مجموعة الخليج للتأمين
GULF INSURANCE GROUP

KUWAIT
TAKAFUL

2014

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Gulf Takaful Insurance Company K.S.C. (Closed)
State of Kuwait

Consolidated financial statements and independent auditor's report for the year ended 31 December 2014

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KPMG Safi Al-Mutawa & Partners
Al Hamra Tower, 25th Floor
Abdulaziz Al Saqr Street
P.O. Box 24, Safat 13001
State of Kuwait

Telephone : +965 2228 7000
Fax : +965 2228 7444
Internet : www.kpmg.com/kw

Independent auditor's report

The Shareholders
Gulf Takaful Insurance Company K.S.C. (Closed)
State of Kuwait

Report on the financial statements

We have audited the accompanying consolidated financial statements of Gulf Takaful Insurance Company K.S.C. (Closed) ("the Company") and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Report on other legal and regulatory requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Companies Law No. 25 of 2012, as amended and its executive regulations, and the Company's Articles and Memorandum of Association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the Board of Directors' report agrees with the books of account. We have not become aware of any contravention, during the year ended 31 December 2014, of the Companies Law No. 25 of 2012, as amended and its executive regulations, or the Company's Articles and Memorandum of Association, that would materially affect the Company's activities or its consolidated financial position.

Safi A. Al-Mutawa
License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 14 May 2015

Gulf Takaful Insurance Company K.S.C. (Closed)
State of Kuwait

Consolidated statement of financial position
as at 31 December 2014

	Note	2014 KD	2013 KD
Assets			
Cash and cash equivalents	*5*	943,605	925,683
Investment deposits	*6*	2,453,499	3,253,499
Investments at fair value through profit or loss	*7*	2,967,166	1,904,808
Available-for-sale investments	*8*	2,205,364	3,310,643
Qard Hassan to participants	*9*	3,863,462	3,423,664
Accounts receivable	*10*	130,828	113,737
Due from related party	*17*	900,726	-
Property and equipment		52,029	47,117
Intangible assets		10,517	10,474
Total assets		13,527,196	12,989,625
Liabilities and equity			
Liabilities			
Accounts payable	*11*	152,083	112,425
Due to related parties	*17*	-	4,477
Provision for employees' end of service indemnity	*15*	407,732	423,081
Total liabilities		559,815	539,983
Equity			
Share capital	*12*	12,134,819	14,032,412
Statutory reserve		55,680	-
Voluntary reserve		55,680	-
Change in fair value reserve		286,187	314,823
Retained earnings / (accumulated losses)		435,015	(1,897,593)
Total equity		12,967,381	12,449,642
Total liabilities and equity		13,527,196	12,989,625

The accompanying notes form an integral part of these consolidated financial statements.

Bader Sulaiman Al-Othman
Chairman

Nasser Sulaiman Al-Drbas
Vice Chairman and CEO

Gulf Takaful Insurance Company K.S.C. (Closed)
State of Kuwait

Consolidated statement of profit or loss
for the year ended 31 December 2014

	2014 KD	2013 KD
Revenue		
Investment deposits income	47,036	32,880
Gain /(loss) from investments at fair value through profit or loss	579,101	(141,912)
(Loss) /gain on sale of available-for-sale investments	(7,545)	4,473
Impairment loss on available-for-sale investments	-	(13,759)
Dividend income	57,171	58,236
Other income	9,250	13,809
	685,013	(46,273)
Expenses		
General and administrative	(83,373)	(78,049)
Staff costs	(44,839)	(43,403)
	(128,212)	(121,452)
Profit /(loss) before contribution to Kuwait Foundation For the Advancement of Sciences (KFAS) and Zakat	556,801	(167,725)
Contribution to KFAS	(5,011)	-
Zakat	(5,415)	-
Net profit / (loss) for the year	546,375	(167,725)

The accompanying notes form an integral part of these consolidated financial statements.

Gulf Takaful Insurance Company K.S.C. (Closed)
State of Kuwait

Consolidated statement of other comprehensive income
for the year ended 31 December 2014

	2014 KD	2013 KD
Net profit /(loss) for the year	546,375	(167,725)
Other comprehensive income		
Other comprehensive income to be reclassified to statement of profit or loss in subsequent years:		
Change in fair value of available for sale investments	(28,636)	202,166
Other comprehensive (loss) /income for the year	(28,636)	202,166
Total comprehensive income for the year	517,739	34,441

The accompanying notes form an integral part of these consolidated financial statements.

Gulf Takaful Insurance Company K.S.C. (Closed)
State of Kuwait

Consolidated statement of changes in equity
for the year ended 31 December 2014

	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Change in fair value reserve KD	Retained earnings / (accumulated losses) KD	Total KD
Balance at 1 January 2013	14,032,412	-	-	112,657	(1,729,868)	12,415,201
Total comprehensive income for the year						
Net loss for the year	-	-	-	-	(167,725)	(167,725)
Other comprehensive income	-	-	-	202,166	-	202,166
Total comprehensive income for the year	-	-	-	202,166	(167,725)	34,441
Balance at 31 December 2013	14,032,412	-	-	314,823	(1,897,593)	12,449,642
Total comprehensive income for the year						
Net profit for the year	-	-	-	-	546,375	546,375
Other comprehensive loss	-	-	-	(28,636)	-	(28,636)
Total comprehensive income for the year	-	-	-	(28,636)	546,375	517,739
Write-off of accumulated losses (note 12)	(1,897,593)	-	-	-	1,897,593	-
Transfer to reserves (notes 13 and 14)	-	55,680	55,680	-	(111,360)	-
Balance at 31 December 2014	12,134,819	55,680	55,680	(286,187)	435,015	12,967,381

The accompanying notes form an integral part of these consolidated financial statements.

Gulf Takaful Insurance Company K.S.C. (Closed)
State of Kuwait

Consolidated statement of cash flows
for the year ended 31 December 2014

	Note	2014 KD	2013 KD
Cash flows from operating activities:			
Net profit /(loss) for the year		546,375	(167,725)
Adjustments for:			
Investment deposits income		(47,036)	(32,880)
(Gain) /loss from investments at fair value through profit or loss		(579,101)	141,912
Loss /(gain) on sale of available for sale investments		7,545	(4,473)
Impairment loss on available-for-sale investments		-	13,759
Depreciation and amortization		20,259	25,772
Dividends		(57,171)	(58,236)
Provision for employees' end of service indemnity	*15*	63,703	65,895
Operating loss before changes in working capital		(45,426)	(15,976)
Investments at fair value through profit or loss		(483,257)	(487,953)
Qard Hassan to participants	*9*	(439,798)	(303,395)
Accounts receivable		(17,091)	(24,620)
Accounts payable		39,658	(6,232)
Due from /to related parties		(905,203)	(38,502)
Employees' end of service indemnity paid	*15*	(79,052)	(4,731)
Net cash used in operating activities		(1,930,169)	(881,409)
Cash flows from investing activities:			
Dividends received		57,171	58,236
Purchase of property and equipment		(20,584)	(24,414)
Purchase of intangible assets		(4,630)	-
Proceeds from sale of available for sale investments		1,069,098	-
Investment deposits		800,000	818,761
Income received from investment deposits		47,036	32,880
Net cash from investing activities		1,948,091	885,463
Net increase in cash and cash equivalents		17,922	4,054
Cash and cash equivalents at the beginning of the year		925,683	921,629
Cash and cash equivalents at the end of the year	*5*	943,605	925,683

The accompanying notes form an integral part of these consolidated financial statements.

1. Reporting entity

Gulf Takaful Insurance Company K.S.C. (Closed) ("the Company") was incorporated as a closed Kuwaiti shareholding company on 6 September 2004. The company has commercial register number 104519 dated 28 November 2004. The principal activity of the Company writing of life insurance and all other types of insurance such as fire insurance and general accident and auto insurance and marine and aviation insurance under the Takaful (cooperative) scheme, including reinsurance, as well as using the surplus funds of the parent company by investing in portfolios managed by specialized companies in accordance with the provisions of Islamic Shari'ah. The company carries out its business in accordance with the Noble Islamic Shari'ah principles and in accordance with Kuwait Law No. 24 of 1961, as amended, relating to insurance companies and insurance agents.

The Company's main office is at Sharq, Shuhada Street, KRH Building, PO Box 29279, Safat 13153, State of Kuwait.

The consolidated financial statements comprise the Company and its 99% owned subsidiary, Gulf Leading Real Estate Company K.S.C. (Closed) and its main office is at Sharq, Shuhada Street, Social Security Building, 4th floor (together referred to as "the Group").

The share capital of the subsidiary include shares of KD 40,000 as at 31 December 2014 (2013: KD 40,000) which are registered in the name of others on behalf of the Group, and there are letters of renunciation in favour of the Group.

As at 31 December 2014, the Company was 33.06% owned by Global Investment House K.S.C., Kuwait (2013: 33.06%). The remaining 66.94% of the shares are widely held.

The total number of employees in the Group was 62 as at 31 December 2014 (31 December 2013: 70).

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

The Company maintains separate books of accounts for participants and shareholders. Income and expenses clearly attributable to either activity are recorded in the respective accounts. Management and the Board of Directors determine the basis of allocation of expenses from joint operations.

The consolidated financial statements were authorized for issue by the Board of Directors on [----], and the shareholders have the power to amend these consolidated financial statements at the annual general assembly meeting.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), the relevant provisions of the Companies Law No. 25 of 2012, as amended and its executive regulations, the Company's Articles and Memorandum of Association and Ministerial Order No. 18 of 1990.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for investments carried at fair value through profit or loss and available for sale investments.

c) Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars, which is the functional currency for the Group.

d) Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

In particular, information about estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in note 4.

e) Revised and newly issued IFRS adopted by the Group

The Group has adopted the following revised and newly issued IFRSs effective for annual periods beginning on 1 January 2014:

IFRS 10, IFRS 12 and IAS 27

Amendments were made to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interest in Other Entities and IAS 27 Separate Financial Statements to:

- Provide 'investment entities' an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement;
- Require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries; and
- Require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms.

IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosures of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively and accordingly are considered while making disclosures for impairment of non-financial assets in the consolidated financial statements for the year ended 31 December 2014 and would continue to be considered for future disclosures.

Other amendments to IFRS, which apply to the annual reporting periods effective from 1 January 2014, have no material impact on the Group's accounting policies or its financial position or performance.

a) <u>New standards and interpretations not yet adopted</u>

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IFRS 9 – Financial Instruments
IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 specifies how and when an entity recognises revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The standard was issued in May 2014 and applies to annual financial statements beginning on or after 1 January 2017. The Group is in the process of assessing the impact on the consolidated financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements.

a) Basis of consolidation

The consolidated financial statements for the year ended 31 December 2014 include the Company and its subsidiary referred to in note 1.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries are consistent with the accounting policies adopted by the Group.

Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in consolidated statement of profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted or as an available for sale financial asset depending on the level of influence retained.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its powers over the entity.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition dates. The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus

- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated statement of profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in the consolidated statement of profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in the consolidated statement of profit or loss or in the consolidated statement of comprehensive income.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions of non-controlling interests

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

b) Foreign currencies

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies which are stated at historical cost are translated into the functional currency and recorded at the exchange rates ruling at the date of the transaction. Non-monetary items denominated in foreign currencies which are stated at fair value are translated to the functional currency at the exchange rates ruling at the date of determining the fair value. Foreign currency differences arising on retranslation are recognised in the consolidated statement of profit or loss except for differences resulting from retranslating available-for-sale equity instruments.

c) Investments

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value.

The amounts of each class of investments that has been designated at fair value through profit or loss are described in note 7.

Financial instruments at fair value through profit or loss are measured initially at fair value. Transaction costs on financial instruments through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments measured at fair value through profit or loss are measured at fair value with changes in their fair value recognized in the consolidated statement of profit or loss.

Investments which are not held-to-maturity or financial assets at fair value through profit or loss, are classified as being available-for-sale investments. Available-for-sale investments are recognized at fair value, with any resultant gain or loss being recognised in the consolidated statement of other comprehensive income and presented within equity in the fair value reserve, except for impairment losses and, in the case of monetary items, foreign exchange gains and losses.

Unquoted equity securities classified as available-for-sale investments whose fair value cannot be reliably determined are carried at cost less impairment losses (note 3 (h)). When these investments are derecognised, the cumulative gain or loss in other comprehensive income is transferred to the consolidated statement of profit or loss.

The fair value of financial instruments classified as financial assets at fair value through profit or loss and available-for-sale-investments is their quoted market price at the reporting date. If the quoted market price is not available, the fair value of the investment is estimated using generally accepted valuation methods such as discounted cash flow techniques or net asset value or market price of similar investments.

Financial assets at fair value through profit or loss and available-for-sale investments are recognised or derecognised on the trade date i.e., on the date the Group commits to purchase or sell the investments.

d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks and highly liquid financial assets with original maturities of less than three months.

e) Loans and receivables

Loans and receivables are stated at cost less impairment losses (note 3(h)). The Group's loans and receivables include cash and cash equivalents, investment deposits, Qard Hassan to participants and accounts receivable.

f) Property and equipment

Property and equipment is measured at cost less accumulated depreciation and impairment losses (note 3(h)). Depreciation is calculated to write off the cost of property and equipment by equal installments over their estimated useful lives, ranging from 5 to 7 years.

The useful life, depreciation method and residual value of property and equipment at the end of their useful lives are reviewed annually to ensure that the method and period of depreciation is in line with the expected pattern of economic benefits from items of property and equipment. A change in the estimated useful life of property and equipment is applied at the beginning of the financial year of change with no retroactive effect.

g) Intangible assets

The Group's intangible assets include the value of computer software. Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortisation is recognised in the consolidated statement of profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

h) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. All impairment losses are recognised in the consolidated statement of profit or loss.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective rate of return.

An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to the consolidated statement of profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the consolidated statement of profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated statement of profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

i) Payables

Payables are stated at amortised cost. The Group's payables are classified as other financial liabilities and include accounts payable and due to related parties.

j) Provisions

Provisions are recognized in the consolidated financial statements when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

k) Provision for employees' end of service indemnity

Kuwaiti employees

Pensions and other social benefits for Kuwaiti employees are covered by the Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under International Accounting Standard (IAS) 19 – Employee Benefits are charged to the consolidated statement of profit or loss in the year to which they relate.

Expatriate employees

Expatriate employees are entitled to an end of service indemnity payable under the Kuwait Labor Law based on the employees' accumulated periods of service and latest entitlements of salaries and allowances.

l) Revenue recognition

- Income from Islamic finance contracts and deposits is recognized on a time proportion basis to achieve fixed rate of return on outstanding balances for these transactions.
- Dividend income is recognized when the right to receive dividend is established.
- Rental income from operating leases is recognised on a straight-line basis over the lease term.
- Other revenues and expenses are recognized on an accrual basis.

4. Use of estimates and judgments

Key sources of estimation uncertainty

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 carrying amounts of assets and liabilities within the next financial year, are as follow:

Impairment of receivables

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

Impairment on available-for-sale financial investments

For available-for-sale financial investments, 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 available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration or extent to which the fair value of an investment is less than its cost.

Determining fair values

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgments in applying the Group's accounting policies

Critical accounting judgments made in applying the Group's accounting policies include:

Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances. In designating financial assets or liabilities at fair value through profit or loss, the Group has determined that it has met the criteria for this designation (note 3(c)).

5. Cash and cash equivalents

	2014 KD	2013 KD
Cash at banks	943,605	925,683

6. Investment deposits

6.1 Investment deposits are placed with Islamic financial institutions. The average effective rate of return on the time deposits was 2.4% per annum as at 31 December 2014 (2013: 2.4% per annum).

6.2 Letters of guarantee issued in favor of government entities in Kuwait are secured by investment deposits to the value of KD 953,499 as at 31 December 2014 (2013: KD 953,499) (note 16).

7. Investments at fair value through profit or loss

	2014 KD	2013 KD
Investments in local shares – unquoted	445,000	341,180
Investments in foreign shares – unquoted	150,793	155,762
Investments in foreign funds – unquoted	2,371,373	1,407,866
	2,967,166	1,904,808

The valuation of unquoted investments has been determined based on the report obtained from investment portfolio manager, a related party.

8. Available-for-sale investments

	2014 KD	2013 KD
Investments in local shares – unquoted	1,920,552	1,920,552
Investments in local funds – unquoted	-	1,076,647
Investments in foreign shares – unquoted	175,666	169,223
Investments in foreign funds – unquoted	109,146	144,221
	2,205,364	3,310,643

The Group did not identified any impairment on available-for-sale investments – unquoted

foreign funds (2013: KD 13,759) which was recognized within the consolidated statement of profit or loss.
Fair value of unquoted available-for-sale investment with a carrying value of KD 175,666 (2013: KD 169,223) cannot be reliably determined. There is no active market for this investment and there have not been any recent transactions that provide evidence of the current fair value.

The valuation of some unquoted investments has been determined based on the report obtained from investment portfolio manager, a related party.

9. Qard Hassan to participants

In accordance with the Company's Memorandum of Association, participants' net deficit from each line of business of the takaful operations has been covered by Qard Hassan (free of finance charges with no repayment terms) from shareholders. The Qard Hassan given by the shareholders for each line of business will be settled through surplus arising from such line of business in future years.

The movement on Qard Hassan during the year is as follows:

	2014 KD	2013 KD
Balance at the beginning of the year	3,423,664	3,120,269
Net finance paid to the participants	439,798	303,395
Balance at the end of the year	3,863,462	3,423,664

Following is the amount of losses not covered by the shareholders:

	2014 KD	2013 KD
Accumulated deficit of takaful activities	(4,989,503)	(5,035,028)
Amount paid by shareholders till 31 December	3,863,462	3,423,664
	(1,126,041)	(1,611,364)

10. Accounts receivable

	2014 KD	2013 KD
Accrued income	25,395	13,696
Refundable deposit	10,757	10,757
Prepaid expenses	14,655	14,780
Staff receivables	79,830	71,154
Other receivables	191	3,350
	130,828	113,737

11. Accounts payable

	2014 KD	2013 KD
Trade payables	16,682	9,471
Accrued leave pay	83,988	97,347
Other payables	51,413	5,607
	152,083	112,425

12. Share capital

The Company's authorized, issued and paid up share capital amounted to KD 12,134,819 consisting of 121,348,190 shares of 100 fils each (31 December 2013: KD 14,032,412 consisting of 140,334,120 shares) all shares were paid in cash.

The Company's general extra ordinary assembly meeting held on 26 June 2014 approved extinguishment of accumulated losses of KD 1,897,593 in the Company's equity as at 31 December 2013 against share capital accordingly the Company has completed all the formalities procedures and registered in Commercial registration on 27 January 2015.

The Company has regularized its position in accordance with Companies Law No. 25 of 2012 and registered in in Commercial registration on 15 December 2014.

13. Statutory reserve

In accordance with the Companies Law No. 25 of 2012, as amended and the Company's Articles of Association, 10% of the profit for the year is required to be transferred to statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the paid up share capital. The reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when profit is not sufficient for the payment of such dividend.

14. Voluntary reserve

In accordance with the Company's Articles of Association, 10% of the profit for the year is required to be transferred to the voluntary reserve. This transfer may be discontinued, upon recommendation of board of directors, by a resolution of the shareholders in their annual meeting. There are no restrictions on the distribution of this reserve.

15. Provision for employees' end of service indemnity

	2014 KD	2013 KD
At 1 January	423,081	361,917
Provision made during the year	63,703	65,895
Payments during the year	(79,052)	(4,731)
At 31 December	407,732	423,081

16. Contingent liabilities

At 31 December 2014, the Group had contingent liabilities in respect of letters of guarantee issued in favor of government entities in Kuwait amounting to KD 135,000 (2013: KD 135,000). These guarantees are secured on investment deposits to the value of KD 953,499 (2013: KD 953,499) (note 6).

17. Related party transactions

Related parties comprise the Group's shareholders who have representation in the Board of Directors, Directors, key management personnel and their close family members.

Transactions with key management personnel

Key management personnel receive compensation in the form of short-term employee benefits and post-employment benefits amounting to KD 123,600 for the year ended 31 December 2014 (2013: KD 141,000).

Related party transactions and balances:

	Transaction value for the year ended 31 December		**Balance outstanding other than balances disclosed of the face of the consolidated statement of financial position as at 31 December**	
	2014 KD	**2013 KD**	**2014 KD**	**2013 KD**
Shareholders				
Investments at fair value through profit or loss	-	-	3,044,380	1,904,808
Available-for-sale investments	-	-	2,205,364	3,310,643
Gain (losses) from investments at fair value through profit or loss	656,315	(141,912)	-	-
(Losses) gain on available-for-sale investments	(7,545)	4,473		
Impairment loss on available-for-sale investments	-	(13,759)	-	-
Dividend income	57,171	58,236	-	-
Management fees	4,844	4,477	-	-

18. Participants' operations

The significant accounting policies used in accounting for the insurance business are set out below. Policies used in accounting for none insurance operations are the same as those adopted by the Group. The accounting policies are consistent with those used in the previous year.

Accounting policies used in insurance operation

Revenue recognition

Takaful contributions earned

Gross contributions are credited to income at the inception of the policy and over the period of the takaful coverage, which represent the total contribution written in the year, including contributions on annual policies covering part or all of the following year.

Unearned contributions represent the portion of contributions written related to the unexpired period of coverage. A minimum of 25% of the contributions collected are deferred for marine takaful contracts and minimum of 40% of the contributions collected are deferred for all other types of takaful contracts except for life takaful as per the insurance law.
Unearned contributions are reported under liabilities under policyholders' liabilities.

Contributions ceded to retakaful operations are deducted from gross contributions to arrive at net contribution.

Takaful contributions acquisition costs

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

Claims

Claims, comprising amounts paid during the year and payable to insurance companies and third parties at the end of the year, incurred but not reported claims and related loss adjustment expenses, net of salvage and other recoveries, are charged to participants' results of operations as incurred.

Takaful receivables

Takaful receivables are carried at their nominal value less impairment losses.

Retakaful

Retakaful ceded contracts do not relieve the Group from its obligations to participants and as a result the group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the retakaful agreements.

Reserve for unexpired risks

General takaful

Calculated at 40% of net contributions retained for property and 25% of net contributions retained for the marine and aviation.

Takaful insurance

Provision of obligation of life takaful is calculated at the discretion of an independent actuary.

Outstanding claims reserve

A provision is calculated against claims presented and not settled up to the reporting date.

Family takaful insurance reserve

A provision for family takaful liabilities is recognized at the discretion of an independent actuary.

Incurred but not reported reserve (IBNR)

A provision for incurred claims not yet reported up to the reporting date is calculated based on prior experience of loss ratio.

Participants' assets, liabilities and fund

	2014 KD	2013 KD
Assets		
Cash and cash equivalents	255,767	417,256
Takaful receivables	934,001	957,933
Due from retakaful companies	389,849	562,214
Other receivables	405,176	337,058
Retakaful share of gross outstanding claims	550,544	461,771
	2,535,337	2,736,232
Liabilities		
Due to retakaful companies	217,603	474,522
Unexpired risks reserve	1,157,988	1,456,873
Outstanding claims reserve	1,511,967	1,393,256
Incurred but not reported reserve	65,000	60,000
Takaful insurance reserve	17,420	21,784
Amounts retained for retakaful companies	82,167	95,059
Unearned contributions	281,581	505,870
Due to shareholders (note 9)	3,863,462	3,423,664
Other liabilities	327,652	340,232
	7,524,840	7,771,260
Participants' fund		
Net accumulated deficit from takaful operations (note 9)	(4,989,503)	(5,035,028)
Total liabilities and participants' fund	2,535,337	2,736,232

Participants' results of operations

	Marine & aviation KD	General accidents KD	Medical KD	Motors KD	Total general takaful KD	Family takaful KD	Total KD
Year ended 31 December 2014							
Contributions							
Gross contributions written	18,157	730,845	1,378,584	1,713,341	3,840,927	486,825	4,327,752
Less: contributions ceded	(13,386)	(525,937)	(291,713)	(170,694)	(1,001,730)	(320,252)	(1,321,982)
Net contributions written	4,771	204,908	1,086,871	1,542,647	2,839,197	166,573	3,005,770
Unexpired risks reserve	221	(864)	78,341	214,428	292,126	6,759	298,885
Net contributions earned	4,992	204,044	1,165,212	1,757,075	3,131,323	173,332	3,304,655
Issuance fees	88	2,050	1,200	120,666	124,004	19	124,023
Other expenses	-	(45,190)	(112,821)	(87,950)	(245,961)	(25,141)	(271,102)
Net commissions	3,798	34,917	(27,255)	(550,965)	(539,505)	(59,104)	(598,609)
Total revenues	8,878	195,821	1,026,336	1,238,826	2,469,861	89,106	2,558,967
Expenses							
Claims incurred	(713)	(171,637)	(1,282,406)	(629,829)	(2,084,585)	(326,632)	(2,411,217)
Less: retakaful share of claims incurred	328	82,627	425,273	-	508,228	298,570	806,798
Net claims	(385)	(89,010)	(857,133)	(629,829)	(1,576,357)	(28,062)	(1,604,419)
Provision for takaful insurance	-	-	-	-	-	4,364	4,364
Provision for outstanding claims and claims incurred but not reported	-	(6,141)	(12,000)	(13,306)	(31,447)	(3,491)	(34,938)
Total claims	(385)	(95,151)	(869,133)	(643,135)	(1,607,804)	(27,189)	(1,634,993)
Investment revenues	4	170	902	1,281	2,357	138	2,495
Surplus by business segments	8,497	100,840	158,105	596,972	864,414	62,055	926,469
Allocation of general and administrative expenses	(1,398)	(60,055)	(318,545)	(452,126)	(832,124)	(48,820)	(880,944)
Net surplus/ (deficit) from takaful operations	7,099	40,785	(160,440)	144,846	32,290	13,235	45,525
Beginning balance of deficit of participants' fund							(5,035,028)
Ending balance of deficit of participants' fund							(4,989,503)

	Marine & aviation KD	General accidents KD	Medical KD	Motors KD	Total general takaful KD	Family takaful KD	Total KD
Year ended 31 December 2013							
Contributions							
Gross contributions written	15,319	778,006	1,425,827	2,242,341	4,461,493	616,975	5,078,468
Less: contributions ceded	(9,742)	(578,190)	(143,105)	(160,742)	(891,779)	(415,974)	(1,307,753)
Net contributions written	5,577	199,816	1,282,722	2,081,599	3,569,714	201,001	3,770,715
Unexpired risks reserve	735	(11,319)	(20,045)	107,085	76,456	12,069	88,525
Net contributions earned	6,312	188,497	1,262,677	2,188,684	3,646,170	213,070	3,859,240
Issuance fees	726	1,674	1,204	187,086	190,690	1,242	191,932
Other expenses	(1,621)	(45,500)	(77,162)	(60,298)	(184,581)	(22,147)	(206,728)
Net commissions	2,749	31,582	(41,388)	(746,170)	(753,227)	(61,250)	(814,477)
Total revenues	8,166	176,253	1,145,331	1,569,302	2,899,052	130,915	3,029,967
Expenses							
Claims incurred	(1,957)	(110,854)	(1,313,094)	(689,510)	(2,115,415)	(242,484)	(2,357,899)
Less: retakaful share of claims incurred	1,846	46,503	34,637	-	82,986	212,426	295,412
Net claims	(111)	(64,351)	(1,278,457)	(689,510)	(2,032,429)	(30,058)	(2,062,487)
Provision for takaful insurance	-	-	-	-	-	(1,664)	(1,664)
Provision for outstanding claims and claims incurred but not reported	-	13,307	68,400	(156,173)	(74,466)	(7,588)	(82,054)
Total claims	(111)	(51,044)	(1,210,057)	(845,683)	(2,106,895)	(39,310)	(2,146,205)
Investment revenues	4	148	953	1,546	2,651	149	2,800
Surplus by business segments	8,059	125,357	(63,773)	725,165	794,808	91,754	886,562
Allocation of general and administrative expenses	(1,350)	(48,376)	(310,554)	(503,965)	(864,245)	(48,663)	(912,908)
Net surplus/ (deficit) from takaful operations	6,709	76,981	(374,327)	221,200	(69,437)	43,091	(26,346)
Beginning balance of deficit of participants' fund							(5,008,682)
Ending balance of deficit of participants' fund							(5,035,028)

19. Takaful risk management

The principal risk the Group faces under takaful 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.

Takaful risk is basically concentrated in the motor class of business. However, the variability of risks is improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of retakaful arrangements.

Frequency and amounts of claims

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

Motor

Motor takaful is designed to compensate contract holders for damage suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for the fire or theft of their vehicles.

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Group has retakaful cover for such claims to limit losses for any individual claim to KD 25,000 (2013: KD 26,000).

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

Property

Property takaful is designed to compensate contract holders for damage suffered to properties or for the value of property lost. Contract holders could also receive compensation for the actual loss caused by the inability to use the insured properties.

For property takaful contracts the main risks are fire and business interruption. The Group's policies aim for careful selection and implementation of underwriting strategy guidelines, as well as the use of retakaful arrangements.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Group has retakaful cover for such damage to limit losses for any individual claim to KD 92,800 (2013: KD 114,252).

Marine

Marine takaful is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes.

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Group has retakaful to limit losses for any individual claim to KD 1,664 (2013: KD 1,733).

Family takaful

Underwriting is managed at each business unit through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks.

Health selection is part of the Group's underwriting procedures, whereby contributions are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts including specific risks and guarantees are tested for profitability according to predefined procedures before approval.

The table below sets out the concentration of contract liabilities by type of contract excluding the balance due to shareholders amounting to KD 3,863,462 (2013: KD 3,423,664):

31 December 2014	**Gross liabilities KD**	**Retakaful share of liabilities KD**	**Net liabilities KD**
Motor	2,385,917	218,415	2,167,502
Property	142,019	102,001	40,018
Marine	11,315	4,518	6,797
Family takaful	125,916	70,198	55,718
Medical	996,211	405,100	591,111
	3,661,378	800,232	2,861,146

31 December 2013	**Gross liabilities KD**	**Retakaful share of liabilities KD**	**Net liabilities KD**
Motor	2,880,650	312,817	2,567,833
Property	201,451	167,450	34,001
Marine	39,389	14,198	25,191
Family takaful	201,908	142,200	59,708
Medical	1,024,198	143,105	881,093
	4,347,596	779,770	3,567,826

Geographical concentration of risks

The takaful risk arising from takaful contracts is concentrated mainly in the State of Kuwait.

Retakaful risk

In common with other takaful companies, in order to minimise financial exposure arising from large claims, the Group, in the normal course of business, enters into arrangements with other parties for retakaful purposes. Such retakaful arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the retakaful is effected under treaty, facultative and excess of loss retakaful contracts.

To minimise its exposure to significant losses from retakaful insolvencies, the Group evaluates the financial condition of retakaful companies. The Group deals with retakaful companies approved by the Board of Directors and hires external experts and brokers to select retakaful companies.

20. Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables and investments.

Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. The Group deals only with recognised, creditworthy third parties. It is the Group's policy that all participants and reinsurers are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 21. There are no significant concentrations of credit risk within the Group.

Investments

With respect to credit risk arising from the Group's investments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these investments. Management does not expect any counterparty to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At present the Group does expect to pay all liabilities at their contractual maturity. In order to meet such cash commitments the Group expects the operating activity to generate sufficient cash inflows. In addition, the Group holds financial assets for which there is a liquid market and that are readily available to meet liquidity needs. All shareholder liabilities are matured within one year.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of Group entities, primarily the U.S. Dollars (USD), and United Arab Emirates Dirham (AED).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level.

The Group currently does not use financial derivatives to manage its exposure to currency risk.

Other market price risk

Equity price risk arises from equity securities. Available-for-sale investments are held for strategic rather than trading purposes and the Group does not actively trade these investments. The primary goal of the Group's investment strategy is to maximise investment returns. In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis. To manage its price risk arising from investments in equity securities which are carried at fair value through profit or loss, the Group diversifies its portfolio. The Group's investments in equity of other entities are based primarily in the State of Kuwait.

Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Executive Management.

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity.

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capital requirements.

21. Financial instruments

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2014 KD	2013 KD
Shareholders		
Cash and cash equivalents	943,605	925,683
Investment deposits	3,044,380	3,253,499
Qard Hassan to participants	3,863,462	3,423,664
Accounts receivable	130,828	113,737
Due from related party	900,726	-
	8,883,001	7,716,583
Participants		
Cash and cash equivalents	255,767	417,256
Takaful receivables	934,001	957,933
Due from retakaful companies	389,849	562,214
Other receivables	405,176	337,058
Retakaful share of gross outstanding claims	550,544	461,771
	2,535,337	2,736,232

The exposure to credit risk arising from takaful and other receivables at the reporting date is concentrated in the State of Kuwait.

The table below shows the credit quality of takaful and other receivables at the reporting date:

31 December 2014	Total KD	Neither past due nor impaired KD	Past due but not impaired KD	Individually impaired KD
Shareholders				
Investment deposits	2,453,499	2,453,499	-	-
Qard Hassan to participants	3,863,462	3,863,462	-	-
Accounts receivable	130,828	130,828	-	-
Due from related party	900,726	900,726	-	-
	7,348,515	7,348,515	-	-
Participants				
Takaful receivables	934,001	830,996	103,005	-
Due from retakaful companies	389,849	389,849	-	-
Other receivables	405,176	405,176	-	-
Retakaful share of gross outstanding claims	550,544	550,544		-
	2,279,570	2,176,565	103,005	-

31 December 2013	Total KD	Neither past due nor impaired KD	Past due but not impaired KD	Individually impaired KD
Shareholders				
Investment deposits	3,253,499	3,253,499	-	-
Qard Hassan to participants	3,423,664	3,423,664	-	-
Accounts receivable	113,737	113,737	-	-
	6,790,900	6,790,900	-	-
Participants				
Takaful receivables	957,933	862,874	95,059	-
Due from retakaful companies	562,214	562,214	-	-
Other receivables	337,058	337,058	-	-
Retakaful share of gross outstanding claims	461,771	461,771	-	-
	2,318,976	2,223,917	95,059	-

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Liquidity risk

The following are the expected maturities of financial liabilities at the reporting date.

31 December 2014

	Carrying amount KD	One year or less KD
Shareholders		
Accounts payable	153,071	153,071
	153,071	153,071
Participants		
Participants' financial liabilities	7,524,840	7,524,840
	7,524,840	7,524,840

31 December 2013

	Carrying amount KD	One year or less KD
Shareholders		
Accounts payable	112,425	112,425
Due to related parties	4,477	4,477
	116,902	116,902
Participants		
Participants' financial liabilities	7,771,260	7,771,260
	7,771,260	7,771,260

Currency risk

Exposure to currency risk

Foreign currency risk is the risk that the value of the financial instrument will fluctuate due to changes in foreign exchange rates.

The Group had the following significant net exposures denominated in foreign currencies as at 31 December:

	2014 Equivalent Long Position	2013 Equivalent Long Position
US Dollar	2,557,733	1,552,087
United Arab Emirates Dirham (AED)	175,666	169,223

Sensitivity analysis

A 5 percent strengthening of the KD against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013.

Effect in Kuwaiti Dinars	**Equity**	**Profit or loss**
31 December 2014		
US Dollar	5,457	122,429
United Arab Emirates Dirham (AED)	8,783	-
31 December 2013		
US Dollar	77,604	70,393
United Arab Emirates Dirham (AED)	8,461	-

A 5 percent weakening of the KD against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Equity price risk

For such investments classified as available-for-sale, a three percent increase or decrease in stock prices at the reporting date would have increased or decreased equity by KD 66,161 (2013: an increase or decrease of KD 99,319). For such investments classified as at fair value through profit or loss, the impact on profit or loss would have been an increase or decrease of KD 89,015 (2013: KD 57,144). The analysis is performed on the same basis for 2013.

Fair values

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The estimated fair value of financial assets and financial liabilities at the reporting date are not materially different from their carrying values.

Fair value hierarchy

The next table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

	Level 2 KD	Level 3 KD	Total KD
31 December 2014			
Financial assets at fair value through profit or loss	2,371,373	595,793	2,967,166
Available-for-sale financial assets	2,029,698	-	2,029,698
	4,401,071	595,793	4,996,864
31 December 2013			
Financial assets at fair value through profit or loss	1,407,866	496,942	1,904,808
Available-for-sale financial assets	3,310,643	-	3,310,643
	4,718,509	496,942	5,215,451

The above table does not include KD 175,666 (2013: KD169,223)of available-for-sale investment securities that are measured at cost, less any impairment losses, and for which disclosure of fair value is not provided because their fair value cannot be reliably measured (note 8).

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy.

	2014 KD	2013 KD
Balance at 1 January	496,942	492,900
Total gain recognized in consolidated statement of income	98,851	4,042
Balance at 31 December	595,793	496,942