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مجموعة الخليج للتأمين

GULF INSURANCE GROUP

KUWAIT TAKAFUL

2018

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Gulf Takaful Insurance Company K.S.C.C.
State of Kuwait

Consolidated financial statements and independent auditor's report for the year ended 31 December 2018

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KPMG

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Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of Gulf Takaful Insurance Company K.S.C.C. ("the Company") and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the 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 ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("the 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.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is the Board of Directors' report, but does not include the consolidated financial statements and our auditor's report thereon.

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

KPMG

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 obtained prior to the date of this auditor's 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 IFRS, 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 financial reporting process.

Auditors' 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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- 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 the purpose of 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.

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. 1 of 2016, as amended, its Executive Regulations, the Company's Memorandum of Incorporation and Articles of Association and Insurance Companies and Agents Law No. 24 of 1961, as amended. 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 accounts of the Company. We have not become aware of any violations of the provisions of the Companies Law No. 1 of 2016, as amended, its Executive Regulations, or of the Company's Memorandum of Incorporation and Articles of Association and Insurance Companies Law No. 24 of 1961, as amended, that might have had a material effect on the business of the Company or on its consolidated financial position.

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

Kuwait: 16 May 2019

Gulf Takaful Insurance Company K.S.C.C.
State of Kuwait

Consolidated statement of financial position
as at 31 December 2018

	Note	2018 KD	2017 KD
Assets			
Cash at banks	*5*	666,314	713,981
Investment deposits	*6*	2,124,499	2,318,499
Financial assets at fair value through profit or loss	*7*	2,085,035	2,430,625
Financial assets available-for-sale	*8*	96,596	681,005
Qard Hassan to participants	*9*	5,876,015	5,405,836
Accounts receivable	*10*	100,360	105,248
Property and equipment		54,090	65,960
Intangible assets		46,591	33,943
Total assets		11,049,500	11,755,097
Liabilities and equity			
Liabilities			
Accounts payable	*11*	202,857	693,880
Provision for employees' end of service indemnity	*15*	528,387	554,270
Total liabilities		731,244	1,248,150
Equity			
Share capital	*12*	10,000,000	10,000,000
Statutory reserve	*13*	33,854	33,854
Voluntary reserve	*14*	33,854	33,854
Change in fair value reserve		31,890	175,347
Retained earnings		218,658	263,892
Total equity		10,318,256	10,506,947
Total liabilities and equity		11,049,500	11,755,097

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

Bader Sulaiman Al-Othman
Chairman

Nasser Sulaiman Al-Drbas
Vice Chairman

Gulf Takaful Insurance Company K.S.C.C.
State of Kuwait

Consolidated statement of profit or loss
for the year ended 31 December 2018

	Note	2018 KD	2017 KD
Revenue			
Investment deposits income		47,806	31,062
Unrealized gain on financial assets at fair value through profit or loss	7	61,912	68,411
Gain on sale of financial assets available-for-sale		5,429	511,129
Impairment loss of financial assets available-for-sale	8	(1,746)	(91,288)
Dividend income		39,104	72,588
Other income		12,696	7,602
		165,201	599,504
Expenses			
Administrative expenses		(142,348)	(163,927)
Staff costs		(68,087)	(97,034)
		(210,435)	(260,961)
(Loss)/profit before contribution to Kuwait Foundation for the Advancement of Sciences KFAS, Zakat and Board of Directors' remuneration		(45,234)	338,543
Contribution to KFAS	17	-	(3,047)
Zakat	18	-	(3,896)
Net (loss)/ profit for the year		(45,234)	331,600

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

Gulf Takaful Insurance Company K.S.C.C.
State of Kuwait

Consolidated statement of other comprehensive income
for the year ended 31 December 2018

	2018 KD	2017 KD
Net (loss)/profit for the year	(45,234)	331,600
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss		
Gain on sale transferred to consolidated statement of profit or loss	(144,473)	-
Net change in fair value of financial assets available-for-sale	1,016	(145,920)
Other comprehensive income/(loss) for the year	(143,457)	(145,920)
Total comprehensive (loss)/income for the year	(188,691)	185,680

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

Gulf Takaful Insurance Company K.S.C.C.
State of Kuwait

Consolidated statement of changes in equity
for the year ended 31 December 2017

	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Change in fair value reserve KD	Retained earnings KD	Total KD
Balance at 1 January 2017	12,134,819	55,680	55,680	321,267	(303,765)	12,263,681
Net profit for the year	-	-	-	-	331,600	331,600
Other comprehensive loss	-	-	-	(145,920)	-	(145,920)
Transfer to reserves (note 13 and 14)	-	33,854	33,854	-	(67,708)	-
Write-off of accumulated losses (note 12)	(192,405)	(55,680)	(55,680)	-	303,765	-
Transaction with shareholders (note 12)	(1,942,414)	-	-	-	-	(1,942,414)
Balance at 31 December 2017	10,000,000	33,854	33,854	175,347	263,892	10,506,947
Balance at 1 January 2018	10,000,000	33,854	33,854	175,347	263,892	10,506,947
Net loss for the year	-	-	-	-	(45,234)	(45,234)
Other comprehensive income	-	-	-	(143,457)	-	(143,457)
Balance at 31 December 2018	10,000,000	33,854	33,854	31,890	218,658	10,318,256

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

Gulf Takaful Insurance Company K.S.C.C.
State of Kuwait

Consolidated statement of cash flows
for the year ended 31 December 2018

	Note	2018 KD	2017 KD
Cash flows from operating activities			
Net (loss)/profit for the year		(45,234)	331,600
Adjustments for:			
Investment deposits income		(47,806)	(31,062)
Unrealized gain on financial assets at fair value through profit or loss	7	(61,912)	(68,411)
Gain on sale of financial assets available-for-sale		(5,429)	(511,129)
Gain on sale of financial assets at fair value through profit or loss		(15,876)	-
Impairment loss of financial assets available-for-sale	8	1,746	91,288
Depreciation and amortization		24,361	23,102
Dividend income		(39,104)	(72,588)
Provision for employees' end of service indemnity	15	53,386	59,073
Operating loss before changes in working capital		(135,868)	(178,127)
Qard Hassan to participants	9	(470,179)	(229,279)
Accounts receivable		4,888	40,181
Accounts payable		(491,019)	572,712
Due to related parties		(5)	-
Employees' end of service indemnity paid	15	(79,269)	(7,490)
Net cash (used in)/from operating activities		(1,171,452)	197,997
Cash flows from investing activities:			
Dividend received		39,104	72,588
Acquisition of property and equipment		(6,887)	(16,319)
Acquisition of intangible assets		(18,252)	(14,159)
Proceeds from sale of financial assets at fair value through profit or loss		423,376	888,841
Proceeds from sale of financial assets available-for-sale		444,638	1,711,720
Change in fair value of financial assets available-for-sale		-	148,362
Investment deposits		194,000	(300,000)
Income received from investment deposits		47,806	31,062
Net cash generated from investing activities		1,123,785	2,522,095
Cash flows from financing activities:			
Decrease in share capital	12	-	(2,134,819)
Net cash used in financing activities		-	(2,134,819)
Change in cash and cash equivalents		(47,667)	585,273
Cash and cash equivalents at 1 January		713,981	128,708
Cash and cash equivalents at 31 December	5	666,314	713,981

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

1. Reporting entity

Gulf Takaful Insurance Company K.S.C.C. ("the Company") was incorporated as a closed Kuwaiti shareholding company on 6 September 2004 and is registered in the commercial register under number 104519 dated 28 November 2004.

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

The Company's transactions are governed by the provisions of Insurance Companies and Agents Law No. 24 of 1961, as amended, and the requirements of Islamic Sharia'a. The Company's objectives are set out below:

1. Carry on all types of takaful, cooperative insurance and retakaful business in accordance with the governing laws and in line with the provisions of Islamic Shari'a;
2. Utilize surplus funds available to the Company by investing the same in portfolios managed by specialist companies and entities in accordance with the law, governing resolutions and the Articles of Association of the Company;
3. Carry on all activities related to the takaful and retakaful business and perform all activities, which directly or indirectly lead to achieving the Company's goals and objectives in accordance with the provisions of the Islamic Shari'a;
4. Act as appraiser in takaful industry and agent for takaful or retakaful companies to perform all activities that are consistent with the Islamic Shari'a after obtaining the necessary licenses;
5. Purchase, lease, replace, possess, mortgage, endorse, sell or otherwise dispose of all or any of the Company's property;
6. Provide technical advisory in takaful industry provided that the required conditions for this business shall be met;
7. In general, the Company shall carry on all business and services that are covered under the function of takaful companies in line with the provisions of Islamic Shari'a; and
8. The Company shall carry on the above mentioned business activities in the State of Kuwait and abroad in principal capacity or through agency. The Company may have profit or participate in any way with organizations that carry out similar business or that may help the company achieve its objectives in Kuwait or abroad. The Company may establish, participate in, buy such organizations or make them subsidiaries to it.

The consolidated financial statements comprise the Company and its 96% owned subsidiary, Gulf Leading Real Estate Company K.S.C.C. (together referred to as "the Group").

The share capital of the subsidiary include 400,000 shares as at 31 December 2018 (2017: 400,000 shares) which are registered in the name of others on behalf of the Group and there are letters of renunciation in favor of the Group.

The total number of employees in the Group was 54 as at 31 December 2018 (2017: 58).

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 determine the basis of allocation of expenses accordingly.

The financial statements were authorized for issue by the Board of Directors on 23 March 2019 and are subject to the approval of the Annual General Assembly of the shareholders who have the power to amend these consolidated financial statements.

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.1 of 2016, as amended, and its Executive Regulations, the Company's Memorandum of Incorporation and Articles of Association and Ministerial Order No. 18 of 1990.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost or amortised cost basis except for financial assets at fair value through profit or loss and financial assets available-for-sale which are measured at fair value.

c) Functional and presentation currency

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

d) Standards effective from 1 January 2018

IFRS 9, *Financial Instruments*

The IASB issued the final version of IFRS 9, Financial Instruments in July 2014, 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. 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.

The Group meets the eligibility criteria of the temporary exemption from IFRS 9 deferred 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 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments to IFRS 4, *Applying IFRS 9, Financial Instruments with IFRS 4, Insurance Contracts.*

Amendments to IFRS 4, *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17).

The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9 before and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between statement of income and statement of other comprehensive income an amount that results in the statement of income and other comprehensive income at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

The Group is applying the temporary exemption from IFRS 9 and, therefore, continues to apply IAS 39 to its consolidated financial assets and consolidated liabilities in the current year.

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17, *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to consolidated financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11, *Construction Contracts* and IFRIC 13, *Customer Loyalty Programmes*.

IFRS 15 applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The new standard also provides greater guidance on the accounting for provisionally priced contracts. Under IFRS 15, an entity recognizes when a performance obligation is satisfied, i.e. when "control" of the goods as services underlying the particular performance obligation is transferred to customers.

Based on the current accounting treatment of the Group's major sources of revenue, and the fact that insurance contracts are scoped out of IFRS 15, there is no impact on the financial position and the financial performance of the Group.

e) Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that 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 recognized in the period in which estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 3 (d) – Property and equipment;
- Note 3 (g) – Impairment;
- Note 3 (h) – Provisions; and
- Note 3 (k) and 19 – Revenue recognition and policyholders' results of operations.

3. Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

a) Basis of consolidation

i. Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired.

Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in the consolidated statement of profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

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

ii. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

iii. *Non-controlling interests ("NCI")*

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iv. *Loss of control*

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in the consolidated statement of profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

v. *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) 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 as at fair value through profit or loss are disclosed 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.

Financial instruments which are not held-to-maturity or financial assets at fair value through profit or loss, are classified as being available-for-sale. Financial assets available-for-sale investments are recognized at fair value, with any resultant gain or loss being recognized 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 financial securities available-for-sale whose fair value cannot be reliably determined are carried at cost less impairment losses. When these financial assets are derecognized, 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 investments at fair value through profit or loss and financial assets available-for-sale 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 financial assets available-for-sale are recognized or derecognized on the trade date i.e., on the date the Group commits to purchase or sell the investments.

c) Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of the Group at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are recognized in the consolidated statement of profit or loss.

However, foreign currency differences arising from the translation of available-for-sale equity investments (except on impairment, in which case foreign currency differences that have been recognized in statement of other comprehensive income are reclassified to profit or loss) are recognized in statement of other comprehensive income.

d) Property and equipment

i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses (refer to note 3(g)). Cost includes expenditure that is directly attributable to the acquisition of the asset.

Any gain or losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised on a net basis within other income in the consolidated statement of profit or loss.

ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and manitenance is expensed as incurred.

iii) Depreciation

Items of property and equipment are depreciated from the date they are ready for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using straight-line basis over their estimated useful lives.

Depreciation is recognized in the consolidated statement of profit or loss. The estimated useful lives of significant items of property and equipment are as follows:

Property	5 – 6 years
Vehicles	6 years
Computers	6 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

e) Intangible assets

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses (refer note 3(g)). Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in the consolidated statement of profit or loss as incurred. Intangible assets represent software license.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is recognized in the consolidated statement of profit or loss.

The estimated useful life of intangible asset for the current and comparative period is 3 years.

Amortization method, useful live and residual value is reviewed at each reporting date and adjusted, if appropriate.

f) Financial instruments

i. Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories:

- loans and receivables;
- financial assets available for sale; and
- financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective profit rate method, less any impairment losses (see note 3(g)).

Loans and receivables comprise cash and cash equivalents, investment deposits and receivables, other assets and Qard Hasan.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and short term deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

Financial assets available-for-sale

Financial assets available-for-sale are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(g)) and foreign currency differences on available-for-sale are recognized in the consolidated statement of other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to the consolidated statement of profit or loss.

Financial assets available-for-sale comprise of equity securities.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in the consolidated statement of profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any profit or dividend income, are recognized in the consolidated statement of profit or loss.

ii. Non-derivative financial liabilities

All financial liabilities are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective profit method. The Group does not hold any derivative financial liabilities.

Financial liabilities comprise accounts payable.

iii. Share capital

Share capital comprises of ordinary shares and is classified as equity.

g) Impairment

Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortized cost

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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 asset's original effective profit rate. Losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against loans and receivables. Profit on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit or loss.

Financial assets available-for-sale

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to the consolidated statement of profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in the consolidated statement of profit or loss. If the fair value of an impaired available-for-sale subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through the consolidated statement of profit or loss. Impairment losses recognised in the consolidated statement of profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through the consolidated statement of profit or loss.

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. Goodwill is tested annually for impairment. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit ("CGU") exceeds its recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. 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 CGUs. Goodwill acquired in a business combination is allocated to groups at CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in the consolidated statement of profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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, net of depreciation or amortization, if no impairment loss had been recognized.

h) Provisions

A provision is recognised when the Group has a present legal or constructive obligation 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

i) Employee benefits

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

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, is charged to the consolidated statement of profit or loss and other comprehensive income in the year to which they relate.

j) Qard Hassan to participants

Qard Hassan represents non-profit Islamic financing provided by the shareholders to the participants in respect the deficit arising from takaful operations which will be settled from the surplus arising from such business in future years.

k) Revenue recognition

Income from investment 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.

Other revenues and expenses are recognized on an accrual basis.

l) Standards and interpretations not yet effective or adopted

Following standards have been issued but are not yet effective and have not yet been adopted by the Group:

IFRS 16, Leases

The IASB issued the new standard for accounting for leases, IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets.

Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with profit and depreciation expense recognised separately in the statement of income. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Group is in the process of quantifying the impact of this standard on the consolidated financial statements, when adopted.

IFRS 17, *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4, *Insurance Contracts*.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows);
- A Contractual Service Margin "CSM" that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e. coverage period);
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period;
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice;
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period;
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet;
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense; and
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

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 set out below:

Impairment of receivables

An estimate of the collectible amount of contributions 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 (b)).

5. Cash at banks

	2018 KD	2017 KD
Cash at banks	666,314	713,981

Cash at banks is deposited with local banks in Kuwait.

6. Investment deposits

Investment deposits are placed with Islamic financial institutions. The average effective rate of return on the investment deposits was 2.5% per annum as at 31 December 2018 (2017: 2.3% per annum).

Letters of guarantee issued in favor of government entities in Kuwait are secured by investment deposits amounting to KD 1,774,499 (2017: KD 1,818,499) (note 24).

7. Financial assets at fair value through profit or loss

	2018 KD	2017 KD
Local unquoted securities	525,000	525,000
Foreign unquoted securities	112,977	124,078
Foreign unquoted funds	1,447,058	1,781,547
	2,085,035	2,430,625

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

During the year ended 31 December 2018, the Group recognized KD 61,912 as unrealized gain (2017: KD 68,411) representing change in fair value of financial assets at fair value through profit or loss.

8. Financial assets available-for-sale

	2018 KD	2017 KD
Foreign unquoted equity securities	96,596	679,259
Foreign unquoted funds	-	1,746
	96,596	681,005

The Group identified impairment on foreign unquoted funds by an amount of KD 1,746 (2017: KD 91,288), which was recognized in the consolidated statement of profit or loss.

Fair value of the unquoted financial assets available-for-sale with a carrying value of KD 96,596 (2017: KD 95,580) 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 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 Incorporation and Articles 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 the shareholders. The Qard Hassan given by the shareholders will be settled through surplus arising from business in future years.

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

	2018 KD	2017 KD
Balance at the beginning of the year	5,405,836	5,176,557
Net financing during the year	470,179	229,279
Balance at the end of the year	5,876,015	5,405,836

Following is the deficit not covered by the shareholders:

	2018 KD	2017 KD
Accumulated deficit of takaful activities	(5,562,467)	(5,396,793)
Amount paid by shareholders till 31 December	5,876,015	5,405,836
	313,548	9,043

10. Accounts receivable

	2018 KD	2017 KD
Accrued income	-	15,012
Refundable deposits	14,592	14,717
Prepaid expenses	9,509	8,756
Staff receivables	75,537	61,118
Other receivables	722	5,645
	100,360	105,248

11. Accounts payable

	2018 KD	2017 KD
Trade payables	1,912	6,782
Accrued leave pay	84,444	87,682
Other payables	115,752	598,662
Due to related parties (note 16)	749	754
	202,857	693,880

Other payables include an amount of KD 97,757 payable to shareholders of the Company as a result of the reduction in share capital during the year ended 31 December 2017.

12. Share capital

The Company's authorized, issued and paid up share capital amounted to KD 10,000,000 (2017: KD 10,000,000) consisting of 100,000,000 shares of 100 fils each (2017: 100,000,000 shares of 100 fils each). All shares were paid in cash.

On 8 October 2017, at an Extraordinary General Assembly meeting and upon the Board of Directors' recommendation during their meeting on 22 March 2017, the shareholders approved to decrease the authorized share capital from 121,348,190 shares to 100,000,000 shares by the exinguishment of accumulated loss amounting to KD 303,765 and reserves amounting to KD 111,360 and the remaining balance of KD 1,942,414 to be distrubted among shareholders according to their ownership share in the Company.

On 20 November 2017, the Company registered the share capital decrease in the commercial register.

13. Statutory reserve

In accordance with the Companies Law No.1 of 2016, as amended, and the Company's Articles of Association, 10% of the net profit for the year before contribution to KFAS, Zakat and Board of Directors' remuneration has been transferred to a statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

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

There is no transfer to statutory reserve as the Company has incurred losses during the year ended 31 December 2018.

14. Voluntary reserve

In accordance with the Company's Articles of Association, 10% of the net profit for the year is transferred to the voluntary reserve based on a resolution of the shareholders upon the management recommendation.

There is no transfer to voluntary reserve as the Company has incurred losses during the year ended 31 December 2018.

15. Provision for employees' end of service indemnity

	2018 **KD**	**2017** **KD**
At 1 January	554,270	502,687
Provision made during the year	53,386	59,073
Payments during the year	(79,269)	(7,490)
At 31 December	528,387	554,270

16. Related party transactions

Related parties represent major shareholders, Directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. All transactions with related parties are on arm's length basis.

Transactions and balances with related parties included in the financial statements are as follows:

i) Statement of financial position

Shareholders

	2018 **KD**	**2017** **KD**
Financial assets at fair value through profit or loss	2,085,035	2,430,625
Financial assets available-for-sale	-	766,046
Due to related parties	749	754

ii) Transactions included in the consolidated statement of profit or loss

Shareholders

Gain on sale of financial assets available-for-sale	5,429	511,129
Dividend income	-	72,588

Key management compensation

Allowance for Board of Directors' Committee	27,000	30,000
Short-term employee benefits and post-employment benefits	120,000	120,000

17. Kuwait Foundation for Advancement of Sciences ("KFAS")

Contribution towards KFAS is computed at 1% of the net profit for the year after deducting transfers made to statutory reserve.

18. Zakat

Contribution towards Zakat is computed at 1% of the net profit of the Group less permitted deductions in accordance with the Ministry of Finance resolution No. 58/2007 for the year.

19. Participants' operations

The significant accounting policies used in accounting for the insurance business are set out below. Policies used in accounting for non-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 operations

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 are reported under liabilities under participants' liabilities.

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

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 retakaful companies 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.

Life takaful

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 management's judgement and prior experience.

Participants' assets, liabilities and fund

	2018 KD	2017 KD
Assets		
Cash at banks	86,423	168,635
Takaful receivables	1,257,523	1,238,921
Due from retakaful companies	635,952	619,820
Other receivables	718,536	635,035
Retakaful share of gross outstanding claims	301,350	302,071
	2,999,784	2,964,482
Liabilities		
Due to retakaful companies	271,664	315,086
Unexpired risks reserve	1,119,065	1,286,218
Outstanding claims reserve	594,383	559,243
Incurred but not reported reserve	19,000	24,275
Takaful insurance reserve	21,146	17,312
Amounts retained for retakaful companies	101,757	86,514
Unearned contributions	212,434	188,934
Due to shareholders (note 9)	5,876,015	5,405,836
Other liabilities	346,787	477,857
	8,562,251	8,361,275
Participants' fund		
Net accumulated deficit from takaful operations (note 9)	(5,562,467)	(5,396,793)
Total liabilities and participants' fund	2,999,784	2,964,482

Changes in policyholders' deficit

	2018 KD	2017 KD
At the beginning of the year	(5,396,793)	(5,219,817)
Net deficit from takaful operations for the year	(165,674)	(176,976)
At 31 December	(5,562,467)	(5,396,793)

Participants' results of operations

	Marine & aviation KD	General accident KD	Medical KD	Motor KD	Total general takaful KD	Family takaful KD	Total KD
Year ended 31 December 2018							
Gross contributions written	45,033	689,211	1,122,305	1,735,957	3,592,506	315,435	3,907,941
Less: contributions ceded	(36,749)	(484,633)	-	(202,274)	(723,656)	(202,053)	(925,709)
Net contributions written	8,284	204,578	1,122,305	1,533,683	2,868,850	113,382	2,982,232
Unexpired risks reserve	(1,164)	(15,239)	25,390	136,276	145,263	21,890	167,153
Net contributions earned	7,120	189,339	1,147,695	1,669,959	3,014,113	135,272	3,149,385
Issuance fees	161	(27,500)	(110,438)	(53,241)	(191,018)	(14,995)	(206,013)
Net commissions	3,805	17,475	(87,157)	(481,886)	(547,763)	(25,841)	(573,604)
Total takaful revenues	11,086	179,314	950,100	1,134,832	2,275,332	94,436	2,369,768
Claims incurred	(1,193)	(129,876)	(988,167)	(685,249)	(1,804,485)	(146,653)	(1,951,138)
Less: retakaful share of claims incurred	-	73,164	-	-	73,164	131,988	205,152
Net claims	(1,193)	(56,712)	(988,167)	(685,249)	(1,731,321)	(14,665)	(1,745,986)
Provision for takaful insurance	-	-	-	-	-	(3,834)	(3,834)
Provision for outstanding claims and claims incurred but not reported	-	-	(24,010)	13,900	(10,110)	(20,476)	(30,586)
Total takaful expenses	(1,193)	(56,712)	(1,012,177)	(671,349)	(1,741,431)	(38,975)	(1,780,406)
Investment income	4	107	587	803	1,501	59	1,560
Surplus by business segments	9,897	122,709	(61,490)	464,286	535,402	55,520	590,922
Allocation of general and administrative expenses	(2,102)	(51,902)	(284,730)	(389,097)	(727,831)	(28,765)	(756,596)
Net surplus / (deficit) from takaful operations	7,795	70,807	(346,220)	75,189	(192,429)	26,755	(165,674)
Beginning balance of deficit of participants' fund							(5,396,793)
Ending balance of deficit of participants' fund							(5,562,467)

	Marine & aviation KD	General accident KD	Medical KD	Motor KD	Total general takaful KD	Family takaful KD	Total KD
Year ended 31 December 2017							
Gross contributions written	35,410	585,808	1,185,781	2,071,898	3,878,897	342,343	4,221,240
Less: contributions ceded	(29,778)	(419,665)	-	(238,763)	(688,206)	(216,311)	(904,517)
Net contributions written	5,632	166,143	1,185,781	1,833,135	3,190,691	126,032	3,316,723
Unexpired risks reserve	302	25,433	(112,837)	(12,114)	(99,216)	(25,540)	(124,756)
Net contributions earned	5,934	191,576	1,072,944	1,821,021	3,091,475	100,492	3,191,967
Issuance fees	(466)	-	(104,292)	67,751	(37,007)	(15,858)	(52,865)
Other expenses	-	(28,090)	-	-	(28,090)	-	(28,090)
Net commissions	5,097	54,912	(75,215)	(596,419)	(611,625)	(16,569)	(628,194)
Total takaful revenues	10,565	218,398	893,437	1,292,353	2,414,753	68,065	2,482,818
Claims incurred	-	(171,793)	(836,312)	(882,550)	(1,890,655)	(168,509)	(2,059,164)
Less: retakaful share of claims incurred	-	96,297	5,526	-	101,823	151,658	253,481
Net claims	-	(75,496)	(830,786)	(882,550)	(1,788,832)	(16,851)	(1,805,683)
Provision for takaful insurance	-	-	-	-	-	(6,657)	(6,657)
Provision for outstanding claims and claims incurred but not reported	-	(1,795)	(5,645)	45,898	38,458	(1,271)	37,187
Total takaful expenses	-	(77,291)	(836,431)	(836,652)	(1,750,374)	(24,779)	(1,775,153)
Investment income	2	68	488	754	1,312	52	1,364
Surplus by business segments	10,567	141,175	57,494	456,455	665,691	43,338	709,029
Allocation of general and administrative expenses	(1,504)	(44,382)	(316,761)	(489,691)	(852,338)	(33,667)	(886,005)
Net surplus / (deficit) from takaful operations	9,063	96,793	(259,267)	(33,236)	(186,647)	9,671	(176,976)
Beginning balance of deficit of participants' fund							(5,219,817)
Ending balance of deficit of participants' fund							(5,396,793)

20. 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 10,000 (2017: KD 12,275).

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 90,000 (2017: KD 100,000).

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 cargo.

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 4,000 (2017: KD 3,000).

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 5,876,015 (2017: KD 5,405,836):

31 December 2018	**Gross liabilities KD**	**Retakaful share of liabilities KD**	**Net liabilities KD**
Motor	1,571,448	354,047	1,217,401
Property	154,189	101,009	53,180
Marine	13,968	12,710	1,258
Family takaful	154,458	37,070	117,388
Medical	792,137	229,730	562,407
	2,686,200	734,566	1,951,634

31 December 2017	**Gross liabilities KD**	**Retakaful share of liabilities KD**	**Net liabilities KD**
Motor	1,729,058	389,520	1,339,538
Property	169,593	111,108	58,485
Marine	15,235	13,901	1,334
Family takaful	169,902	41,005	128,897
Medical	871,651	222,514	649,137
	2,955,439	778,048	2,177,391

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 brokers to select retakaful companies.

21. Financial risk management

Overview

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

- credit risk;
- liquidity risk; and
- 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, cash at banks and investment deposits.

Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. The Group deals only with recognized, 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 23. 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.

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:

	2018 KD	2017 KD
Shareholders		
Cash at banks	666,314	713,981
Investment deposits	2,124,499	2,318,499
Accounts receivable	100,360	105,248
	2,891,173	3,137,728
Participants		
Cash at banks	86,423	168,635
Takaful receivables	1,257,523	1,238,921
Due from retakaful companies	635,952	619,820
Other receivables	718,536	635,035
Retakaful share of gross outstanding claims	301,350	302,071
	2,999,784	2,964,482

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

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

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.

At the reporting date, the contractual maturities of financial liabilities falls 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), British Pound (GBP) 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.

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:

	2018	**2017**
US Dollar	1,057,284	1,553,082
GBP	211,176	908,591
AED	181,709	180,620

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 profit rates, remain constant. The analysis is performed on the same basis for 2017.

Effect in Kuwaiti Dinars	**Equity**	**Profit or loss**
31 December 2018		
USD	-	105,728
GBP	-	21,117
AED	18,171	18,171
31 December 2017		
USD	29,184	48,414
GBP	-	45,430
AED	9,031	-

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.

Profit rate risk

Profit rate risk is the risk that the fair value of future cash flows of Group's financial instruments will fluctuate because of changes in market profit rates. At present, the Company is not exposed to a significant risk, since the investment deposits carries fixed profit rate.

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.

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

Equity price risk

For such financial assets 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 2,898 (2017: KD 22,981). For such financial assets classified as at fair value through profit or loss, the impact on profit or loss would have been an increase or decrease of KD 62,551 (2017: KD 72,919). The analysis is performed on the same basis for 2017.

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 company is not subject to externally imposed capital requirements, except the minimum capital requirements of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations the provisions of Insurance Companies and Agents Law No. 24 of 1961, as amended.

22. Fair value measurement

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 2018			
Financial assets at fair value through profit or loss	1,447,058	637,977	2,085,035
31 December 2017			
Financial assets at fair value through profit or loss	1,781,547	649,078	2,430,625
Financial assets at available-for-sale	585,425	-	585,425
	2,366,972	649,078	3,016,050

The above table does not include KD 96,596 (2017: KD 95,580) 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 f value hierarchy.

	2018 KD	2017 KD
Balance at 1 January	649,078	632,496
Net gain recognized in consolidated statement of income	(11,101)	16,582
Balance at 31 December	637,977	649,078

The Company holds an investment in equity shares of First Qatar Development Company, Kuwait Energy Company, which is classified as financial assets at fair value through profit or loss with a fair value of KD 637,977 at 31 December 2018 (2017: KD 649,078). The fair value of this investment was categorised as Level 3, because the shares were not listed on an exchange and there were no recent observable arm's length transactions in the shares.

Fair values of remaining financial assets and liabilities carried at amortised cost are estimated using valuation techniques incorporating a range of input assumptions that are appropriate in the circumstances. Carrying value of financial assets and liabilities that are carried at amortised cost are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in profit rates and is only used for disclosure purpose. Fair value of such financial instruments is classified under level 3 determined based on discounted cash flows, with most significant inputs being the discount rate that reflects the expected yield of counterparties.

The impact on the consolidated statement of financial position or the consolidated statement of changes in equity would be immaterial if the relevant risk variables used to fair value the securities classified under level 3 were altered by 5 per cent.

23. Earnings prohibited under Shari'a

All takaful and investment activities are conducted in accordance with Islamic Shari'a, as approved by the Fatwa and Shari'a Supervisory Board. All the earnings during the year ended 31 December 2018 and 31 December 2017 are permitted under islamic Shari'a.

24. Contingencies and commitments

At 31 December 2018, the Group had contingent liabilities in respect of letters of guarantee issued in favor of government entities , These guarantees are secured by investment deposits to the value of KD 1,774,499 (2017: KD 1,818,499) (note 6).

The Company is a defendant in a number of cases brought by takaful contract holders in respect of claims which the Company disputes. While it is not possible to predict the eventual outcome of such legal actions, management has made provisions which, in their opinion, are adequate to cover any resultant liabilities.