الأولى تكافل
FIRST TAKAFUL

Annual Report 2017

الأولـــــى تـكافـــــل
FIRST TAKAFUL

First Takaful Insurance Company

Authorized Capital KD 10,760,000

Kuwaiti Shareholding Company incorporated on 25 July 2000 and is registered under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments.

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P.O. Box 5713 Safat 13058 Kuwait

His Highness

Shiekh Sabah Al-Ahmed Al-Jaber Al-Sabah

The Amir of Kuwait

His Highness
Shiekh Nawaf Al-Ahmed Al-Jaber Al-Sabah
The Crown Prince

Branches

Head Office, Al Qibla, Abdullah Al-Mubarak St., Souq Al-Safat Building

Tel.: 1880055 - Fax: 22444599

Al-Rawda Co-op. Society

Kefan Co-op Society

Al-Faihaa Co-op Society

Content

Company Profile

First Takaful Insurance Co (First Takaful) was established in August 2000 with the objective of providing Takaful insurance solutions to individuals, commercial establishments and the various industrial sectors in Kuwait. The company has the distinction of being the first company licensed to offer Takaful (Islamic alternative to the conventional Insurance) in Kuwait.

Over the years, First Takaful has demonstrated several superior qualities such as adaptability, agility, commitment to customer service, credibility and dependability thereby distinguishing it from others. One of our key differentiators is that we work through dedicated professional teams that understand our customer's needs and offer personalized solutions.

Nowadays, First Takaful is an independent, financially strong entity operating fully out of its own funds with a paid capital of KD 10,660,000 and having its own independent management. FTIC is listed in the Kuwait Stock Exchange under (stock symbol: first takaful).

Having firmly established itself in the local market, First Takaful has started entering into international markets by way of expansion. We have already started operations in Turkey and Saudi Arabia.

TAKAFUL

Takaful Insurance is a form of Islamic insurance where members contribute regularly to a fund, from which reimbursements are paid in case of loss or damage incurred by any member. The loss can be related to one's assets, life, health, etc. The fund is managed by a Takaful operator.

The literal translation of Takaful means "guaranteeing each other". It is based on a mutual risk transfer arrangement, involving participants and operators.

Takaful Insurance provides insurance solutions that comply with Islamic Shari'ah, the Hadith and Qur'anic verses.

VISION

To lead in providing Takaful services thus being the first choice of preferred insurance operators in the region.

MISSION

To continuously provide innovative Takaful Insurance products, value-added services and quality customer care thereby building sustainable and long lasting relationships with our stakeholders.

OUR VALUES

We have embedded the following core values in our system and are committed to creating a culture that promotes the same. Our values are:

- Commitment
- Quality services
- Customer focus
- Integrity and transparency
- Inspiration and excellence

OUR STRATEGY

First Takaful Strategy is aiming at achieving the highest customer satisfaction standards throughout providing the best and unique Takaful services, this strategy helped First Takaful to acquire wide customer's segment in both corporate and individual.

"For All That Matters" is the new slogan that First Takaful chose to promise its customers with innovated services that satisfy their needs considering the risk element they might face.

OUR OBJECTIVES

Continuous improvement of the Customer Services to maintain the highest customer satisfaction standards.

- Introducing new products to meet the special needs of individuals and corporate.
- Dealing with excellent reliable reinsurers to secure best services and protection.
- Focusing on employee's development (especially Kuwaiti fresh candidates) through trainings.
- Concentrating on continuously improving the information technology.
- Being closer to customers throughout our branch network.
- Increasing the insurance awareness in the Kuwaiti Society.

Chairman's Statement

Praise be to God , Blessings and peace be upon the most noble of Messengers, the Prophet Mohammad and on his kinsman and disciples .

Dear Shareholders :
Peace, mercy and blessings of God be upon you.

On my own behalf and on behalf of the members of the Board of Directors, I am pleased to extend to you all sincere thanks and gratitude for accepting the invitation to attend the ordinary General Assembly Meeting of the Company for the ended financial year 31December 2017 , I am also honored with my brothers and members of the Board of Directors to put in your hands the annual report on the company›s business results and Its financial statements, the governance report and the report of the Audit Committee and the report of rewards and benefits as well as the report of the Fatwa and Shari›a Supervisory Board.

My Brothers Shareholders:
The positive results achieved by «First Takaful» during 2017 for shareholders› portfolio and document holders clearly reflects the tireless efforts made by the Board of Directors In cooperation with the Executive Management under difficult circumstances surrounding the insurance sector in the State of Kuwait.
« First Takaful» is confident that the approach that was done during the previous years by cleaning up the insurance portfolio and avoiding negative competition able in the future to meet challenges at a steady pace .

"First Takaful" is committed to implementing all laws and regulatory decisions issued by the Ministry of Commerce and Industry, the Capital Markets Authority, Kuwait Stock Exchange and other regulatory bodies related to internal control policies, risk management, procedures and authorities and principles of good governance. And the application of the tax compliance law for foreign accounts «FATKA» With full compliance with the provisions of Islamic law in its dealings in insurance, reinsurance and investments.

Shareholders› Results:
« First Takaful» in 2017 achieved a profit of 1,209,552 K.D compared to a profit of 1,083,190. K.D in 2016 with an increase in the profit with rate of %11.7 and profitability of share of 11.35 fils in 2017 compared to profitability of share of 10.16 fils in 2016, shareholders› equity for the current year was 9,836,090 K.D compared to 9,410,773 K.D in the last year with an increase of percentage %4.5 , as well the total assets of the shareholders in the current year amounted 15,596,153 K.D compared to 14,588,210 K.D in the previous year with an increase of %7.
It is worth mentioning that no penalties or irregularities were imposed by the regulatory authorities during the year 2017.the remuneration of members of the board of directors and reward the attendance of the committees emanating from it during the year 2017 bonuses ,benefits and monthly salaries which was obtained by the executive management is attached in the report of the nominations and remuneration committee in the annual report for your review .

Results Of Insurance Policyholders Portfolio :
The underwritten Contributions for the fiscal year 2017 amounted 6,397,412 K.D Compared to what the company has achieved in the fiscal year 2016 which amounted 9,128,580 K.D with a decrease of 2,731,168 K.D And by percentage of %30 , This decrease is due to the cleaning of car portfolio And excluding contributions of customers with a high loss rate .

The company management issued during the year 2017 Four periodic bulletins to increase insurance awareness in the insurance market, « First Takaful» was also keen to abide by its social responsibility by applying the principles of good governance, The company also provides continuous training for human resources and National employment and qualifying them for advancement of the company›s technical, financial, administrative and supervisory business.

My brothers shareholders:
The result of the absence of an effective body for auditing and supervision of insurance that lead to a continuous decline in prices in all types of business due to negative competition and causing damage to the insurance sector ,shareholders› equity and the rights of policyholders. however, the « First Takaful» adopts a safe, secure and selective writing policy for insurance premiums and customer service.

Dear Shareholders:
In conclusion, we ask god to help us achieve what we have set , for what is good
To our beloved homeland, to the company and to our valued shareholders Under the leadership and guidance of His Highness the Amir and His Crown Prince and His Highness the Prime Minister, may god preserve and protect them, I also thank the shareholders , The members of Sharia Supervisory Board , the members of the Board of Directors ,the members of the committees emanating from the Board of Directors , Executive Management , company employees , the Insurance Department at the Ministry of Commerce and Industry , the Capital Markets Authority , Kuwait Stock Exchange company and company›s clients, our thanks also to reinsurers and insurance brokers And all other competent authorities ,We also pray to Almighty God to help us further progress and prosperity.

Peace, Mercy and blessings be upon you ,,,

Abdullah Abdul Razzaq Al Asfour
Chairman

Board Of Directors

Abdullah Abdul Razzaq Al Asfour
Chairman

Saleh Saleh Al Selmi
Vice Chairman

Hussain Ali Al-Attal
Board Member & Chief Executive Officer

Rami Khalid Abdullah Ali
Board Member

Ahmed Mohammed Al-Khalid
Board Member

Osama Abdullateef Al-Abdul Jaleel
Board Member - Independent

Saud Suleiman Al-Maali
Board Member

In the Name of Allah Most Gracious Most Merciful

Fatwa and Shari’a Supervisory Board Report

Praise be to God , Blessings and peace be upon the most noble of Messengers, the Prophet Mohammad and on his kinsman and disciples

The Fatwa and Shari›a Supervisory Board at First Takaful Insurance Company (KPSC) is pleased to submit our report on the transactions and operations of the company for the financial year ended on 2017/12/31 to be presented to the general assembly of the company.

According to the statement of the delegated Board Head to control and follow up all the company›s business From the Shariah point of view, Sheikh Dr. Anwar Shuaib Abdul Salam, and what has been presented to the Board Head from transactions and operations in the field of takaful insurance, The Board believes that it is in line with its decisions and recommendations. And so we sign.

Finally, we ask God Almighty to help those who are in charge of the company And their employees to succeed and repay their business ,Confirming the integrity of approach and the health of the application according to Sharia.

God listens and responds to pray, Praise be to God , Blessings and peace be upon the most noble of Messengers, the Prophet Mohammad and on his kinsman and disciples

God bless you ,,,

Sheikh Dr. Anwar Shuaib Abdul Salam
Chairman of the Board

Sheikh Dr. Anwar Shuwaib Abdulsalam
Panel Chairman

Sheikh Dr. Mohammad Abdul Razaq Al Tabtabae
Panel member

Sheikh Dr. Essam Al Ghareeb
Panel member

Shareea'a Supervisory Board

Dr. Anwar Shuaib Abdulsalam

Chairman

Dr. Mohammad Abdul Razaq Al Tabtabae

Shareea'a Board Member

Dr. Essam Al Ghareeb

Shareea'a Board Member

Undertaking of Board of Directors on Financial Reports

The Board of Directors of First Takaful Insurance Company K.S.C. (Public) undertakes its responsibility for the integrity and accuracy of all the annual financial statements and reports of the Company, based on the information provided by the Executive Management to the Board of Directors as well as on the commitment of the Executive Management towards the Board of Directors to present all financial reports in a sound and fair manner.

Board Members of First Takaful Insurance Company		
Member Name	**Designation**	**Signature**
Abdullah Abdul Razzaq Al Asfour	Chairman	
Mr. Saleh Saleh Al-Salmi	Vice Chairman	
Mr. Hussein Ali Al-Attal	Board Member and CEO	
Mr. Osama Abdullatif Al Abdul Jalil	Independent Board Member	
Mr. Ahmed Mohamed Al-Khaled	Non-Executive Board Member	
Mr. Saud Sulaiman Al-Mu'aili	Non-Executive Board Member	
Mr. Rami Khaled Ali	Non-Executive Board Member	

20 March 2018

Undertaking of Executive Management on Financial Reports

The executive management of First Takaful Insurance Company KPSC (Public) undertakes that all financial reports submitted to the Board of Directors of the Company are presented in a sound and fair manner, that they include all the financial aspects of the Company from operating data and results, and that all financial reports have been prepared in accordance with the international accounting standards adopted by the Capital Market Authority

Chief Executive Officer : Mr. Hussein Ali Al-Attal

Signature :

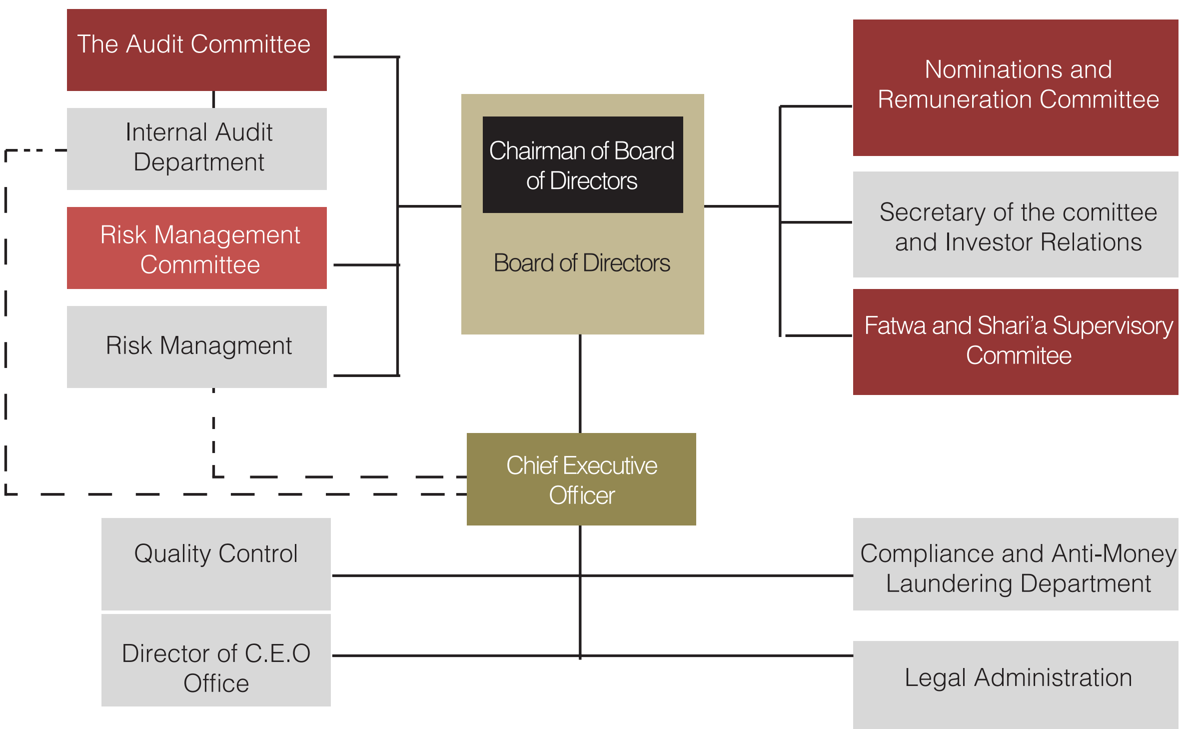
VP- Finance and Administration : Malik Salim Oraikat

Signature :

Kuwait, 20 March 2018

GOVERNANCE:

Takaful Insurance Company operates within the framework of good governance through the application of corporate governance from principles, regulations and procedures through which achieving the best protection and balance between the interests of the management of the company and shareholders as well as stakeholders, First Takaful Through the application of good governance, seeks to enhance investor confidence in the company›s efficiency and ability to meet Crises, the framework of good governance regulates the internal decision-making methodology of the company, and stimulates the commitment to transparency and credibility to those decisions, as well the separation of power between the executive management, which works on the business of the company and the board of directors which prepares ,reviews and approves the policies and plans of the company gives a comfortable and reassuring character and enhances the sense of confidence, this enables shareholders and owners to actual control over the company , This comes to document and consolidate ethical behavior, control, accountability and proper administrative organization, and work to enhance administrative efficiency and strengthen the procedures of supervision and auditing and strengthen social responsibility, and this The commitment of the first Takaful to implement the provisions of the Fifteenth Book (Corporate Governance) of the Executive Regulations of Law No. 7 of 2010 on the establishment of the Capital Market Authority and the regulation of securities activity and its amendments - State of Kuwait .



RULE 1 - BUILDING A BALANCED STRUCTURE FOR THE BOARD OF DIRECTORS: ABOUT THE BOARD OF DIRECTORS:

The Takaful Insurance Company›s Board of Directors is chaired by a Board of Directors of seven members with diverse expertise and skills, elected by shareholders to achieve the sustainable value of stakeholders (shareholders, customers, employees and the community). The Board enjoys a majority of non-executive members and independent members; this reinforces the principle of independence in decision-making and monitoring the performance of the executive management to achieve the desired objectives.

As well The Board of Directors exercises these powers and responsibilities in accordance with the Company›s policies and the work system of Board of Directors. The Board of Directors is fully responsible for the «First Takaful». The scope of the Board of Directors includes, but is not limited to:

- Setting the company›s strategy and setting the desired goals and drawing future plans for the company.
- Determining the risk appetite of the company.
- To adhere to the standards of good governance and follow up their implementation.
- Supervising the executive management and supervising its performance and its work, including the CEO.

The Board›s commitment to the implementation of good governance is one of the main axes to ensure that the company›s objectives are achieved and the foundations of the governorate on the trust granted by the shareholders, and the Board of Directors shall bear all responsibilities related to the operations of «First Takaful» and it›s Financial safety, and ensure compliance with the requirements of the regulatory bodies, and maintain the interests of shareholders and employees, and other parties of Stakeholders and ensure that the management of «First Takaful» is within the scope of laws and regulations in force and internal policies adopted by «First Takaful»

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BOARD OF DIRECTORS

Member Name	Title	Qualification and practical experience	election / appointment date
Mr. Abdullah Abdul Razzaq Al Asfour	Chairman of the Board - Non-Executive Member	Bachelor of Accounting- years 30 Experience more than -	06 November 2017
Mr. Saleh Saleh Al-Silmi	Vice-Chairman of Board of Directors- Non-Executive Member	Bachelor of Business Administration and Finance years 30 Experience over –	14 April 2016
Mr. Hussein Ali Al-Attal	Member of the Board of Directors and Chief Executive Officer - Executive Member -	Bachelor of Business Administration and Marketing years 30 Experience over-	14 April 2016
Mr. Ahmed Mohamed Al- Khalid	Board Member - Non-Executive Member	Bachelor of International Trade and International Political System years of experience 30 Over -	14 April 2016
Mr. Osama Abdul Latif Al Abdul Jalil	Member of the Board of Directors – Independent Member	Bachelor of Law years 25 Experience more than -	14 April 2016
Mr. Saud Sulaiman Al Moeely	Member of the Board of Directors - Non-Executive Member	Bachelor of Journalism and Public Relations years experience 30 Over -	14 April 2016
Mr. Rami Khaled Ali	Member of the Board of Directors - Non-executive member	Bachelor of Business Administration years 15 Experience more than-	14 April 2016
Mr. Malik Salim Erekat	Secretary of the Board	Bachelor of Commerce in advanced accounting and auditing years 30 experience more than -	14 April 2016

ORGANIZATION OF BOARD MEETINGS:

Based on the commitment of the First Takaful Insurance Company to organize periodic meetings, implement the highest standards of governance and comply with the requirements of the laws and regulations of the regulatory authorities, the Ministry of Commerce and Industry, the Companies Law and the Capital Market Authority, Corporate Governance, that the number of meetings of the Board of Directors shall not be less than (6) annually , The Board of Directors shall convene one meeting at least every quarter.

SUMMARY OF FIRST TAKAFUL BOARD MEETINGS DURING 2017:
The Board of Directors of First Takaful Insurance Company held (8) meetings during 2017, the following table details the Meetings and number of meetings attended by each member during 2017.

Member name /title	Meeting no. (2017/1) Dated 2017/1/10	Meeting no. (2017/2) Dated 2017/2/01	Meeting No. (2017/3) Dated 2017/3/09	Meeting no. (2017/4) Dated 2017/5/02	Meeting no. (2017/5) Dated 2017/08/01	Meeting no. (2017/6) Dated 2017/8/06	Meeting no. (2017/7) Dated 2017/11/06	Meeting no. (2017/8) Dated 2017-12-11	Number of Meeting	Attendance Percentage
Mrs. Laila Al Ibrahim Board Chairman (former)	–	√	-	√	√				3	-
Mr. Hamed Al-Aiban Board Chairman (former)						√			1	-
Mr. Abdullah Al Asfour Board Chairman (Active)							√	√	2	-
Mr. Saleh Al-Silmi Vice Board Chairman	√	√	√	√	√	√	√	√	9	%100
Mr. Hussein Al-Attal Member of Board	√	√	√	√	√	√	-	-	6	%75
Mr. Ahmed Al-Khalid Member of Board	√	√	√	-	√	-	√	-	5	%62.5
Mr. Osama Al Abdul Jalil IndependentMember	√	√	√	-	-	-	√	√	5	%62.5
Mr. Saud Al Mu›aili Member of	√	-	√	√	√	-	-	√	5	%62.5
Mr. Rami Khaled Ali Member of Board	-	7	7	7	7	7	7	7	7	%87.5

- Resignation of Chairman of the Board of Directors Ms. Laila Abdulkarim Al-Ibrahim - Representative of Arzan Finance Group for Finance and Investment on 2017/08/03. assignment of Mr. Hamed Mohammed Al-Aiban - as representative of Arzan Finance Group for Finance and Investment , he was elected as Chairman of the Board from the date 2017-08-06.
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The resignation of the Chairman of the Board of Directors Mr. Hamed Mohammed Al-Aiban - Representative of Arzan Finance Group for Finance and Investment as of 2017-10-31, and appointed Mr. Abdullah Abdul Razzaq Al-Asfour - a representative of Arzan Finance Group for Finance and Investment and was elected Chairman of the Board effective from the date 2017-11-06.

SUMMARY OF THE MOST IMPORTANT ACHIEVEMENTS AND DECISIONS TAKEN BY THE BOARD OF DIRECTORS DURING 2017:

The Board of Directors of the first Takaful to follow up the implementation of strategic plans and desired objectives, and works to communicate with the Executive Management to achieve these goals and plans, and the Board of Directors focused on the application of standards of good governance to the work method of the company, and through 2017 issued several resolutions and achievements The most important of which are:

- Adoption of the company›s business plan for the coming years 2021-2018.
- Develop a plan of success or career replacement of the company and avoid the vacuum and risks that may arise in the future.
- Review and approve the updates of organizational structure of the company.
- Exits from a group of investments.
- Approve the recommendation of the two committees (Risk Management and Audit) regarding the consultation contract provided by PROCAPITA for Management Consultancy Company regarding internal audit and risk management.
- Review and approve the approved risk tendency.
- Review and approve the policies and procedures of the tax compliance law «FATCA».
- Review and approve reports issued by the Risk Management.
- The internal audit report on independence and objectivity reviewed the compliance with the international practices of the internal audit activity.

RECORD, COORDINATE AND SAVE MINUTES OF BOARD MEETINGS / SECRETARY›S WORK:

The Secretary of the Board of Directors has prepared a special record for the meetings of the Board of Directors of the First Takaful Insurance Company. The register also contains the agenda information of each meeting, its date, the venue, the timing of the beginning and the end of the meeting. The secretary also provides the Board members with the agenda Backed by documents and documents associated with it, before enough time allowing for members to study the items on the agenda, The minutes of the meeting shall be signed by all the members of the Board of Directors and the Secretary. The Secretary shall also ensure the delivery, distribution and coordination of information among the members of the Board of Directors and between the stakeholders and other entities associated with the Company.

RULE 2 - PROPER IDENTIFICATION OF TASKS AND RESPONSIBILITIES:

«A summary of how to apply requirements that allow board members to access information Accurately and timely data”

The company is committed to building a balanced structure of the Board of Directors through good governance. The Board members are provided with a specific agenda, by the necessary means of communication used by the company and this should be done by secretary, at least three working days prior to the meetings of the Board of Directors, excluding from that the urgent meetings so that the members may study and discuss the issues well before the meeting, and therefore beneficial to the operations of the company and take appropriate decisions in them because of the effectiveness of meetings of the Board of Directors.

WORK POLICY OF THE BOARD OF DIRECTORS / EXECUTIVE MANAGEMENT:

Takaful Insurance Company has been keen to provide clear policies and procedures that define the duties, responsibilities and tasks of the Board of Directors and the Executive Management, and to ensure that the organizational structure of the company is transparent and objective enabling decision-making and the implementation of governance principles.

POLICY OF THE BOARD OF DIRECTORS WORK:

The text of the Charter of the Board of Directors of the first Takaful that the Council direct supervision and control of business management to protect the interests of stakeholders in terms of principles of good governance, and maintain internal control, financial and accounting and follow-up reports, and is committed to comply with the laws and instructions implemented by the regulatory bodies and the statute and internal regulations and policies of the company .

POLICIES AND PROCEDURES REGULATING THE WORK OF THE EXECUTIVE MANAGEMENT:

The first Takaful Company has developed and implemented a policy and procedures manual for all the company›s departments, In addition to the policies related to the requirements of the executive regulations of - book fifteen - of Corporate Governance issued by the Capital Market Authority - Kuwait, as well as policies related to the requirements of the other regulatory bodies.

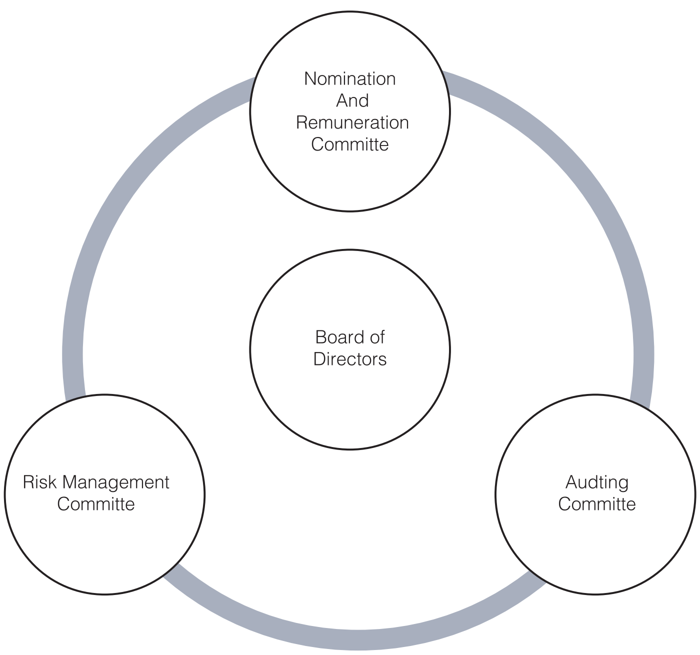
every manual contains the tasks of competent department and the its obligations in details , which works as follows:

- Provide efficiency and effectiveness within the company›s activities;
- Full separation of powers between jobs.

The company also has a mandate delegation matrix which covers all departments operating within the company and has been updated and implemented on August 2016 ,14.

THE FORMATION OF COMMITTEES OF THE BOARD:

The Board of Directors of the First Takaful Insurance Company formed committees which are independent in accordance with the internal regulations of the company. It includes a comprehensive definition of the functions and responsibilities of the committees and the powers granted to them during the period, as well as the manner of supervising them. The committees of the board of directors are also obliged to inform the Board of what they are doing and what they reach. The duration and period of these committees shall be determined and the duration and duration of these committees shall be updated with the election of the members of the Board of Directors every three years.
THE FORMATION OF COMMITTEES OF THE BOARD:



RULE 3 - SELECTION OF QUALIFIED PERSONS FOR BOARD MEMBERSHIP AND EXECUTIVE MANAGEMENT:

NOMINATION AND REMUNERATION COMMITTEE:

The Nomination and Remuneration Committee shall be considered as emerging and specialized committee composed of members of the Board of Directors. The Committee shall undertake a number of the following main tasks:

- To prepare recommendations to the Board of Directors regarding the proposed nominations through the comprehensive framework and transparent appointment of directors and senior management;

- Establish a clear policy for the bonuses of the Board of Directors and Executive Management;

- Preparation of a detailed report on bonuses to members of the Board of Directors and Executive Management;

-Making sure not precluded independence of the independent member of the Board of Directors.

FORMATION OF THE COMMITTEE:

First Takaful Company is committed to forming the Board Committees in accordance with the provisions and articles of the 15 book of Corporate Governance . The Committee of Nominations and Bonuses has been formed as follows:

* Number of members of the Committee is three members from the board of directors ;

* One member of the Committee is an independent member;

* The Chairman of the Committee is a non-executive member

BELOW ARE THE MEETINGS OF THE NOMINATION AND REMUNERATION COMMITTEE OF THE COMPANY «FIRST TAKAFUL» FOR 2017:

NOMINATION AND REMUNERATION COMMITTEE			
Members	Mr. Saleh Saleh Al-Silmi Head of committee	Mr. Hussein Ali Al-Attal Member of committee	Mr. Osama Abdul Latif Al Abdul Jalil Member of committee
Meeting no. 2017/01	√	√	√
Attendance percentage	%100	%100	%100

THE MOST IMPORTANT ACHIEVEMENTS OF THE COMMITTEE DURING 2017:

• The detailed annual report on all bonuses granted to the members of the Board of Directors and the Executive Management, whether amounts, benefits or advantages , has been prepared and read by the Chairman of the Board and submitted to the General Assembly of the Company for approval on 2017/03/15.

REPORT OF THE REMUNERATION GRANTED TO MEMBERS OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT DURING THE YEAR 2017: FIRST, INCENTIVES AND REWARDS SYSTEM HAVE BEEN FOLLOWED THE COMPANY:

The reward and incentive system granted to the Board of Directors and the executive management of Takaful Insurance Company is based on the indicators and the level of performance and achievement at the company level in general and also at the level of individuals in particular during the year ended, which works to achieve the company›s strategic objectives.

SECOND: THE Remuneration GRANTED TO MEMBERS OF THE BOARD OF DIRECTORS AND THE EXECUTIVE MANAGEMENT, WHETHER AMOUNTS, BENEFITS OR ADVANTAGES .

Below are details of the values for all Remuneration:

- Remuneration of the Board of Directors:

The value of fixed Remuneration awarded KD	The value of the variable Remuneration awarded KD	Total awarded Remuneration K.D
–	28,500	28,500

- Remnuneration of the executive management :

The value of fixed Remuneration awarded KD	The value of the variable Remuneration awarded KD	Total awarded Remuneration K.D
223,832.4	16,470	240,302.4

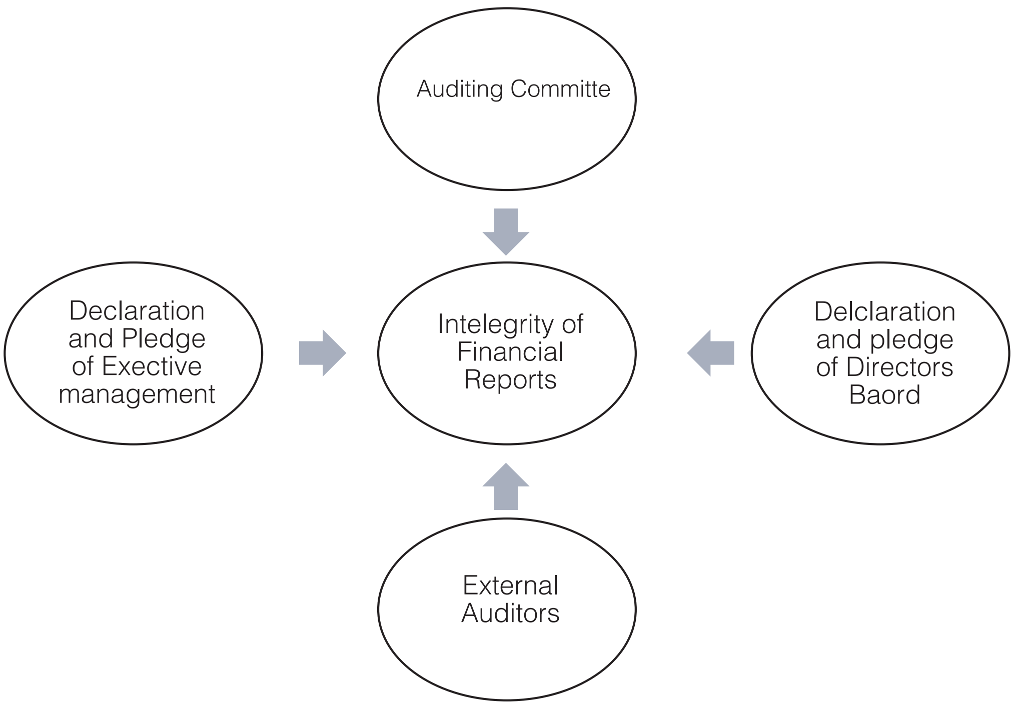
THIRD : OTHER AWARDS HAVE BEEN GRANTED DIRECTLY OR INDIRECTLY:

- There are no other rewards.

FOURTH : SUBSTANTIAL DEVIATIONS FROM THE APPROVED REMUNERATION POLICY:

- There is no substantial deviations.

RULE 4 ENSURING THE INTEGRITY OF FINANCIAL REPORTS:



DECLARATION AND PLEDGE OF EXECUTIVE MANAGEMENT ABOUT FINANCIAL REPORTING:

The Company›s Executive Management declared and pledged in written to the Board of Directors that all the financial reports submitted to the Board of Directors are presented fairly and correctly and include all the financial aspects of the Company›s data and operating results. All financial reports have been prepared in accordance with the International Accounting Standards adopted by the Capital Market Authority.

DECLARATION AND PLEDGE OF BOARD OF DIRECTORS ABOUT FINANCIAL REPORTS:

The Board of Directors of the Company declared and pledged the full responsibility on the integrity and validity of all annual financial statements and reports of the Company based on information provided by the Executive Management to the Board of Directors and the Executive Management›s pledge to present all financial reports in a correct and fair manner.

THE AUDIT COMMITTEE :

The Audit Committee is an important part of the Board of Directors of the First Takaful Insurance Company. The Committee also undertakes a number of key functions as follows:

- Ensure the integrity of the financial statements of the company;
- Recommend to the Governing Council the appointment, reappointment or change of external auditors and the determination of their fees;
- the efficiency and effectiveness of internal control systems and ensure compliance;

Recommend the appointment of the Director of Internal Audit and evaluate the performance and effectiveness of the internal audit management of the company; the company›s compliance with legal requirements, policies, systems and related instructions.

The Charter of the Audit Committee also clarifies the main characteristics of the Committee and whether there is any contradiction between the two Recommendations of the Audit Committee and Board of Directors, including the Board of Directors› refusal to follow the recommendations of the Audit Committee, The governance report should include a detailed statement by the Board of Directors detailing the recommendations and the reason or reasons behind the Board of Directors› decision not to comply with them .

FORMATION OF THE COMMITTEE:

The company is committed to the formation of the board of directors committees in accordance with the provisions of the fifteenth book on corporate governance. The Audit Committee was formed as follows:

- The number of members of the Committee is three members of the Board of Directors;
- One member of the Committee is an independent member;
- The Chairman of the Board and the Executive Directors are not members of the Committee.

BELOW ARE THE MEETINGS OF THE AUDIT COMMITTEE OF THE COMPANY «FIRST TAKAFUL» IN 2017:

AUDIT COMMITTEE			
Committee Members	Mr. Rami Khaled Ali Head of Committee	Mr. Saud Al-Moeely Member of committee	Mr. Osama Abdul Latif Al Abdul Jalil Member of committee
Meeting no. 2017/01	√	√	√
Meeting no. 2017/02	√	√	√
Meeting no. 2017/03	√	√	×
Meeting no. 2017/04	√	√	×
Meeting no. 2017/05	√	×	√
Meeting no. 2017/06	√	×	√
Attendance percentage	%100	%66.6	%66.6

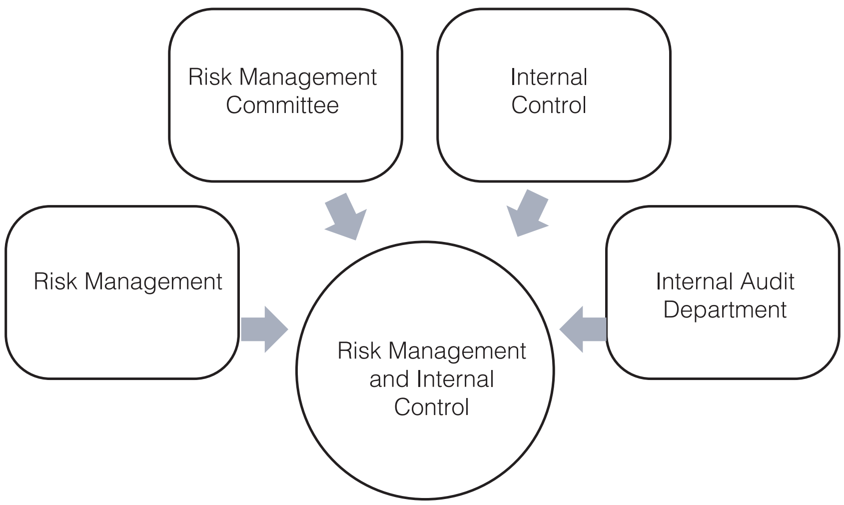
THE MOST IMPORTANT ACHIEVEMENTS OF THE COMMITTEE DURING: 2017

-Approve and supervise the internal audit plan and internal audit charter.
- Discussion of the report of the Independent Audit Office (annual) on the results of internal control systems.
-Review and approve reports issued by the Internal Audit Department.
-Review and submit its opinion and recommendation to the Board of Directors regarding the draft financial statements of the Company Financial year ended 31 December 2016.
- Review the standards of integrity and transparency in the draft financial reports in addition to compliance with provisions
Islamic Shari›a and International Financial Reporting Standards.
- Raise the recommendation to appoint / reappoint the External Auditor and authorize the Board of Directors to determine its fees. Discuss the interim financial information for the first quarter Ending 31 March 2017.
- Discussion of interim financial information for the second quarter ended 30 June 2017;
- Discussion of interim financial information for the third quarter ended 30 September 2017

EXTERNAL AUDITOR:

The First Takaful Insurance Company has an auditor registered in the register of auditors of the Capital Market Authority, and is fully independent of the company «First Takaful» and its board of directors. The company also allows the auditor to discuss his views with the Audit Committee and is able to attend the meetings of the General Assembly And read the report prepared by him, to the shareholders, The auditor has great powers to inform the Capital Market Authority about any violations or obstacles in detail.

RULE FIVE - DEVELOPMENT OF RIGHT SYSTEMS FOR RISK MANAGEMENT AND INTERNAL AUDITING :



RISK MANAGEMENT:

Risk management in the company is responsible for identifying, measuring and monitoring the risks surrounding the company. It also makes appropriate recommendations to the Board of Directors. Risk managers enjoy full independence and direct subordination to the Board of Directors , They also have great authority to perform their duties properly.

It is worth mentioning that a contract has been signed for the provision of advisory services in risk management with one of the consulting companies

RISK MANAGEMENT COMMITTEE:

The Risk Management Committee is a specialized risk management committee that is formed and formed by the Board of Directors.

- identify and assess the major risks surrounding the company as well as strategic and operational risks;
- Prepare and review risk management policies before they are approved by the Board of Directors;
- Ensure the independence of risk management and that the management staff fully understand the risks surrounding the company;
- Prepare periodic reports on the nature of the risks facing the company and submit them to the Board of Directors.

FORMATION OF THE COMMITTEE:

The Company is committed to forming the Board of Directors committees in accordance with the provisions of Article 15 of Corporate Governance. The Risk Management Committee has been formed as follows:

- The number of members of the Committee is three members of the Board of Directors;
- Chairman of the Committee is a non-executive board member;
- The Chairman of the Board shall not be a member of the Committee.

BELOW ARE THE MEETINGS OF THE FIRST TAKAFUL RISK MANAGEMENT COMMITTEE FOR 2017:

RISK MANAGEMENT COMMITTEE				
Committee Members	Mr. Saleh Alsilmi Head of committee	Mr. Hussein Ali Al-Attal Committee Member	Mr. Rami Khaled Ali committee Member	Mr. Ahmed Al-Khalid committee Member
Meeting no. 2017/01	√	√	×	√
Meeting no. 2017/02	√	√	√	√
Meeting no. 2017/03	√	√	√	×
Meeting no. 2017/04	√	×	√	√
Attendance percentage	%100	%75	%75	%75

THE MOST IMPORTANT ACHIEVEMENTS OF THE COMMITTEE DURING THE YEAR 2017:

-Review and study the operational risks of the estimated budget and business plan for 2017 and submit recommendations to the Board of Directors.
- Reviewing investment risks and their relationship to the exits of investments and recommending to the Board of Directors.

-Review the risk profile and submit it to the Board for approval.
- Review the Risk Management Report as of 30 June 2017 and recommend to the Board of Directors for approval of the report.

INTERNAL CONTROL:

The first Takaful depends on a set of control systems and auditing rules covering all the company›s business and management,

These systems and rules maintain the integrity of the financial position of the company and the accuracy of data and the efficiency of its operations in various aspects, the company›s organizational structure reflects the dual control and includes the proper identification of powers and responsibilities, complete separation of duties and non-conflict of interest, examination and double control and double signing .

EVALUATION AND REVIEW OF INTERNAL CONTROL SYSTEMS:

The report of the evaluation of internal control systems in Takaful Insurance Company was prepared by an independent audit office for the year ended 31 December 2016. The report was submitted to the Board of Directors and Capital Market Authority. The report showed the company›s application of internal control systems in accordance with the Capital Market Authority - Kuwait.

INTERNAL AUDIT DEPARTMENT:

The internal audit department of the company reviews and evaluates the internal control systems, assesses the performance of the executive management in the implementation of the internal control systems, the management reports to the committee, the auditors are fully independent and the internal audit department follows the audit committee and the board of directors.

It is worth noting that a consultancy contract was signed in the internal audit with one of the consulting companies .

RULE-6 PROMOTION OF PROFESSIONAL CONDUCT AND ETHICAL VALUES:

CHARTER OF WORK :

The company has a work charter with comprehensive standards and behavioral standards that has been established by the Board of Directors to establish ethical concepts and values. The executive body is working on these standards and determinants to achieve the company›s ambitions and objectives. It contributes to the performance of the tasks to the fullest.

The Board of Directors of the First Takaful Insurance Company adopted policies and procedures that work to achieve the highest percentage of the determinants and behavioral standards of the company›s work charter , below are some policies and procedures as an example of the application of the company›s operations:

- Guide to disclosure policies and procedures;
- Internal reporting policy;
- shareholder relations policy;
- The policy of the relevant parties and investor affairs;
- Conflict of interest policy .
- Related party transaction policy;
- Charter behavioral rules.

CONFLICT OF INTEREST:

The policy of conflict of interest in the first Takaful works to reduce the conflict of interest between the company and the parties involved, as well as identifying situations that may lead to future conflicts of interest ,and it is working to address and limit such operations, and contribute to a policy of conflict of interest in protecting the integrity and reputation of the company and related parties.

The policy of conflict of interest obligates members of the board of directors and executive management to disclose any common interests with the company and to separate the personal interests and official responsibilities of the company,

It works to give priority to the interests of the company to the interests of its members.

RULE 7 DISCLOSURE AND TRANSPARENCY IN A TIMELY MANNER:

PRESENTATION AND DISCLOSURE MECHANISMS:

The company is keen to apply the best disclosure mechanisms,

The Board of Directors of the Company has adopted disclosure policies and procedures that include the Methods and techniques of disclosure of material data and information. It also provides complete transparency of all information and data for timely presentation. The Board reviews these disclosure mechanisms periodically to keep up with international best practice

DISCLOSURE REGISTER :

The Company regulates the disclosures of the members of the Board of Directors and the Executive Management through a record of their disclosures, as this register is available for the benefit of all the shareholders of the Company without fees or fees. The Company updates this register periodically to reflect the actual status of the related parties.

INVESTOR AFFAIRS UNIT:

The company has an investor affairs unit and is responsible for providing all necessary data, information and reports to potential investors. This unit is highly independent, providing accurate and timely data and reports through all the usual means.

TECHNOLOGY:

The company relies heavily on technology, as it contributes to communication with shareholders, investors and stakeholders through the use of information technology. First Takaful has also provided a full section of its corporate governance website and disclosures to present all the latest data and information that enable Shareholders and current and potential investors to exercise their rights to assess the performance of the company.

RULE-8 RESPECT FOR SHAREHOLDERS› RIGHTS:

SHAREHOLDERS› EQUITY:

The statutes, policies, regulations and internal controls of the company guarantee justice and equality of Shareholders rights, Shareholders have general rights to exercise the accountability of the Board of Directors and to monitor the performance of the Company, as well as the election of Board members and others.

«First Takaful» grants shareholders their full rights without any discrimination and in a manner that does not harm the interests of the company or contrary to the laws and regulations in force.

CLEARING AGENCY:

The Company is keen to take into account the accuracy and continuous follow-up of the data of the shareholders through the establishment of a special record kept by the clearing agency, where it registered the names of the shareholders in the company and the number of shares owned by each of them, and is keen to update the data recorded in it immediately after a change through the marking in the record Shareholders to reach the highest levels of accuracy .

ENCOURAGE SHAREHOLDER PARTICIPATION:

The right to participate and vote in the general assembly of the company is an inherent right of all shareholders. The company has endeavored to activate this role by inviting shareholders to attend the General Assembly meeting including all data and information related to the agenda items. Shareholders also have the right to appoint others to attend the General Assembly meeting. A special power of attorney or delegation in this regard,

The company enables shareholders holding %5 of the company›s capital to add items to the agenda. The company provides shareholders with disclosure data for directors and executive management members.

RULE 9 - RECOGNIZING THE ROLE OF STAKEHOLDERS:

STAKEHOLDERS:

The recognition of the rights of stakeholders contributes to strengthening the framework of mutual cooperation between the company and stakeholders , the company also works to respect and protect the rights of stakeholders. the policies and procedures set by the company guarantee full protection and equal treatment with the members of the board without discrimination, to establish good relations with the customers and suppliers of the company and to maintain the confidentiality of information related to them, and clarified the policy of the mechanism for the submission and settlement of complaints as well as procedures that preserve the rights of stakeholders.

ENCOURAGE STAKEHOLDER PARTICIPATION:

The Company provides access to stakeholders to obtain all information and data relevant to their activities, and provides a mechanism to inform any improper practices to which stakeholders are exposed by the Company, with full protection for the person who informed .

RULE 10-ENHANCEMENT AND IMPROVEMENT OF PERFORMANCE:

PROMOTE PERFORMANCE IMPROVEMENT:

The company›s interest in encouraging the development and improvement of efficiency and performance contributed to the establishment of mechanisms and systems that allow the members of the Board of Directors and Executive Management to obtain programs and training courses related to the activities and work of the company, through programs such as the company strategy, financial and operational aspects of newly appointed members, Workshops and conferences for current members and management

Executive.

Accordingly, a number of workshops were held, including a special workshop for the members of the Board of Directors and another for the executive management, explaining to them the risk management and how to achieve the strategic and operational objectives of the company. The workshop included the following:

1. Introduction to risk management and its importance to the Company.
2. Key terms in risk management.
3. A description of the responsibilities of the Board of Directors and the committees emanating from them and the responsibilities of executive management according to the rules of governance.
4. Risk sources and methods of classification.
5. Risk assessment process and prioritization in dealing with different risks.
6. Options for managing risk and allocating responsibilities.

PERFORMANCE EVALUATION:

The performance assessment of the Board of Directors and the Executive Management is based on qualitative and quantitative performance indicators identified by the Company,
The most important qualitative indicators based on performance evaluation systems
Is the interaction and responsiveness to the goals to be achieved
And the control of problems and the participation in courses and the extent of their association with the activity of the company and work, quantitative indicators are subject to material returns of net profit and annual returns.

FOUNDATIONAL VALUES:

The vision and mission of the company is to create a suitable environment for corporate values of an effective and productive nature, it contributes to improve performance rates and instill the institutional values of its employees,

And this contributes to the promotion of work and maintain the financial integrity of the company,
The reflection of our values in all the activities and products of the company has created a culture of compliance with the laws and decisions of the regulatory bodies as well as providing services with high quality, honesty, integrity and transparency in dealing with Customers,
It helps to achieve the company›s strategic objectives.

RULE11-FOCUSONTHEIMPORTANCE OFSOCIALRESPONSIBILITY:

SOCIAL RESPONSIBILITY:

Social responsibility activity in First Takaful centered to achieve its social duty as a key partner in the development of the Kuwaiti society, through contributing to the development of living conditions, social and economic in the country, it comes through the support of the company to all sectors, the importance of social responsibility is to strengthen the relationship between society and society.

For example, not limited to, you will find some of the first Takaful Insurance Company activities as follows:

-"Kuwaitization" , The company is keen to recruit, support and develop youth cadres , Encouraging national employment as well as training university students .

-"Periodical publications" The first Takaful is to publish periodical educational publications that are published Insurance awareness and highlighting the culture of insurance and its importance within the State of Kuwait.

- "Blood Donation" The company›s first employees launched a voluntary humanitarian campaign through donating blood.

Insurance Publications - 2017

First Takaful Insurance Company - KPSC and Subsidary

Consolidated financial statement and independent auditor's report

31 December 2017

Content

Grant Thornton
Al-Qatami, Al-Aiban & Partners

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Independent auditor's report

To the Shareholders of
First Takaful Insurance Company – KPSC
Kuwait

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of First Takaful Insurance Company - KPSC ("the Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter described below as the key audit matter.

Investments in associates

The investment in associates which represents %85 of the Company's total assets are accounted for under the equity method of accounting and considered for any impairment in case of any indication thereto. The investment in associates is significant to our audit due to the Company's share of results in the associates and the carrying value of these associates. In addition, the management has to assess the impairment in investment in associates using judgments and estimates. Accordingly, we considered this as a key audit matter.

In our audit procedures, we evaluated management's considerations of the impairment indicators of investment in associates and using such considerations, we assessed whether any significant or prolonged decline in value exists, or any significant adverse changes in the insurance, market or legal environment in which the investee operates. We also considered the structural changes in the industry in which the investee operates or changes in the political or legal environment affecting the investee's business in addition to any changes in the investee's financial position.

The Company's disclosures relating to associates are included in note 12 to the financial statements.

Independent Auditor's Report to the Shareholders of First Takaful Insurance Company - KPSC (continued)

Other information included in the Company's Annual Report for the year ended 31 December 2017
Management is responsible for the other information. Other information consists of the information included in the Company's Annual Report for the year ended 31 December 2017, other than the financial statements and our auditor's report thereon. We obtained the report of the Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in 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 Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

• Identify and assess the risks of material misstatement of the 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 Company's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report to the Shareholders of First Takaful Insurance Company - KPSC (continued)

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

• 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 Company'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 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 Company to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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.

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Company and the financial statements, together with the contents of the report of the Company's board of directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, and by the Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law, the Executive Regulations, or of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017 that might have had a material effect on the business or financial position of the Company.

Anwar Y. Al-Qatami, F.C.C.A.
(Licence No. -50A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Kuwait
20 March 2018

Statement of profit or loss

	Notes	Year ended 31 Dec. 2017 KD	(Consolidated) Year ended 31 Dec. 2016 KD
Revenue			
Net investment income	8	**212,513**	317,961
Share of results of associates	12	**2,642,811**	3,389,337
Net policyholders' insurance deficit transferred to shareholders	18.8	**-**	(1,809,343)
		2,855,324	1,897,955
Expenses and other charges			
General and administrative expenses		**(125,324)**	(69,818)
Impairment of available for sale investments		**-**	(703,325)
Impairment in value of associates	12.2	**(1,442,811)**	-
		(1,568,135)	(773,143)
Profit before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Board of Directors' remuneration		**1,287,189**	1,124,812
Provision for contribution to KFAS		**(11,585)**	(2,632)
Provision for NLST		**(32,180)**	(28,120)
Provision for Zakat		**(12,872)**	(10,870)
Provision for board of directors' remuneration		**(21,000)**	-
Profit for the year		**1,209,552**	1,083,190
Basic and diluted earnings per share	9	**11.35 Fils**	10.16 Fils

Statement of profit or loss and other comprehensive income

	Notes	**Year ended 31 Dec. 2017 KD**	(Consolidated) Year ended 31 Dec. 2016 KD
Profit for the year		**1,209,552**	1,083,190
Other comprehensive loss:			
Items that will be reclassified subsequently to the statement of profit or loss:			
Available for sale investments:			
Net change in fair value arising during the year		**-**	(794,568)
Transferred to statement of profit or loss on sale		**(274,451)**	(274,118)
Transferred to statement of profit or loss on impairment		**-**	703,325
Exchange differences arising on translation of foreign operations		**(509,784)**	(1,012,983)
Total other comprehensive loss		**(784,235)**	(1,378,344)
Total comprehensive income/(loss) for the year		**425,317**	(295,154)

The notes set out on pages 43 to 96 form an integral part of these consolidated financial statements.

Statement of financial position

	Notes	Year ended 31 Dec. 2017 KD	(Consolidated) Year ended 31 Dec. 2016 KD
Assets			
Bank balance		**4,297**	4,297
Investment deposit	10	**-**	135,000
Available for sale investments	11	**3**	599,452
Investment in associates	12	**13,333,476**	12,643,260
Qard Hassan to policyholders' fund	13	**2,253,491**	1,200,791
Other assets		**4,886**	5,410
Total assets		**15,596,153**	14,588,210
Equity and liabilities			
Equity			
Share capital	14	**10,660,000**	10,660,000
Statutory reserve	15	**157,965**	29,246
Voluntary reserve	15	**128,719**	-
Fair value reserve		**173,153**	447,604
Foreign currency translation reserve		**(2,457,455)**	(1,947,671)
Retained earnings		**1,173,708**	221,594
Total equity		**9,836,090**	9,410,773
Liabilities			
Policyholders' deficit reserve	13	**2,253,491**	1,200,791
Amount due to policyholders	16	**3,334,117**	3,871,789
Other liabilities		**172,455**	104,857
Total liabilities		**5,760,063**	5,177,437
Total equity and liabilities		**15,596,153**	14,588,210

Abdullah A. Al-Asfour
Chairman

The notes set out on pages 43 to 96 form an integral part of these consolidated financial statements.

Statement of changes in equity

	Share capital	Statutory reserve	Voluntary reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings/ (accumulated losses)	Total
	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2017 (consolidated)	**10,660,000**	**29,246**	**-**	**447,604**	**(1,947,671)**	**221,594**	**9,410,773**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**1,209,552**	**1,209,552**
Total other comprehensive loss	**-**	**-**	**-**	**(274,451)**	**(509,784)**	**-**	**(784,235)**
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**(274,451)**	**(509,784)**	**1,209,552**	**425,317**
Transfer to reserve	**-**	**128,719**	**128,719**	**-**	**-**	**(257,438)**	**-**
Balance at 31 December 2017 (unconsolidated)	**10,660,000**	**157,965**	**128,719**	**173,153**	**(2,457,455)**	**1,173,708**	**9,836,090**
Balance at 1 January 2016 (consolidated)	10,660,000	-	-	812,965	(934,688)	(832,350)	9,705,927
Profit for the year	-	-	-	-	-	1,083,190	1,083,190
Other comprehensive loss	-	-	-	(365,361)	(1,012,983)	-	(1,378,344)
Total comprehensive (loss)/profit for the year	-	-	-	(365,361)	(1,012,983)	1,083,190	(295,154)
Transfer to reserve	-	29,246	-	-	-	(29,246)	-
Balance at 31 December 2016 (consolidated)	10,660,000	29,246	-	447,604	(1,947,671)	221,594	9,410,773

The notes set out on pages 43 to 96 form an integral part of these consolidated financial statements.

`Statement of cash flows

	Year ended 31 Dec. 2017	(Consolidated) Year ended 31 Dec. 2016
	KD	KD
OPERATING ACTIVITIES		
Profit for the year	**1,209,552**	1083,190
Adjustments for:		
Profit on investment deposit	**(2,281)**	(3,164)
Gain on sale of available for sale investments	**(210,232)**	(276,968)
Dividend income	**-**	(37,829)
Net policyholders' insurance deficit transferred to shareholders	**-**	1,809,343
Impairment of available for sale investments	**-**	703,325
Impairment in value of associates	**1,442,811**	-
Share of results of associates	**(2,642,811)**	(3,389,337)
	(202,961)	(111,440)
Changes in operating assets and liabilities:		
Other assets	**524**	(261)
Movement in policyholders' account	**(537,672)**	125,796
Other liabilities	**67,598**	45,194
Net cash (used in)/from operating activities	**(672,511)**	59,289
INVESTING ACTIVITIES		
Increase in investment in associate	**-**	(133,812)
Proceeds from sale of available for sale investments	**535,230**	36,379
Proceeds from investment deposit withdrawn	**135,000**	-
Dividend income received	**-**	37,829
Profit on investment deposit received	**2,281**	3,164
Net cash from/(used in) investing activities	**672,511**	(56,440)
Increase in cash and cash equivalents	**-**	2,849
Cash and cash equivalents at the beginning of the year	**4,297**	1,448
Cash and cash equivalents at the end of the year	**4,297**	4,297

The notes set out on pages 43 to 96 form an integral part of these consolidated financial statements.

Notes to the financial statements (continued)

1 Incorporation and activities

First Takaful Insurance Company ("the company") is a Kuwaiti Public Shareholding Company that was incorporated on 25 July 2000 and is registered under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments. The shares of the company are listed on Kuwait Stock Exchange.

The company is a subsidiary of International Financial Advisors Company-KPSC (ultimate parent company).

The company is engaged in:

- Carrying out all types of insurance takaful activities (co-operative insurance) and related activities, including insurance and reinsurance;
- Investing the funds available to the company in various activities that are commensurate with the company's objectives and not in conflict with the provisions of the Islamic Sharee'a and the established rules and regulations;
- Providing insurance and reinsurance consultancy and technical studies to companies involved in similar activities;
- Investing the contributed funds from policyholders and returns thereon.

Takaful is an Islamic alternative to a conventional insurance and investment program, based on the mutual funds concept, where each policyholder will receive his share in the surplus arising from the insurance activities, in accordance with the company's articles of association and the approval of Fatwa and Sharee'a Supervisory Board.

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

The company maintains separate books of accounts for policyholders 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.

All insurance and investment activities are conducted in accordance with Islamic Sharee'a, as approved by Fatwa and Sharee'a Supervisory Board.

The address of the company's registered office is PO Box 5713, Safat 13058, State of Kuwait.

The financial statements for the year ended 31 December 2017 were authorised for issue by the board of directors of the company on 20 March 2018 and are subject to the approval of the General Assembly of the shareholders.

2 Basis of preparation

The financial statements of the company have been prepared under historical cost convention except for financial assets available for sale that have been measured at fair value.

The financial statements have been presented in Kuwaiti Dinars ("KD"), which is the functional and presentation currency of the company.

During the year, the company disposed of its only subsidiary, and accordingly the company derecognised the assets and liabilities of the subsidiary and profit or loss and other comprehensive income of the disposed subsidiary have been recognised up to the effective date of disposal. Hence, in the statement of financial position as of 31 December 2016 reported balances are consolidated whereas the amounts as of 31 December 2017 are those for the company only (see note 7.1).

Notes to the financial statements (continued)

3 Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

4 Changes in accounting policies

4.1 New and amended standards adopted by the company

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2017 which have been adopted by the company. Information on these new standards is presented below:

Standard or Interpretation	Effective for annual periods beginning
IAS 7 Statement of Cash Flows- Amendments	1 January 2017
Annual Improvements to IFRSs 2016-2014 Cycle	1 January 2017

IAS 7 Statement of Cash Flows- Amendments

The Amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes).

The Amendments:

- require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement
- suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
    - o changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses
    - o a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

The application of the amendments did not have any impact on the financial statements of the company.

Annual Improvements to IFRSs 2016-2014 Cycle

Amendments to IFRS 12 - Clarifies the scope of IFRS 12 by specifying that its disclosure requirements (except for those in IFRS 12. B-10B16) apply to an entity›s interests in a subsidiary, joint venture or an associate irrespective of whether they are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with IFRS 5.

The application of the amendments did not have any impact on the financial statements of the company as none of the company entities are classified as, or included in disposal group that is classified as held for sale.

4.2 IASB Standards issued but not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the company.

Notes to the financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

Management anticipates that all of the relevant pronouncements will be adopted in the company's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the company's financial statements.

Standard or Interpretation	Effective for annual periods beginning
IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments	No stated date
IFRS 4 and IFRS 9 - Amendments	1 January 2018
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 17 Insurance Contracts	1 January 2021
Annual Improvements to IFRSs 2016-2014 Cycle	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

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

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor›s financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations)
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

IASB has postponed the effective date indefinitely until other projects are completed. However, early implementation is allowed. Management anticipates that the application of these amendments may have an impact on the company's financial statements in future should such transactions arise.

IFRS 4 and IFRS 9 - Amendments

The Amendments provide entities that issue insurance contracts with temporary accounting solutions for the practical challenges of implementing IFRS 9 before the forthcoming new Insurance Contracts Standard.

Management of the company decided to implement IFRS 9 (see below) and therefore, does not anticipate that the application of the amendments in the future will have a significant impact on the company's financial statements.

Notes to the financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments: Classification and Measurement
The IASB published IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace AS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The main areas of expected impact are as follows:

- the classification and measurement of the financial assets based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed.
- an expected credit loss-based impairment will need to be recognised on the trade receivables and investments in debt-type assets currently classified as available for sale and held-to-maturity, unless classified as at fair value through profit or loss in accordance with the new criteria.
- it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss unless an irrevocable designation is made to present them in other comprehensive income.
- if the fair value option continues to be elected for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to own credit risk.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Further, the gains and losses on subsequent measurement of debt type financial instruments measured at Fair Value Through Other Comprehensive Income (FVOCI) will be recognised in equity and will be recycled to profit or loss on derecognition or reclassification.

However, gains or losses on subsequent measurement of equity type financial assets measured at FVOCI will be recognised in equity and not recycled to profit or loss on derecognition. Dividend income on these assets will continue to be recognised in profit or loss.

Based on the analysis of the company's financial assets and liabilities as at 31 December 2017 and of the circumstances that existed at that date, management of the company have determined the impact of implementation of IFRS 9 on the financial statements of the company as follows:

Classification and measurement:
As a result of new classifications, Equity investments amounting to KD3 will be reclassified from Available for Sale to FVOCI and will result in reversal of previously recognised impairment losses amounting to KD791,374 related to these investments from retained earnings to the fair value reserve.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Management analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

Notes to the financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments: Classification and Measurement (continued)
There is no impact on the financial liabilities of the company and will continue to be measured at amortised cost.

Impairment:
The company expects to apply simplified approach to impairment for other assets as required or permitted under the standard.

The management is currently assessing the impact of this simplified approach but does not expect any material impact to the financial statements.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 replaced IAS 18 "Revenues", IAS 11 "Construction Contract" and several revenue – related Interpretations and provides a new control-based revenue recognition model using five-step approach to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard includes important guidance, such as

- Contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts
- Timing – whether revenue is required to be recognized over time or at a single point in time
- Variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing an overall constraint on revenue
- Time value – when to adjust a contract price for a financing component
- Specific issues, including –
    - non-cash consideration and asset exchanges
    - contract costs
    - rights of return and other customer options
    - supplier repurchase options
    - warranties
    - principal versus agent
    - licencing
    - breakage
    - non-refundable upfront fees, and
    - consignment and bill-and-hold arrangements.

Management does not anticipate that the application of the standard in the future will have a significant impact on the company's financial statements.

Notes to the financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts

IFRS 17 will replace IFRS 4 Insurance contracts and The Standard introduces insurance contract measurement principles requiring:

- current, explicit and unbiased estimates of future cash flows
- discount rates that reflect the characteristics of the contracts' cash flows
- explicit adjustment for non-financial risk.

Day one profits should be deferred as a contractual service margin and allocated systematically to profit or loss as entities provide coverage and are released from risk. Revenue is no longer equal to written premiums but to the change in the contract liability covered by consideration.

A separate measurement model applies to reinsurance contracts held. Modifications are allowed for qualifying short-term contracts and participating contracts. Increased disclosure requirements apply.

IFRS 17 includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts provided certain criteria is met.

Management is in the process of assessing the impact of this standard but in no position to present quantified information as at the reporting date.

Annual Improvements to IFRSs 2016-2014 Cycle

Amendments to IAS 28 - Clarifies that a qualifying entity is able to choose between applying the equity method or measuring an investment in an associate or joint venture at fair value through profit or loss, separately for each associate or joint venture at initial recognition of the associate or joint venture. Amendment is effective for annual periods beginning on or after 1 January 2018.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the company's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretations looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income. A diversity was observed in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognized. IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the company's financial statements.

Notes to the financial statements (continued)

5 Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are set out below.

5.1 Investment in associates

Associates are those entities over which the company is able to exert significant influence but which are neither subsidiaries nor joint ventures.

Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the company's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognise the company's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the company.

Unrealised gains and losses on transactions between the company and its associates are eliminated to the extent of the company's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

The share of results of an associate is shown on the face of the statement of profit or loss. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associates are prepared either to the reporting date of the company or to a date not earlier than three months of the company's reporting date, using consistent accounting policies. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the company's financial statements.

After application of the equity method, the company determines whether it is necessary to recognise an additional impairment loss on the company's investment in its associate. The company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount under separate heading in the statement of profit or loss.

Upon loss of significant influence over the associate, the company measures and recognises any retained investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal are recognised in the statement of profit or loss.

5.2 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured, regardless of when payment is made.

The company applies the revenue recognition criteria set out below to each separately identifiable component of revenue.

Notes to the financial statements (continued)

5 Significant accounting policies (continued)

5.2 Revenue (continued)

5.2.1 Income from investment deposit

Income from investment deposit is recognised on a time proportion basis taking account of the principal outstanding and profit rate applicable.

5.2.2 Dividend income

Dividend income, other than those from associates, are recognised at the time the right to receive payment is established.

5.3 Operating expenses

Operating expenses are recognised in the statement of profit or loss upon utilisation of the service or at the date of their origin.

5.4 Taxation

5.4.1 Kuwait Foundation for the Advancement of Sciences (KFAS)

The contribution to KFAS is calculated at %1 of taxable profit of the company in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

5.4.2 National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at %2.5 of taxable profit of the company after deducting directors' remuneration paid for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

5.4.3 Zakat

Contribution to Zakat is calculated at %1 of the profit of the company in accordance with the Ministry of Finance resolution No. 2007/58 effective from 10 December 2007.

5.4.4 Taxation on overseas associates

Taxation on overseas associates are calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these associates operate.

5.5 Financial instruments

5.5.1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs.

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

Notes to the financial statements (continued)

5 Significant accounting policies (continued)

5.5 Financial instruments (continued)

5.5.1 Recognition, initial measurement and derecognition (continued)

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

Where the company has transferred its rights to receive cash flows from an asset or has entered into a pass- through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the company's continuing involvement in the asset.

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

5.5.2 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

• loans and receivables
• available-for-sale (AFS) financial assets.

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of receivables which is presented within other expenses.

• Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Notes to the financial statements (continued)

5 Significant accounting policies (continued)

5.5 Financial instruments (continued)

5.5.2 Classification and subsequent measurement of financial assets (continued)

• Loans and receivables (continued)
The company categorises loans and receivables into following category:

Other assets
Other assets are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Cash and cash equivalents and investment deposit
Cash and cash equivalents comprise a bank balance and an investment deposit which are subject to an insignificant risk of changes in value.

• AFS financial assets
AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in statement of profit or loss. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in statement of profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to statement of profit or loss and presented as a reclassification adjustment within other comprehensive income.

The company assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in the statement of profit or loss.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in statement of profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

5.5.3 Classification and subsequent measurement of financial liabilities
The company's financial liabilities include other liabilities and amount due to policyholders.

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

Other liabilities
Other liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Notes to the financial statements (continued)

5 Significant accounting policies (continued)

5.5 Financial instruments (continued)

5.5.3 Classification and subsequent measurement of financial liabilities (continued)

Amount due to policyholders
Amount due as a result of transactions with policyholders and cash advances from policyholders are included under amount due to policyholders.

5.6 Trade and settlement date accounting

All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

5.7 Offsetting of financial instruments

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

5.8 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

5.9 Impairment testing of non financial assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the company's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

5.10 Qard Hassan to policyholders

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

Notes to the financial statements (continued)

5 Significant accounting policies (continued)

5.11 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued and paid up.

Statutory and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the Companies' Law and the company's articles of association.

Fair value reserve – comprises of gains and losses relating to available for sale financial assets.

Foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the company's foreign associates into Kuwait Dinars.

Retained earnings/(accumulated losses) include all current and prior period retained profits and losses. All transactions with owners of the company are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting.

5.12 Foreign currency translation

5.12.1 Functional and presentation currency

Each entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

5.12.2 Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the respective company entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in statement of profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

5.12.3 Foreign operations

In the company's financial statements, all assets, liabilities and transactions of foreign entities with a functional currency other than the KD are translated into KD. The functional currency of the foreign entities has remained unchanged during the reporting period.

Assets and liabilities have been translated into KD at the closing rate at the reporting date. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to statement of profit or loss and are recognised as part of the gain or loss on disposal.

Notes to the financial statements (continued)

5 Significant accounting policies (continued)

5.13 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Contingent assets are not recognised in the financial statements, but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

5.14 Related party transactions

Related parties represent ultimate parent company, associates, major shareholders, directors and key management personnel of the company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the company's management.

6 Significant management judgements and estimation uncertainty

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

6.1 Significant management judgments

In the process of applying the company's accounting policies, management has made the following significant judgments, which have the most significant effect on the amounts recognised in the financial statements:

6.1.1 Classification of financial instruments

Judgements are made in the classification of financial instruments based on management's intention at acquisition.

The company classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets as at fair value through profit or loss depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of statement of income in the management accounts, they are classified as fair value through profit or loss.

Notes to the financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.1 Significant management judgments (continued)

6.1.1 Classification of financial instruments (continued)

Classification of assets as loans and receivables depends on the nature of the asset. If the company is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

All other financial assets are classified as available for sale.

6.1.2 Control assessment

When determining control, management considers whether the company has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgement.

6.2 Estimates uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

6.2.1 Impairment of available for sale equity investments

The company treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

6.2.2 Impairment of associates

After application of the equity method, the company determines whether it is necessary to recognise any impairment loss on the company's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in associate is impaired. If this is the case the company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the statement of profit or loss.

6.2.3 Fair value of financial instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

7 Subsidiary

Name of subsidiary	Ownership percentage		Country of incorporation	Principal activities
	31 Dec. 2017 %	31 Dec. 2016 %		
Consolidated with policyholders First Kuwait Insurance Brokerage Company -WLL	-	%98	Kuwait	Insurance brokerage

Notes to the financial statements (continued)

7 Subsidiary (continued)

7.1 Disposal of subsidiary

During the year, the company sold its investment in this subsidiary to related parties for an amount of KD97,636 realising a net loss of KD 2,364 (note 18.1). At the date of disposal, the carrying amounts of the subsidiary's net assets were as follows:

	KD
Total net assets	**100,000**
Less: sale considerations	**(97,636)**
Loss on disposal of subsidiary	**2,364**

8 Net investment income

	Year ended 31 Dec. 2017	(Consolidated) Year ended 31 Dec. 2016
	KD	KD
Gain on sale of available for sale investments – (note 11)	**210,232**	276,968
Dividend income	**-**	37,829
Profit on investment deposit (note 10)	**2,281**	3,164
	212,513	317,961

9 Basic and diluted earnings per share

Basic and diluted earnings per share is computed by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	Year ended 31 Dec. 2017	(Consolidated) Year ended 31 Dec. 2016
	KD	KD
Profit for the year (KD)	**1,209,552**	1,083,190
Weighted average number of shares outstanding during the year	**106,600,000**	106,600,000
Basic and diluted earnings per share	**11.35 Fils**	10.16 Fils

Notes to the financial statements (continued)

10 Investment deposit

In accordance with Kuwait law (Takaful insurance operations licence), an amount of KD135,000 has been deposited with a Kuwaiti financial institution as security to underwrite general insurance and life insurance business (also refer to note 18). During the year, the company withdrew the deposit after obtaining the approval of the Ministry of Industry and Commerce (refer note 21).

The average rate of profit earned on the deposit during the year was 31) %2.25 December %2.150 :2016).

11 Available for sale investments

	Year ended 31 Dec. 2017	(Consolidated) Year ended 31 Dec. 2016
	KD	KD
Quoted securities	**3**	3
Unquoted securities	**-**	599,449
	3	599,452

During the year, the company sold available for sale investments with a carrying value of KD599,449 (2016: KD33,529) for a total consideration of KD535,230 (2016: KD36,379) resulting into a gain of KD210,232 (2016: KD276,968) recognized in statement profit or loss.

12 Investment in associates

12.1 Details of the investment in associates are given below:

Name	**Percentage**	**ownership**	**Country of incorporation**	**Principal activity**
	31 Dec. 2017	31 Dec. 2016		
	%	%		
Weqaya Takaful Insurance and Reinsurance Company – SSC (“Weqaya”) (Quoted) (see a below)	**20**	20	Kingdom of Saudi Arabia	Insurance
Neova Sigorta Insurance Company (Unquoted) (see b below)	**35**	35	Turkey	Insurance

Notes to the financial statements (continued)

12 Investment in associates (continued)

Movement in the carrying amount of investment in associates is as follows:

	31 Dec. 2017	31 Dec. 2016
	KD	KD
Carrying amount at the beginning of the year	**12,643,260**	10,133,094
Additions	**-**	133,812
Share of results of associates – (b)	**2,642,811**	3,389,337
Impairment in value of associate – (b)	**(1,442,811)**	-
Foreign exchange translation adjustments	**(509,784)**	(1,012,983)
Carrying amount at the end of year	**13,333,476**	12,643,260

12.2 Summarised financial information of the associates are set out below:

a) Weqaya Takaful Insurance and Reinsurance Company - SSC (Quoted):
The company has discounted to recognise its share of further losses of Weqaya Takaful Insurance and Reinsurance Company which is stated at a carrying value of KD1 from 1 April 2014 in accordance with IAS 28. The company's share of unrecognised losses of the associate and its fair value as at 31 December 2017 cannot be determined because the investee company's shares have been suspended from trading since 3 June 2014. If the investee company subsequently report profits, the company will resume recognising its share of these profits only after its share of the profits equal the share of losses not recognised.

b) Neova Sigorta Insurance Company (Unquoted):

	31 Dec. 2017	31 Dec. 2016
	KD	KD
Non-current assets	**2,066,688**	1,052,915
Current assets	**122,946,360**	100,672,249
Total assets	**125,013,048**	101,725,164
Non-current liabilities	**(1,981,561)**	(2,356,728)
Current liabilities	**(101,646,001)**	(84,077,308)
Total liabilities	**(103,627,562)**	(86,434,036)
Net assets	**21,385,486**	15,291,128

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD	KD
Revenue	**85,682,256**	66,399,226
Profit for the year	**7,550,887**	9,683,819
Total comprehensive income for the year	**7,550,887**	9,713,749

Notes to the financial statements (continued)

12 Investment in associates (continued)

12.2 Summarised financial information of company's associates are set out below: (continued)

b) Neova Sigorta Insurance Company (Unquoted): (continued)
Reconciliation of the above summarised financial information of the associate with the carrying amount in the statement of financial position is give below:

	31 Dec. 2017	31 Dec. 2016
	KD	KD
Company's ownership interest (%)	**35**	35
Net assets of the associate	**21,385,486**	15,291,128
Company's share of net assets	**7,484,921**	5,351,894
Goodwill	**5,848,554**	7,291,365
Carrying amount	**13,333,475**	12,643,259

Management of the company assessed the fair value of the embedded goodwill included in its investment in Neova Sigorta Insurance Company based on a conservative approach. Accordingly, the company recognised an impairment loss of KD1,442,811 against this goodwill in the statement of profit or loss for the year.

Neova Sigorta Insurance Company is a private company. Therefore, no quoted market price is avaiable for its share.

No dividends were received from the associates during the year (2016: Nil).

13 Qard Hassan to policyholders' fund and deficit reserve

In accordance with the company's articles of association, the policyholders' net deficit from insurance operations has been covered by "Qard Hassan" from the shareholders. The Qard Hassan given by shareholders will be settled through surplus arising from the insurance operations in future years.

	31 Dec. 2017	31 Dec. 2016
	KD	KD
Opening balance at the beginning of the year	**1,200,791**	-
Net deficit for the year from insurance operations (note 18)	**1,052,700**	3,010,134
Decrease in Qard Hassan to policyholders (note18)	**-**	(1,809,343)
Closing balance at the end of the year	**2,253,491**	1,200,791

Notes to the financial statements (continued)

14 Share capital

	31 Dec. 2017 KD	31 Dec. 2016 KD
Authorised shares of 100 Fils each	**10,760,000**	10,760,000
Issued and fully paid shares of 100 Fils each	**10,660,000**	10,660,000

15 Statutory and voluntary reserves

The Companies Law and the company's articles of association require that %10 of the profit for the year before KFAS, NLST, Zakat and board of directors' remuneration to be transferred to the statutory reserve. The shareholders of the company may resolve to discontinue such annual transfers when the reserve totals %50 of the paid up share capital.

Distribution of statutory 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.

According to the company's articles of association, %10 of the profit for the year before KFAS, NLST, Zakat and board of directors' remuneration to be transferred to the voluntary reserve at the discretion of the board of directors subject to the approval of the general assembly.

There is no restriction on distribution of voluntary reserve.

16 Amount due to policyholders

	31 Dec. 2017 KD	31 Dec. 2016 KD
Opening balance at the beginning of the year	**3,871,789**	3,068,470
Net movements during the year	**(537,672)**	(1,006,024)
Policyholders' insurance deficit transferred to shareholders – note 18.8	**-**	1,809,343
Closing balance at the end of the year	**3,334,117**	3,871,789

Net movements in policyholders' account represent the net fund transfers from and to their account including buying and selling shares on their behalf during the year.

17 Annual General Assembly of the Shareholders

The board of directors of the company proposed not to distribute any dividends for the year ended 31 December 2017, and this proposal is subject to the approval of the general assembly of the company's shareholders.

The annual general assembly of the shareholders held on 20 April 2017 approved the financial statements of the company for the year ended 31 December 2016 and the directors' proposal not to distribute any dividends for the year then ended.

Notes to the financial statements (continued)

18 Policyholders' results by line of business and fund

The significant accounting policies used in accounting for the insurance business are set out below. Policies used in accounting for other accounts and transactions are the same as those adopted by the company.

Revenue recognition

Premiums earned

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of net written premiums relating to the unexpired period of coverage that extend beyond the end of the financial year; they are calculated based on a time apportionment basis over the exposure to policies.

Policy issuance fees and policy acquisition costs

Policy issuance fees and policy acquisition costs are recognised at the time of recognition of the related premium.

Reinsurance

In the normal course of business, the company cedes and assumes certain levels of risk in various areas of exposure with other insurance companies or reinsurers. Such reinsurance includes quota share, excess of loss, facultative and other forms of reinsurance on essentially all lines of business.

Reinsurance ceded or assumed are deducted from gross premium to arrive at net premium.

Claims

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

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

Liability adequacy test

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

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

Premium and reinsurance receivables

Receivables are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debt is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Notes to the financial statements (continued)

18 Policyholders' results by line of business and fund (continued)

Equipment

Equipment are initially recognised at acquisition cost including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the company's management.

Equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of equipment. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of equipment.

The following useful lives are applied:

- Equipment: 4-5 years
- Vehicles: 3 years

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the statement of policyholders' results.

Life mathematical reserve

The provision for life contracts is calculated on the basis of an actuarial valuation method.

Additional reserve

The additional reserve includes amounts reserved for claims Incurred But Not Reported ("IBNR") at the financial position date in addition to other contingencies and any differences that may arise. Provision based on management's judgement and the company's prior experience is maintained for the cost of settling claims incurred but not reported at the financial position date.

Provision for employees' end of service benefits

The company provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date.

With respect to its Kuwaiti national employees, in addition to the end of service benefits, the company makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. The company's obligations are limited to these contributions, which are expensed when due.

Estimation uncertainty

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

Impairment of premiums receivable

An estimate of the collectible amount of premiums receivable 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.

Notes to the financial statements (continued)

18 Policyholders' results by line of business and fund (continued)

Estimation uncertainty (continued)

Useful lives of depreciable assets
Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

Provision for outstanding claims and IBNR
Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible if significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The company generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

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

Policyholders' results by line of business:

Year ended 31 December 2017:	Marine and aviation KD	General accident KD	Motor vehicles KD	Fire KD	Life and medical KD	Total KD
Premiums written	382,862	1,126,403	2,353,961	713,628	1,820,558	6,397,412
Less: reinsurance ceded	(326,823)	(592,363)	(161,500)	(497,847)	(455,999)	(2,034,532)
Net premiums	56,039	534,040	2,192,461	215,781	1,364,559	4,362,880
Movement in unearned premiums	6,416	5,756	987,888	(6,083)	(14,403)	979,574
Net premiums earned	62,455	539,796	3,180,349	209,698	1,350,156	5,342,454
Policy issuance fees	1,897	1,884	348,729	1,216	1,321	355,047
Total revenues	64,352	541,680	3,529,078	210,914	1,351,477	5,697,501
Net claims incurred	16,136	(98,186)	(3,554,479)	2,115	(786,876)	(4,421,290)
Movement in life mathematical reserve	-	-	-	-	4,000	4,000
Other insurance expenses	(2,437)	(4,797)	(67,940)	(39,485)	(82,135)	(196,794)
Policy acquisition costs	(8,662)	(92,644)	(583,512)	(76,303)	(96,400)	(857,521)
Total expenses	5,037	(195,627)	(4,205,931)	(113,673)	(961,411)	(5,471,605)
Surplus/(deficit) by line of business	69,389	346,053	(676,853)	97,241	390,066	225,896
Allocation of general and administrative expenses	(109,088)	(202,993)	(583,769)	(153,968)	(364,169)	(1,413,987)
Net (deficit)/surplus from insurance operations	(39,699)	143,060	(1,260,622)	(56,727)	25,897	(1,188,091)
Investment and other income(note 18.1)	6,770	20,308	67,696	13,539	27,078	135,391
Net (deficit)/surplus from takaful insurance operations	(32,929)	163,368	(1,192,926)	(43,188)	52,975	(1,052,700)

Notes to the financial statements (continued)

18 Policyholders' results by line of business and fund (continued)

Policyholders' results by line of business: (continued)

	Marine and aviation	General accident	Motor vehicles	Fire	Life and medical	Total
Year ended 31 December 2016:	KD	KD	KD	KD	KD	KD
Premiums written	341,974	1,195,828	5,001,067	762,492	1,827,219	9,128,580
Less: reinsurance ceded	(273,111)	(634,251)	(434,968)	(569,355)	(555,218)	(2,466,903)
Net premiums	68,863	561,577	4,566,099	193,137	1,272,001	6,661,677
Movement in unearned premiums	(1,621)	(10,769)	560,556	5,701	(220,492)	333,375
Net premiums earned	67,242	550,808	5,126,655	198,838	1,051,509	6,995,052
Policy issuance fees	2,617	2,367	381,982	1,284	15,598	403,848
Total revenues	69,859	553,175	5,508,637	200,122	1,067,107	7,398,900
Net claims incurred	(15,902)	(198,532)	(5,743,097)	813	(895,463)	(6,852,181)
Movement in life mathematical reserve	-	-	-	-	6,000	6,000
Other insurance expenses	(3,059)	(5,617)	(91,667)	(12,475)	(86,352)	(199,170)
Policy acquisition costs	(16,195)	(86,629)	(1,359,670)	(56,296)	(68,893)	(1,587,683)
Total expenses	(35,156)	(290,778)	(7,194,434)	(67,958)	(1,044,708)	(8,633,034)
Surplus/(deficit) by line of business	34,703	262,397	(1,685,797)	132,164	22,399	(1,234,134)
Allocation of general and administrative expenses	(176,183)	(278,370)	(730,846)	(199,742)	(454,815)	(1,839,956)
Net deficit from insurance operations	(141,480)	(15,973)	(2,416,643)	(67,578)	(432,416)	(3,074,090)
Investment and other income(note 18.1)	3,198	9,593	31,978	6,396	12,791	63,956
Net deficit from takaful insurance operations	(138,282)	(6,380)	(2,384,665)	(61,182)	(419,625)	(3,010,134)

Policyholders' assets, liabilities and fund:

	Notes	31 Dec. 2017 KD	31 Dec. 2016 KD
Assets			
Cash and bank balances		**451,107**	240,343
Investment deposits	18.2	**1,026,000**	1,218,395
Available for sale investments	18.3	**1,359,881**	1,581,593
Premiums receivable	18.4	**759,850**	1,053,429
Accounts receivable and other assets	18.5	**1,026,250**	1,552,073
Amount due from shareholders	16	**3,334,117**	3,871,789
Reinsurance recoverable on outstanding claims		**3,686,787**	2,773,027
Equipment		**125,342**	117,527
Total assets		**11,769,334**	12,408,176
Liabilities			
Reinsurance balances payable		**2,030,084**	1,718,944
Unearned premiums		**1,647,116**	2,626,690
Outstanding claims reserve		**6,393,127**	4,846,881
Life mathematical reserve		**72,286**	76,286
Reserve retained on reinsurance business		**290,159**	300,353
Other liabilities	18.7	**3,811,765**	4,039,813
Total liabilities		**14,244,537**	13,608,967

Notes to the financial statements (continued)

18 Policyholders' results by line of business and fund (continued)

Policyholders' assets, liabilities and fund: (continued)

	Notes	31 Dec. 2017	31 Dec. 2016
		KD	KD
Policyholders' fund			
Net deficit for policyholders at the beginning of the year		(1,200,791)	-
Net deficit from insurance operations for the year		(1,052,700)	(3,010,134)
Net deficit from insurance operations transferred to shareholders		-	1,809,343
		(2,253,491)	(1,200,791)
Fair value reserve		(221,712)	-
Total policyholders' fund at the end of year	18.8	(2,475,203)	(1,200,791)
Total liabilities and policyholders' fund		11,769,334	12,408,176

18.1 Investment and other income:

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD	KD
Investment income	60,576	63,956
Loss on disposal of subsidiary (note 7.1)	(2,364)	-
Other income	77,179	-
	135,391	63,956

18.2 Investment deposits:

In accordance with Kuwaiti law, an amount of KD31) 1,026,000 December 2016: KD1,218,395) has been retained as an investment deposit with a Kuwaiti financial institution. The effective profit rate on the deposits during the year was %2.25 31) December %2.19 :2016).

18.3 Available for sale investments:

	31 Dec. 2017	2016
	KD	KD
Quoted securities	**3**	3
Local unquoted securities	**909,847**	1,131,559
Foreign unquoted securities	**450,031**	450,031
	1,359,881	1,581,593

Unquoted investment with carrying value of KD31) 909,847 December 2016: KD1,131,559) is held as security as per the order of the Minister of Commerce and Industry in accordance with the Ministerial Order No. 27 of 1966 and its amendments.

Foreign unquoted securities include investments amounting to KD31) 450,031 December 2016: KD450,031) stated at cost less impairment due to the unpredictable nature of future cash flows and the unavailability of other financial information to arrive at a reliable measure of fair value. Management has performed an analysis of the underlying investments which indicates that there is no impairment.

Notes to the financial statements (continued)

18 Policyholders' results by line of business and fund (continued)

18.4 Premiums receivable:

	31 Dec. 2017	31 Dec. 2016
	KD	KD
Premiums receivable	1,001,787	1,187,277
Less: provision for doubtful debts	(241,937)	(133,848)
	759,850	1,053,429

The carrying values of the financial assets included above approximate their fair values and all of these are due within one year, such that the effect of any difference between the effective interest applied and the estimated current market is not significant.

Premiums receivable are not interest bearing and generally on 180 – 30 days terms.

As at 31 December, the movement in the provision for doubtful debts is as follows:

	31 Dec. 2017	31 Dec. 2016
	KD	KD
Balance at 1 January	133,848	133,848
Provision made during the year	108,089	-
Balance at 31 December	241,937	133,848

As at 31 December the aging analysis of premiums receivable is as follows:

	31 Dec. 2017	31 Dec. 2016
	KD	KD
Less than 3 months	460,093	468,367
3 – 6 months	104,311	165,575
6 – 12 months	186,234	169,293
12 – 24 months	165,758	202,095
over 24 monthsW	85,391	181,947
Total premiums receivable	1,001,787	1,187,277

18.5 Accounts receivable and other assets:

	31 Dec. 2017	31 Dec. 2016
	KD	KD
Reinsurance receivable	945,360	1,219,883
Cheques under collection	6,041	218,291
Accrued income	22,572	26,641
Other assets	52,277	87,258
	1,026,250	1,552,073

The carrying values of the financial assets included above approximate their fair values and all of these are due within one year, such that the effect of any difference between the effective interest applied and the estimated current market is not significant.

Notes to the financial statements (continued)

18 Policyholders' results by line of business and fund (continued)

18.5 Accounts receivable and other assets: (continued)

Reinsurance balances receivable are non interest bearing and generally on 180-30 days terms.

As at 31 December the aging analysis of reinsurance balances receivable is as follows:

	31 Dec. 2017	31 Dec. 2016
	KD	KD
Less than 3 months	**298,867**	344,615
3 – 6 months	**124,706**	50,288
6 – 12 months	**219,601**	252,799
12 – 24 months	**140,245**	384,583
over 24 months	**161,941**	187,598
Total reinsurance balances receivable	**945,360**	1,219,883

18.6 Additional reserve:

The additional reserve includes amounts reserved for claims incurred but not reported for third party liabilities policies at the financial position date in addition to other contingencies and any differences that may arise. Provision was based on management's judgment and the company's prior experience at the financial position date.

During the year 2017 and 2016, management of the company decided that the above provision is no longer required which was included within total balance of outstanding claim reserve in addition to claims which were recorded and incurred but not reported reserve, also the provision was reconciled with reinsurance recoverable on outstanding claims.

18.7 Other liabilities:

	31 Dec. 2017	31 Dec. 2016
	KD	KD
Reinsurance payables	607,785	761,262
Garages and agencies	1,760,528	1,164,430
Brokerage commissions	175,185	789,806
Provision for employees' end of service benefits	350,657	327,753
Provision for staff leave	124,356	145,072
Accrued expenses	165,593	287,254
Due to related party	300,000	450,000
Other liabilities	327,661	114,236
	3,811,765	4,039,813

18.8 Movement in policyholders' fund:

	31 Dec. 2017	31 Dec. 2016
	KD	KD
Balance at beginning of the year	(1,200,791)	-
Net deficit from insurance operations for the year	(1,052,700)	(3,010,134)
Net deficit from insurance operations transferred to shareholders	-	1,809,343
	(2,253,491)	(1,200,791)
Available for sale investments:		
- Net change in fair value arising during the year	(221,712)	-
Balance at the end of the year	(2,475,203)	(1,200,791)

Notes to the financial statements (continued)

18 Policyholders' results by line of business and fund (continued)

18.8 Movement in policyholders' fund: (continued)

In accordance with the company's articles of association, policyholders' net deficit from insurance operations has been covered by "Qard Hassan" from the shareholders. The Qard Hassan given by shareholders will be settled through surplus arising from the insurance operations in future years.

19 Related party balances and transactions

Related parties represent ultimate parent company, associates, major shareholders, directors and key management personnel of the company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the company's management. Details of balances and transactions between the company and its related parties are disclosed below.

	Year ended 31 Dec. 2017	(Consolidated) Year ended 31 Dec. 2016
	KD	KD
SHAREHOLDERS		
Key management compensation:		
Salaries and other short term benefits	51,441	51,709
End of service benefits	3,056	3,013
	54,497	54,722

	31 Dec. 2017	2016
	KD	KD
POLICYHOLDERS		
Statement of financial position:		
Premiums receivable	**5,164**	41,735
Other liabilities	**227,615**	82,670
Due to related party (included in other liabilities)	**300,000**	450,000

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD	KD
Statement of policyholders' results:		
Premiums written	**186,927**	182,814
Consultancy fees	**60,000**	80,000
Rent expense	**88,012**	29,337
Key management compensation:		
Salaries and other short term benefits	**154,323**	155,126
End of service benefits	**9,168**	9,041
	163,491	164,167

Notes to the financial statements (continued)

20 Segmental analysis

Operating segments are identified based on internal management reporting information that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance, and is reconciled to company's profit or loss.

The company operates in the sectors of investment and takaful insurance as follows:

	Investment	Takaful insurance	Unallocated	Total
	KD	KD	KD	KD
Shareholders				
Year ended at 31 December 2017				
Total revenue	**2,855,324**	**-**	**-**	**2,855,324**
Profit/(loss) for the year	**1,410,149**	**-**	**(200,597)**	**1,209,552**
As at 31 December 2017				
Total assets	**13,333,479**	**2,253,491**	**9,183**	**15,596,153**
Total liabilities	**-**	**(5,587,608)**	**(172,455)**	**(5,760,063)**
Net assets	**13,333,479**	**(3,334,117)**	**(163,272)**	**9,836,090**
Shareholders				
Year ended at 31 December 2016				
Total revenue	3,707,298	(1,809,343)	-	1,897,955
Profit/(loss) for the year	3,003,973	(1,809,343)	(111,440)	1,083,190
As at 31 December 2016				
Total assets	13,377,712	1,200,791	9,707	14,588,210
Total liabilities	-	(5,072,580)	(104,857)	(5,177,437)
Net assets	13,377,712	(3,871,789)	(95,150)	9,410,773

	Investment	Takaful insurance	Unallocated	Total
	KD	KD	KD	KD
Policyholders				
Year ended at 31 December 2017				
Total revenue	**135,391**	**5,697,501**	**-**	**5,832,892**
Net surplus/(deficit) for the year	**135,391**	**225,896**	**(1,413,987)**	**(1,052,700)**
As at 31 December 2017				
Total assets	2,385,881	8,807,004	576,449	11,769,334
Total liabilities	-	(10,432,772)	(3,811,765)	(14,244,537)
Net assets	2,385,881	(1,625,768)	(3,235,316)	(2,475,203)
Policyholders				
Year ended at 31 December 2016				
Total revenue	63,956	7,398,900	-	7,462,856
Net surplus/(deficit) for the year	63,956	(1,234,134)	(1,839,956)	(3,010,134)
As at 31 December 2016				
Total assets	2,799,988	9,250,318	357,870	12,408,176
Total liabilities	-	(9,569,154)	(4,039,813)	(13,608,967)
Net assets	2,799,988	(318,836)	(3,681,943)	(1,200,791)

Notes to the financial statements (continued)

21 Contingent liabilities

Contingent liabilities as at 31 December 2017 in respect of outstanding letters of guarantee amounted to KD Nil (31 December 2016: KD135,000) (note 10).

The company is a defendant in a number of legal cases filed by Takaful contract holders in respect of claims subject of dispute with the company for which company has made provisions which, in its opinion, are adequate to cover any resultant liabilities.

22 Risk management objectives and policies

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

The company›s board of directors is ultimately responsible for establishing an overall risk management function and approving risk strategies and principles.

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

1. The following are the key regulations governing the operations of the company:
   - For the life and capital insurance contracts issued in Kuwait, the full mathematical reserves are to be retained in Kuwait.
   - For marine insurance contracts, at least %15 of the premiums collected in the previous year are to be retained in Kuwait.
   - For all other types of insurance, at least %30 of the premiums collected in the previous year are to be retained in Kuwait.

The funds retained in Kuwait should be invested as under:

a. A minimum of %40 of the funds are to be in the form of cash deposits in a bank operating in Kuwait
b. A maximum of %25 could be invested in foreign securities (foreign government bonds or foreign securities – bonds and shareholding companies)
c. A maximum of %30 should be invested in Kuwaiti companies' shares or bonds
d. A maximum of %15 should be in a current account with a bank operating in Kuwait

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

The company's senior management is responsible for monitoring compliance with the above regulation and has the delegated authorities and responsibilities from the board of directors to ensure compliance.

Insurance risk is the risk that actual claims payable to policyholders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims are more than expected.

Notes to the financial statements (continued)

22 Risk management objectives and policies (continued)

1. The following are the key regulations governing the operations of the company: (continued)

Frequency and amounts of claims

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

(1) Non-life insurance contracts

The company principally issues the following types of general insurance contracts: Marine-Cargo, Hull Comprehensive & Third Party Liability, Fire, House-holders Comprehensive, Contractors All Risks, Erection All Risks, Machinery Breakdown, Electronic Equipment, Burglary, Personal Accident, Cash in Transit, Fidelity Guarantee, Plate Glass, Workmen Compensation, Third Party Liability, Professional Indemnity, Bankers Blanket, Travel Assistance, Motor Comprehensive, and Motor Third Party Liability. Healthcare contracts provide medical expense cover to policyholders. Risks under non-life insurance policies usually cover twelve-month duration.

For general insurance contracts the most significant risks arise from climate changes, natural disasters and terrorist activities.

Marine and aviation

For marine insurance 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 company has reinsurance cover to limit losses for any individual claim to KD1,750,000 31) December 2016: KD1,750,000).

Fire and accidents

For property insurance contracts the main risks are fire and business interruption. In recent years the company has only underwritten policies for properties containing fire detection equipment.

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 company has reinsurance cover for such damage to limit losses for any individual claim to KD31) 13,000,000 December 2016: KD13,000,000).

Motor

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years the company has primarily underwritten comprehensive polices for owner/drivers over 21 years of age. The company has reinsurance cover to limit losses for any individual claim to KD31) 400,000 December 2016: KD400,000).

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

Notes to the financial statements (continued)

22 Risk management objectives and policies (continued)

(2) Non-life insurance contracts (continued)

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

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

The company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g hurricanes, earthquakes and flood damages).

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

	31 Dec. 2017			31 Dec. 2016		
	Gross liabilities	**Reinsurers' share of liabilities**	**Net liabilities**	**Gross liabilities**	**Reinsurers' share of liabilities**	**Net liabilities**
	KD	**KD**	**KD**	KD	KD	KD
Marine and aviation	**1,014,028**	**(1,000,724)**	**13,304**	303,207	(244,715)	58,492
General accident	**1,703,756**	**(1,068,775)**	**634,981**	2,018,732	(1,019,258)	999,474
Motor vehicles	**2,318,235**	**(727,796)**	**1,590,439**	3,298,420	(436,205)	2,862,215
Fire	**153,439**	**(146,211)**	**7,228**	623,887	(549,172)	74,715
Total	**5,189,458**	**(2,943,506)**	**2,245,952**	6,244,246	(2,249,350)	3,994,896

Key assumptions

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

(2) Life insurance contracts

For life insurance the main risks are claims for medical, death or permanent disability.

The underwriting strategy for the life of business is to ensure that policies are well diversified in terms of type of risk and level of insured benefit. This is achieved through the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history.

Notes to the financial statements (continued)

22 Risk management objectives and policies (continued)

(2) Life insurance contracts (continued)
For healthcare contracts the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

These risks do not vary significantly in relation to the location of the risk insured by the company, type of risk insured and by industry. Life insurance contracts offered by the company include company whole life insurance, credit life (banks), and company medical including third party administration (TPA).

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

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

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

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

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

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

Notes to the financial statements (continued)

22 Risk management objectives and policies (continued)

(2) Life insurance contracts (continued)

The table below sets out the concentration of life insurance and by type of contract.

	31 Dec. 2017			31 Dec. 2016		
	Gross liabilities	**Reinsurers' share of liabilities**	**Net liabilities**	**Gross liabilities**	**Reinsurers' share of liabilities**	**Net liabilities**
	KD	**KD**	**KD**	KD	KD	KD
Type of contract						
Credit life (credit insurance)	**265,285**	**(192,999)**	**72,286**	289,286	(213,000)	76,286
Other life insurance contract liabilities	**938,384**	**(550,282)**	**388,102**	1,229,325	(523,676)	649 ,705
Total life insurance contract	**1,203,669**	**(743,281)**	**460,388**	1,518,611	(736,676)	781,935

All life insurance contracts are in Kuwait, the analysis above would not be materially different if based on the countries in which the counterparties are situated.

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

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

Financial risks

The company's activities expose it to variety of financial risks: market risk (including currency risk, profit rate risk and equity price risk), credit risk and liquidity risk.

The company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The most significant financial risks to which the company is exposed are described below.

22.1 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The company's credit policy and exposure to credit risk is monitored on an ongoing basis. The company seeks to avoid undue concentrations of risks with individuals or group of customers in specific locations or business through diversification of its activities.

Notes to the financial statements (continued)

22 Risk management objectives and policies (continued)

22.1 Credit risk (continued)

The tables below show the maximum exposure to credit risk for the components of the financial position.

(Consolidated)

	31 Dec. 2017	31 Dec. 2016
	KD	KD
SHAREHOLDERS		
Bank balance	4,297	4,297
Investment deposit	-	135,000
Qard Hassan to policyholders' fund	2,253,491	1,200,791
Other assets	2,221	2,910
	2,260,009	1,342,998
POLICYHOLDERS		
Bank balances	444,018	228,392
Investment deposits	1,026,000	1,218,395
Premiums receivable	759,850	1,053,429
Accounts receivable and other assets	989,036	1,503,150
Amount due from shareholders	3,334,117	3,871,789
Reinsurance recoverable on outstanding claims	3,686,787	2,773,027
	10,239,808	10,648,182

Credit quality per class of financial assets

The credit quality of financial assets is managed by the company using internal credit ratings. The table below shows the credit quality by class of asset for related financial position lines, based on the company's credit rating system.

Credit quality per class of financial assets

At 31 December 2017 and 31 December 2016, credit quality per class is as follows:

	Neither past due nor impaired			
	High grade	**Standard grade**	**Past due or impaired**	**Total**
31 December 2017	**KD**	**KD**	**KD**	KD
SHAREHOLDERS				
Bank balance	**4,297**	**-**	**-**	**4,297**
Qard Hassan to policyholders' fund	**-**	**2,253,491**	**-**	**2,253,491**
Other assets	**2,221**	**-**	**-**	**2,221**
	6,518	**2,253,491**	**-**	**2,260,009**
POLICYHOLDERS				
Bank balances	**444,018**	**-**	**-**	**444,018**
Investment deposits	**1,026,000**	**-**	**-**	**1,026,000**
Premiums receivable	**460,093**	**299,757**	**-**	**759,850**
Accounts receivable and other assets	**80,890**	**908,146**	**-**	**989,036**
Amount due from shareholders	**-**	**3,334,117**	**-**	**3,334,117**
Reinsurance recoverable on outstanding claims	**-**	**3,686,787**	**-**	**3,686,787**
	2,011,001	**8,228,807**	**-**	**10,239,808**

Notes to the financial statements (continued)

22 Risk management objectives and policies (continued)

22.1 Credit risk (continued)

	Neither past due nor impaired			
	High grade	Standard grade	Past due or impaired	Total
31 December 2016	KD	KD	KD	KD
SHAREHOLDERS (consolidated)				
Bank balance	4,297	-	-	4,297
Investment deposit	135,000	-	-	135,000
Qard Hassan to policyholders' fund	-	1,200,791	-	1,200,791
Other assets	2,910	-	-	2,910
	142,207	1,200,791	-	1,342,998
POLICYHOLDERS				
Bank balances	228,392	-	-	228,392
Investment deposits	1,218,395	-	-	1,218,395
Premiums receivable	319,148	686,181	48,100	1,053,429
Accounts receivable and other assets	979,762	523,388	-	1,503,150
Amount due from shareholders	-	3,871,789	-	3,871,789
Reinsurance recoverable on outstanding claims	-	2,773,027	-	2,773,027
	2,745,697	7,854,385	48,100	10,648,182

2. Liquidity risk

Liquidity risk is the risk that the company will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis. The undiscounted cash outflows for financial liabilities are not materially different from those presented below.

Maturity profile of assets and liabilities at 31 December 2017 and 31 December 2016:

	1–3 month KD	3-6 Months KD	6-12 months KD	Total Up to 1 year KD	Over 1 year KD	Total KD
31 December 2017						
SHAREHOLDERS						
Assets						
Bank balance	4,297	-	-	4,297	-	4,297
Available for sale investments	-	-	-	-	3	3
Investment in associates	-	-	-	-	13,333,476	13,333,476
Qaurd Hassan to policyholders' fund	-	-	-	-	2,253,491	2,253,491
Other assets	2,221	2,665	-	4,886	-	4,886
	6,518	2,665	-	9,183	15,586,970	15,596,153
Liabilities						
Policyholders' deficit reserve	-	-	-	-	2,253,491	2,253,491
Amount due to policyholders	-	-	-	-	3,334,117	3,334,117
Other liabilities	-	10,250	135,226	145,476	26,979	172,455
	-	10,250	135,226	145,476	5,614,587	5,760,063
Net exposure	6,518	(7,585)	(135,226)	(136,293)	9,972,383	9,836,090

Notes to the financial statements (continued)

22 Risk management objectives and policies (continued)

22.2 Liquidity risk

Liquidity risk is the risk that the company will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis. The undiscounted cash outflows for financial liabilities are not materially different from those presented below.
Maturity profile of assets and liabilities at 31 December 2017 and 31 December 2016:

	1–3 month	3-6 Months	6-12 months	Total Up to 1 year	Over 1 year	Total
	KD	KD	KD	KD	KD	KD
31 December 2017						
POLICYHOLDERS						
Assets						
Cash and bank balances	451,107	-	-	451,107	-	451,107
Investment deposits	-	-	-	-	1,026,000	1,026,000
Available for sale investments	-	-	-	-	1,359,881	1,359,881
Premiums receivable	460,093	104,311	195,446	759,850	-	759,850
Accounts receivable and other assets	373,644	142,150	219,090	734,884	291,366	1,026,250
Amount due from shareholders	-	-	-	-	3,334,117	3,334,117
Reinsurance recoverable on outstanding claims	368,678	553,018	921,696	1,843,392	1,843,395	3,686,787
Equipment	-	-	-	-	125,342	125,342
	1,653,522	799,479	1,336,232	3,789,233	7,980,101	11,769,334
Liabilities						
Reinsurance balances payable	345,337	181,915	425,265	952,517	1,077,567	2,030,084
Unearned premiums	247,067	329,429	411,779	988,275	658,841	1,647,116
Outstanding claims reserve	639,313	958,969	1,598,282	3,196,564	3,196,563	6,393,127
Life mathematical reserve	-	-	-	-	72,286	72,286
Reserve retained on reinsurance business	-	-	-	-	290,159	290,159
Other liabilities	381,176	571,765	952,941	1,905,882	1,905,883	3,811,765
	1,612,893	2,042,078	3,388,267	7,043,238	7,201,299	14,244,537
Net exposure	40,629	(1,242,599)	(2,052,035)	(3,254,005)	778,802	(2,475,203)

	1–3 month	3-6 Months	6-12 months	Total Up to 1 year	Over 1 year	Total
	KD	KD	KD	KD	KD	KD
31 December 2016						
SHAREHOLDERS (consolidated)						
Bank balance	4,297	-	-	4,297	-	4,297
Investment deposit	-	-	135,000	135,000	-	135,000
Available for sale investments	-	-	-	-	599,452	599,452
Investment in associates	-	-	-	-	12,643,260	12,643,260
Qard Hassan to policyholders' fund	-	-	-	-	1,200,791	1,200,791
Other assets	2,910	2,500	-	5,410	-	5,410
	7,207	2,500	135,000	144,707	14,443,503	14,588,210
SHAREHOLDERS (consolidated)						
Liabilities						
Policyholders' deficit reserve	-	-	-	-	1,200,791	1,200,791
Amount due to policyholders	-	-	-	-	3,871,789	3,871,789
Other liabilities	4,514	294	43,607	48,415	56,442	104,857
	4,514	294	43,607	48,415	5,129,022	5,177,437
Net exposure	2,693	2,206	91,393	96,292	9,314,481	9,410,773

Notes to the financial statements (continued)

22 Risk management objectives and policies (continued)

22.2 Liquidity risk (continued)

	1–3 month KD	3-6 Months KD	6-12 months KD	Total Up to 1 year KD	Over 1 year KD	Total KD
31 December 2016						
POLICYHOLDERS						
Assets						
Cash and bank balances	240,343	-	-	240,343	-	240,343
Investment deposits	-	-	-	-	1,218,395	1,218,395
Available for sale investments	-	-	-	-	1,581,593	1,581,593
Premiums receivable	267,053	686,181	52,095	1,005,329	48,100	1,053,429
Accounts receivable and other assets	552,418	427,344	384,533	1,364,295	187,778	1,552,073
Amount due from shareholders	-	-	-	-	3,871,789	3,871,789
Reinsurance recoverable on outstanding claims	277,303	415,954	693,256	1,386,513	1,386,514	2,773,027
Equipment	-	-	-	-	117,527	117,527
	1,337,117	1,529,479	1,129,884	3,996,480	8,411,696	12,408,176
Liabilities						
Reinsurance balances payable	167,750	122,045	261,656	551,451	1,167,493	1,718,944
Unearned premiums	262,669	394,003	656,673	1,313,345	1,313,345	2,626,690
Outstanding claims reserve	484,688	727,032	1,211,720	2,423,440	2,423,441	4,846,881
Life mathematical reserve	-	-	-	-	76,286	76,286
Reserve retained on reinsurance business	-	-	-	-	300,353	300,353
Other liabilities	111,111	253,288	517,083	881,482	3,158,331	4,039,813
	1,026,218	1,496,368	2,647,132	5,169,718	8,439,249	13,608,967
Net exposure	310,899	33,111	(1,517,248)	(1,173,238)	(27,553)	(1,200,791)

22.3 Market risk

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

Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (profit rate risk) and market prices (equity price risk).

The company limits market risk by maintaining a diversified portfolio and by monitoring the developments in markets.

(a) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company's principal transactions are carried out in KD and its exposure to foreign exchange risk arises primarily with respect to US Dollar, Sterling Pound, Saudi Riyal and Turkish Lira.

The company's financial assets are primarily denominated in the same currencies as its insurance contract liabilities, which mitigate the foreign currency exchange rate risk. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance contract liabilities are expected to be settled.

Notes to the financial statements (continued)

22 Risk management objectives and policies (continued)

22.3 Market risk (continued)
The tables below summaries the company's significant exposures to foreign currency exchange rate risk at the financial position date:

	Denominated in KD					
	USD	Sterling Pound	Saudi Riyal	Turkish Lira	Other	Total
Shareholders						
31 December 2017	-	**-**	**1**	**13,333,475**	**-**	**13,333,476**
31 December 2016 (consolidated)	-	-	1	12,643,259	-	12,643,260
Policyholders						
31 December 2017	**377,785**	**459,483**	**8,395**	**-**	**213,155**	**1,058,818**
31 December 2016	748,965	459,279	8,395	-	129,524	1,346,163

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit/results for the year and equity. There has been no change during the year in the assumptions and methods used in the preparation of the sensitivity analysis.

	31 December 2017			(Consolidated) 31 Dec. 2016	
	Changes in variables	**Impact on profit**	**Impact on equity**	Impact on profit	Impact on equity
	%	**KD**	**KD**	KD	KD
SHAREHOLDERS					
Turkish Lira	**±5**	**-**	**666,674**	-	632,163

	31 December 2017			(Consolidated) 31 Dec. 2016	
POLICYHOLDERS					
US Dollar	±5	**18,889**	-	37,448	-
Sterling Pound	±5	**-**	-	22,963	-
Saudi Riyal	±5	**420**	-	420	-
Other	±5	**22,924**	-	6,476	-

(b) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The company has no significant profit bearing assets other than investment deposits.

The following table illustrates the sensitivity of the profit/results for the year to a reasonably possible change in profit rates of %1+ and –31) %1 December %1+ :2016 and –%1) with effect from the beginning of the year. The calculations are based on the company's financial instruments held at each financial position date. All other variables are held constant. There has been no change during the year in the assumptions and methods used in the preparation of the sensitivity analysis. There is no impact on the company's equity:

Notes to the financial statements (continued)

22 Risk management objectives and policies (continued)

22.3 Market risk (continued)

(b) Profit rate risk (continued)

	31 Dec. 2017		(Consolidated) 31 Dec. 2016	
	+1%	**-1%**	+1%	-1%
	KD	**KD**	KD	KD
SHAREHOLDERS				
Profit for the year	**-**	-	1,350	(1,350)

	31 Dec. 2017		31 Dec. 2016	
	+1%	**-1%**	+1%	-1%
POLICYHOLDERS	**KD**	**KD**	KD	KD
Net deficit from insurance operations for the year	**10,260**	**(10,260)**	18,427	(18,427)

POLICYHOLDERS

c) Equity price risk
The company is exposed to equity price risk with respect to its equity investments. Equity investments are classified as available for sale investments.

To manage its price risk arising from investments in equity securities, the company diversifies its investments.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

If equity prices had been 31) %10 December %10 :2016) higher/lower, the effect on the equity would have been as follows:

	31 Dec. 2017		(Consolidated) 31 Dec. 2016	
SHAREHOLDERS	**Increase 10%**	**Decrease 10%**	Increase 10%	Decrease 10%
Impact on equity	**-**	**-**	59,945	(59,945)

	31 Dec. 2017		31 Dec. 2016	
SHAREHOLDERS	**Increase 10%**	**Decrease 10%**	Increase 10%	Decrease 10%
Impact on equity	**90,984**	**(90,984)**	113,156	(113,156)

Notes to the financial statements (continued)

23 Fair value measurement

23.1 Fair value hierarchy

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observe ability of significant inputs to the measurement, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

23.2 Fair value measurement of financial instruments

The carrying amounts of the company's financial assets and liabilities as stated in the statement of financial position are as follows:

	Year ended 31 Dec. 2017	(Consolidated) Year ended 31 Dec. 2016
Shareholders' assets and liabilities	**KD**	KD
Financial assets:		
Loans and receivables at amortised cost:		
- Bank balance	**4,297**	4,297
- Investment deposit	**-**	135,000
- Qard Hassan to policyholders' fund	**2,253,491**	1,200,791
- Other assets	**2,221**	2,910
Available for sale investments at:		
Fair value	**3**	599,452
	2,260,012	1,942,450
Financial liabilities:		
Financial liabilities at amortised cost:		
Amount due to policyholders'	**3,334,117**	3,871,789
Other liabilities	**172,455**	104,857
	3,506,572	3,976,646

Notes to the financial statements (continued)

23 Fair value measurement (continued)

23.2 Fair value measurement of financial instruments (continued)

	Year ended 31 Dec. 2017	(Consolidated) Year ended 31 Dec. 2016
Policyholders' assets and liabilities	**KD**	KD
Financial assets:		
Loans and receivables at amortised cost:		
Cash and bank balances	**451,107**	240,343
Investment deposits	**1,026,000**	1,218,395
Premiums receivable	**759,850**	1,053,429
Accounts receivable and other assets	**989,036**	1,503,150
Amount due from shareholders	**3,334,117**	3,871,789
Reinsurance recoverable on outstanding claims	**3,686,787**	2,773,027
Available for sale investments at:		
Fair value	**909,850**	1,131,562
Cost	**450,031**	450,031
	11,606,778	12,241,726
Financial liabilities:		
Financial liabilities at amortised cost:		
Reinsurance balances payable	**2,030,084**	1,718,994
Unearned premiums	**1,647,116**	2,626,690
Other liabilities	**3,811,765**	4,039,813
	7,488,965	8,385,497

Management considers that the carrying amounts of loans and receivables and financial liabilities, which are stated at amortised cost, approximate their fair values. The available for sale investment is carried at cost for reason specified in note 18.3.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets measured at fair value on a recurring basis in the statement of financial position are grouped into the fair value hierarchy as follows:

31 December 2016	Level 1	Level 2	Level 3	Total
	KD	KD	KD	KD

SHAREHOLDERS (consolidated)				
Available for sale investments:				
Quoted securities	3	-	-	**3**
Unquoted securities	-	-	-	-
	3	**-**	**-**	**3**
POLICYHOLDERS				
Available for sale investments:				
Quoted securities	3	-	-	**3**
Unquoted securities	-	-	**909,847**	**909,847**
	3	**-**	**909,847**	**909,850**

Notes to the financial statements (continued)

23 Fair value measurement (continued)

23.2 Fair value measurement of financial instruments (continued)

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	KD	**KD**	**KD**	**KD**
SHAREHOLDERS (consolidated)				
Available for sale investments:				
Quoted securities	3	-	-	**3**
Unquoted securities	-	-	**599,449**	**599,449**
	3	**-**	**599,449**	**599,452**
POLICYHOLDERS				
Available for sale investments:				
Quoted securities	3	-	-	**3**
Unquoted securities	-	-	**1,131,559**	**1,131,559**
	3	**-**	**1,131,559**	**1,131,562**

There have been no transfers between levels 1 and 2 during the reporting period.

Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

a) Quoted Securities

All the listed equity securities are publicly traded in stock exchanges. Fair values have been determined by reference to their quoted bid prices at the reporting date.

b) Unquoted securities

Unlisted securities are measured at fair value estimated using various models like discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates.

Level 3 fair value measurements

The company›s financial assets classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	Shareholders Available for sale investments Unquoted securities		Policyholders Available for sale investments Unquoted securities	
	31 Dec. 2017	31 Dec. 2016	**31 Dec. 2017**	31 Dec. 2016
	KD	KD	**KD**	KD
Shareholders				
Opening balance	**599,449**	2,559,366	**1,131,559**	-
(Sold to)/transfer from policyholders/ shareholders	**-**	(1,131,559)	**-**	1,131,559
Disposal	**(599,499)**		**-**	-
Change in fair value	**-**	(828,358)	**(221,712)**	-
Closing balance	-	599,449	**909,847**	1,1131,559

Notes to the financial statements (continued)

23 Fair value measurement (continued)

23.2 Fair value measurement of financial instruments (continued)
The company's finance team performs valuations of financial items for financial reporting purposes, including level 3 fair values. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

The valuation techniques used for instruments categorised in level 3 are described below:

The fair value of financial instruments that are not traded in an active market (e.g unquoted securities) is determined by using valuation techniques. Fair value for the unquoted securities investments are approximately the summation of the estimated value of underlying investments as if realised on the statement of financial position date.

The investment managers in determining the fair value of these investments use a variety of methods and makes assumptions that are based on market conditions existing at each financial position date. Investment managers used techniques such as discounted cash flow analysis, recent transactions prices and market multiples to determine fair value.

The impact on statement of profit or loss and statement of profit or loss and other comprehensive income would be immaterial if the relevant risk variable used to fair value the level 3 investments were changed by %5.

Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognized in the statement of profit or loss, total assets, total liabilities or total equity.

24 Capital management objectives

The company's capital management objectives are to ensure the company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

The capital consists of total equity. The company manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The company monitors its capital by way of return on equity. This is calculated by reference to profit for the year divided by total equity as follows:

	31 Dec. 2017	(Consolidated) 31 Dec. 2016
	KD	KD
Profit for the year	**1,209,552**	1,083,190
Total equity	**9,836,090**	9,410,773
Return on equity	**%12.3**	%11.5

25 Comparative amounts

Certain comparative amounts have been reclassified to conform to current year presentation of the financial statements. Such reclassification did not affect previously reported total assets, total equity or net results for the year.