

The Marine & Aviation business produced a net profit of KD 1,740,389 against KD 1,031,729 in 2017, the General Accident (which includes Motor) ended with a net profit of KD 1,957,066 as against net profit of KD 2,986,952 in 2017 and the Fire KD 975,225 against KD 536,094 in 2017.

Kuwait Reinsurance Company has achieved a net profit of insurance activity amounting to KD 1,269,583 for the year 2018 against KD 916,229 in 2017.

Life & Medical Insurances:

Total premium income amounted to KD 16,610,843 against KD 16,032,987 in 2017 i.e. an increase of KD 577,856 at the rate of 3.6%, Achieving a net profit amounted to KD 541,330 against profit of KD 852,795 in 2017, after reassessment of the Mathematical Reserve by the Company's Actuary to reach KD 7,172,000.

The Company's investment in life and medical insurance made profits of KD 233,124 against KD 196,258 in 2017.

SECOND: OVERSEAS BUSINESS RUN-OFF

We continued following up the results of the Company's underwriting agreements under the overseas long-tail business and settling the parts maturing during the present financial year in a manner similar to what was followed in the previous years.

Apply the time bar limitation by the overseas and long tail business committee, as well as the cut off business with some companies, led to a decrease in the outstanding claims reserve.

“ During 2018, the GWP reached KD 83,982,200 while we have yielded a net profit of KD 9,492,820 ”

THIRD: INVESTMENT ACTIVITY

Kuwait's economy depends mainly on the stability of oil prices, which improved and proved during 2018, the analysts hope that prices will increase soon, in addition to the decline in the real estate market due to the expectation of increasing interest rates. The growth of the Kuwaiti economy is expected to continue especially after joining the Kuwait Stock Exchange index to emerging markets, which will attract more inflows and foreign capital to the local market, as well as the adoption of Kuwait Economic Vision 2035, which will contribute significantly to the advancement of the economy, development and diversification of sources of income.

The investment of the Company in 2018 made a profit of KD 6,829,601 after amortization of KD 3,902,862 in the profit and loss account as unrealized losses (Impairment) of the Company's investments, against profit of KD 7,731,859 in 2017 in addition to recording KD 8,411,416 as unrealized profits in equity.



Report of the Board of Directors



FOURTH: PROFIT & LOSS ACCOUNT

The result of the Company's operations from both insurance and investments activities, after deducting the reserves, provisions and various items usually charged to the profit and loss account, indicates that the activities for the year have yielded a net profit of KD 9,492,820 against profit of KD 8,612,371 in 2017.

By adding profit brought forward from the previous year of KD 14,687,065 the gross profit allowable for distribution amounts to KD 24,179,885 compared to KD 22,566,340 for the year 2017.

The Board of Directors of your Company recommends deducting the amount of KD 1,000,000 of this year profit and add it to the Special Voluntary Reserve, KD 91,610 for Kuwait Foundation for the Advancement of Sciences representing the 1% earmarked year's profit as legally determined, an amount of KD 289,658 to support the National Workforce and an amount of KD 110,306 to Zakat. The Board of Directors also recommends the distribution of the sum of KD 7,000,000 to the Shareholders of the Company of the Paid up Capital at the rate of 35%, i.e. thirty five fils per share.

The Board of Directors also suggests allocating KD 339,990 as Directors remuneration for the fiscal year ending 31 December 2018 and to carry forward the remaining net profit of KD 1,492,820 to the next year.

On the basis of all the foregoing, the Special Voluntary Reserve shall become as KD 14,000,000, and the profits carried forward to the next year KD 16,179,885 beside the additional technical reserves in the various insurance branches reaching KD 13,298,699.



Report of the Board of Directors





Report of the Board of Directors

“ Our appreciation for the Company’s valuable Shareholders, Management, Administrative and Employees ”

FIFTH: BOARD OF DIRECTORS’ AUTHORIZATION TO PURCHASE OR SELL THE COMPANY’S SHARES

The Board of Directors recommends authorizing itself to purchase or sell shares of the Company at a percentage not exceeding 10% of the total number of the Company’s shares, according to the articles of Law No. 7 for the year 2010 and its implementing regulations and amendments.

SIXTH: GRATITUDE AND APPRECIATION

In concluding our report we extend our appreciation and gratitude to H.H. the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, as the ruler of Kuwait for his leadership and noble prudence and H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, the Crown prince, and appeal to Almighty God to support them in continuing their efforts for the advancement and prosperity of the State of Kuwait, reinforcing the Kuwaiti economy, supporting national companies and providing comprehensive patronage for the citizens of their country and to their nation for a more constructive and prosperous future, and we pray the Almighty God to bless them with strength and good health.

We would like also to express our thanks to the Ministry of Commerce and Industry, represented by the Administration of Insurance Companies, for their attention and understanding of the local

market circumstances. Our thanks is also extended to the Ministry of Interior represented by the Traffic Department for their continuous efforts to control the roads and develop the compulsory motor insurance.

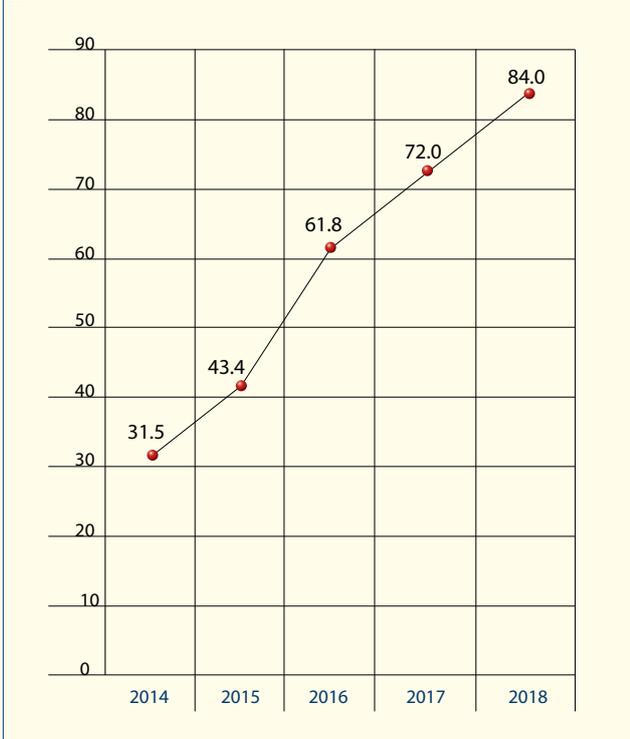
As well, we extend a special gratitude to the Company’s valuable Shareholders and clients for their continuous trust and support. Our appreciation and gratitude also goes to our Reinsurer’s for their support and prompt reaction to our legitimate needs.

On this occasion, the Board of Directors would like to place on record their appreciation for the great efforts and full devotion of the Company’s management on all administrative and technical levels, as well as the employees, which leads towards Company progress and prosperity in a unique family environment and team work so as to offer the best.

We conclude this annual report by appealing to God Almighty to provide us the blessing of security and stability.

May His peace, mercy and blessings be with you always.

Ayman Abdullatif Al-Shayea
Chairman

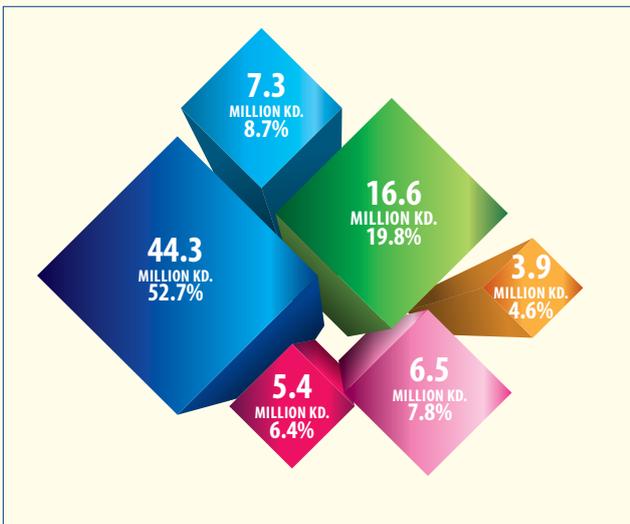


Insurance Activity
(in million KD)

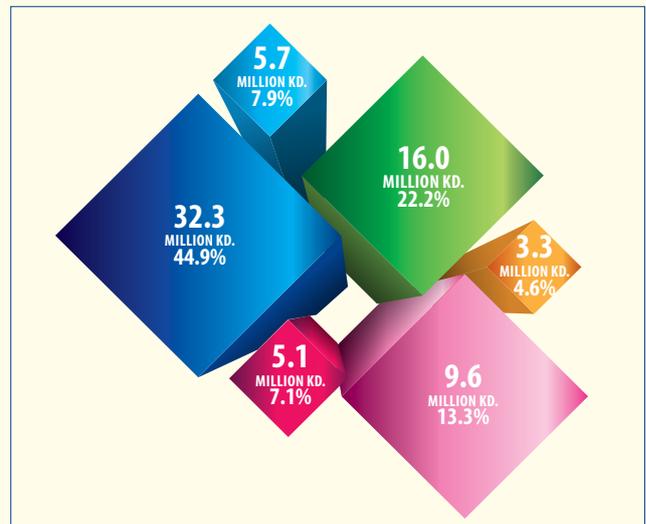


Gross Written Premiums
(in million KD)

- Life & Medical
- G.A (Incl. Motor)
- Fire
- Marine & Aviation
- Reinsurance

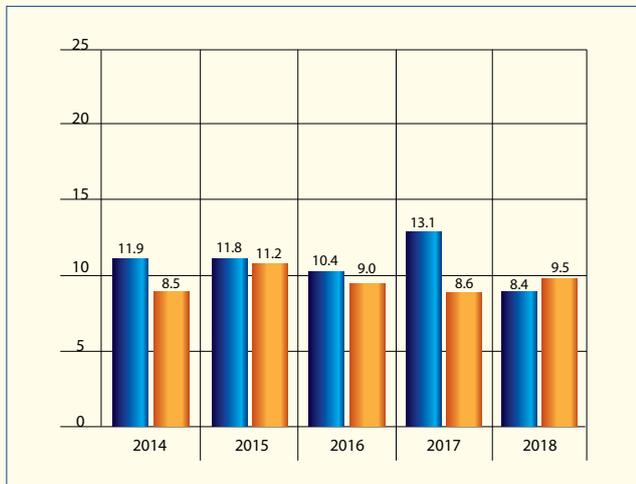


Source of Written Premiums 2018



Source of Written Premiums 2017

- Marine & Aviation
- Fire
- Gen. Accident
- Motors
- Life & Medical
- Reinsurance



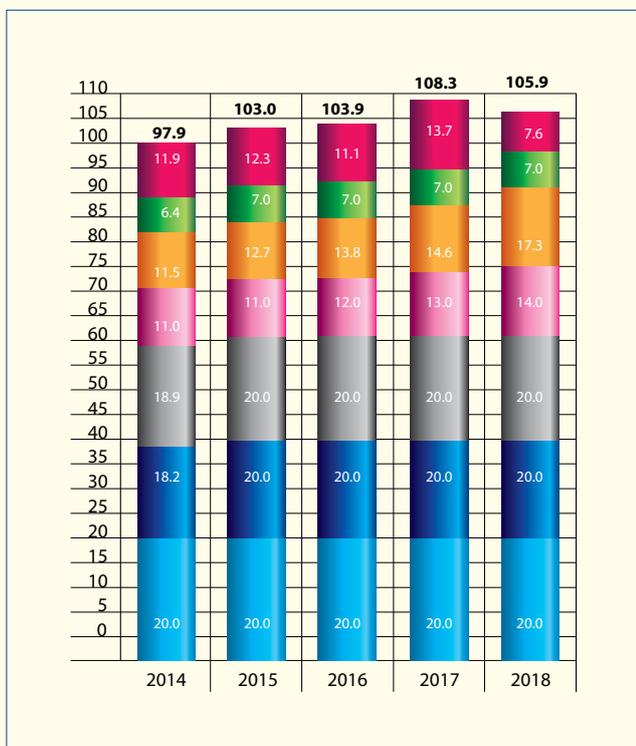
Growth of Recognized Net Profit & Unrecognized Profit in Shareholders' Equity (in million KD)

■ Unrecognized Profit in Shareholders' Equity ■ Recognized Net Profit



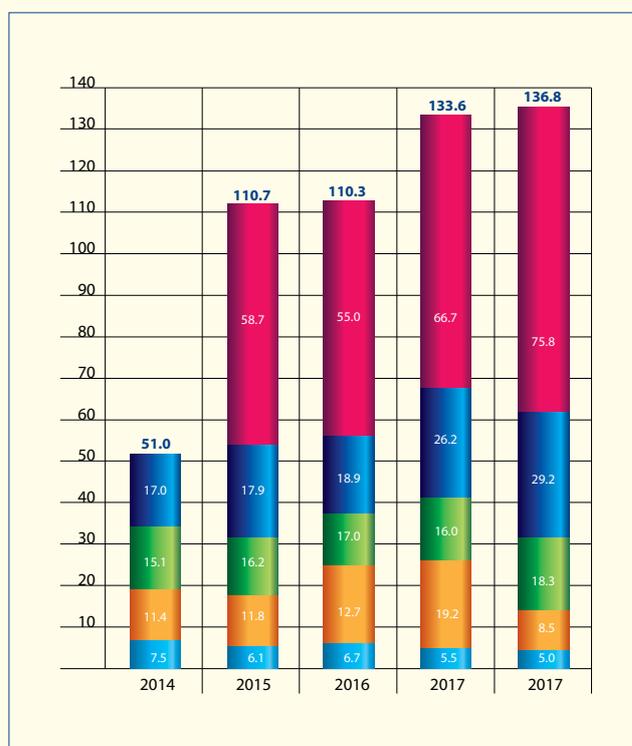
Cash Dividends & Bonus Share

■ Cash Dividends (Fils) ■ Bonus Shares (%)



Shareholders Equity (in million KD)

■ The Fair Value & Treasury Profit ■ General Reserve
 ■ Proposed Dividend ■ Statutory Reserve
 ■ Retained Earnings ■ Capital
 ■ Voluntary Reserve



Technical Reserves (Unearned Premiums, Additional, Mathematical & Outstanding Claims Reserves) (in million KD)

■ Life & Medical ■ Marine & Aviation
 ■ G.A (Incl. Motor) ■ Reinsurance
 ■ Fire



A photograph showing a close-up of business professionals in a meeting. One person is pointing at a document with a bar chart and a pie chart, while another person holds a pen over the document. The background is blurred, showing a laptop and office environment.

CORPORATE GOVERNANCE REPORT



CORPORATE GOVERNANCE REPORT

Al Ahleia Insurance Company S.A.K.P is committed to following an effective Corporate Governance policy and maintaining the highest level of professional conduct to meet international governance standards and regulatory compliance.

The Company is committed to promoting integrity and maintaining ethical and professional policies and procedures in all its activities, which is reflected in the Company's performance to meet its challenges and to keep pace with the local and international market, which is the role of both the Board of Directors and the Executive Management as the primary leaders of the Company. The Company's Governance is structured to provide clear policies and guidelines to the Board of Directors, Executive Management, and related parties to ensure that the Company's objectives are met.

The Board of Directors and its committees effectively supervise and follow up the implementation of the Company's corporate governance and its compliance with the laws and regulations in force.

The Board is also responsible for supervising the implementation of the Company's strategic objectives, risk strategy, corporate governance standards, and reviewing all relevant policies through the Compliance Department and in coordination with the concerned parties on an annual basis or as required, at the discretion of the Board and under any applicable laws or regulations to ensure continuous review of the application of all effective practices.



CORPORATE GOVERNANCE REPORT

Rule (1): Construct a Balanced Board Composition

Al Ahleia Insurance Company S.A.K.P Board of Directors consists of 9 members including executive, non-executive, and independent members who were elected through a confidential vote at the Annual General Assembly Meeting that took place on 11 April 2017.

The details of the Board members as of 31 December 2018 are given below:

Name	Title	Member Classification	Academic Qualification	Election Date
Ayman Abdul Latif Al-Shaya	Chairman	Non-Executive	Bachelor of Mechanical Engineering	11/4/2017
Emad Mohammad Al-Bahar	Vice Chairman	Non-Executive	Bachelor of Business Management	11/4/2017
Abdullah Mohammad Al-Saad	Board Member	Non-Executive	Bachelor of Commerce	11/4/2017
Abdul Aziz Abdul Razzaq Al-Jassar	Board Member	Independent	Bachelor of Accounting	11/4/2017
Emad Jassim Al-Sager	Board Member	Non-Executive	Bachelor of Economics and Political Science	11/4/2017
Ahmad Yousef Al-Ghanim	Board Member	Independent	Bachelor of Information Technology	11/4/2017
Adel Mohammad Al-Ghannam	Board Member	Non-Executive	Bachelor of Business Management	11/4/2017
Abdul Mohsen Jassim Al-Kharafi	Board Member	Non-Executive	Bachelor of Business Management	11/4/2017
Yousef Saad Al-Saad	Board Member and Chief Executive Officer	Executive	Bachelor of Finance	11/4/2017
Mohammad Abdul Mohsen Al-Saad	Board Secretary	Executive	Bachelor of Business Management	11/4/2017



CORPORATE GOVERNANCE REPORT

▪ Board Meetings during 2018:

Name	Meeting (1) 15/3/2018	Meeting (2) 27/3/2018	Meeting (3) 1/5/2018	Meeting (4) 8/5/2018	Meeting (5) 7/8/2018	Meeting (6) 15/8/2018	Meeting (7) 6/11/2018	Number of Meetings
Ayman Abdul Latif Al-Shaya (Chairman)	✓	✓	✓	✓	✓	✓	✓	7
Emad Mohammad Al-Bahar (Vice Chairman)	✓	✓	✓	✓	✓	✓	✓	7
Abdullah Mohammad Al-Saad (Member)	✓	✓	✓	✓	✓	✓	✓	7
Abdul Aziz Abdul Razzaq Al-Jassar (Independent Member)	✓	✓	✓	✓	✓	✓	✓	7
Emad Jassim Al-Sager (Member)	✓	✓	✓	✓	✓	✓	✓	7
Ahmad Yousef Al-Ghanim (Independent Member)	✓	✓	✓	✓	✓	✓	✓	7
Adel Mohammad Al-Ghannam (Member)	✓	✓	✓	✓	✓	✓	✓	7
Abdul Mohsen Jassim Al-Kharafi (Member)	✓	✓	✓	✓	✓	✓	✓	7

The Board Secretary is responsible for inviting members to meetings, preparing and maintaining agendas and minutes, as well as keeping all records related to the Board including memberships and policies as per the requirements of the CMA.

Rule (2): Establish appropriate Roles and Responsibilities

The main responsibility of the Board is to provide effective corporate governance for its shareholders and to review the development and implementation of strategies. Also, the Board monitor levels of performance and remuneration for the Chief Executive Officer and Executive Management and ensures transparency in communicating and disclosing financial and non-financial information, including the establishment of an effective auditing process.

Members of the Board exercise their wise judgment and professional experience to determine the interests of the Company. Members of the Board rely on the integrity of the Executive Management and the Company's external auditors.



In carrying out its supervisory role, the Board of Directors may investigate any matter and communicate with the Company's employees.

The Board of Directors have the necessary competencies and appropriate to develop and review the business strategy and oversee the implementation. Moreover, the Board has access to the necessary development resources to ensure personal skills are well aligned with the Company's needs. Constantly, the Board is seeking to achieve the objectives of the shareholders. The decisions of the Board of Directors are based mainly on the financial and non-financial data and reports submitted by the Executive Management.

The Boards' main responsibilities are:

1. Setting the Company's strategy, vision, mission, policies and objectives.
2. Determining the Company's capital structure and financial objectives.
3. Approving a clear policy for dividends, whether cash or in-kind, to achieve the Company's shareholders' interests.
4. Approving the performance objectives and controlling the Company's overall performance and implementation.
5. Supervising the Company's capital main expenses, and possession and disposal of assets.
6. Setting the Company's governance framework as per the requirements of the Capital Markets Authority (CMA).
7. Providing shareholders with information on a timely basis to enable them to take informed decisions based on adequate information during the General Assemblies.
8. Ensure the efficiency of the internal controls of the Company and its subsidiaries.

The Board of Directors major achievements for the year are the following:

- Approving the annual budgets and the interim and annual financial budgets.
- Reviewing the Company's overall strategy and objectives.
- Review and approve the Company's Business Plan and its main policies.
- Overlook the Company's implementation of an effective Corporate Governance.



CORPORATE GOVERNANCE REPORT

- **Board Committees:**

1. **Risk Management Committee:**

The Risk Management Committee was formed on April 11, 2017 and its duration is consistent with the Board of Directors' term (3 Years). The committee comprises of three non-executive directors of whom one is an independent Director; the independent Director chairs the committee. The committee held four meetings during the year. The Risk Management Committee is responsible for all aspects of Risk Management including strategic risks, market risks, operational risks, and compliance risks.

The committee's achievements for the year:

- Review the Company's risk appetite.
- Review the risk management strategy.
- Evaluate the mechanism that is used to identify, measure, and monitor different types of risks which may be exposed to the Company.

Members:

- Mr. Abdul Aziz Abdul Razzaq Al-Jassar – Chairman
- Mr. Emad Mohammed Al-Bahar
- Mr. Emad Jassim Al-Saqr

Member	Meeting (1) 19/2/2018	Meeting (2) 30/4/2018	Meeting (3) 7/8/2018	Meeting (4) 6/11/2018	Number of Meetings
Abdul Aziz Abdul Razzaq Al-Jassar	✓	✓	✓	✓	4
Emad Mohammad Al-Bahar	✓	✓	✓	✓	4
Emad Jassim Al-Sager	✓	✓	✓	✓	4




CORPORATE GOVERNANCE REPORT

2. **Audit Committee:**

The Audit Committee was formed on April 11, 2017 and its duration is consistent with the Board of Directors' term (3 Years). The committee comprises of three non-executive directors of whom one is an independent Director; the independent Director chairs the committee. The committee held four meetings during the year. The Committee is responsible for assisting the Board in supervising the quality of the Company's accounting practices, auditing, internal controls, financial statements, and risk management framework. It also maintains the relationship with the external auditors.

The committee's achievements for the year:

- Review interim financials before prior to their submission to the Board of Directors and provide such Board with opinion and recommendation concerning them, in order to ensure fairness and transparency of financial statements.
- Evaluate the internal controls of the Company.
- Review and approve the Internal Audit plan.

Members:

- Mr. Ahmad Yousef Al-Ghanim – Chairman
- Mr. Emad Mohammad Al-Bahar
- Mr. Emad Jassim Al-Sager

Member	Meeting (1) 19/2/2018	Meeting (2) 30/4/2018	Meeting (3) 7/8/2018	Meeting (4) 6/11/2018	Number of Meetings
Ahmad Yousef Al-Ghanim	✓	✓	✓	✓	4
Emad Mohammad Al-Bahar	✓	✓	✓	✓	4
Emad Jassim Al-Sager	✓	✓	✓	✓	4



CORPORATE GOVERNANCE REPORT

3. **Nomination and Remunerations Committee:**

The Nomination and Remunerations committee was formed on April 11, 2017 and its duration is consistent with the Board of Directors' term (3 Years). The committee comprises of four Directors of whom one is an independent Director, a non-executive Director chairs the Committee. The committee held one meeting during the year. The committee is responsible for submitting recommendations to the Board for appointing members of the Board and Executive Management, facilitating the annual self-assessment of the Board performance and supervising their training and development process. It is also responsible for assessing the remunerations of the Board and Executive management as per the Company's long-term strategic objectives.

The committee's achievements for the year:

- Review the remuneration policy for the Board of Directors and Executive Management.
- Prepare an annual report on the remunerations that are given to the Board of Directors and Executive Management.
- Ensure the independency of the independent board member.

Members:

- Mr. Abdullah Mohammad Al-Saad – Chairman
- Mr. Ahmad Yousef Al-Ghanim
- Mr. Adel Mohammad Al-Ghannam
- Mr. Abdul Mohsen Jassim Al-Kharafi

Member	Meeting (1) 19/2/2018	Number of Meetings
Abdullah Mohammad Al-Saad	✓	1
Ahmad Yousef Al-Ghanim	✓	1
Adel Mohammad Al-Ghannam	✓	1
Abdul Mohsen Jassim Al-Kharafi	✓	1



Rule (3): Recruit Highly Qualified Candidates for the Members of the Board and Executive Management

The Nomination and Remunerations committee was formed on April 11, 2017 to assist the Board in appointing and re-nominating qualified Board and Executive Management members. The Committee is also responsible for assessing the remunerations of the Board of Directors and Executive Management as per the Company's long-term strategic objectives.

The Company's Nomination and Remuneration's policy clarifies the different segments of remuneration for the Board of Directors and executive management, in addition to determining the role of the Board of Directors and the Nomination and Remuneration committee in adopting a system for the remunerations of the employees of the Company.

Remunerations of the Board and Executive Management Members:

As recommended by the Nomination and Remunerations Committee, the Board approved the remunerations of Board members, amounting KD 339,990 and the remunerations of Executive Management and employees of 15% of the net insurance profit for the period as of 31/12/2018.

Rule (4): Safeguard the Integrity of Financial Reporting

We, the Chairman and Board of Directors of Al Ahleia Insurance Company, are committed to the integrity and integrity of the financial statements prepared for the Company during the financial year ended 31/12/2018 as well as all reports related to the Company's activity. These reports were presented fairly. Which is approved by the Capital Markets Authority, based on what is stated to us by the executive management as well as the report of the external auditor in this regard.

Audit Committee:

The Audit committee was formed to assist the Board in performing supervision of quality and soundness of accounting practices, overlooking the Internal Controls of the Company, monitoring and reviewing the Risk Management Framework, reviewing the Company's Financial Statements, and recommending to the Board by appointing or replacing the external auditor.

There were no objections during the year on any recommendations between the Audit Committee and the Board of Directors decisions.



CORPORATE GOVERNANCE REPORT

The external auditor is appointed at the Ordinary General Assembly Meeting according to the Board recommendations and subject to satisfying the following requirements:

- The external auditor shall be accredited by the CMA and shall fulfill all conditions stated in the CMA requirements for regulating registration of auditors.
- The external auditor shall be independent from the Company or Board thereof and shall not perform any additional works not covered by the scope of auditing works, which may affect impartiality and independence.

Rule (5): Apply Sound Systems for Risk Management and Internal Audit

- **Risk Management and Compliance**

The Company's Risk Management and Compliance Department covers all areas of existing or potential risks including strategic risks, market risks, operational, and compliance risks, it also ensures the effectiveness of managing general risks. The Risk Management and Compliance Department is also responsible for the implementation of the corporate governance framework its implementation process, in addition to facilitating with the internal audit department for reviewing and evaluating the compliance frame works and ensures its efficiency with all the relevant control requirements.

- **Risk Management Committee**

The Risk Management Committee is responsible for all aspects of Risk Management including strategic risks, market risks, operational risks, and compliance risks. The committee also reviews the Company's risk appetite, as well as, its risk strategy.

The Committee approved the policies and procedures related to the committee according to the latest corporate governance bylaws from the Capital Markets Authority (CMA) which includes the formation of the committee and its roles and responsibilities.

- **Internal Control and Internal Audit Systems**

The Board's main responsibility is to review effectiveness of the Company's internal control system, maintains the integrity of its financials, as well as the efficiency of its data. The Executive management has developed policies and procedures for the Company's internal controls and risk management in line with the Company's corporate governance that is supervised by the internal audit committee. The Management also monitors the adequacy and effectiveness of the Company's internal control system to mitigate the risks that the Company may expose to.



- **Internal Audit Department**

The Internal Audit Department is responsible for overlooking the internal controls and systems of the Company. Under the supervision of the Audit Committee, the Department submits quarterly reports to the Board about the control framework and their assessment. It also monitors the adequacy and effectiveness of these controls and ensures compliance with the extent to which the Board of Directors tolerates risks.

Rule (6): Promote Code of Conduct and Ethical Standards

Al Ahleia Insurance Company S.A.K.P. has developed policies and procedures to promote a code of conduct and ethical standards within the Company. The following are the policies approved by the Board of Directors.

- **Code of Conduct to members of the Board and Executive Management**

The Code of Conduct policy was designed to set high ethical standards within the Company, and for the Board Members and Executive Management to reflect those standards on their business practices. The policy provides guidelines to avoid any conflict or controversy, support best practices in complying with the corporate governance.

- **Conflict of Interest Policy**

Conflict of Interest Policy sets guidelines for defining, reporting, and disclosing any existing and potential conflicts; it also ensures the Board on setting firm restrictions on those matters and any action that is in the interest of the Company. This policy outlines the principles for managing conflict of interest cases and includes the following:

- Identifying appropriate mechanisms and systems to avoid and limit conflicts of interest and developing appropriate procedures to address and deal with them.
- Determining the procedures for disclosure of common interests with the Company, either directly or indirectly.



CORPORATE GOVERNANCE REPORT

Rule (7): Ensure Timely and High Quality Disclosure and Transparency

- **Disclosure and Transparency**

The Company has developed a disclosure policy in line with the instructions of the Capital Markets Authority (CMA) and other relevant regulatory bodies regarding disclosure and transparency. This policy clarifies the various disclosure channels and information that require disclosure by the Company, its Board of Directors, Executive Management or informed people. The Company provides accurate and factual disclosures of all material information about its business, with an investigation of fairness and equality in providing access to such information.

The Risk and Compliance Department is in constant coordination with the Board of Directors, the Secretary of the Board, the Executive Management and all the Company's departments to ensure that the required disclosures are submitted in a timely manner in accordance with the instructions of the CMA and the applicable laws and regulations. The Secretary of the Board of Directors is responsible for maintaining and updating the register of the disclosures of the Board of Directors and Executive Management and also ensures that disclosure of information relating to the Board of Directors and the Executive Management takes place in a timely manner. In addition, the Secretary sends all information relating to the Board of Directors and Executive Management, which require disclosure to Risk Management and Compliance Department as soon as they occur and ensures that these disclosures are kept in the disclosures record.

- **Investors Relations Unit**

The Company is committed to providing information and reports to shareholders and potential investors through the Investors Relations Unit, which formed to regulate the Company's relationship with existing shareholders and potential investors. The policy of the Investor Affairs Unit was also adopted and clarifies the main functions of the Unit and its role in regulating the Company's relationship with current shareholders and potential investors.



- **Information Technology Infrastructure**

The Company is keen to develop the infrastructure of the information technology and ensure that it is updated continuously. The Information Technology Department uses the latest systems and software to ensure the security of the information and speed of access to the required data. The management also updated and developed the Company's website (www.alahleia.com), which contains all the information about its activity and financial position, which are of interest to customers and shareholders as well as any potential investors.

The Information Technology Department, in coordination with the Risk Management and Compliance Department, is responsible for providing the required disclosures electronically to the regulatory authorities.

Rule (8): Respect the rights of Shareholders

The Company is always looking out for our shareholders best interests. The approved Shareholders Protection Policy by the Board confirms the respect and protection of shareholders' rights as per the applicable law.

The Company maintains a register of its shareholders with Kuwait Clearing Company which includes information on each shareholder. All the shareholders are entitled to access the register according to the policies and procedures of Kuwait Clearing Company.

The Company encourages investors for participating actively in the general assemblies as stated in the Shareholders' Protection Policy, by discussing the issues included in the relevant agenda and any related inquiries of various activities and businesses and addressing relevant questions to Board members and external auditor.



CORPORATE GOVERNANCE REPORT

Rule (9): Recognize the Roles of Stakeholders

The Company protects the rights of all stakeholders and provides professional stability and sustainability by its perfect financial performance. The Stakeholders' Protection Policy was drawn and approved by the Board to define the Company's stakeholders and develop the guidelines for protecting their rights.

Rule (10): Encourage and Enhance Performance

The Board is responsible for managing the Boards' annual performance, based on the evaluation standards stated in the Board evaluation framework developed for such purpose, including:

- Integrity in decision-making.
- Dedicating adequate time for managing the Company businesses.
- Diversification of backgrounds and expertise of the Board.
- Members' expertise, knowledge and evaluation of their capabilities and leadership features.

Board members shall continuously strive for development of their skills and competences through training courses and increasing their awareness in all technical, financial and administrative aspects regarding the Company's business and their role as being Board members.

The Board of directors oversees the performances of the executive management according to their KPI's and in compliance with the approved policies and procedures to achieve the Company's strategy and objectives. Executive management succession plan is reviewed and approved by Nomination and Remuneration Committee.



CORPORATE GOVERNANCE REPORT

Rule (11): Corporate Social Responsibility

Corporate Social Responsibility is an essential role for Al Ahleia Insurance Company S.A.K.P. where it constantly contributes and supports the wellbeing of the community.

The Company contributes annually material support to LOYAC Organization for supporting their charitable and voluntary activities towards the community, the most significant programs and activities performed by the Company in such regard include the training and recruitment process conducted by the Company for students of LOYAC Organization, which is arranged continuously with the Company's Human Resources Department, to develop the youth by giving them the necessary experience in the workforce. The Human Resources Department also organizes many periodical events for the staff and their families to deepen the employees' correlation and communication, where an annual Ghabga was hosted inviting its employees and their families to celebrate Ramadan, and a breakfast for Eid Al Fitr was held to strengthen the relationship between employees and Executive Management.

The Company has introduced students to the benefits of work and opportunities granted upon graduation and tried to attract the largest number of Kuwaiti students to join the Company through participation in the "Career Fair" at Gulf University for Science and Technology. The Company has contributed to graduation projects for a number of engineering students at Kuwait University, and participated in a health awareness campaign "Improve my Health" for students at schools.

The Company donated stationary and office furniture to a diabetes clinic in one of the government hospitals in the country, as well as, distributing plastic bags to store medicines to government clinics. In cooperation with Dasman Diabetes Institute a diabetes screening campaign was health at the Company for its employees and family members to spread awareness and prevention about diabetes. The Company believes in the importance of social responsibility and will continue to work towards the betterment of the community.

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AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Al-Ahleia Insurance Company S.A.K.P. (the "Parent Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

AUDITORS' REPORT

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

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

Key Audit Matters (continued)

We identified the following key audit matters:

a) Recoverability of receivables arising from insurance and reinsurance contracts

The receivables arising from insurance and reinsurance contracts amounting to KD 43,679,198 representing 16% of Group's total assets are significant to the Group's consolidated financial statements as at 31 December 2018. The determination as to whether a receivable is collectable involves significant management judgement. Specific factors management considers include the age of the balance, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for a customer's balance overall.

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

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

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

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

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

Further, we assessed the adequacy of disclosures relating to the receivables arising from insurance and reinsurance contracts given in Notes 11 and 12 to the consolidated financial statements.

AUDITORS' REPORT

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

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

Key Audit Matters (continued)

b) Insurance and Reinsurance Technical Reserves

Insurance and reinsurance technical reserves include: ("Outstanding Claims reserve" or "OCR"), ("Unearned Premiums Reserve" or "UPR"), ("Life Mathematical Reserve" or "LMR") and ("Incurred But Not Reported reserve" or "IBNR"). As at 31 December 2018, the Group has significant insurance and reinsurance technical reserves of KD 136,834,761 representing 83% of the Group's total liabilities. As disclosed in Note 2.5 to the consolidated financial statements, the determination of these reserves involves significant judgment over uncertain future outcomes, including primarily the timing and ultimate full settlement of long term policyholder liabilities. The Group uses different models to calculate the insurance and reinsurance contract liabilities.

Economic assumptions such as investment return and interest rates and actuarial assumptions such as mortality, morbidity and customer behavior, along with Groups historical claims data are key inputs used to estimate these long-term liabilities. Due to the significance of estimation uncertainty associated with the determination of the insurance and reinsurance technical reserves, this is considered a key audit matter.

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

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

We further evaluated the adequacy of disclosures relating to insurance and reinsurance technical reserves in Note 17 to the consolidated financial statements.



AUDITORS' REPORT

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

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

Key Audit Matters (continued)

c) Valuation and impairment of financial assets available for sale

As at 31 December 2018, the Group had financial assets available for sale amounting to KD 63,923,359. These financial assets are either measured at fair value with the corresponding fair value change recognized in other comprehensive income or carried at cost less impairment for those financial assets that do not have a quoted price in an active market and whose fair values cannot be reliably measured. If the financial assets available for sale witnessed objective evidence which indicates a significant or prolonged decline in value, an impairment loss is recognized in the consolidated statement of income. The valuation of the financial assets available for sale is inherently subjective - most predominantly for the level 3, since these are valued using inputs other than quoted prices in an active market. Impairment analysis can be subjective in nature and involve various assumptions regarding pricing factors.

The use of different valuation techniques and assumptions could produce significantly different estimates of the values of these financial assets available for sale and could increase the impairment losses of the Group.

Due to the significance of estimation uncertainty associated with the fair valuation and impairment analysis of the financial assets available for sale, this is considered a key audit matter.

For financial assets carried at fair value we performed audit procedures to assess the methodology and the appropriateness of the valuation models and inputs used to value financial assets available for sale. As part of these audit procedures, we assessed the accuracy of key inputs used in the valuation such as quoted market prices, market multiples, and discount rates for lack of marketability and lack of control, the expected cash flows, risk free rates and credit spreads by benchmarking them with external data, investigated significant differences. We also evaluated the Group's assessment whether objective evidence of impairment exists for individual financial assets and the qualitative and quantitative factors used such as the investee's financial performance including dividends, financial condition and operations, and its market and economic environment. Finally, we assessed the adequacy of the disclosures relating to financial assets in Note 10 to the consolidated financial statements.

Other information included in the Group's 2018 Annual Report

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



AUDITORS' REPORT

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

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

Other information included in the Group's 2018 Annual Report (continued)

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

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



AUDITORS' REPORT

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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



AUDITORS' REPORT

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 1 of 2016, as amended, and its executive regulation, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No 1 of 2016, as amended, and its executive regulation, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business of the Parent Company or on its financial position.

BADER A. AL ABDULJADER

LICENCE NO. 207-A

EY

AL AIBAN, AL OSAIMI & PARTNERS

21 February 2019

Kuwait

**CONSOLIDATED STATEMENT OF INCOME**

For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
Revenue:			
Gross premiums written		83,982,200	71,980,476
Premiums ceded to reinsurers		(23,626,279)	(21,354,199)
Net premiums written		60,355,921	50,626,277
Movement in unearned premiums		(2,386,581)	(2,070,964)
Net premiums earned		57,969,340	48,555,313
Commission income on ceded reinsurance		6,502,145	8,093,601
Policy issuance fees		464,739	503,559
Net investment income	5	6,829,601	7,731,859
Net gain on business combinations and step acquisition of investment in an associate	3	3,748,963	-
Other income		168,831	580,195
Total revenue		75,683,619	65,464,527
Expenses:			
Net claims incurred	17	(39,667,524)	(34,486,290)
Commissions and premiums' acquisition costs		(11,511,144)	(9,826,198)
Movement in life mathematical reserve		(1,439,000)	(383,000)
Maturity and cancellations of life insurance policies		(399,109)	(1,047,917)
Investment property expenses		(101,843)	(93,209)
Revaluation loss on investment properties	8	(257,400)	(691,548)
Operating and administrative expenses		(6,698,541)	(6,361,217)
Impairment loss on financial assets available for sale	10	(3,902,862)	(1,403,715)
Impairment loss on other receivables		(1,320,000)	(463,364)
Total expenses		(65,297,423)	(54,756,458)
Profit before share of associates		10,386,196	10,708,069
Share of results of associates	9	555,683	(930,172)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT AND DIRECTORS' FEES		10,941,879	9,777,897
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(91,610)	(87,099)
National Labour Support Tax (NLST)		(289,658)	(240,571)
Zakat		(110,306)	(96,236)
Directors' fees	14	(513,240)	(506,600)
PROFIT FOR THE YEAR		9,937,065	8,847,391
Attributable to:			
Equity holders of the Parent Company		9,492,820	8,612,371
Non-controlling interests		444,245	235,020
		9,937,065	8,847,391
Basic and diluted earnings per share attributable to the shareholders of the Parent Company	6	48.30 fils	43.83 fils



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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For the year ended 31 December 2018

	<i>Notes</i>	2018 KD	2017 KD
Profit for the year		9,937,065	8,847,391
Other comprehensive income:			
<i>Items that are or may be reclassified to the consolidated statement of income in subsequent periods:</i>			
- Foreign currency translation adjustments		83,621	(207,427)
- Net unrealised (loss) gain of financial assets available for sale		(3,733,054)	3,650,660
- Gain on sale of financial assets available for sale	5	(1,549,965)	(2,357,942)
- Impairment loss on financial assets available for sale	10	3,902,862	1,403,715
- Share of other comprehensive income (loss) of associates	9	12,166	(12,179)
- Cumulative change in fair value of financial assets available for sale, recycled to consolidated statement of income	3	(3,315,988)	-
- Foreign currency translation reserve of an associate transferred to consolidated statement of income	3	(392,356)	-
Net other comprehensive (loss) income for the year		(4,992,714)	2,476,827
Total comprehensive income for the year		4,944,351	11,324,218
Attributable to:			
Equity holders of the Parent Company		4,524,347	11,088,927
Non-controlling interests		420,004	235,291
		4,944,351	11,324,218

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At at 31 December 2018

	Notes	2018 KD	2017 KD
ASSETS			
Property and equipment		3,853,208	4,022,945
Investment properties	8	11,819,966	12,080,381
Investment in associates	3&9	19,574,492	5,433,518
Financial assets held to maturity		19,399,600	19,666,000
Loans secured by life insurance policyholders		174,707	205,978
Financial assets available for sale	10	63,923,359	75,163,864
Financial assets at fair value through profit or loss		1,196,227	-
Receivables arising from reinsurance contracts and premium accruals	12	23,121,069	17,599,822
Reinsurance recoverable on outstanding claims	17	42,632,079	48,403,820
Premiums and insurance balances receivable	11	20,558,129	12,393,257
Accounts receivable and other debit balances	13	7,417,085	7,002,770
Term deposits	7	60,918,861	51,840,080
Bank balances and cash	7	5,950,373	8,916,922
TOTAL ASSETS		280,539,155	262,729,357
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent Company			
Share capital	14	20,000,000	20,000,000
Statutory reserve	15	20,000,000	20,000,000
General reserve	15	20,000,000	20,000,000
Special voluntary reserve	15	14,000,000	13,000,000
Treasury shares	16	(1,278,932)	(1,278,932)
Treasury shares reserve		1,474,675	1,474,675
Cumulative changes in fair values reserve		8,411,416	13,071,154
Foreign currency translation reserve		12,322	321,057
Retained earnings		23,179,885	21,566,341
Other reserve		121,193	105,028
Equity attributable to equity holders of the Parent Company		105,920,559	108,259,323
Non-controlling interests		9,402,909	3,479,960
Total equity		115,323,468	111,739,283
LIABILITIES			
Liabilities arising from insurance contracts:			
Outstanding claims reserve	17	96,043,133	97,414,297
Unearned premiums reserve	17	20,320,929	17,934,348
Life mathematical reserve	17	7,172,000	5,733,000
Incurred but not reported reserve	17	13,298,699	12,563,604
Total liabilities arising from insurance contracts		136,834,761	133,645,249
Bank overdraft	7	3,305,421	-
Insurance and reinsurance payables	18	16,073,005	9,133,006
Accounts payable and other credit balances	19	8,940,239	8,160,596
Premiums received in advance		62,261	51,223
Total liabilities		165,215,687	150,990,074
TOTAL EQUITY AND LIABILITIES		280,539,155	262,729,357

Ayman Abdullatif A. Al-Shayea
ChairmanEmad Mohammed Al-Bahar
Vice Chairman



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	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	Other reserve KD	Subtotal KD	Non-controlling interests KD	Total equity KD
At 1 January 2018	20,000,000	20,000,000	20,000,000	13,000,000	(1,278,932)	1,474,675	13,071,154	321,057	21,566,341	105,028	108,259,323	3,479,960	111,739,283
Profit for the year	-	-	-	-	-	-	-	-	9,492,820	-	9,492,820	44,245	9,937,065
Other comprehensive (loss) income	-	-	-	-	-	-	(4,659,738)	(308,735)	-	-	(4,968,473)	(24,241)	(4,992,714)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(4,659,738)	(308,735)	9,492,820	-	4,524,347	42,004	4,944,351
Cash dividends (Note 14)	-	-	-	-	-	-	-	-	(6,879,276)	-	(6,879,276)	-	(6,879,276)
Transfer to reserves (Note 15)	-	-	-	1,000,000	-	-	-	-	(1,000,000)	-	-	-	-
Change of ownership percentage of subsidiaries	-	-	-	-	-	-	-	-	-	16,165	16,165	(51,028)	(34,863)
Non-controlling interest arising from consolidating of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	5,553,973	5,553,973
At 31 December 2018	20,000,000	20,000,000	20,000,000	14,000,000	(1,278,932)	1,474,675	8,411,416	12,322	23,179,885	121,193	105,920,559	9,402,909	115,323,468
At 1 January 2017	20,000,000	20,000,000	20,000,000	12,000,000	(1,322,565)	1,458,169	10,387,171	528,484	20,829,322	62,528	103,943,109	3,338,802	107,281,911
Profit for the year	-	-	-	-	-	-	-	-	8,612,371	-	8,612,371	23,520	8,847,391
Other comprehensive income (loss)	-	-	-	-	-	-	2,683,983	(207,427)	-	-	2,476,556	271	2,476,827
Total comprehensive income (loss) for the year	-	-	-	-	-	-	2,683,983	(207,427)	8,612,371	-	11,088,927	23,529	11,324,218
Cash dividends (Note 14)	-	-	-	-	-	-	-	-	(6,875,352)	-	(6,875,352)	-	(6,875,352)
Sale of treasury shares	-	-	-	-	54,226	16,506	-	-	-	-	70,732	-	70,732
Purchase of treasury shares	-	-	-	-	(10,593)	-	-	-	-	-	(10,593)	-	(10,593)
Transfer to reserves (Note 15)	-	-	-	1,000,000	-	-	-	-	(1,000,000)	-	-	-	-
Change of ownership percentage of a subsidiary	-	-	-	-	-	-	-	-	-	42,500	42,500	(94,133)	(51,633)
At 31 December 2017	20,000,000	20,000,000	20,000,000	13,000,000	(1,278,932)	1,474,675	13,071,154	321,057	21,566,341	105,028	108,259,323	3,479,960	111,739,283

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



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
OPERATING ACTIVITIES			
Profit for the year before contribution to KFAS, NLST, Zakat and directors' fees		10,941,879	9,777,897
Adjustments to reconcile profit for the year to net cash flows:			
Depreciation of property and equipment		270,380	256,854
Share of results of associates	9	(555,683)	930,172
Revaluation loss on investment properties	8	257,400	691,548
Gain on sale of financial assets available for sale	5	(1,549,965)	(2,357,942)
Impairment loss on financial assets available for sale	10	3,902,862	1,403,715
Impairment loss on other receivable		1,320,000	463,364
Interest income on bonds and term deposits	5	(2,840,330)	(2,549,964)
Dividends income	5	(1,611,172)	(1,960,198)
Interest expense		103,425	212,144
Provision for employees' end of service benefits		462,231	604,722
(Gain) loss on sale of property and equipment		(260)	510
Income from funds	5	(203,289)	(217,249)
Net gain on business combination	3	(3,748,963)	-
		6,748,515	7,255,573
Changes in operating assets and liabilities:			
Receivables arising from reinsurance contracts and premium accruals		(5,521,247)	2,465,748
Reinsurance recoverable on outstanding claims		5,766,940	(13,703,100)
Premiums and insurance balances receivable		(9,484,872)	783,354
Accounts receivable and other debit balances		(18,013)	(677,521)
Net change in insurance and reinsurance contract liabilities		3,280,695	23,145,594
Insurance and reinsurance payables		6,939,999	(3,119,769)
Accounts payable and other credit balances		(527,699)	(632,545)
Premiums received in advance		11,038	(11,292)
		7,195,356	15,506,042
Cash flows from operations		7,195,356	15,506,042
Employees' end of service benefits paid		(135,817)	(110,740)
		7,059,539	15,395,302
INVESTING ACTIVITIES			
Purchase of property and equipment		(98,383)	(207,303)
Proceeds from sale of property and equipment		260	6,517
Purchase of financial assets available for sale		(10,116,302)	(5,947,430)
Proceeds from sale of financial assets available for sale		12,430,260	16,504,002
Net cash and cash equivalents outflow on acquisition of a subsidiary	3	(3,985,892)	-
Proceeds from redemption of financial assets held to maturity		266,400	1,219,437
Movement in loans secured by life insurance policyholders		31,271	7,914
Term deposits		(9,044,438)	(5,818,722)
Dividends received		1,600,118	1,948,962
Interest income received		2,478,907	2,346,395
Income received from funds		203,289	217,249
		(6,234,510)	10,277,021
Net cash flows (used in) from investing activities		(6,234,510)	10,277,021
FINANCING ACTIVITIES			
Dividends paid		(6,916,036)	(7,318,682)
Sale of treasury shares		-	70,732
Purchase of treasury shares		(34,863)	(62,226)
Interest expense paid		(103,425)	(212,144)
		(7,054,324)	(7,522,320)
Net cash flows used in financing activities		(7,054,324)	(7,522,320)
Foreign currency translation adjustment		(8,332)	-
		(6,237,627)	18,150,003
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(6,237,627)	18,150,003
Cash and cash equivalents at the beginning of the year		9,672,677	(8,477,326)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	3,435,050	9,672,677

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2018

1 CORPORATE INFORMATION

The consolidated financial statements of Al-Ahleia Insurance Company S.A.K.P. (the “Parent Company”) and its subsidiaries – Kuwait Reinsurance Company K.S.C.P. and Trade Union Holding CO. B.S.C (closed) , (collectively the “Group”) for the year ended 31 December 2018 were authorised for issuance with a resolution of the Board of Directors on 17 February 2019. 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.

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, financial assets available for sale and financial assets at fair value through profit or loss that have been carried at fair value.

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

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

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

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the consolidated financial statements of the Parent Company and its subsidiaries as at 31 December 2018. Subsidiaries are investee that the Group has control over.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) 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 the consolidated statement of income;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to consolidated statement of income or retained earnings, as appropriate.

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be re-measured.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Business combinations and goodwill (continued)**

Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

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 this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference 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 payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts

Investment contracts are those contracts that transfer significant financial risk, but not significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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

Impairment of non-financial assets

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

- Disclosures for significant assumptions Note 2.5

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

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

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

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



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

Impairment losses are recognised in the consolidated statement of income.

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

The following criteria are also applied in assessing impairment of goodwill:

Goodwill

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

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

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

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

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

Deferred Acquisition Costs (DAC)

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Property and equipment**

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

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 properties

Investment properties are measured initially 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.

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee and which is neither a subsidiary nor a joint venture, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. 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 separately.

The consolidated statement of income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. 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 shown on the face of the consolidated statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

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

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

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

Financial instruments

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

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through the profit or loss, loans and receivables, held-to-maturity investments, financial assets available for sale, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through the consolidated statement of income, 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 held to maturity", "loans secured by life insurance policyholders", "financial assets available for sale", "financial assets at fair value through profit or loss", "receivables arising from reinsurance contracts and premium accruals", "reinsurance recoverable on outstanding claims", "premiums and insurance balances receivable", and "accounts receivable and other debit balances". 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 the consolidated statement of income. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited 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). Dividends earned whilst holding AFS investments are recognised in the consolidated statement of income as 'Investment income' when the right of the payment has been established. When the asset is derecognised or determined to be impaired, the cumulative gain or loss is reclassified from AFS reserve the consolidated statement of income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments (continued)****(i) Financial assets (continued)****Subsequent measurement (continued)**

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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and non-trading financial assets designated upon initial recognition as at fair value through statement of income. Financial assets at fair value through profit or loss are remeasured at fair value with all changes in fair value being recorded in the consolidated statement of income. Transaction costs associated with the acquisition of financial assets at fair value through profit or loss are expensed as incurred.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognised in consolidated statement of income.

Non-trading financial assets may be designated at initial recognition as financial assets designated as at fair value through statement of income if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a Group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented investment and risk management strategy.

The Group evaluated its financial assets at fair value through profit or loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through consolidated statement of income using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

Loans, receivables and other debit balances

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

Held to maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold until maturity. After initial measurement, held to maturity financial assets are measured at amortised cost, using the EIR, less impairment. The EIR amortisation is included in 'Investment income' in the consolidated statement of income. Gains and losses are recognised in the consolidated statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

Insurance and reinsurance receivables

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

Term deposits

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



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (continued)

Subsequent measurement (continued)

Cash and cash equivalents

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

Derecognition

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

- The rights to receive cash flows from the asset have expired; or
- The 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments (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 borrowings, insurance and reinsurance payables and accounts payable and other credit balances. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Subsequent measurement

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

Interest bearing loans and borrowings

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the consolidated statement of income.

Derecognition

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



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (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.

Fair value measurement

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

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

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

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

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

- | | |
|--|----------|
| - Disclosures for significant accounting judgements, estimates and assumptions | Note 2.5 |
| - Investment properties | Note 8 |
| - Financial instruments | Note 27 |
| - Quantitative disclosures of fair value measurement hierarchy | Note 27 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Reinsurance contracts held**

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

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

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

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

Reinsurance assumed

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

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

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

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the EIR 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, as described in Note 2.3, have been met.

Cash and bank balances and term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and bank balances short term deposits with a maturity of three months or less, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

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

Zakat

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

Leases

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

Group as a lessee

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

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

Group as a lessor

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

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

Foreign currencies

Transactions and balances

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

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

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

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).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Group companies**

On consolidation, the assets and liabilities of foreign operations are translated into Kuwaiti Dinar at the rate of exchange prevailing at the reporting date and their statement of income is translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Cash dividend to equity holders of the Parent Company

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

Life insurance contract liabilities

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

Non-life insurance contract liabilities

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

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

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

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Insurance payables**

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the 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 as a finance cost.

Revenue recognition*Gross premiums - Premiums earned*

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

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

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

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

Reinsurance premiums

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Revenue recognition (continued)***Fees and commission income*

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

Interest income

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

Dividend income

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

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.

Net realised gains and losses

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

Gross claims

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

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

Reinsurance claims

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

Finance cost

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

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Employees' end of service benefits

The Group provides end of service benefits to 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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Treasury shares**

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

Liability adequacy test

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

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

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.

2.4 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES**New and amended accounting policies, standards and interpretations**

The accounting policies adopted in the preparation of the consolidated financial statement are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

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

During 2018, the Group performed an impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its consolidated statement of financial position, consolidated statement of income or consolidated statement of comprehensive income except for the effect of applying the impairment requirements of IFRS 9. The Group expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent. The Group meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) of annual reporting periods beginning on or after 1 January 2022, applying the temporary exemption from applying IFRS 9 as introduced by the amendments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**2.4 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)****New and amended accounting policies, standards and interpretations (continued)***IFRS 9 Financial Instruments (continued)***Key requirements of IFRS 9:**

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)****New and amended accounting policies, standards and interpretations (continued)***IFRS 9 Financial Instruments (continued)***Key requirements of IFRS 9: (continued)****a) Classification and measurement**

Financial Assets	Classification		Description
	IAS 39	IFRS 9	
Equity instruments	AFS	FVOCI	The instruments that were classified as available-for-sale (“AFS”) investments are held within a business model whose objective is achieved both by collecting contractual cash flows and selling in the open market, and the instruments contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, such instrument will be subsequently measured at fair value through other comprehensive income (“FVOCI”) upon the application of IFRS 9.
Equity instruments	FVTPL	FVTPL	The instruments that were classified as financial assets at fair value through profit or loss (“FVTPL”) investments and carried at fair value. These instruments are one where are held for trading and are managed on a fair value basis. Accordingly, such instrument will be subsequently measured at fair value through profit or loss (“FVTPL”) upon the application of IFRS 9.
Debt instruments (Bonds)	Held to maturity	At amortised cost	The instruments that were classified as held to maturity investments and carried at amortised cost. These instruments are held within a business model whose objective is achieved both by collecting contractual cash flows and the instruments contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, such instrument will continue to be subsequently measured at amortised cost upon the application of IFRS 9.

All other financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39.

b) Impairment

Financial assets measured at amortised cost, receivables arising from reinsurance contracts and premium accruals, reinsurance recoverable on outstanding claims and other receivables will be subject to the impairment provisions of IFRS 9.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its receivables as permitted by IFRS 9.

The Group anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**2.4 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)****New and amended accounting policies, standards and interpretations (continued)***IFRS 9 Financial Instruments (continued)***Key requirements of IFRS 9: (continued)****Hedge accounting**

IFRS 9's hedge accounting requirements are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained.

The new hedge accounting requirements will align more closely with the Group's risk management policies. When initially applying IFRS 9, the Group has the option to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. However, the Group determined that any hedge relationships that would currently be designated in effective hedging relationships would continue to qualify for hedge accounting under IFRS 9. The Group does not anticipate that the application of the IFRS 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements.

c) Disclosure

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

Overall, the Group performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Management of the Group concluded that the impact is not material on its consolidated statement of financial position, consolidated statement of income or consolidated statement of comprehensive income.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes previous revenue guidance. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group has applied IFRS 15 using the modified retrospective application. Given that the insurance contracts are scoped out of IFRS 15; the Group concluded that it has insignificant impact from the application of IFRS 15.



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

(i) Judgement

In the process of applying the Group's accounting policies, management has made the following judgements, 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.

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the asset, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

(ii) Estimation and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of financial assets available for sale

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

Impairment losses on receivables arising on 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.

Valuation of investment properties

Fair value of investment properties have been assessed by an independent real estate appraiser. The independent real estate appraiser uses values of actual deals transacted recently by other parties for properties in a similar location and condition and based on the knowledge and experience of the real estate appraiser. Income capitalisation method was used to determine the fair value of property interests in investment properties, where the property's value is estimated based on the its income produced and is computed by dividing the property's net operating income by the expected rate of return on the property in the market, known as 'Capitalization Rate'.

The significant methods and assumptions used by valuers in estimating fair value of investment properties are stated in Note 8.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****(ii) Estimation and assumptions (continued)***Fair value of financial instruments*

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

Life insurance contract liabilities (LMR)

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

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

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

Claims requiring court or arbitration decisions are estimated individually. In specific cases, independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a regular basis.

Non-life insurance contract liabilities - Insurance technical reserves

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies.

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

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

Reinsurance

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



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

New and revised IASB Standards issued but not yet effective

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

IFRS 16: Leases

IFRS 16 was issued in January 2017 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

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

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

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

New and revised IASB Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach).
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group will apply these amendments when they become effective.

3 BUSINESS COMBINATION

On 25 June 2018 the Parent Company acquired additional 9,986,344 shares in Trade Union Holding CO. B.S.C. (Closed) (formerly classified as an associate) (the “acquiree”) as illustrated below:

	<i>Previously held equity interest by the holding company</i>	<i>Additional interest through Mandatory Acquisition proposal</i>	<i>Post- acquisition equity interest</i>
Trade Union Holding Co. B.S.C. (Closed)	20.95%	36.99%	57.94%

Trade Union Holding CO. B.S.C. (Closed) is incorporated in the Kingdom of Bahrain. The main objective of the acquiree is to carry out insurance and 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 combination of Trade Union Holding Co. B.S.C (Closed) was achieved in stages. Accordingly, the Group recognized net gain on business combination of KD 3,748,963 representing gain on bargain purchase, loss on re-measurement of previously held equity interests at the acquisition date fair value, foreign currency translation reserve of an associate transferred to consolidated statement of income and cumulative change in fair value of financial assets available for sale recycled to consolidated statement.

The acquisition has been accounted based on fair values of the identifiable assets and liabilities of the acquired company as on the acquisition date.

**3 BUSINESS COMBINATION (continued)**

The details of the fair values of the assets acquired and liabilities assumed as well as the non-controlling interests at fair value of the acquired company's identifiable net assets, are summarised as follows:

	<i>30 June 2018</i> <i>KD</i>
Assets	
Investment in associates*	11,591,397
Financial assets at fair value through profit or loss	1,188,798
Other receivables	28,973
Bank balances	408,311
	<hr/> 13,217,479 <hr/>
Liabilities	
Other liabilities	
Due from related party	419
	12,368
	<hr/> 12,787 <hr/>
Net assets acquired	13,204,692
Considerations paid	4,394,203
Non-controlling interests in the acquired company	5,553,973
Fair value of acquirer's previously held interest	2,766,771
	<hr/>
Gain on bargain purchase	489,745
Loss on re-measurement of previously held equity interests	(449,126)
Foreign currency translation reserve of an associate transferred to consolidated statement of income	392,356
	<hr/>
Net gain on business combination	432,975
Considerations paid	(4,394,203)
Cash and cash equivalents inflows on acquisition of a subsidiary	408,311
	<hr/>
Net cash and cash equivalents outflow on acquisition of a subsidiary	(3,985,892)

*As a result of Trade Union Holding CO. B.S.C. (Closed) becoming a subsidiary of the Group, Trade Union Cooperative Insurance Company ("the associate of Trade Union Holding CO. B.S.C.") became an associate of the Group and have been accounted for in accordance with International Accounting Standard 28 ("Investment in Associates") from the date of acquisition of Trade Union Holding CO. B.S.C. (Closed), which represents the effective date that the Group has the ability to exercise significant influence over the operation of Trade Union Cooperative Insurance Company.

Before the acquisition date, the Parent Company held 10% equity interest in Trade Union Cooperative Insurance Company with a carrying amount of KD 5,183,988 classified as financial asset available for sale carried at fair value. Post-acquisition date, the Group's equity interest in Trade Union Cooperative Insurance Company has increased from 10% to 32.36% and has the ability to exercise significant influence over the operation of this Company. As a result, the Group has reclassified its investment in Trade Union Cooperative Insurance Company formerly classified as financial assets available for sale with a carrying amount of KD 5,183,988 to investments in associate by applying a fair value (IFRS 3) approach- ("Piecemeal acquisition of an associate") and recognised gain on step acquisition of investment in an associate of KD 3,315,988 which represents cumulative changes in fair values reserve recycled to consolidated statement of income (Note 9 and Note 10).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

4 FUTURE LEASE RENT RECEIVABLES

The Group has entered into commercial property leases on its investment properties (Note 8). These are non-cancellable leases having remaining lease term of 2 to 5 years.

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

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Within one year	423,862	499,231
After one year but not more than five years	140,954	364,354
	<u>564,816</u>	<u>863,585</u>

5 NET INVESTMENT INCOME

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Gain on sale of financial assets available for sale	1,549,965	2,357,942
Interest income on bonds and term deposits	2,840,330	2,549,964
Dividend income	1,611,172	1,960,198
Rental income from investment properties	624,845	646,506
Income from funds	203,289	217,249
	<u>6,829,601</u>	<u>7,731,859</u>

6 BASIC AND DILUTED EARNINGS PER SHARE

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

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Profit for the year attributable to shareholders of Parent Company	9,492,820	8,612,371
	<u>Shares</u>	<u>Shares</u>
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	196,550,725	196,515,376
Basic and diluted earnings per share	<u>48.30 fils</u>	<u>43.83 fils</u>

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

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of consolidated financial statements.

7 CASH AND CASH EQUIVALENTS

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Term deposits	60,918,861	51,840,080
Bank balances and cash	5,950,373	8,916,922
	<u>66,869,234</u>	<u>60,757,002</u>
Less:		
Bank overdraft	(3,305,421)	-
Term deposits with original maturities of more than three months	(60,128,763)	(51,084,325)
Cash and cash equivalents	<u>3,435,050</u>	<u>9,672,677</u>



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As at 31 December 2018

7 CASH AND CASH EQUIVALENTS (continued)

Term deposits amounting to KD 900,086 (31 December 2017: KD 3,881,236) are held as security against letters of credit amounting to KD 754,099 (2017: KD 3,003,096) granted by banks. Bank balances and deposit amounting to KD Nil (2017: KD 1,874,603) has been pledged against an initial verdict of a legal case, which was appealed by the Group.

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

The Group's borrowings arising from financing activities include bank overdraft of KD 3,305,421 (2017: KD Nil). The decrease of KD 7,054,324 in the amount during 2018 consists of dividends paid, purchase of treasury shares, and interest expense paid. In the consolidated statement of cash flows, the carrying amount of bank overdrafts are included in bank balances and cash.

8 INVESTMENT PROPERTIES

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
As at 1 January	12,080,381	12,759,892
Revaluation loss	(257,400)	(691,548)
Foreign currency translation adjustment	(3,015)	12,037
As at 31 December	11,819,966	12,080,381

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 (2017: 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 4).

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

	<i>2018</i>	<i>2017</i>
Average rent (per sqm) – KD	698	722
Yield rate - %	5.20%	5.40%
Vacancy rate	13.50%	3.90%

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 rate 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.

9 INVESTMENT IN ASSOCIATES

The Group has the following investment in associates:

	<i>Ownership percentage</i>		<i>Country of</i>	<i>2018</i>	<i>2017</i>
	<i>2018</i>	<i>2017</i>	<i>incorporation</i>	<i>KD</i>	<i>KD</i>
Iraq International Insurance Company S.A (Closed)	44.32%	44.32%	Iraq	476,290	464,809
Al-Watania Insurance Company Y.S.C. (Closed)	22.50%	22.50%	Yemen	148,180	147,448
Burgan Insurance Company S.A.L. (formerly Arab Life Insurance Company S.A.L.)	49.37%	49.37%	Lebanon	716,418	643,557
Arab Life and Accident Insurance Company P.S.C.	27.94%	27.94%	Jordan	805,042	1,071,645
Trade Union Holding Company B.S.C (Closed) *	-	20.95%	Bahrain	-	3,106,059
Trade Union Cooperative Insurance Company *	32.36%	10.00%	Saudi Arabia	17,428,562	-
				19,574,492	5,433,518



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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As at 31 December 2018

9 INVESTMENT IN ASSOCIATES (continued)

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

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Carrying value at 1 January	5,433,518	6,471,015
Share of results of associates	555,683	(930,172)
Share of other comprehensive income	12,166	(12,179)
Foreign currency translation adjustment	13,636	(95,146)
Financial asset available for sale reclassified to investment in associate on business combination **	5,183,988	-
Investment in associate acquired through business combination *	11,591,397	-
Reclassified to investment in subsidiary on business combination*	(3,215,896)	-
Carrying value at 31 December	<u>19,574,492</u>	<u>5,433,518</u>

* During the year, the Parent Company exercised control over Trade Union Holding Company B.S.C (Closed) (formerly classified as an associate) through acquiring additional 9,986,344 shares. Accordingly, the investment in associate amounting to KD 3,215,896 was reclassified to investment in subsidiary. As a result of Trade Union Holding CO. B.S.C. (Closed) becoming a subsidiary of the Group, Trade Union Cooperative Insurance Company ("the associate of Trade Union Holding CO. B.S.C. (Closed)") became an associate of the Group and have been accounted for in accordance with International Accounting Standard 28 ("Investment in Associates") from the date of acquisition (Note 3).

** The Group has reclassified its investment in Trade Union Cooperative Insurance Company formerly classified as financial assets available for sale with a carrying amount of KD 5,183,988 to investments in associate.

The following table illustrates the summarised aggregate information of the Group associates, as all associates are individually immaterial:

Summarised consolidated statement of financial position:

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Assets	147,853,335	24,064,367
Liabilities	(106,857,268)	(11,721,289)
Equity	<u>40,996,067</u>	<u>12,343,078</u>
Carrying amount of the investment	<u>19,574,492</u>	<u>5,433,518</u>

Summarised consolidated statement of income:

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Revenues	26,331,754	6,250,616
Expenses	(24,551,286)	(10,902,305)
Profit (loss) for the year	<u>1,780,468</u>	<u>(4,651,689)</u>
Group's share of results for the year	<u>555,683</u>	<u>(930,172)</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

10 FINANCIAL ASSETS AVAILABLE FOR SALE

	2018 KD	2017 KD
<i>Local equity securities:</i>		
Quoted	22,663,209	22,786,959
Unquoted	5,032,546	6,907,698
	<u>27,695,755</u>	<u>29,694,657</u>
<i>Foreign equity securities:</i>		
Quoted	625,055	5,050,189
Unquoted	14,764,309	18,536,182
	<u>15,389,364</u>	<u>23,586,371</u>
<i>Managed funds:</i>		
Quoted	1,101,756	1,303,761
Unquoted	19,395,895	19,942,623
	<u>20,497,651</u>	<u>21,246,384</u>
Bonds	340,589	636,452
	<u>63,923,359</u>	<u>75,163,864</u>

As at 31 December 2018, 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 1,406,274 (2017: KD Nil) was recognised in the consolidated statement of income for the year ended 31 December 2018.

Unquoted equity securities amounting to KD 11,113,702 (2017: KD 13,672,936) 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. 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 1,712,752 (2017: KD 600,000) has been recorded in the consolidated statement of income for the year ended 31 December 2018.

Managed funds are carried at fair value reported by the fund manager. Certain unquoted managed funds amounting to KD 2,035,256 (2017: KD 2,496,630) are carried at cost less impairment due to the unpredictable nature of their future cash flow and the lack of other suitable methods for arriving at a reliable fair value for these financial assets. The management recorded impairment loss of KD 618,836 (2017: KD 803,715) against these investments based on the most recent available market information.

Bonds are carried at cost less impairment since fair values cannot be reliably estimated. The management recorded impairment loss of KD 165,000 (2017: KD Nil) against these investments based on the most recent available market information.

During the year, quoted securities amounting to KD 5,183,988 were reclassified to investment in associates as the Group has the ability to exercise significant influence over the investee as a result of the of step acquisition of Trade Union Holding CO. B.S.C. (Closed) (Note 3).

11 PREMIUMS AND INSURANCE RECEIVABLES

	2018 KD	2017 KD
Policyholders' accounts receivable		
Premiums receivable	15,914,514	8,825,974
Allowances for impaired receivables	(2,214,621)	(943,608)
Net policyholders' accounts receivable	<u>13,699,893</u>	<u>7,882,366</u>
Insurance and reinsurance accounts receivable		
Reinsurance receivable	6,970,607	4,623,262
Allowances for impaired receivables	(112,371)	(112,371)
Net insurance and reinsurance accounts receivable	<u>6,858,236</u>	<u>4,510,891</u>
Total premiums and insurance receivables	<u>20,558,129</u>	<u>12,393,257</u>



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As at 31 December 2018

11 PREMIUMS AND INSURANCE RECEIVABLES (continued)

As at 31 December 2018, premiums as well as insurance and reinsurance receivables at nominal value of KD 2,326,992 (2017: KD 1,055,979) were impaired and fully provided for.

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

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
At the beginning of the year	1,055,979	660,047
Provision for impairment	1,271,013	395,932
At the end of the year	<u>2,326,992</u>	<u>1,055,979</u>

12 RECEIVABLES ARISING FROM REINSURANCE CONTRACTS AND PREMIUM ACCRUALS

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Gross receivables arising from reinsurance contracts	10,534,762	6,835,376
Provision for doubtful debts	(286,352)	(273,615)
Net receivables arising from reinsurance contracts	<u>10,248,410</u>	<u>6,561,761</u>
Accrued premiums arising from reinsurance contracts	12,872,659	11,038,061
	<u>23,121,069</u>	<u>17,599,822</u>

As at 31 December 2018, receivables arising from reinsurance contracts at nominal value of KD 286,352 (2017: KD 273,615) were impaired and fully provided for.

Movements in the allowance for receivables arising from reinsurance contracts were as follows:

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
At the beginning of the year	273,615	284,865
Provision (reversal of) for impairment	12,737	(11,250)
At the end of the year	<u>286,352</u>	<u>273,615</u>

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

	<i>Past due but not impaired</i>			
	<i>Total</i> <i>KD</i>	<i>1-3</i> <i>months</i> <i>KD</i>	<i>3-12</i> <i>months</i> <i>KD</i>	<i>More than 12</i> <i>Months</i> <i>KD</i>
2018	10,248,410	3,202,787	4,297,365	2,748,258
2017	6,561,761	1,815,750	1,082,500	3,663,511

13 ACCOUNTS RECEIVABLES AND OTHER DEBIT BALANCES

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Accrued income	1,023,588	985,618
Reserve retained by reinsurers	289,606	300,136
Deferred acquisition cost	4,175,805	3,659,739
Other debit balances	1,928,086	2,057,277
	<u>7,417,085</u>	<u>7,002,770</u>



14 SHARE CAPITAL AND CASH DIVIDEND

Share capital

The authorised, issued and fully paid up share capital consists of 200,000,000 shares of 100 fils each (31 December 2017: 200,000,000).

Cash dividend

On 17 February 2019, the Parent Company's board of directors has proposed a distribution of cash dividend of 35% for the year ended 31 December 2018 (2017: 35%), totalling KD7,000,000 (2017: KD 6,879,276) and the Parent Company board of directors' fees of KD 339,990 (2017: KD 366,300). This proposal is subject to the approval by Annual Ordinary General Assembly Meeting of the Parent Company's shareholders. The subsidiary's board of directors has proposed directors' fees of KD 173,250 (2017: KD 140,300) and is subject to approval of the subsidiary's Annual Ordinary General Assembly Meeting. The subsidiary directors' fees of KD 140,300 for the year ended 31 December 2017 was approved by the AGM on 4 April 2018.

On 27 March 2018, the Ordinary Annual General Assembly of the Parent Company's shareholders approved the payment of cash dividend of 35% for the year ended 31 December 2017, totalling KD 6,879,276 (2016: 35% totalling KD 6,875,352) and board of directors' fees of KD 366,300 (2016: KD 421,321).

15 RESERVES

Statutory reserve

As required by the Companies Law and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees shall be transferred to the statutory reserve. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

As the statutory reserve at the beginning of the year reached 100% of the share capital (above 50% of share capital) the Parent Company's board of directors has not proposed to transfer from retained earnings to the statutory reserve.

General reserve

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a maximum of 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees is required to be transferred to the general reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve. The Parent Company's board of directors has not proposed to transfer any amount from retained earnings to the general reserve.

Special voluntary reserve

In accordance with the Parent Company's Memorandum of Incorporation and Articles of Association, the board of directors can resolve to transfer certain amount of the profit for the year to the special voluntary reserve.

On 17 February 2019, the Parent Company's board of directors has proposed to transfer an amount of KD 1,000,000 (2017: KD 1,000,000) from retained earnings to the special voluntary reserve subject to the approval of the Ordinary Annual General Assembly of the Parent Company's shareholders.

On 27 March 2018, the Ordinary Annual General Assembly of the Parent Company's shareholders approved the transfer of an amount of KD 1,000,000 from retained earnings to the special voluntary reserve for the year ended 31 December 2017.

16 TREASURY SHARES

	<i>2018</i>	<i>2017</i>
Number of shares	<u>3,449,275</u>	<u>3,449,275</u>
Percentage of issued shares (%)	<u>1.72</u>	<u>1.72</u>
Market value (KD)	<u>1,472,840</u>	<u>1,603,913</u>

An amount of KD 1,278,932 (31 December 2017: KD 1,278,932) 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 2018 was 410 fils per share (31 December 2017: 443 fils per share).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

17	LIABILITIES ARISING FROM INSURANCE CONTRACTS						Total KD
		Marine and Aviation KD	General Accidents KD	Fire KD	Life and Medical KD	Reinsurance operations KD	
31 December 2018							
	OUTSTANDING CLAIMS RESERVE:						
	Gross balance at the beginning of the year	4,618,475	12,207,319	18,395,582	20,423,727	41,769,194	97,414,297
	Reinsurance recoverable on outstanding claims at the beginning of the year	(3,694,306)	(5,768,232)	(17,713,094)	(11,070,257)	(10,157,931)	(48,403,820)
	Net balance at the beginning of the year	924,169	6,439,087	682,488	9,353,470	31,611,263	49,010,477
	Gross claims incurred during the year	2,142,147	7,187,906	3,821,677	13,668,425	33,408,220	60,228,375
	Reinsurance recoverable	(1,744,315)	(3,852,800)	(3,570,573)	(2,848,181)	(8,544,982)	(20,560,851)
	Net claims incurred	397,832	3,335,106	251,104	10,820,244	24,863,238	39,667,524
	Gross claims paid during the year	(2,622,753)	(4,746,814)	(14,478,479)	(12,038,103)	(27,713,390)	(61,599,539)
	Reinsurance recoverable	2,044,087	1,398,813	14,084,250	2,707,587	6,097,855	26,332,592
	Paid during the year	(578,666)	(3,348,001)	(394,229)	(9,330,516)	(21,615,535)	(35,266,947)
	NET BALANCE AT THE END OF THE YEAR	743,335	6,426,192	539,363	10,843,198	34,858,966	53,411,054
	Presented in the consolidated statement of financial position as follows:						
	Outstanding claims reserve	4,137,869	14,648,411	7,738,780	22,054,049	47,464,024	96,043,133
	Reinsurance recoverable on outstanding claims	(3,394,534)	(8,222,219)	(7,199,417)	(11,210,851)	(12,605,058)	(42,632,079)
	NET BALANCE AT THE END OF THE YEAR	743,335	6,426,192	539,363	10,843,198	34,858,966	53,411,054
	Unearned premiums reserve	383,560	2,301,880	297,763	-	17,337,726	20,320,929
	Life mathematical reserve	-	-	-	7,172,000	-	7,172,000
	Incurred but not reported reserve	500,000	1,350,000	500,000	-	10,948,699	13,298,699

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As at 31 December 2018

17	LIABILITIES ARISING FROM INSURANCE CONTRACTS (continued)						Total KD
		Marine and Aviation KD	General Accidents KD	Fire KD	Life and Medical KD	Reinsurance operations KD	
31 December 2017							
	OUTSTANDING CLAIMS RESERVE:						
	Gross balance at the beginning of the year	5,886,381	12,984,937	11,762,932	13,501,444	32,860,641	76,996,335
	Reinsurance recoverable on outstanding claims at the beginning of the year	(4,906,375)	(6,303,560)	(11,472,567)	(10,722,555)	(1,288,730)	(34,693,787)
	Net balance at the beginning of the year	980,006	6,681,377	290,365	2,778,889	31,571,911	42,302,548
	Gross claims incurred during the year	2,446,252	4,244,158	9,178,442	14,213,372	28,984,390	59,066,614
	Reinsurance recoverable	(1,460,119)	(761,128)	(8,473,408)	(3,808,986)	(10,076,683)	(24,580,324)
	Net claims incurred	986,133	3,483,030	705,034	10,404,386	18,907,707	34,486,290
	Gross claims paid during the year	(3,714,158)	(5,021,776)	(2,545,792)	(7,291,089)	(20,075,837)	(38,648,652)
	Reinsurance recoverable	2,672,188	1,296,456	2,232,881	3,461,284	1,207,482	10,870,291
	Paid during the year	(1,041,970)	(3,725,320)	(312,911)	(3,829,805)	(18,868,355)	(27,778,361)
	NET BALANCE AT THE END OF THE YEAR	924,169	6,439,087	682,488	9,353,470	31,611,263	49,010,477
	Presented in the consolidated statement of financial position as follows:						
	Outstanding claims reserve	4,618,475	12,207,319	18,395,582	20,423,727	41,769,194	97,414,297
	Reinsurance recoverable on outstanding claims	(3,694,306)	(5,768,232)	(17,713,094)	(11,070,257)	(10,157,931)	(48,403,820)
	NET BALANCE AT THE END OF THE YEAR	924,169	6,439,087	682,488	9,353,470	31,611,263	49,010,477
	Unearned premiums reserve	396,845	2,331,590	332,207	-	14,873,706	17,934,348
	Life mathematical reserve	-	-	-	5,733,000	-	5,733,000
	Incurred but not reported reserve	500,000	1,500,000	500,000	-	10,063,604	12,563,604



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

18 INSURANCE AND REINSURANCE PAYABLES

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Policyholders payables	2,140,797	1,470,535
Reinsurance payables	12,273,103	5,974,865
Claims payables	1,028,240	871,536
Other insurance payables	630,865	816,070
	<u>16,073,005</u>	<u>9,133,006</u>

19 ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Reserve retained on reinsurance business	1,209,793	1,388,390
Accrued employees bonus, leave balance and end of service benefits	3,614,853	3,166,592
Dividends payable	400,152	437,808
Accrued expenses	524,132	493,464
Board of directors' fees	513,240	506,600
Other payables	2,678,069	2,167,742
	<u>8,940,239</u>	<u>8,160,596</u>

20 SEGMENT INFORMATION

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

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

The following are the details of these segments:

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As at 31 December 2018

20	SEGMENT INFORMATION (continued)		General risk insurance						
A)	Segment information – consolidated statement of income								
Year ended 31 December 2018:	Marine and Aviation KD	General accidents KD	Fire KD	Total general risk insurance KD	Life and medical insurance KD	Reinsurance operations KD	Intercompany transactions KD	Total KD	
Revenue:									
Gross premiums written	7,342,527	10,429,657	5,398,939	23,171,123	16,610,843	46,557,369	(2,357,135)	83,982,200	
Premiums ceded to reinsurers	(5,668,283)	(5,436,226)	(4,853,403)	(15,957,912)	(3,866,287)	(6,159,215)	2,357,135	(23,626,279)	
Net premiums written	1,674,244	4,993,431	545,536	7,213,211	12,744,556	40,398,154	-	60,355,921	
Movement in unearned premiums	13,285	29,710	34,444	77,439	-	(2,464,020)	-	(2,386,581)	
Net premiums earned	1,687,529	5,023,141	579,980	7,290,650	12,744,556	37,934,134	-	57,969,340	
Commission income on ceded reinsurance	1,606,485	1,965,353	1,366,205	4,938,043	1,362,538	408,908	(207,344)	6,502,145	
Policy issuance fees	-	464,739	-	464,739	-	-	-	464,739	
Total revenue of insurance and reinsurance operations	3,294,014	7,453,233	1,946,185	12,693,432	14,107,094	38,343,042	(207,344)	64,936,224	
Expenses:									
Net claims incurred	(397,832)	(3,335,106)	(251,104)	(3,984,042)	(10,820,244)	(24,863,238)	-	(39,667,524)	
Commissions and premiums' acquisition costs	(318,522)	(775,234)	(169,003)	(1,262,759)	(225,216)	(10,230,513)	207,344	(11,511,144)	
Movement in life mathematical reserve	-	-	-	-	(1,439,000)	-	-	(1,439,000)	
Maturity and cancellations of life insurance policies	-	-	-	-	(399,109)	-	-	(399,109)	
Operating and administrative expenses for insurance business	(837,271)	(1,385,827)	(550,853)	(2,773,951)	(682,195)	(1,979,708)	-	(5,435,854)	
Total expenses of insurance and reinsurance operations	(1,553,625)	(5,496,167)	(970,960)	(8,020,752)	(13,565,764)	(37,073,459)	207,344	(58,452,631)	
Net underwriting results	1,740,389	1,957,066	975,225	4,672,680	541,330	1,269,583	-	6,483,593	
Net investment income				3,843,710	233,124	2,752,767	-	6,829,601	
Net gain on business combinations				3,748,963	-	-	-	3,748,963	
Share of results of associates				555,683	-	-	-	555,683	
Other income				162,147	6,424	260	-	168,831	
Impairment loss on financial assets available for sale				(3,737,862)	-	(165,000)	-	(3,902,862)	
Other administrative expenses, investment properties expenses and valuation loss				(1,518,990)	(1,097)	(101,843)	-	(1,621,930)	
Impairment loss on other receivables				(1,200,000)	(120,000)	-	-	(1,320,000)	
Profit before contribution to KFAS, NLST, Zakat and Directors' fees	6,526,331	659,781	3,755,767	-	10,941,879	-	-	10,941,879	





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As at 31 December 2018

20	SEGMENT INFORMATION (continued)	General risk insurance							
		Segment information – consolidated statement of income (continued)							
A)		Marine and Aviation KD	General accidents KD	Fire KD	Total general risk insurance KD	Life and medical insurance KD	Reinsurance operations KD	Intercompany transactions KD	Total KD
	Year ended 31 December 2017:								
	Revenue:								
	Gross premiums written	5,739,359	12,872,992	5,103,393	23,715,744	16,032,987	35,069,251	(2,837,506)	71,980,476
	Premiums ceded to reinsurers	(4,225,279)	(7,542,438)	(4,469,608)	(16,237,325)	(4,358,374)	(3,596,006)	2,837,506	(21,354,199)
	Net premiums written	1,514,080	5,330,554	633,785	7,478,419	11,674,613	31,473,245	-	50,626,277
	Movement in unearned premiums	(46,239)	262,298	49,984	266,043	-	(2,337,007)	-	(2,070,964)
	Net premiums earned	1,467,841	5,592,852	683,769	7,744,462	11,674,613	29,136,238	-	48,555,313
	Commission income on ceded reinsurance	1,616,701	2,866,293	1,178,294	5,661,288	1,880,374	892,110	(340,171)	8,093,601
	Policy issuance fees	-	503,559	-	503,559	-	-	-	503,559
	Total revenue of insurance and reinsurance operations	3,084,542	8,962,704	1,862,063	13,909,309	13,554,987	30,028,348	(340,171)	57,152,473
	Expenses:								
	Net claims incurred	(986,133)	(3,483,030)	(705,034)	(5,174,197)	(10,404,386)	(18,907,707)	-	(34,486,290)
	Commissions and premiums' acquisition costs	(428,471)	(844,779)	(183,583)	(1,456,833)	(84,032)	(8,625,504)	340,171	(9,826,198)
	Movement in life mathematical reserve	-	-	-	-	(383,000)	-	-	(383,000)
	Maturity and cancellations of life insurance policies	-	-	-	-	(1,047,917)	-	-	(1,047,917)
	Operating and administrative expenses for insurance business	(638,209)	(1,647,943)	(437,352)	(2,723,504)	(782,857)	(1,578,908)	-	(5,085,269)
	Total expenses of insurance and reinsurance operations	(2,052,813)	(5,975,752)	(1,325,969)	(9,354,534)	(12,702,192)	(29,112,119)	340,171	(50,828,674)
	Net underwriting results	1,031,729	2,986,952	536,094	4,554,775	852,795	916,229	-	6,323,799
	Net investment income								
	Share of results of associates					4,211,984	3,323,617	-	7,731,859
	Other income					(930,172)	-	-	(930,172)
	Impairment loss on financial assets available for sale					207,597	370,041	-	580,195
	Other administrative expenses, investment properties expenses and valuation loss					(1,134,607)	(269,108)	-	(1,403,715)
	Impairment loss on other receivables					(1,064,852)	(994,984)	-	(2,060,705)
	Profit before contribution to KFAS, NLST, Zakat and Directors' fees					(400,000)	-	-	(463,364)
						5,444,725	3,345,795	-	9,777,897
						987,377			

**20 SEGMENT INFORMATION (continued)****B) Segment information – Consolidated statement of financial position**

	<i>General risk insurance KD</i>	<i>Life and medical insurance KD</i>	<i>Reinsurance operations KD</i>	<i>Investment KD</i>	<i>Total KD</i>
<i>31 December 2018</i>					
Assets	42,824,347	14,063,858	129,470,870	94,180,080	280,539,155
Liabilities	52,397,765	32,025,405	80,777,069	15,448	165,215,687
<i>31 December 2017</i>					
Assets	42,763,561	14,849,968	116,258,199	88,857,629	262,729,357
Liabilities	51,746,015	28,719,720	70,524,339	-	150,990,074

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.

21 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 1,683,826 (USD 5,540,738) (2017: KD 1,651,854 (USD 5,466,317)).

22 RELATED PARTY TRANSACTIONS

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

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

	<i>Key management and board members KD</i>	<i>Associates KD</i>	<i>Parent Company's shareholders KD</i>	<i>Others KD</i>	<i>Total KD</i>
<i>31 December 2018</i>					
Gross premiums	20,763	606,684	1,821,249	36,181	2,484,877
Claims incurred	340	238,234	632,910	-	871,484
<i>31 December 2017</i>					
Gross premiums	7,334	633,408	2,191,609	366,812	3,199,163
Claims incurred	-	341,938	462,740	728,519	1,533,197



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22 RELATED PARTY TRANSACTIONS (continued)

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

31 December 2018	Key management and board members KD	Associates KD	Parent Company's shareholders KD	Others KD	Total KD
Premiums and insurance balances receivable	24,062	329,143	2,619,893	2,084	2,975,182
Other credit balances	-	-	-	-	-
31 December 2017	Key management and board members KD	Associates KD	Parent Company's shareholders KD	Others KD	Total KD
Premiums and insurance balances receivable	21,807	435,388	4,231,690	311,138	5,000,023
Other credit balances	-	-	95,008	6,710	101,718

Compensation of key management personnel and board of directors members of the Group:

	2018 KD	2017 KD
Salaries and other short term benefits	738,970	786,064
Employees' end of service benefits	81,913	319,514
	820,883	1,105,578

23 CAPITAL COMMITMENTS AND CONTINGENCIES

- (a) As at 31 December 2018, the Group has future capital commitments with respect to purchase of financial assets available for sale amounting to KD 3,016,376 (2017: KD 4,165,190) and has contingent liabilities in respect of letter of credit arising from the subsidiary, granted by a bank amounting to KD 711,190 (2017: KD 2,960,187), and letter of guarantee granted by a bank to the Parent Company amounting to KD 42,909 (2017: KD 42,909) 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.

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 (2017: KD 500,000) have been deposited with a Kuwaiti bank as security to underwrite general insurance business;
- (b) Investments of KD 500,000 (2017: 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 9,844,800 (2017: KD 8,626,041) are held in Kuwait.
- (d) The Parent Company's premise with net carrying amount of KD 362,384 (2017: KD 478,819) has 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 has established a risk management function with clear terms of reference from the Group's board of directors, its committees and the associated executive management committees. This will be supplemented with a clear organisational structure that document delegated authorities and responsibilities from the board of directors to the management. Also, a Group policy framework including risk profiles for the Group, risk management, control and business conduct standards for the Group's operations.

(b) Regulatory framework

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

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

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

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

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

(c) Insurance risk

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

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

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

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

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

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As at 31 December 2018

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.

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

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

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

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

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

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

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 promptly 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.

**25 RISK MANAGEMENT (continued)****(c) Insurance risk (continued)****(1) Life insurance contracts (continued)**

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:

	<i>Gross liabilities</i> <i>KD</i>	<i>Reinsurers' share of liabilities</i> <i>KD</i>	<i>Net liabilities</i> <i>KD</i>
31 December 2018			
Type of contract			
Term insurance	17,616	(11,386)	6,230
Life and disability	2,596,299	(772,485)	1,823,814
Medical	347,480	(41,698)	305,782
Endowment individual policies	1,605,855	(641,793)	964,062
Pensions (individual policies)	108,302	-	108,302
Total life insurance contracts	4,675,552	(1,467,362)	3,208,190
Total investment contracts and participation feature	3,937,235	-	3,937,235
Other life insurance contracts liabilities	26,575	-	26,575
Life insurance contracts outstanding claims reserve	8,639,362	(1,467,362)	7,172,000
31 December 2017			
Type of contract			
Term insurance	22,513	(16,660)	5,853
Life and disability	1,277,829	(575,023)	702,806
Medical	402,037	(170,866)	231,171
Endowment individual policies	1,845,135	(1,198,720)	646,415
Pensions (individual policies)	114,301	-	114,301
Total life insurance contracts	3,661,815	(1,961,269)	1,700,546
Total investment contracts and participation feature	3,983,905	-	3,983,905
Other life insurance contracts liabilities	48,549	-	48,549
Life insurance contracts outstanding claims reserve	7,694,269	(1,961,269)	5,733,000

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.

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As at 31 December 2018

25 RISK MANAGEMENT (continued)**(c) Insurance risk (continued)****(1) Life insurance contracts (continued)*****Key assumptions (continued)***

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.

• *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.

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As at 31 December 2018

	Mortality and morbidity rates		Investment return		Lapse and surrender rates		Discount rates		Renewal expenses		Inflation rate	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
25 RISK MANAGEMENT (continued)												
(c) Insurance risk (continued)												
(1) Life insurance contracts (continued)												
<i>Key assumptions (continued)</i>												
Portfolio assumptions by type of business impacting net liabilities												
<i>Investment contracts:</i>												
With fixed and guaranteed terms	A49/S2 Ult	A49/S2 Ult	3%	3%	N/A	N/A	3%	4%	5% of AP+1% of SA	5% of AP+1% of SA	3%	3%
Non-guaranteed terms	A49/S2 Ult	A49/S2 Ult	N/A	N/A	N/A	N/A	3%	4%	5% of AP+1% of SA	5% of AP+1% of SA	3%	3%
<i>Life term assurance:</i>												
Males	A49/S2 Ult	A49/S2 Ult	N/A	N/A	N/A	N/A	3%	4%	5% of AP+1% of SA	5% of AP+1% of SA	3%	3%
Females	A49/S2 Ult	A49/S2 Ult	N/A	N/A	N/A	N/A	3%	4%	5% of AP+1% of SA	5% of AP+1% of SA	3%	3%



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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.

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

31 December 2018	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
Marine and Aviation	4,137,869	(3,394,534)	743,335
Accident	14,648,411	(8,222,219)	6,426,192
Fire	7,738,780	(7,199,417)	539,363
Reinsurance operations	47,464,024	(12,605,058)	34,858,966
Total	73,989,084	(31,421,228)	42,567,856

**25 RISK MANAGEMENT (continued)****(c) Insurance risk (continued)****(2) Non-life insurance contracts (continued)**

<i>31 December 2017</i>	<i>Gross liabilities KD</i>	<i>Reinsurers' share of liabilities KD</i>	<i>Net liabilities KD</i>
Marine and Aviation	4,618,475	(3,694,306)	924,169
Accident	12,207,319	(5,768,232)	6,439,087
Fire	18,395,582	(17,713,094)	682,488
Reinsurance operations	41,769,194	(10,157,931)	31,611,263
Total	<u>76,990,570</u>	<u>(37,333,563)</u>	<u>39,657,007</u>

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.

<i>31 December 2018</i>	<i>Change in assumption %</i>	<i>Impact on gross liabilities KD'000</i>	<i>Impact on net liabilities KD'000</i>	<i>Impact on profit KD'000</i>
Average claim cost	+10	389	358	358
Average number of claims	+10	460	460	460
<i>31 December 2017</i>	<i>Change in assumption %</i>	<i>Impact on gross liabilities KD'000</i>	<i>Impact on net liabilities KD'000</i>	<i>Impact on profit KD'000</i>
Average claim cost	+10	390	360	360
Average number of claims	+10	465	465	465

(d) Financial risks**(1) Credit risk**

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

- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- The credit risk in respect of customer balances, incurred on non-payment of premiums will only persist during the grace period specified in the policy document until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.



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25 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(1) Credit risk (continued)

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

Exposure credit risk by classifying financial assets according to type of insurance	31 December 2018			
	General insurance KD	Life and Medical insurance KD	Reinsurance operations KD	Total KD
Financial assets held to maturity (debt securities)	5,750,000	2,000,000	11,649,600	19,399,600
Bonds classified as financial assets available for sale	340,589	-	-	340,589
Loans secured by life insurance policyholders	-	174,707	-	174,707
Policyholders accounts receivable (gross)	14,106,071	1,808,443	-	15,914,514
Insurance and reinsurance receivables (gross)	6,150,586	820,021	-	6,970,607
Reinsurance recoverable on outstanding claims	18,816,170	11,210,851	12,605,058	42,632,079
Receivables arising from reinsurance contracts	-	-	23,121,069	23,121,069
Other debit balances	1,748,892	32,298	146,896	1,928,086
Fixed deposits	8,159,300	4,211,013	48,548,548	60,918,861
Bank balances	1,452,328	34,173	3,911,186	5,397,687
Total credit risk exposure	56,523,936	20,291,506	99,982,357	176,797,799

Exposure credit risk by classifying financial assets according to type of insurance	31 December 2017			
	General insurance KD	Life and Medical insurance KD	Reinsurance operations KD	Total KD
Financial assets held to maturity (debt securities)	5,750,000	2,000,000	11,916,000	19,666,000
Bonds classified as financial assets available for sale	636,452	-	-	636,452
Loans secured by life insurance policyholders	-	205,978	-	205,978
Policyholders accounts receivable (gross)	6,778,034	2,047,940	-	8,825,974
Insurance and reinsurance receivables (gross)	3,168,321	1,454,941	-	4,623,262
Reinsurance recoverable on outstanding claims	27,175,632	11,070,257	10,157,931	48,403,820
Receivables arising from reinsurance contracts	-	-	17,599,822	17,599,822
Other debit balances	1,650,582	21,183	385,512	2,057,277
Fixed deposits	8,085,000	2,166,750	41,588,330	51,840,080
Bank balances	1,991,683	464	6,792,146	8,784,293
Total credit risk exposure	55,235,704	18,967,513	88,439,741	162,642,958

The table below provides information regarding the credit risk exposure of the financial assets by classifying assets according to international credit ratings of the counterparties. "A" ratings denote expectations of low default risk. "B" ratings indicate that material default risk is present, but a limited margin of safety remains. Assets that fall outside the range of A to B are classified as not rated.



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25 RISK MANAGEMENT (continued)**(d) Financial risks (continued)****(1) Credit risk (continued)****Exposure credit risk by classifying financial assets according to international credit rating agencies****31 December 2018**

	<i>A</i> <i>KD</i>	<i>B</i> <i>KD</i>	<i>Not rated</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Financial assets held to maturity(debt securities)	-	-	19,399,600	19,399,600
Bonds classified as financial assets available for sale	-	-	340,589	340,589
Loans secured by life insurance policyholders	-	-	174,707	174,707
Policyholders accounts receivable (gross)	-	-	15,914,514	15,914,514
Insurance and reinsurance receivables (gross)	5,604,368	1,366,239	-	6,970,607
Reinsurance recoverable on outstanding claims	35,341,994	7,290,085	-	42,632,079
Receivables arising from reinsurance contracts	-	-	23,121,069	23,121,069
Other debit balances	-	-	1,928,088	1,928,088
Fixed deposits	60,918,861	-	-	60,918,861
Bank balances	5,397,687	-	-	5,397,687
Total credit risk exposure	107,262,910	8,656,324	60,878,567	176,797,801

Exposure credit risk by classifying financial assets according to international credit rating agencies**31 December 2017**

	<i>A</i> <i>KD</i>	<i>B</i> <i>KD</i>	<i>Not rated</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Financial assets held to maturity(debt securities)	-	-	19,666,000	19,666,000
Bonds classified as financial assets available for sale	-	-	636,452	636,452
Loans secured by life insurance policyholders	-	-	205,978	205,978
Policyholders accounts receivable (gross)	-	-	8,825,974	8,825,974
Insurance and reinsurance receivables (gross)	3,715,215	908,047	-	4,623,262
Reinsurance recoverable on outstanding claims	40,117,001	8,286,819	-	48,403,820
Receivables arising from reinsurance contracts	-	-	17,599,822	17,599,822
Other debit balances	-	-	2,057,277	2,057,277
Fixed deposits	51,840,080	-	-	51,840,080
Bank balances	8,784,292	-	-	8,784,292
Total credit risk exposure	104,456,588	9,194,866	48,991,503	162,642,957

(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 2018	<i>Within 1 year</i> <i>KD</i>	<i>More than</i> <i>1 year</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Bank overdraft	3,305,421	-	3,305,421
Insurance and reinsurance payables	14,467,275	1,605,730	16,073,005
Other credit balances	3,576,096	5,364,143	8,940,239
	21,348,792	6,969,873	28,318,665



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25 RISK MANAGEMENT (continued)**(d) Financial risks (continued)****(2) Liquidity risk (continued)**

31 December 2017	<i>Within 1 year</i> <i>KD</i>	<i>More than</i> <i>1 year</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Insurance and reinsurance payables	8,219,705	913,301	9,133,006
Other credit balances	2,836,753	5,323,843	8,160,596
	<u>11,056,458</u>	<u>6,237,144</u>	<u>17,293,602</u>

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.

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.

	<i>Change in</i> <i>Variables</i> <i>%</i>	<i>2018</i>		<i>2017</i>	
		<i>Impact</i> <i>on profit for the</i> <i>year</i> <i>KD</i>	<i>Impact on other</i> <i>comprehensive</i> <i>income</i> <i>KD</i>	<i>Impact</i> <i>on profit for the</i> <i>year</i> <i>KD</i>	<i>Impact on other</i> <i>comprehensive</i> <i>income</i> <i>KD</i>
USD	±5	242,141	1,052,789	356,421	1,549,662
JD	±5	13,785	59,939	26	114
EGP	±5	121	525	192	838
Euro	±5	22,986	99,939	56,467	245,862
GBP	±5	3,427	14,903	8,669	37,691
Others	±5	11,594	50,411	70,359	305,916

**25 RISK MANAGEMENT (continued)****(d) Financial risks (continued)****3) Market risk (continued)****(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 2018 and 2017.

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

(iii) Equity price risk

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

The effect on other comprehensive income as a result of a change in the fair value of financial assets available for sale at 31 December due to $\pm 5\%$ change in the following market indices with all other variables held constant is as follows:

<i>Market indices</i>	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Kuwait	$\pm 1,211,721$	$\pm 1,131,524$
Other GCC countries	$\pm 64,557$	$\pm 272,327$

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 includes within net debt, liabilities arising from insurance contracts, payables and bank overdrafts less term deposits and bank balances and cash. Capital includes equity of the Group.

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Liabilities arising from insurance contracts	136,834,761	133,645,249
Payables	25,075,505	17,344,825
Bank overdraft	3,305,421	-
Less:		
Term deposits	(60,918,861)	(51,840,080)
Bank balances and cash	(5,950,373)	(8,916,922)
Net debt	98,346,453	90,233,072
Total capital	115,323,468	111,739,283
Total capital and net debt	213,669,921	201,972,355
Gearing ratio	46%	45%



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27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of financial assets held to maturity, loans secured by life insurance policyholders, financial assets available for sale, financial assets at fair value through profit or loss, receivables arising from reinsurance contracts and premium accruals, reinsurance recoverable on outstanding claims, premiums and insurance balances receivable, accounts receivables and other debit balances, fixed deposits and bank balances. Financial liabilities consist of bank overdraft, insurance and reinsurance payables and accounts payable 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 13,489,547 (2017: KD 16,806,018) (Note 10), 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.

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

	<i>Quoted prices in active markets (Level 1) KD</i>	<i>Significant unobservable inputs (Level 3) KD</i>	<i>Total fair value KD</i>
31 December 2018			
<i>Financial assets available for sale:</i>			
Quoted equity securities	23,288,264	-	23,288,264
Quoted managed Funds	1,101,756	-	1,101,756
Unquoted equity securities	-	8,683,153	8,683,153
Unquoted managed funds	-	17,360,639	17,360,639
Total	<u>24,390,020</u>	<u>26,043,792</u>	<u>50,433,812</u>
<i>Financial assets at fair value through profit or loss:</i>			
Unquoted equity securities	-	1,196,227	1,196,227
	-	1,196,227	1,196,227
31 December 2017			
<i>Financial assets available for sale:</i>			
Quoted equity securities	27,837,148	-	27,837,148
Quoted managed Funds	1,303,761	-	1,303,761
Unquoted equity securities	-	11,770,944	11,770,944
Unquoted managed funds	-	17,445,993	17,445,993
Total	<u>29,140,909</u>	<u>29,216,937</u>	<u>58,357,846</u>

**27 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

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

	<i>Valuation Technique</i>	<i>Significant unobservable inputs</i>	<i>Range</i>	<i>Sensitivity of the input to fair value</i>
Unquoted equity securities	Price to book value	Discount for lack of marketability & lack of Control	10%	An increase (decrease) by 10% in the Discount for lack of marketability & lack of Control would result in increase (decrease) in fair value by KD 8,683 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 8,683 thousands.
Unquoted managed funds	Adjusted net assets value	Discount for lack of marketability	10%	An increase (decrease) by 10% in the Discount for lack of would result in increase (decrease) in fair value by KD 17,361 thousands.

