2016
ANNUAL REPORT

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

Because we care

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

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

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

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

H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah

AMIR OF KUWAIT

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

BOARD OF **DIRECTORS** & EXECUTIVE **MANAGEMENT**

BOARD OF DIRECTORS

Mr. Sulaiman Hamad Mohammed Al-Dalali
CHAIRMAN

Mr. Ayman Abdullatif Ali Al-Shayea
VICE CHAIRMAN

Mr. Abdullah Mohammed Abdullah Al-Saad
DIRECTOR

Mr. Abdul Aziz Abdul Razzaq Al-Jassar
DIRECTOR

Mr. Emad Mohammed Abdul Rahman Al-Bahar
DIRECTOR

Mr. Emad Jassem Hamad Al-Sager
DIRECTOR

Mr. Ahmad Yousef Ibrahim Al-Ghanem
DIRECTOR

Mr. Adel Mohammed Ahmed Al-Ghanam
DIRECTOR

Mr. Abdul Mouhsen Jassem Mohammed Al-Kharafi
DIRECTOR

EXECUTIVE MANAGEMENT

Mr. Mohammed A. Al-Sa'ad
VICE CEO - SUPPORTING DEPTS.

Mr. Jamal Y. Al-Houlli
ASSISTANT CEO - MOTOR DEPT.

Mr. Jawad R. Saleh
ASSISTANT CEO - LIFE & MEDICAL DEPT.

Mr. Ghazi A. Al-Roumi
ASSISTANT CEO - PRODUCTION & BRANCHES DEPT.

Mr. Mohammed A. Samour
ASSISTANT CEO - MARINE & AVIATION DEPT.

Dr. Fayeq H. Tawdros
ACTUARY

SUBSIDIARY & SISTER COMPANIES

SUBSIDIARY COMPANY

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

SISTER COMPANIES

Trade Union Insurance Co. E.C.
P.O.Box 2211, Manama, Bahrain
Tel.: (973) 17506555
Fax: (973) 17100013

Arab Life & Accident Insurance Co. P.S.C.
P.O.Box 925250, Amman 11190, Jordan
Tel.: (9626) 5693180/7 - Fax: (9626) 5693188
E-mail: ala@wanadoo.jo
www.arab-insurance.com.jo

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

Al-Watania Insurance Co. Y.S.C.
Head Office - Sana'a, Yemen
P.O.Box 15497
Tel.: (9671) 272713/874
Fax: (9671) 272924
www.alwataniains.com

Burgan Insurance Company S.A.L.
(Formerly Arab Life Insurance Company S.A.L.)
E-mail: burgan@burgan-ins.com
www.burgan-ins.com

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

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

Al-Brajna Tower Branch
Tel.: (9611) 451365

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

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

HEAD OFFICE & BRANCHES

HEAD OFFICE

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

Shuwaikh Branch

Banks Street, Shuwaikh
Tel./Fax: 24832183

Sabhan Branch

Near Banks Group, Sabhan
Tel./Fax : 24748239

Hawalli Branch

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

Al-Soor Branch

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

Technical Testing Branch

Kuwait Motoring Co.
Tel./Fax: 24834400

Fahaheel Branch

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

Salmiya Branch

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

Al-Jewan Branch

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

Citizen Services Branch

Sabhan
Tel.: 24710989 - Fax: 24710897

BANKERS

IN KUWAIT

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

ABROAD

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

AGENDA

For The Fifty Third Meeting Of The Annual Ordinary General Assembly

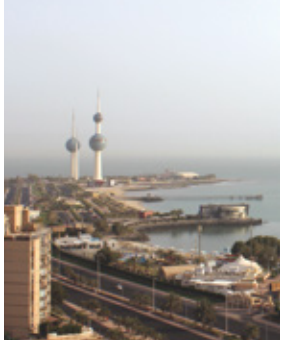
1. Listening to the Board of Directors' Report for the financial year ending 31 December 2016 and approving the same.
2. Listening to the Corporate Governance report and Auditing Committee report for the financial year ending 31 December 2016.
3. Listening to the Auditors' Report for the financial year ending 31 December 2016 and approving the same.
4. Discussing the Financial Statements and the Statement of Profit and Loss for the financial year ending 31 December 2016 and approving the same.
5. Listening to the report of any sanctions or infractions found by the controlling authorities during the financial year ending 31 December 2016 (if any).
6. Approving dealing with related parties for the financial year ending 31 December 2016.
7. Approving discounting the sum of KD 1,000,000 from the profit of the financial year ending 31 December 2016 and to be added to the Special voluntary reserve.
8. Approving the proposal of distributing cash Dividends of KD 7,000,000 to the Shareholders at 35% of the paid up capital i.e. thirty five fils per share, for the Shareholders of the Company as of the date of General Assembly's meeting, to be distributed within ten days from the date of the General Assembly meeting [after excluding the treasury shares].
9. Approving the proposal of the Board of Directors for distributing KD 421,321 a remuneration to the Members of the Board of Directors for the financial year ending 31 December 2016.
10. Authorizing the Board of Directors to purchase or sell shares of the Company at a percentage not exceeding 10% of the total number of the Company's shares, according to the articles of Law No. 7 for the year 2010 and its implementing regulations and amendments.
11. Approval of apportioning an amount up to 1% (One Percent) of the profit for the financial year ending 31 December 2016 for Social Responsibility for the financial year ending 31 December 2017.
12. Approval of authorizing the Board of Directors to enter into all necessary agreements with the banks and local and foreign financial institutions for financing the Company's businesses, dealing with the banks and local and foreign financial institutions, executing financing contracts and borrowing.
13. Releasing the Members of the Board of Directors of all matters relevant to their actions for the financial year ending 31 December 2016.
14. Appointing or re-appointment of Auditors from the list of auditors approved by Capital Markets Authority (CMA), taking into consideration the compulsory replacement term of auditors for the financial year ending 31 December 2017, and Authorizing the Board of Directors to determine their remuneration.
15. Election of the Directors for the Board for the next three years.

REPORT OF THE
BOARD OF DIRECTORS

Al Ahleia Insurance Company S.A.K.P.
Report of the Board of Directors
Submitted to the Shareholders during the 53rd meeting of the Ordinary General Assembly on Tuesday 11/4/2017 at 11:30 a.m.

Dear Shareholders,
In my name and on behalf of all Board Members, I have the pleasure to provide you with the 53rd Annual Report of Al Ahleia Insurance Company and its subsidiary. The report sheds light on the significant achievements realized by the Company during 2016, which generated profits and profitable revenues for shareholders, which reflect financial strength and powerful performance of the Company, and assert, simultaneously, the sound strategy adopted by the Company in facing all challenges, in addition to its conservative policies and compliance with the highest standards of business.

Moreover, the Board of Directors guarantees integrity and reliability of the financial reports prepared thereby and submitted to shareholders. In the mainstream, the Executive Management ensured to Auditing Committee and the Board integrity and reliability of the financial reports prepared thereby.



REPORT OF THE
BOARD OF DIRECTORS

The Company achieved positive results in 2016 realizing a net profit of KD. 9,046,740 after amortizing unrealized losses in the profits and losses account of KD. 1,907,757 compared to profits of KD. 11,190,496 in 2015. The positive results achieved during the year positively reflect the success of the Company in overcoming challenges.

The Company's strategy has aimed at focusing on the quality of business and insurance services provided with securing maximum protection for the Company. Also, the Company management believes that corporate governance has become an essential means to improve performance to the highest degree while mitigating risks to minimal and safeguard the interests and rights of shareholders and policyholders by developing its governance framework according to the highest standards established by leading professional authorities and regulatory entities also the governance framework under consistently periodic review by the Board of Directors of the Company.

Success of the company is reflected in profitability ratios achieved based on the capital and the quality of assets which amount 250 million Kuwaiti Dinar (2015 – 243 million Kuwaiti Dinar) and strategy which reflect the effectiveness of risk management and corporate governance standards applied by the Company that protect it always from deterioration some economic markets inflicted many companies and shows that in all other financial indicators for Al-Ahleia average return on assets 3.6% and return on equity 8.7%.

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

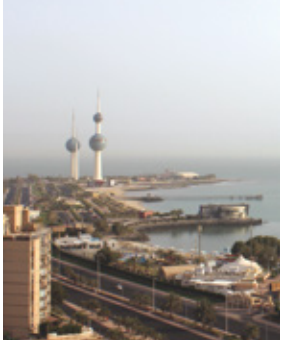
In doing so, the company relied on diversification of revenues and extending its wide network insurance coverage regionally, as well as offering new insurance products. This has resulted in achieving recorded results, and continued to strengthen the company's provision in order to reinforce its position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

To present to you our brief report on the Company's activities during the year 2016, touching on the events that affected the insurance market in general and the performance of our Company in particular.

International insurance market witnessed stability in 2016, after gradual improvement that has occurred in 2014 and 2015, the Company was able to renew its reinsurance renewals with large capacity and more features as result of its positive results over the past years.

Your Company have proved serious in their transactions through proper underwriting and increase participation in the result by raising the limits of their retention, such action being within your Company's strategies as shown in attached schedules and compared with result of previous years.

It is technically and statistically known that in order to increase retention without subjecting the financial position of the Company to any fluctuations, a larger number homogeneous risks should be relied on, which is our objective for reliance on the theory of probabilities.

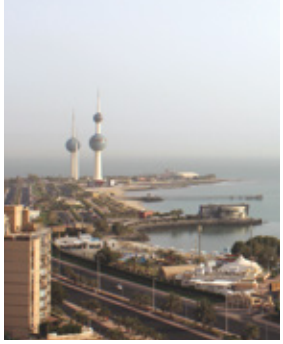


REPORT OF THE
BOARD OF DIRECTORS

The policy of regional expansion also helped promote and improve our risk profile through continuous efforts to increase personal insurances in addition to obtaining huge commercial and industrial insurances, of which shares can be exchanged with sister and co-insurance companies. Consequently, this would lead to the increasing of retentions. Beside the present sister companies in Jordan, Lebanon, Saudi Arabia, Egypt, Yemen and Iraq whose particulars are included in this report. The Top Management is still working on a feasibility study of other Arab markets in preparation for increasing its expansion to achieve this general strategic objective.

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

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



REPORT OF THE
BOARD OF DIRECTORS

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

The year 2016 was closed with the following information:

FIRST: INSURANCE ACTIVITIES

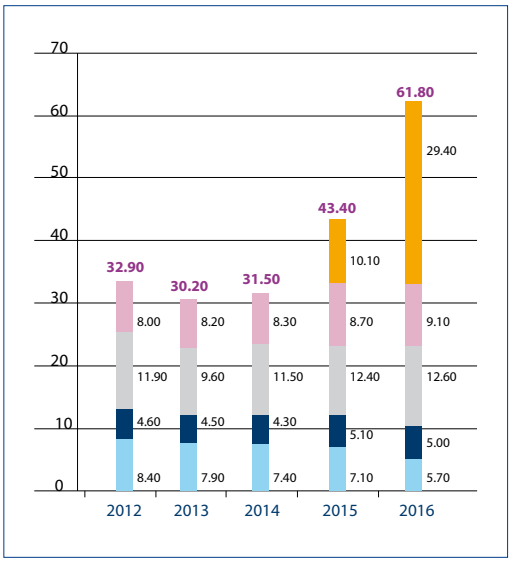
The gross annual production amounted to KD. 61.8 million against KD. 43.4 million in 2015 i.e. an increase at the rate of 42.4%. The net technical return on insurance premiums totaled KD. 8.7 million (KD. 7.7 million in 2015).

Here in after is a detailed summary of these aggregates:

General Accident (Non-Life business):

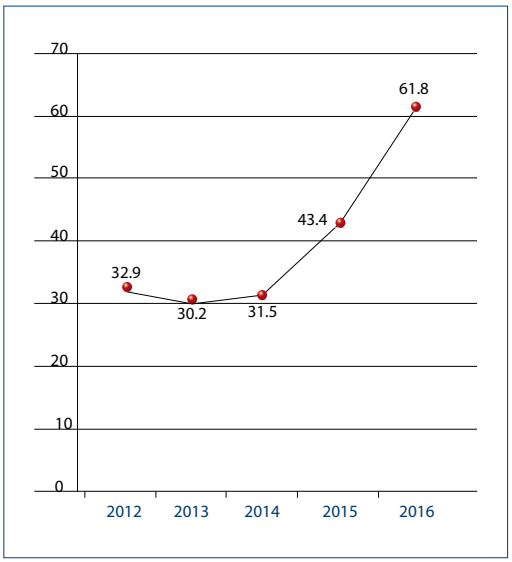
Gross written premiums amounted to KD. 52,684,781 against KD. 34,644,612 in 2015, i.e. an increase of KD. 18,040,169 at the rate of 52%. The profit of these departments totaled KD. 7,474,368 as against KD. 6,554,220 in 2015.

The Marine & Aviation business produced a net profit of KD. 1,619,480 as against KD. 1,772,084 in 2015, the General Accident (which includes Motor) ended with a net profit of KD. 3,699,909 as against net profit of KD. 2,697,941 in 2015 and the Fire KD 1,129,539 against KD. 896,108 in 2015. Kuwait Reinsurance Company has achieved a net profit of insurance activity amounting to KD 1,025,440 for the year 2016 as against KD. 1,188,087 in 2015.

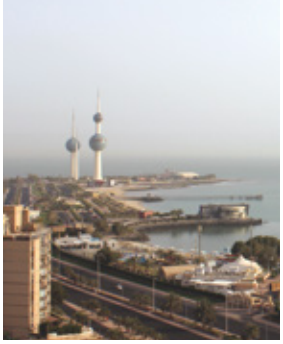


Gross Written Premiums
(in million KD)

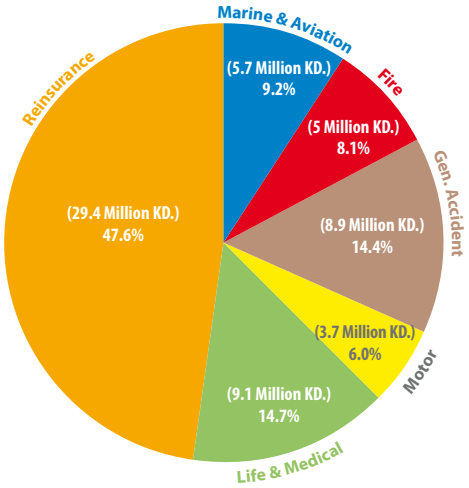
Life & Medical
G.A (Incl. Motor)
Reinsurance
Fire
Marine & Aviation



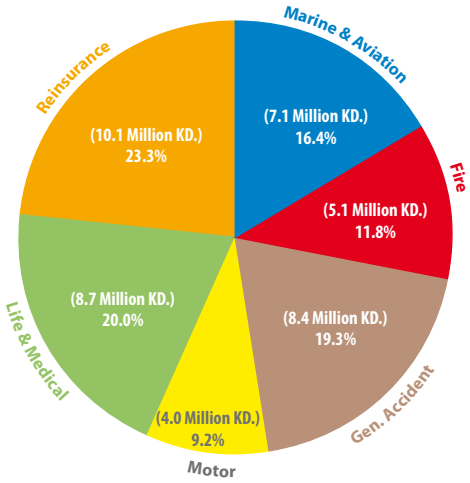
Insurance Activity
(in million KD)



REPORT OF THE
BOARD OF DIRECTORS



Source of Written Premiums 2016



Source of Written Premiums 2015

Life & Medical Insurance:

Total premium income amounted to KD. 9,089,870 against KD. 8,714,437 in 2015 i.e. an increase of KD. 375,433 at the rate of 4.3%. The net profit amounted to KD. 1,206,975 against profit of KD. 1,150,628 in 2015, after reassessment of the Mathematical Reserve by the Company's Actuary to reach KD. 5,350,000.

The Company's investment in life and medical insurance made profits of KD. 157,628 against KD. 168,299 in 2015.

SECOND: OVERSEAS BUSINESS RUN-OFF

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

Apply the time bar limitation by the overseas and long tail business committee led to a sharp decline in outstanding claims.

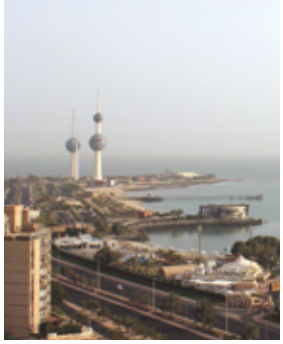
THIRD: INVESTMENTS ACTIVITIES

The Kuwaiti economy depends on the stability of oil prices, which have fallen sharply. The analysts hope that oil prices will be stabilized in the near future.

The investment of the Company in 2016 made a profit of KD. 5,389,812 after amortization of KD. 1,907,757 in the profit and loss account as unrealized losses (Impairment) of the Company's investments, against profit of KD. 7,170,312 in 2015 in addition to recording KD. 10,387,171 as unrealized profits in equity.

FOURTH: PROFIT & LOSS ACCOUNT

The result of the Company's operations from both insurance and investments activities, after deducting the reserves, provisions and various items usually charged to the profit and loss account, indicates that the activities for the year have yielded a net profit of KD. 9,046,740 against profit of KD. 11,190,496 in 2015.



REPORT OF THE
BOARD OF DIRECTORS

By adding profit brought forward from the previous year of KD. 12,782,582 the gross profit allowable for distribution amounts to KD. 21,829,322 compared to KD. 22,623,676 for the year 2015.

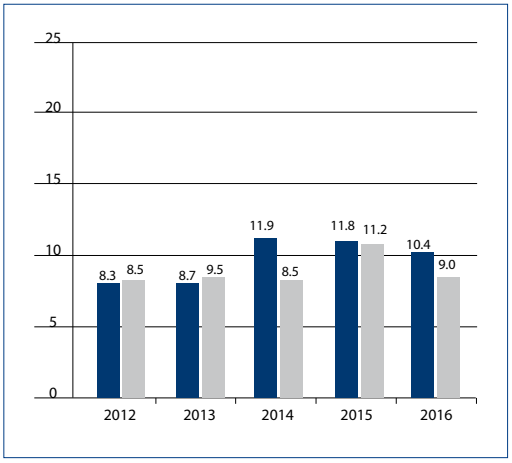
The Board of Directors of your Company recommends to deduct the amounts of KD. 1,000,000 of this year profit and add it to the Special Voluntary Reserve, KD. 101,911 for Kuwait Foundation for the Advancement of Sciences representing the 1% earmarked year's profit as legally determined, an amount of KD. 260,738 to support the National Workforce and an amount of KD. 104,295 to Zakat. The Board of Directors also recommends the distribution of the sum of KD. 7,000,000 to the Shareholders of the Company of the Paid-up Capital at the rate of 35%, i.e. thirty five fils per share.

The Board of Directors also suggests to allocate KD. 421,321 as Directors remuneration for the fiscal year ending 31 December 2016 and to carry forward the remaining net profit of KD. 1,046,740 to the next year.

On the basis of all the foregoing, the Special Voluntary Reserve shall become as KD. 12,000,000, and the profits carried forward to the next year KD. 13,829,322 beside the additional technical reserves in the various insurance branches reaching KD. 12,120,967.

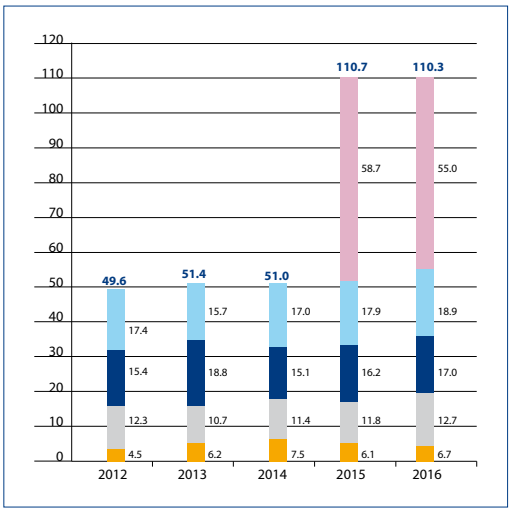
FIFTH: BOARD OF DIRECTORS' AUTHORIZATION TO PURCHASE OR SELL THE COMPANY'S SHARES

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



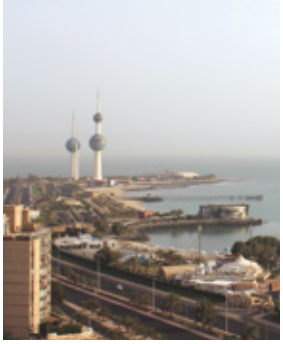
Growth of Recognized Net Profit & Unrecognized Profit in Shareholders' Equity (in million KD)

Unrecognized Profit in Shareholders' Equity
Recognized Net Profit

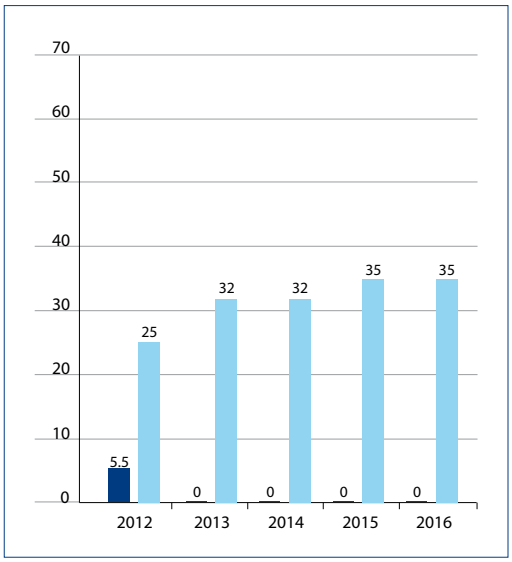


Technical Reserves
(Unearned Premiums, Additional, Mathematical & Outstanding Claims Reserves) (in million KD)

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

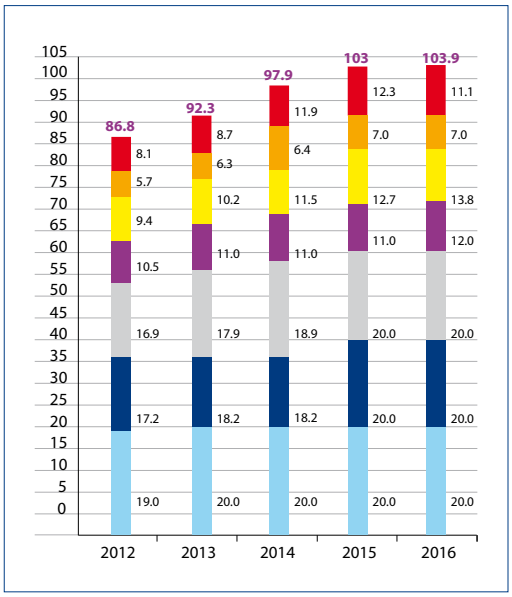


REPORT OF THE
BOARD OF DIRECTORS



Cash Dividends & Bonus Share

Bonus Shares (%) Cash Dividends (Fils)



Shareholders Equity - the value of Bonus Shares is not deducted (in million KD)

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

SIXTH: GRATITUDE AND APPRECIATION

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

We would like also to express our thanks to the Ministry of Commerce and Industry, represented by the Administration of Insurance Companies, for their attention and understanding of the local market circumstances. Our thanks is also extended to the Ministry of Interior represented by the Traffic Department for their continuous efforts to control the roads and develop the compulsory motor insurance.

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

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

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

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

Sulaiman Hamad Al-Dalali
Chairman

CORPORATE GOVERNANCE REPORT

Al Ahleia Insurance Company S.A.K.P. is committed to follow international standards for an appropriate Corporate Governance framework, where the Company believes in full transparency and communication between the stakeholders and the business community.
The Company follows the requirements of the Kuwaiti Capital Markets Authority (CMA) and the approved governance framework set by the Board of Directors which is in line with the following:

- Company's Memorandum of Association.
- Company's Articles of Association.
- Corporate Governance requirements stated in the CMA executive bylaws.
- Corporate Law issued by the state of Kuwait.

Rule (1)
Construct a Balanced Board Composition

The Board composition is based on the Company's Memorandum of Incorporation and Articles of Association and comprises of nine members, including nonexecutive and independent members. They are elected by shareholders at the Annual General Meeting in March 2014 for a period of three years whose term will end at the 2017 Annual General Meeting. The following table shows the members' attendance of Board meetings during 2016:

Member	Title	Member Classification	Academic Qualification	Election Date
Sulaiman Hamad Al-Dalali	Chairman	Nonexecutive	Bachelor of Accounting	11/4/1999
AymanAbdul Latif Al-Shayea	Vice Chairman	Nonexecutive	Bachelor of Mechanical Engineering	22/4/1996
Abdullah Mohammed Al-Saad	Board Member	Nonexecutive	Bachelor of Commerce	11/4/1999
Abdul Aziz Abdul Razzaq Al-Jassar	Board Member	Independent	Bachelor of Accounting	1987
Emad Mohammed Al-Bahr	Board Member	Nonexecutive	Bachelor of Business Management	11/4/1999
Emad Jassim Al-Saqr	Board Member	Nonexecutive	Bachelor of Economy and Political Sciences	11/4/1999
Ahmed Yusuf Al-Ghanim	Board Member	Independent	Bachelor of Information Technology	11/4/1999
Adel Mohammed Al-Ghannam	Board Member	Nonexecutive	Bachelor of Business Management	12/4/2005
Abdul Mohsen Jassim Al-Kharafi	Board Member	Nonexecutive	Bachelor of Business Management	15/8/2010
Mohammed Abdul Moshen Al-Saad	Board Secretary	Executive	Bachelor of Business Management	14/7/2014

- **Board Meetings during 2016:**

Member	Meeting No 13 (Thirteen) dated 17/2/2016	Meeting No 14 (Fourteen) dated 8/4/2016	Meeting No 15 (Fifteen) dated 10/5/2016	Meeting No 16 (Sixteen) dated 7/8/2016	Meeting No 17 (Seventeen) dated 19/6/2016	Meeting No 18 (Eighteen) dated 10/11/2016	Number of Meetings
Sulaiman Hamad Al-Dalali	✓	✓	✓	✓	✓	✓	6
AymanAbdul Latif Al-Shayea	✓	✓	✓	✓	✓	✓	6
Abdullah Mohammed Al-Saad	×	✓	✓	✓	✓	✓	5
Abdul Aziz Abdul Razzaq Al-Jassar	✓	✓	✓	✓	✓	✓	6
Emad Mohammed Al-Bahr	✓	✓	✓	✓	✓	✓	6
Emad Jassim Al-Saqr	✓	✓	×	✓	✓	✓	5
Ahmed Yusuf Al-Ghanim	✓	✓	✓	✓	✓	✓	6
Adel Mohammed Al-Ghannam	✓	✓	✓	✓	✓	✓	6
Abdul Mohsen Jassim Al-Kharafi	×	✓	✓	✓	✓	✓	5

The Board Secretary is responsible for keeping the documents of Board, including the membership registers and regulations and ensures maintenance of Company records as per the law and provides the same as and when required by any authorized person.

Rule (2)
Establish appropriate Roles and Responsibilities

The Board is responsible for the development of strategies and ensuring transparency in communication and disclosure of financial and nonfinancial information, including an efficient auditing process.

The Boards' main responsibilities are:

1. Setting the Company's strategy, vision, mission, policies and objectives.
2. Reviewing and approving the Company's business plans, significant policies and the levels of risks incorporated in these plans in coordination with Risks Committee.

3. Determining the Company's capital structure and financial objectives.
4. Approving a clear policy for dividends, whether cash or in-kind, to achieve the Company's shareholders' interests.
5. Approving the performance objectives and controlling the Company's overall performance and implementation.
6. Approving the annual budgets and the interim and annual financial statements.
7. Monitoring the application of strategic plans and budgets.
8. Supervising the Company's capital main expenses, and possession and disposal of assets.
9. Setting the Company's governance framework as per the requirements of the Capital Markets Authority (CMA) and supervising it generally, monitoring its effectiveness and modifying thereof when necessary.
10. Deciding and approving the Company's inclination towards risks (i.e. the extent and categories of risks approved by the Company Board).
11. Providing shareholders with information on a timely basis to enable them to take informed decisions based on adequate information during the General Assemblies.
12. Ensuring fair and equal treatment of all shareholders, as per the relevant control requirements.

- **Board Committees:**

1. Risk Committee:

The committee is responsible for all aspects of Risk Management including strategic risks, market risks, operational risks, and compliance risks.

Members:

- Mr. Abdul Aziz Abdul Razzaq Al-Jassar – Chairman
- Mr. Ayman Abdul Latif Al-Shayea
- Mr. Emad Jassim Al-Saqr
- Mr. Ahmed Yusuf Al-Ghanim

Member	Meeting (1), dated 4/8/2016	Meeting (2), dated 8/11/2016	Number of Meetings
Abdul Aziz Abdul Razzaq Al-Jassar	✓	✓	2
Ayman Abdul Latif Al-Shayea	✓	✓	2
Emad Jassim Al-Saqr	✓	✓	2
Ahmed Yusuf Al-Ghanim	✓	✓	2

2. Audit Committee:

The committee is responsible for assisting the Board in supervising the quality of the Company's accounting practices, auditing, internal controls, financial statements, and risk management framework. It also maintains the relationship with the external auditors.

Members:

- Mr. Ahmed Yusuf Al-Ghanim – Chairman
- Mr. Abdul Aziz Abdul Razzaq Al-Jassar
- Mr. Ayman Abdul Latif Al-Shayea
- Mr. Emad Jassim Al-Saqr

Member	Meeting (1), dated 4/8/2016	Meeting (2), dated 8/11/2016	Number of Meetings
Ahmed Yusuf Al-Ghanim	✓	✓	2
Abdul Aziz Abdul Razzaq Al-Jassar	✓	✓	2
Ayman Abdul Latif Al-Shayea	✓	✓	2
Emad Jassim Al-Saqr	✓	✓	2

3. Nomination and Remunerations Committee:

The committee is responsible for submitting recommendations to the Board for appointing members of the Board and Executive Management, facilitating the annual self-assessment of the Board performance and supervising their training and development process. It is also responsible for assessing the remunerations of the Board and Executive management as per the Company's long-term strategic objectives.

Members:

- Mr. Emad Mohammed Al-Bahr – Chairman
- Mr. Abdullah Mohammed Al-Saad
- Mr. Adel Mohammed Al-Ghannam
- Mr. Abdul Mohsen Jassim Al-Khorafi
- Mr. Ahmed Yusuf Al-Ghanim

Member	Meeting (1), dated 7/3/2017	Number of Meetings
Emad Mohammed Al-Bahr	✓	1
Abdullah Mohammed Al-Saad	✓	1
Adel Mohammed Al-Ghannam	✓	1
Abdul Mohsen Jassim Al-Khorafi	✓	1
Ahmed Yusuf Al-Ghanim		1

4. Executive Committee:

It shall follow-up the Company's operational activities and aims at improving the Board effective supervision on the Company's significant transactions.

Members:

- Mr. Sulaiman Hamad Al-Dalali – Chairman
- Mr. Ayman Abdul Latif Al-Shayea
- Mr. Abdul Aziz Abdul Razzaq Al-Jassar
- Mr. Abdullah Mohammed Al-Saad
- Mr. Emad Mohammed Al-Bahr

Member	Meeting (1), dated 10/5/2016	Meeting (2), dated 9/11/2016	Number of Meetings
Sulaiman Hamad Al-Dalali	✓	✓	2
Ayman Abdul Latif Al-Shayea	✓	✓	2
Abdul Aziz Abdul Razzaq Al-Jassar	✓	✓	2
Abdullah Mohammed Al-Saad	✓	✓	2
Emad Mohammed Al-Bahr	✓	✓	2

The Executive Management is responsible for the implementation of the Boards' strategies and the monitoring of its day-to-day operations.

The main roles and responsibilities are:

- Implementing the Company's strategic plans in addition to the relevant policies and internal procedures and ensuring its and efficiency.
- Ensure an integrated accounting system for keeping and registering records properly to reflect the financial statements and income accurately and in full details to maintain the Company's assets.
- Check the developed financial statements as per the international accounting standards approved by Kuwaiti Capital Markets Authority.
- Reviewing and approving the periodical reports (financial and nonfinancial) related to the progress achieved in operational activities, in compatibility with the Company's strategic plans and objectives and present them to the Board.
- Directing the daily operations in addition to managing the Company resources for maximizing profitability and deducting expenses as per the Company strategy and objectives.
- Overseeing the internal controls and risk management and its efficiency.
- Creating a professional working business environment based on ethics and values.

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

The Nomination and Remuneration committee was formed in 2015 to assist the board in appointing qualified Board and Executive management members. The Committee is also responsible for assessing the remunerations of the Board of Directors and Executive Management as per the Company's long-term strategic objectives.

Remunerations of the Board and Executive Management Members:

As recommended by the Nominations and Remunerations Committee, the Board approved the remunerations of Board members, amounting KD 421.321 and the remunerations of Executive Management and employees of 15% of the net insurance profit for the period as of 31/12/2016.

Rule (4)
Safeguard the Integrity of Financial Reporting

As per the corporate governance framework and the Board regulation, the Company's Board guarantees integrity and reliability of the developed financial statements. This guarantee shall be included in the annual report presented to the shareholders. Moreover, the Executive Management, before the Auditing Committee and Board, guaranteed the integrity and reliability of financial statements prepared thereby.

Audit Committee:

The board has delegated the following responsibilities to the Audit Committee:

- Assisting the Board in performing supervision of quality and soundness of accounting practices.
- Overlooking the Internal Controls of the Company.
- Monitoring and reviewing the Risk Management Framework.
- Reviewing the Company's Financial Statements.
- Responsible for recommending to the Board by appointing or replacing the external auditor.

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

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

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

Risk and Compliance Department:

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

Internal Audit Department:

The Internal Audit department is responsible for overlooking the internal controls and systems in the Company. Supported by the Audit committee quarterly reports are submitted to the board on the internal control framework and the assessment of these controls, alongside internal audit reports and reports submitted by the external auditor.

Rule (6)
Promote Code of Conduct and Ethical Standards

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

- **Code of Conduct to members of the Board and Executive Management:**
  The Code of Conduct policy was designed to set high ethical standards within the Company, and for the board members and executive management to reflect those standards on their business practices. The policy provides guidelines to avoid any conflict or controversy, support best practices in complying with the corporate governance.
- **Conflict of Interest Policy:**
  Conflict of Interest Policy sets guidelines for defining, reporting, and disclosing any existing and potential conflicts; it also ensures the board on setting firm restrictions on those matters and any action that is in the interest of the Company.

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

Transparency is one of the strongest traits in the Company, where sharing essential information to our shareholders and the public builds equality and fairness. Following the disclosure policy approved by the board and instructions set by the Capital Markets Authority (CMA), the information is public on the Company's website www.alahleia.com.

Rule (8)
Respect the rights of Shareholders

The Company is always looking out for our shareholders best interests. A Shareholders Protection Policy approved by the board states the Company's respect and protection of the shareholders equities as per the applicable law.
The Company encourages investors for participating actively in the general assemblies as stated in the Shareholders' Protection Policy, by discussing the issues included in the relevant agenda and any related inquiries of various activities and businesses and addressing relevant questions to Board members and external auditor.

Rule (9)
Recognize the Roles of Stakeholders

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

Rule (10)
Encourage and Enhance Performance

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

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

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

Rule (11)
Corporate Social Responsibility

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

The most significant programs and activities performed by the Company in such regard include the training and recruitment process conducted by the Company for students of LOYAC Organization, which is arranged continuously with the Company's Human Resources Department, in order to develop the youth by giving them the necessary experience in the workforce. The Human Resources Department also organizes many periodical events for the staff and their families to deepen the employees' correlation and communication.

The Company contributes annually material support to LOYAC Organization for supporting their charitable and voluntary activities towards the community.

FINANCIAL STATEMENTS

Contents

33 Auditors' Report
40 Consolidated Statement of Income
41 Consolidated Statement of Comprehensive Income
42 Consolidated Statement of Financial Position
43 Consolidated Statement of Changes in Equity
44 Consolidated Statement of Cash Flows
45 Notes to the Consolidated Financial Statements

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

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

Abdullatif Al-Majid & Co.
Allied Accountants
Certified Public Accountants - Experts

Parker Randall

P.O. Box 5506 safat- 13056 Kuwait
Tel: 22432082/3/4 - Fax: 22402640
E-mail: mail.kw@parkerrandall.com

AUDITORS' REPORT

Independent Auditors' Report to the Shareholders of Al-Ahleia Insurance Company S.A.K.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Al-Ahleia Insurance Company S.A.K.P. (the "Parent Company") and its subsidiary (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

AUDITORS' REPORT

Independent Auditors' Report
to the Shareholders of
Al-Ahleia Insurance Company S.A.K.P. (continued)

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

We identified the following key audit matters:

a) Recoverability of receivables arising from insurance and reinsurance contracts

The receivables arising from insurance and reinsurance contracts are significant to the Group's consolidated financial statements as at 31 December 2016. The determination as to whether a receivable is collectable involves management judgement. Specific factors management considers include the age of the balance, location of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for a customer's balance overall.

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

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

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

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

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

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

b) Insurance and Reinsurance Technical Reserves

Insurance and reinsurance technical reserves include: ("Outstanding Claims reserve" or "OCR"), ("Unearned Premiums Reserve" or "UPR"), ("Life Mathematical Reserve" or "LMR") and ("Incurred But Not Reported reserve" or "IBNR"). As at 31 December 2016, the Group has significant insurance and reinsurance

AUDITORS' REPORT

Independent Auditors' Report
to the Shareholders of
Al-Ahleia Insurance Company S.A.K.P. (continued)

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

b) Insurance and Reinsurance Technical Reserves (continued)

technical reserves. As disclosed in Note 2.5 to the consolidated financial statements, the determination of these reserves involves significant judgment over uncertain future outcomes, including primarily the timing and ultimate full settlement of long term policyholder liabilities. The Group uses different models to calculate the insurance and reinsurance contract liabilities. The complexity of the models may give rise to errors as a result of inadequate/incomplete data or the design or application of the models.

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

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

For other insurance technical reserves, the management uses the work of their specialist to assess the liabilities. We have performed test of controls in place, checked the design and the operating effectiveness and assessed the validity of management's liability adequacy testing to obtain reasonable assurance that the liabilities are adequate as compared to the expected future contractual obligations. Our work on the liability adequacy tests included assessing the accuracy of the historical data used, and reasonableness of the projected cash flows and assumptions adopted, in the context of both the Group and industry experience and specific product features.

We further evaluated the adequacy of disclosures relating to insurance and reinsurance technical reserves in Note 16 to the consolidated financial statements.

c) Valuation and impairment of financial assets available for sale

As at 31 December 2016, the Group had financial assets available for sale amounting to KD 82,060,435 (2015: KD 86,961,030). These financial assets are either measured at fair value with the corresponding fair value change recognized in other comprehensive income or carried at cost less impairment for those financial assets that do not have a quoted price in an active market and whose fair values cannot be reliably measured. If the financial assets available for sale witnessed objective evidence which indicates a significant or prolonged decline in value, an impairment loss is recognized in the consolidated statement of income. The valuation of the financial assets available for sale is inherently subjective - most predominantly for the level 3, since these are valued using inputs other than quoted prices in an active market. Impairment analysis can be subjective in nature and involve various assumptions regarding pricing factors.

AUDITORS' REPORT

Independent Auditors' Report to the Shareholders of Al-Ahleia Insurance Company S.A.K.P. (continued)

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

c) Valuation and impairment of financial assets available for sale (continued)

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

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

For financial assets carried at fair value we performed audit procedures to assess the methodology and the appropriateness of the valuation models and inputs used to value financial assets available for sale. As part of these audit procedures, we assessed the accuracy of key inputs used in the valuation such as quoted market prices, market multiples, and discount rates for lack of marketability and lack of control, the expected cash flows, risk free rates and credit spreads by benchmarking them with external data, investigated significant differences. We also evaluated the Group's assessment whether objective evidence of impairment exists for individual financial assets and the qualitative and quantitative factors used such as the investee's financial performance including dividends, financial condition and operations, and its market and economic environment. Finally, we assessed the adequacy of the disclosures relating to financial assets in note 9 to the consolidated financial statements.

Other information included in the Group's 2016 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

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

AUDITORS' REPORT

Independent Auditors' Report to the Shareholders of Al-Ahleia Insurance Company S.A.K.P. (continued)

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Group's internal control.

AUDITORS' REPORT

Independent Auditors' Report
to the Shareholders of
Al-Ahleia Insurance Company S.A.K.P. (continued)

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

AUDITORS' REPORT

Independent Auditors' Report to the Shareholders of Al-Ahleia Insurance Company S.A.K.P. (continued)

Report on Other Legal and Regulatory Requirements

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

Waleed A. Al Osaimi
Licence No. 68 A
EY
Al-Aiban, Al-Osaimi & Partners

Abdullatif A. H. Al-Majid
(Licence No. 70 A)
of Parker Randall
(Allied Accountants)

7 March 2017
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
Revenue:			
Gross premiums written		**61,774,651**	43,359,049
Premiums ceded to reinsurers		**(24,375,046)**	(24,087,698)
Net premiums written		**37,399,605**	19,271,351
Movement in unearned premiums		**4,799,825**	10,810,382
Net premiums earned		**42,199,430**	30,081,733
Commission income on ceded reinsurance		**7,382,817**	6,403,170
Policy issuance fees		**590,302**	625,180
Net investment income	4	**5,900,207**	6,197,142
Net gain on business combinations	3	-	6,973,401
Other income		**144,182**	196,190
Total revenue		**56,216,938**	50,476,816
Expenses:			
Net claims incurred	16	**(25,165,636)**	(16,567,394)
Commissions and Premiums' acquisition costs	19	**(10,793,047)**	(8,186,242)
Movement in life mathematical reserve		**(368,000)**	(36,000)
Maturity and cancellations of life insurance policies		**(141,605)**	(287,505)
Investment property expenses		**(89,537)**	(50,382)
Revaluation loss on investment properties	7	**(548,262)**	(27,517)
Operating and administrative expenses		**(7,100,326)**	(5,374,360)
Impairment loss on financial assets available for sale	9	**(1,907,757)**	(8,801,136)
Impairment loss on other receivables		**(80,000)**	-
Total expenses		**(46,194,170)**	(39,330,536)
Profit before share of associates income		**10,022,768**	11,146,280
Share of results of associates	8	**155,252**	1,279,848
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT AND DIRECTORS' FEES		**10,178,020**	12,426,128
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		**(101,911)**	(117,432)
National Labour Support Tax (NLST)		**(260,738)**	(276,906)
Zakat		**(104,295)**	(110,762)
Directors' fees	13	**(511,321)**	(569,000)
PROFIT FOR THE YEAR		**9,199,755**	11,352,028
Attributable to:			
Equity holders of the Parent Company		**9,046,740**	11,190,496
Non-controlling interests		**153,015**	161,532
		9,199,755	11,352,028
Basic and diluted earnings per share attributable to the shareholders of the Parent Company	5	**46.06 fils**	57.04 fils

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
Profit for the year		**9,199,755**	11,352,028
Other comprehensive (loss) income:			
Items that are or may be reclassified to the consolidated statement of income in subsequent periods:			
- Foreign currency translation adjustments		**79,711**	172,835
- Net unrealised loss of financial assets available for sale		**(1,986,175)**	(6,457,150)
- Gain on sale of financial assets available for sale	4	**(1,339,468)**	(2,342,957)
- Impairment loss on financial assets available for sale	9	**1,907,757**	8,801,136
- Cumulative change in fair value of associate, recycled to consolidated statement of income	3	-	(139,616)
- Share of other comprehensive income of associates	8	**4,592**	67,657
Net other comprehensive (loss) income for the year		**(1,333,583)**	101,905
Total comprehensive income for the year		**7,866,172**	11,453,933
Attributable to:			
Equity holders of the Parent Company		**7,686,059**	11,322,076
Non-controlling interests		**180,113**	131,857
		7,866,172	11,453,933

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 KD	2015 KD
ASSETS			
Property and equipment		**4,083,569**	4,251,006
Investment properties	7	**12,759,892**	13,313,380
Investment in associates	8	**6,471,015**	6,240,661
Financial assets held to maturity		**20,885,437**	7,498,293
Loans secured by life insurance policyholders		**213,892**	97,487
Financial assets available for sale	9	**82,060,435**	86,961,030
Receivables arising from reinsurance contracts and premium accruals	11	**20,056,639**	24,776,947
Reinsurance recoverable on outstanding claims	16	**34,693,787**	31,602,446
Premiums and insurance balances receivable	10	**13,639,975**	10,719,665
Accounts receivable and other debit balances	12	**6,101,651**	7,271,394
Term deposits	6	**45,332,920**	47,262,857
Bank balances and cash	6	**4,164,097**	3,042,867
TOTAL ASSETS		**250,463,309**	243,038,033
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent Company			
Share capital	13	**20,000,000**	20,000,000
Statutory reserve	14	**20,000,000**	20,000,000
General reserve	14	**20,000,000**	20,000,000
Special voluntary reserve	14	**12,000,000**	11,000,000
Treasury shares		**(1,322,565)**	(1,394,366)
Treasury shares reserve		**1,458,169**	1,438,443
Cumulative changes in fair values reserve		**10,387,171**	11,827,152
Foreign currency translation reserve		**528,484**	449,184
Retained earnings		**20,829,322**	19,657,245
Other reserve		**62,528**	-
Equity attributable to equity holders of the Parent Company		**103,943,109**	102,977,658
Non-controlling interests		**3,338,802**	3,473,569
Total equity		**107,281,911**	106,451,227
LIABILITIES			
Liabilities arising from insurance contracts:			
Outstanding claims reserve	16	**76,996,335**	73,431,281
Unearned premiums reserve	16	**15,863,384**	20,663,210
Life mathematical reserve	16	**5,350,000**	4,982,000
Incurred but not reported reserve	16	**12,120,967**	11,592,173
Total technical reserves arising from insurance contracts		**110,330,686**	110,668,664
Bank overdraft	6	**12,708,740**	6,147,115
Insurance and reinsurance payables	17	**12,252,775**	11,428,005
Accounts payable and other credit balances	18	**7,826,682**	8,255,242
Premiums received in advance		**62,515**	87,780
Total liabilities		**143,181,398**	136,586,806
TOTAL EQUITY AND LIABILITIES		**250,463,309**	243,038,033

Sulaiman Hamad M. Al-Dalali
Chairman

Ayman Abdullatif A. Al-Shayea
Vice Chairman

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital KD	*Statutory reserve KD*	*General reserve KD*	*Special voluntary reserve KD*	*Treasury shares KD*	*Treasury shares reserve KD*	*Cumulative changes in fair values reserve KD*	*Foreign currency translation reserve KD*	*Retained earnings KD*	*Other reserve KD*	*Subtotal KD*	*Non - controlling interests KD*	*Total equity KD*
At 1 January 2016	**20,000,000**	**20,000,000**	**20,000,000**	**11,000,000**	**(1,394,366)**	**1,438,443**	**11,827,152**	**449,184**	**19,657,245**	**-**	**102,977,658**	**3,473,569**	**106,451,227**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,046,740**	**-**	**9,046,740**	**153,015**	**9,199,755**
Other comprehensive (loss) income	**-**	**-**	**-**	**-**	**-**	**-**	**(1,439,981)**	**79,300**	**-**	**-**	**(1,360,681)**	**27,098**	**(1,333,583)**
Total comprehensive (loss) income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(1,439,981)**	**79,300**	**9,046,740**	**-**	**7,686,059**	**180,113**	**7,866,172**
Cash dividends (Note 13)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6,874,663)**	**-**	**(6,874,663)**	**-**	**(6,874,663)**
Sale of treasury shares	**-**	**-**	**-**	**-**	**71,936**	**19,726**	**-**	**-**	**-**	**-**	**91,662**	**-**	**91,662**
Purchase of treasury shares	**-**	**-**	**-**	**-**	**(135)**	**-**	**-**	**-**	**-**	**-**	**(135)**	**-**	**(135)**
Transfer to reserves (Note 14)	**-**	**-**	**-**	**1,000,000**	**-**	**-**	**-**	**-**	**(1,000,000)**	**-**	**-**	**-**	**-**
Cash dividends paid to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(123,900)**	**(123,900)**
Change of ownership percentage of a subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**62,528**	**62,528**	**(190,980)**	**(128,452)**
At 31 December 2016	**20,000,000**	**20,000,000**	**20,000,000**	**12,000,000**	**(1,322,565)**	**1,458,169**	**10,387,171**	**528,484**	**20,829,322**	**62,528**	**103,943,109**	**3,338,802**	**107,281,911**

	Share capital KD	*Statutory reserve KD*	*General reserve KD*	*Special voluntary reserve KD*	*Treasury shares KD*	*Treasury shares reserve KD*	*Cumulative changes in fair values reserve KD*	*Foreign currency translation reserve KD*	*Retained earnings KD*	*Other reserve KD*	*Subtotal KD*	*Non - controlling interests KD*	*Total equity KD*
At 1 January 2015	20,000,000	18,171,431	18,862,138	11,000,000	(1,414,701)	1,434,528	11,861,293	283,463	17,710,933	-	97,909,085	-	97,909,085
Profit for the year	-	-	-	-	-	-	-	-	11,190,496	-	11,190,496	161,532	11,352,028
Other comprehensive (loss) income	-	-	-	-	-	-	(34,141)	165,721	-	-	131,580	(29,675)	101,905
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(34,141)	165,721	11,190,496	-	11,322,076	131,857	11,453,933
Cash dividends (Note 13)	-	-	-	-	-	-	-	-	(6,277,753)	-	(6,277,753)	-	(6,277,753)
Sale of treasury shares	-	-	-	-	20,335	3,915	-	-	-	-	24,250	-	24,250
Transfer to reserves (Note 14)	-	1,828,569	1,137,862	-	-	-	-	-	(2,966,431)	-	-	-	-
Non-controlling interest arising on business combination (Note 3)	-	-	-	-	-	-	-	-	-	-	-	3,341,712	3,341,712
At 31 December 2015	20,000,000	20,000,000	20,000,000	11,000,000	(1,394,366)	1,438,443	11,827,152	449,184	19,657,245	-	102,977,658	3,473,569	106,451,227

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
OPERATING ACTIVITIES			
Profit for the year before contribution to KFAS, NLST, Zakat and directors' fees		**10,178,020**	12,426,128
Adjustments to reconcile profit for the year to net cash flows:			
Depreciation of property and equipment		**235,162**	398,136
Share of results of associates	8	**(155,252)**	(1,279,848)
Gain on bargain purchase	3	-	(9,455,551)
Loss on re-measurement of previously held equity interests	3	-	2,621,766
Recycled cumulative change in fair value of associate acquired	3	-	(139,616)
Rental income from investment properties	4	**(665,647)**	(306,678)
Revaluation loss on investment properties	7	**548,262**	27,517
Gain on sale of financial assets available for sale	4	**(1,339,468)**	(2,342,957)
Impairment loss on financial assets available for sale	9	**1,907,757**	8,801,136
Impairment loss on other receivable		**80,000**	-
Interest income on bonds and term deposits	4	**(2,054,588)**	(724,163)
Dividends income	4	**(1,582,963)**	(2,492,235)
Interest expense		**389,200**	209,637
Provision for employees' end of service benefits		**610,160**	484,070
(Gain) loss on sale of property and equipment		**(12,592)**	2,563
Income from funds	4	**(257,541)**	(246,174)
		7,880,510	7,983,731
Changes in operating assets and liabilities:			
Receivables arising from reinsurance contracts and premium accruals		**4,720,308**	8,317,200
Reinsurance recoverable on outstanding claims		**(3,091,341)**	(1,262,635)
Premiums and insurance balances receivable		**(2,920,310)**	260,303
Accounts receivable and other debit balances		**1,486,438**	3,397,522
Net change in insurance and reinsurance contract liabilities		**(337,978)**	(9,573,456)
Insurance payables		**824,770**	193,439
Accounts payable and other credit balances		**(1,066,803)**	(649,325)
Premiums received in advance		**(25,265)**	12,395
Cash flows from operations		**7,470,329**	8,679,174
Employees' end of service benefits paid		**(1,124,142)**	(391,622)
Net cash flows from operating activities		**6,346,187**	8,287,552
INVESTING ACTIVITIES			
Purchase of property and equipment		**(73,355)**	(231,398)
Proceeds from sale of property and equipment		**20,323**	-
Purchase of financial assets available for sale		**(7,562,037)**	(8,958,499)
Proceeds from sale of financial assets available for sale		**10,476,456**	8,629,650
Net cash and cash equivalents outflows on acquisition of a subsidiary	3	-	(16,681,826)
Purchase of investment in associates		-	(399,413)
Purchase of financial assets held to maturity		**(16,000,000)**	(3,000,000)
Proceeds from redemption of financial assets held to maturity		**2,620,826**	258,520
Movement in loans secured by life insurance policyholders		**(116,405)**	118,961
Term deposits		**1,997,254**	10,147,331
Dividends received		**1,582,963**	2,738,481
Dividend income from investment in associates		-	457,080
Interest income received		**1,658,293**	444,790
Rent received		**665,647**	311,985
Proceeds from returned excess subscription in investment in associate		**3,956**	-
Income received from funds		**257,541**	246,174
Net cash flows used in investing activities		**(4,468,538)**	(5,918,164)
FINANCING ACTIVITIES			
Dividends paid		**(6,824,602)**	(6,229,707)
Sale of treasury shares		**91,662**	24,250
Purchase of treasury shares		**(128,587)**	-
Interest expense paid		**(389,200)**	(209,637)
Proceeds from term loan		-	3,000,000
Term loan paid		-	(3,000,000)
Net cash flows used in financing activities		**(7,250,727)**	(6,415,094)
Foreign currency translation adjustment		-	(159,208)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(5,373,078)**	(4,204,914)
Cash and cash equivalents at the beginning of the year		**(3,104,248)**	1,100,666
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	**(8,477,326)**	(3,104,248)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

1 CORPORATE INFORMATION

The consolidated financial information of Al-Ahleia Insurance Company S.A.K.P. (the "Parent Company") and its subsidiary – Kuwait Reinsurance Company (collectively "the Group") (Note 3) for the year ended 31 December 2016 were authorised for issuance with a resolution of the Board of Directors on 7 March 2017. The general assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

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

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 cancelled the Companies Law No. 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 of November 2012. The new Executive Regulations of Law No. 1 of 2016 issued on 12 July 2016 and published in the Official Gazette on 17 July 2016 cancelled the Executive Regulations of Law No. 25 of 2012.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

Statement of compliance

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

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

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

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

Further, certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications were made in order to more appropriately present certain items of consolidated statement of financial position, consolidated statement of income and consolidated cash flow statement. Such reclassifications do not affect previously reported assets, liabilities, equity and profit for the year, nor materially affect the consolidated cash flow statement. The reclassifications are not material to the consolidated financial statements.

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

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the consolidated financial statements of the Parent Company and its subsidiary as at 31 December 2016. Subsidiary is investee that the Group has control over.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Any contingent consideration will be recognised at fair value at the acquisition date. Subsequent measurement takes place at fair value with changes in fair value recognised in the consolidated statement of income.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Product classification

Insurance contracts

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts

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

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

Impairment of non-financial assets

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

- Disclosures for significant assumptions Note 2.5

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

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

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

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

Impairment losses are recognised in the consolidated statement of income.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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

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

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

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

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

Deferred Acquisition Costs (DAC)
Those direct and indirect costs incurred during the financial period arising from the acquiring or renewals of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums from insurance contract.
All other acquisition costs are recognised as expenses when incurred. Commissions paid to intermediaries and other incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts are amortised over the terms of the insurance contracts to which they relate as premiums are earned, when the related contracts are settled or disposed of.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

- Buildings on freehold land — 25 years
- Leasehold properties — 20 to 25 years
- Furniture, fixtures, equipment and motor vehicles — 3 to 5 years

The assets' residual values, and useful lives and method of depreciation are reviewed and adjusted if appropriate at each financial year end and adjusted prospectively, if appropriate.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

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

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

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

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the funds.

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

The Group's investment in associates is accounted for using the equity method.

Under the equity method, the investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)
The aggregate of the Group's share of result of an associate is included in the consolidated statement of income.

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

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

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

Financial instruments

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

(i) Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through the consolidated statement of income, loans and receivables, held-to-maturity investments, financial assets available for sale, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through the consolidated statement of income, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include "financial assets held to maturity", "loans", "financial assets available for sale", "receivables arising from reinsurance contracts and premium accruals", "reinsurance recoverable on outstanding claims", "premiums and insurance balances receivable", and "accounts receivable and other debit balances". At 31 December, the Group did not have any derivatives designated as hedging instruments.

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

Financial assets available for sale
Financial assets available for sale include equity investments and debt securities. Equity investments classified as financial assets available for sale are those that are neither classified as held for trading nor designated at fair value through the consolidated statement of income. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (continued)

Subsequent measurement (continued)

Financial assets available for sale (continued)
After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited to or debited to the financial assets available for sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of income as gain or (loss) of financial assets available for sale , or the investment is determined to be impaired, when the cumulative loss is reclassified from the financial assets available for sale reserve to the consolidated statement of income as impairment in financial assets available for sale. Interest earned whilst holding financial assets available for sale is reported as interest income using the effective interest rate method (EIR). Dividends earned whilst holding AFS investments are recognised in the consolidated statement of income as 'Investment income' when the right of the payment has been established. When the asset is derecognised or determined to be impaired, the cumulative gain or loss is reclassified from AFS reserve the consolidated statement of income.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets *(continued)*

Subsequent measurement (continued)

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) Impairment of financial assets (continued)

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

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

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

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

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

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

(iii) Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through the consolidated statement of income, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include Borrowings, insurance payables, Accounts payable and other credit balances. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iii) Financial liabilities (continued)

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

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

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

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

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

Fair value measurement

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

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

- In the principal market for the asset or liability.

Or

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iv) Offsetting of financial instruments (continued)

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

- Disclosures for significant accounting judgements, estimates and assumptions	Note 2.5
- Investment properties	Note 7
- Financial instruments	Note 27
- Quantitative disclosures of fair value measurement hierarchy	Note 27

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Insurance receivables
Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the EIR method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated statement of income.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.3, have been met.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Revenue recognition

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Employees' end of service benefits
The Group provides end of service benefits to its employees under the Kuwait Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Group makes contributions to social security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

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

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

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

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

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of each new standard and amendment is described below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 14 Regulatory Deferral Accounts
IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the consolidated statement of income and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are applied retrospectively and do not have any impact on the Group as it does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements must apply that change retrospectively. These amendments do not have any impact on the Group's consolidated financial statements and the Parent Company did not publish restated financial statements.

Annual Improvements 2012-2014 Cycle

These improvements include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) *Applicability of the amendments to IFRS 7 to condensed interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits
The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting
The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1.
- That specific line items in the consolidated statement of income and OCI and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the consolidated statement of income and OCI. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(ii) Estimation and assumptions (continued)

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

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

The Group plans to defer the application of IFRS 9 until the earlier of the effective date of the new insurance contracts standard (IFRS 17) of 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendment below.

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

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

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

The Group assesses the potential effect of IFRS 9 on its consolidated financial statements.

IFRS 15: Revenue from Contracts with customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group expects to apply IFRS 15 fully retrospective. Given insurance contracts are scoped out of IFRS 15. The Group does not expect the impact to be significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

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

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

The Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

3 BUSINESS COMBINATIONS

On 16 June 2015, the Parent Company had offered the shareholders of Kuwait Reinsurance Company K.S.C.P. "KRE", (formerly had been classified as an associate) a mandatory acquisition proposal, in accordance with the regulations of Capital Markets Authority "CMA" to acquire the shares for 200 fils per share. As a result, at the end of mandatory acquisition proposal period, the Parent Company acquired additional equity interest of 91,899,135 shares that represented 61.27% of the investees share capital that lead to post acquisition equity interest of 91.74%. The Group reclassified its investment in KRE from investment in associates to investment in subsidiaries as step acquisition in accordance with IFRS 3 – Business Combinations and consolidated KRE from the effective date of control which took place during the third quarter of 2015 and issued the first consolidated financial statements as on 30 September 2015. The acquisition has been accounted based on the provisional values assigned to the identifiable assets and liabilities of the acquired Company as on the financial statements preceding the acquisition date and the management was in the process of determining the final fair values of assets and liabilities acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

3 BUSINESS COMBINATIONS (continued)

During the current year, the Group has concluded that the final fair values of the identifiable assets acquired and liabilities assumed are not significantly different from their provisionally determined values on the date of acquisition, as follows:

	Fair values KD
Assets	
Cash and equivalents *	2,018,128
Term deposits with original maturities of more than three months	35,260,925
Financial assets available for sale	14,401,698
Financial assets held to maturity	4,752,602
Receivables arising from reinsurance contracts and premium accruals	33,312,606
Reinsurance recoverable on outstanding claims	1,757,470
Other receivables	8,139,442
Investment properties	13,352,221
Property and equipment	1,771,133
	114,766,225
Liabilities	
Technical reserves	69,166,519
Payables arising from reinsurance contracts	3,599,590
Other payables	1,543,546
	74,309,655
Net assets acquired	40,456,570
Consideration paid during the mandatory proposal period **	(18,699,954)
Non-controlling interests in the acquired Company at provisional value	(3,341,712)
Fair value of acquirer's previously held equity interest	(8,959,353)
Gain on bargain purchase	9,455,551
Loss on re-measurement of previously held equity interests	(2,621,766)
Cumulative change in fair value of associate, recycled to consolidated statement of income	139,616
Net gain on business combination	6,973,401
Considerations paid during the mandatory proposal offer **	(18,699,954)
Cash and cash equivalents inflows on acquisition of a subsidiary *	2,018,128
Net cash and cash equivalents outflows on acquisition of a subsidiary	(16,681,826)

4 NET INVESTMENT INCOME

	2016 KD	*2015 KD*
Gain on sale of financial assets available for sale	**1,339,468**	2,342,957
Interest income on bonds and term deposits	**2,054,588**	724,163
Dividend income	**1,582,963**	2,492,235
Rental income from investment properties	**665,647**	306,678
Income from funds	**257,541**	246,174
Other investment income	-	84,935
	5,900,207	6,197,142

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

5 BASIC AND DILUTED EARNINGS PER SHARE

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

	2016 ***KD***	*2015* *KD*
Profit for the year attributable to shareholders of Parent Company	**9,046,740**	11,190,496
	Shares	Shares
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	**196,397,866**	196,202,950
Basic and diluted earnings per share	**46.06 fils**	57.04 fils

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

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

6 CASH AND CASH EQUIVALENTS

	2016 ***KD***	*2015* *KD*
Term deposits	**45,332,920**	47,262,857
Bank balances and cash	**4,164,097**	3,042,867
	49,497,017	50,305,724
Less:		
Bank overdraft	**(12,708,740)**	(6,147,115)
Term deposits with original maturities of more than three months	**(45,265,603)**	(47,262,857)
Cash and cash equivalents	**(8,477,326)**	(3,104,248)

Term deposits amounting to KD 5,380,856 (31 December 2015: KD 5,555,356) are held as security against letters of credit amounting to KD 3,666,762 (2015: 4,629,463) granted by banks. Bank balances and deposit amounting to KD 1,874,603 has been pledged against initial legal case verdict, which was appealed by the Group.

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

7 INVESTMENT PROPERTIES

	2016 ***KD***	*2015* *KD*
As at 1 January	**13,313,380**	-
Arising on consolidation of a new subsidiary	-	13,345,754
Revaluation loss	**(548,262)**	(27,517)
Foreign currency translation adjustment	**(5,226)**	(4,857)
As at 31 December	**12,759,892**	13,313,380

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

7 INVESTMENT PROPERTIES (continued)

The fair value of investment properties has been determined based on valuations obtained from two independent professional real estate valuers, who are industry specialised in valuing such type of investment properties. One of these valuers is a local bank and the other is a local reputable accredited valuer. Both valuers have valued the investment properties using the income capitalization approach assuming full capacity of the property. For valuation purpose, the Group has selected the value made by the local bank, being the lower of these two valuations (2015: the lower of two valuations) as required by the Capital Markets Authority (CMA). The Group has entered into operating lease for its investment properties (Note 23).

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

	2016	*2015*
Average rent (per sqm) – KD	**744**	757
Yield rate - %	**5.22%**	5.09%
Vacancy rate	**1%**	9.52%

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

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

8 INVESTMENT IN ASSOCIATES

The Group has the following investment in associates:

	Ownership percentage		*Country of*	***2016***	*2015*
	2016	*2015*	*incorporation*	***KD***	*KD*
Iraq International Insurance Company S.A (Closed)	**44.32%**	44.32%	Iraq	**466,425**	408,163
AL-Watania Insurance Company Y.S.C. (Closed)	**22.50%**	22.50%	Yemen	**149,400**	161,326
Burgan Insurance Company S.A.L. (formerly Arab Life Insurance Company S.A.L.)	**49.37%**	49.37%	Lebanon	**600,788**	531,856
Arab Life and Accident Insurance Company P.S.C.	**27.94%**	27.94%	Jordan	**1,093,577**	1,009,856
Trade Union Insurance Company B.S.C.C.	**20.95%**	20.95%	Bahrain	**4,160,825**	4,129,460
				6,471,015	6,240,661

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

	2016	*2015*
	KD	*KD*
Carrying value at 1 January	**6,240,661**	16,366,220
Additional subscription in associates	**-**	399,413
Proceeds from investment in associates	**(3,956)**	-
Share of results of associates	**155,252**	1,279,848
Dividends received	**-**	(457,080)
Share of other comprehensive income	**4,592**	67,657
Foreign currency translation adjustment	**74,466**	165,721
De-recognition of associated company, transferred to subsidiary (Note 3)	**-**	(11,581,118)
Carrying value at 31 December	**6,471,015**	6,240,661

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

9 FINANCIAL ASSETS AVAILABLE FOR SALE

	2016 **KD**	*2015* KD
Local equity securities:		
Quoted	**26,358,882**	23,681,741
Unquoted	**7,291,137**	7,820,659
	33,650,019	31,502,400
Foreign equity securities:		
Quoted	**4,280,472**	4,799,220
Unquoted	**18,918,237**	20,107,925
	23,198,709	24,907,145
Unquoted foreign funds	**24,556,509**	29,533,262
Bonds	**655,198**	1,018,223
	82,060,435	86,961,030

As at 31 December 2016, quoted equity securities are carried at fair value. Management has performed a review of these investments to assess whether any impairment has occurred in their value and accordingly, an impairment loss of KD 382,984 (2015: KD 7,331,777) was recognised in the consolidated statement of income for the year ended 31 December 2016.

Unquoted equity securities amounting to KD 18,633,300 (2015: KD 16,879,974) are carried at cost less impairment since fair values cannot be reliably estimated and the investment managers have been unable to indicate any estimates of the range within which fair values might lay. The management recorded an impairment loss of KD 1,360,466 (2015: KD 652,407) against these investments based on the most recently available market information.

Unquoted foreign funds are carried at fair value reported by the fund manager. Management has performed a review of these investments to assess whether any impairment has occurred in their value and accordingly, an impairment loss of KD 164,307 (2015: KD 816,952) has been recorded in the consolidated statement of income for the year ended 31 December 2016.

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

10 PREMIUMS AND INSURANCE RECEIVABLES

	2016 **KD**	*2015* KD
Policyholders' accounts receivable		
Premiums receivable	**10,045,455**	7,019,093
Allowances for impaired receivables	**(547,676)**	(555,655)
Net policyholders' accounts receivable	**9,497,779**	6,463,438
Insurance and reinsurance accounts receivable		
Reinsurance receivable	**4,254,567**	4,368,598
Allowances for impaired receivables	**(112,371)**	(112,371)
Net insurance and reinsurance accounts receivable	**4,142,196**	4,256,227
Total premiums and insurance receivables	**13,639,975**	10,719,665

As at 31 December 2016, premiums as well as insurance and reinsurance receivables at nominal value of KD 660,047 (2015: KD 668,026) were impaired and fully provided for.

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

	2016 **KD**	*2015* KD
At the beginning of the year	**668,026**	735,595
Reversal of impairment	**(7,979)**	(67,569)
At the end of the year	**660,047**	668,026

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

11 RECEIVABLES ARISING FROM REINSURANCE CONTRACTS AND PREMIUM ACCRUALS

	2016 ***KD***	*2015* *KD*
Gross receivables arising from reinsurance contracts	**7,447,095**	9,633,811
Provision for doubtful debts	**(284,865)**	(275,964)
Net receivables arising from reinsurance contracts	**7,162,230**	9,357,847
Accrued premiums arising from reinsurance contracts	**12,894,409**	15,419,100
	20,056,639	24,776,947

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

		Past due but not impaired		
	Total *KD*	*1-3 months* *KD*	*3-12 months* *KD*	*More than 12 months* *KD*
2016	**7,162,230**	**1,513,564**	**3,545,618**	**2,103,048**
2015	9,357,847	4,833,151	3,100,115	1,424,581

12 ACCOUNTS RECEIVABLES AND OTHER DEBIT BALANCES

	2016 ***KD***	*2015* *KD*
Accrued income	**873,318**	745,060
Reserve retained by reinsurers	**328,838**	309,649
Deferred acquisition cost	**2,905,834**	4,224,906
Other debit balances	**1,993,661**	1,991,779
	6,101,651	7,271,394

13 SHARE CAPITAL AND CASH DIVIDEND

Share capital

The authorised, issued and fully paid up share capital consists of 200,000,000 shares of 100 fils each (31 December 2015: 200,000,000) which was issued in form of cash and bonus shares.

Cash dividend

On 7 March 2017, the Parent Company's board of directors has proposed a distribution of cash dividend of 35% for the year ended 31 December 2016 (2015: 35%), totalling KD7,000,000 (2015: KD 6,874,663) and the Parent Company board of directors' fees of KD 421,321 (2015: KD 454,000). This proposal is subject to the approval by Annual Ordinary General Assembly Meeting of the Parent Company's Shareholders. The subsidiary board of directors has proposed directors' fees of KD 90,000 (2015: KD 115,000) and is subject to approval of the subsidiary's Annual Ordinary General Assembly Meeting.

On 5 April 2016, the Ordinary Annual General Assembly of the Parent Company's shareholders approved the payment of cash dividend of 35% for the year ended 31 December 2015, totalling KD 6,874,663 (2014: 32% totalling KD 6,277,753) and board of directors' fees of KD 454,000 (2014: KD 409,847).

The subsidiary directors' fees of KD 115,000 for the year ended 31 December 2015 was approved by the AGM on 12 April 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

14 RESERVES

Statutory reserve
As required by the Companies Law and the Parent Company's articles of association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees should be transferred to statutory reserve. As the statutory reserve at the beginning of the year reached 100% of the share capital (above 50% of share capital) the Parent Company's board of directors has not proposed to transfer from retained earnings to the Statutory reserve.

Only the part of the reserve in excess of 50% of paid up share capital is freely distributable. Distribution of the balance is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

General reserve
In accordance with the Parent Company's articles of association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees should be transferred to general reserve. As the General reserve at the beginning of the year reached 100% of the share capital the Parent Company's board of directors has not proposed to transfer any amount from retained earnings to the general reserve.

Special voluntary reserve
In accordance with the Parent Company's articles of association, the board of directors can resolve to transfer certain amount of the profit for the year to the special voluntary reserve. On 7 March 2017, the Parent Company's board of directors has resolved to transfer an amount of KD 1,000,000 from retained earnings to the special voluntary reserve.

15 TREASURY SHARES

	2016	*2015*
Number of shares	**3,571,364**	3,765,323
Percentage of issued shares (%)	**1.79**	1.88
Market value (KD)	**1,624,971**	1,995,621

An amount of KD 1,322,565 (31 December 2015: KD 1,394,366) equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from reserves and retained earnings throughout the holding period of treasury shares.

The weighted average market price of the Parent Company's shares for the year ended 31 December 2016 was 447 fils per share (31 December 2015: 442 fils per share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

16 LIABILITIES ARISING FROM INSURANCE CONTRACTS

31 December 2016	*Marine and Aviation KD*	*General Accidents KD*	*Fire KD*	*Life and Medical KD*	*Reinsurance operations KD*	*Total KD*
OUTSTANDING CLAIMS RESERVE:						
Gross balance at the beginning of the year	5,030,061	11,246,941	10,750,564	12,946,721	33,456,994	73,431,281
Reinsurance recoverable on outstanding claims at the beginning of the year	(4,185,360)	(4,702,456)	(10,186,450)	(10,386,251)	(2,141,929)	(31,602,446)
Net balance at the beginning of the year	844,701	6,544,485	564,114	2,560,470	31,315,065	41,828,835
Gross claims incurred during the year	2,030,136	5,565,909	2,313,652	6,063,180	19,705,158	35,678,035
Reinsurance recoverable	(1,504,844)	(2,657,575)	(2,368,213)	(3,829,164)	(152,603)	(10,512,399)
Net claims incurred	525,292	2,908,334	(54,561)	2,234,016	19,552,555	25,165,636
Gross claims paid during the year	(1,173,816)	(3,827,913)	(1,301,284)	(5,508,457)	(20,301,511)	(32,112,981)
Reinsurance recoverable	783,829	1,056,471	1,082,096	3,492,860	1,005,802	7,421,058
Paid during the year	(389,987)	(2,771,442)	(219,188)	(2,015,597)	(19,295,709)	(24,691,923)
NET BALANCE AT THE END OF THE YEAR	980,006	6,681,377	290,365	2,778,889	31,571,911	42,302,548
Presented in the consolidated statement of financial position as follows:						
Outstanding claims reserve	5,886,381	12,984,937	11,762,932	13,501,444	32,860,641	76,996,335
Reinsurance recoverable on outstanding claims	(4,906,375)	(6,303,560)	(11,472,567)	(10,722,555)	(1,288,730)	(34,693,787)
NET BALANCE AT THE END OF THE YEAR	980,006	6,681,377	290,365	2,778,889	31,571,911	42,302,548
Unearned premiums reserve	350,606	2,593,888	382,191	-	12,536,699	15,863,384
Life mathematical reserve	-	-	-	5,350,000	-	5,350,000
Incurred but not reported reserve	500,000	1,500,000	500,000	-	9,620,967	12,120,967

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

16 LIABILITIES ARISING FROM INSURANCE CONTRACTS (continued)

31 December 2015	*Marine and Aviation KD*	*General Accidents KD*	*Fire KD*	*Life and Medical KD*	*Reinsurance operations KD*	*Total KD*
OUTSTANDING CLAIMS RESERVE:						
Gross balance at the beginning of the year	6,485,306	9,295,153	10,241,792	12,093,511	-	38,115,762
Reinsurance recoverable on outstanding claims at the beginning of the year	(5,542,123)	(3,446,113)	(9,761,159)	(9,832,946)	-	(28,582,341)
Net balance at the beginning of the year	943,183	5,849,040	480,633	2,260,565	-	9,533,421
Arising from Consolidated subsidiary	-	-	-	-	31,752,990	31,752,990
Gross claims incurred during the year	1,467,589	5,969,405	1,470,625	5,776,585	10,891,018	25,575,222
Reinsurance recoverable	(968,889)	(1,610,370)	(1,154,289)	(3,837,698)	(1,436,582)	(9,007,828)
Net claims incurred	498,700	4,359,035	316,336	1,938,887	9,454,436	16,567,394
Gross claims paid during the year	(2,922,834)	(4,017,617)	(961,853)	(4,923,375)	(10,944,484)	(23,770,163)
Reinsurance recoverable	2,325,652	354,027	728,998	3,284,393	1,052,123	7,745,193
Paid during the year	(597,182)	(3,663,590)	(232,855)	(1,638,982)	(9,892,361)	(16,024,970)
NET BALANCE AT THE END OF THE YEAR	844,701	6,544,485	564,114	2,560,470	31,315,065	41,828,835
Presented in the consolidated statement of financial position as follows:						
Outstanding claims reserve	5,030,061	11,246,941	10,750,564	12,946,721	33,456,994	73,431,281
Reinsurance recoverable on outstanding claims	(4,185,360)	(4,702,456)	(10,186,450)	(10,386,251)	(2,141,929)	(31,602,446)
NET BALANCE AT THE END OF THE YEAR	844,701	6,544,485	564,114	2,560,470	31,315,065	41,828,835
Unearned premiums reserve	321,620	2,744,777	371,771	-	17,225,042	20,663,210
Life mathematical reserve	-	-	-	4,982,000	-	4,982,000
Incurred but not reported reserve	700,000	2,144,714	700,000	-	8,047,459	11,592,173

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

17 INSURANCE AND REINSURANCE PAYABLES

	2016 **KD**	*2015* KD
Policyholders payables	**2,121,844**	1,563,909
Reinsurance payables	**8,279,623**	7,620,905
Claims payables	**935,390**	737,284
Other insurance payables	**915,918**	1,505,907
	12,252,775	11,428,005

18 ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

	2016 **KD**	*2015* KD
Reserve retained on reinsurance business	**1,187,107**	1,181,588
Accrued employees bonus, leave balance and end of service benefits	**2,654,547**	2,988,085
Dividends payable	**885,563**	706,901
Accrued expenses	**790,131**	990,189
Board of directors' fees	**511,321**	569,000
Other payables	**1,798,013**	1,819,479
	7,826,682	8,255,242

19 SEGMENT INFORMATION

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

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

The following are the details of these segments:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

19 SEGMENT INFORMATION (continued)

A) Segment information – Consolidated statement of income

	General risk insurance						
Year ended 31 December 2016:	*Marine and Aviation KD*	*General accidents KD*	*Fire KD*	*Total general risk insurance KD*	*Life and medical insurance KD*	*Reinsurance operations KD*	*Total KD*
Revenue:							
Gross premiums written	5,662,142	12,615,681	5,018,840	23,296,663	9,089,870	29,388,118	61,774,651
Premiums ceded to reinsurers	(4,066,336)	(6,754,516)	(4,245,009)	(15,065,861)	(5,511,533)	(3,797,652)	(24,375,046)
Net premiums written	1,595,806	5,861,165	773,831	8,230,802	3,578,337	25,590,466	37,399,605
Movement in unearned premiums	(28,986)	150,889	(10,420)	111,483	-	4,688,342	4,799,825
Net premiums earned	1,566,820	6,012,054	763,411	8,342,285	3,578,337	30,278,808	42,199,430
Commission income on ceded reinsurance	1,602,931	2,364,104	1,073,893	5,040,928	1,870,968	470,921	7,382,817
Policy issuance fees	-	590,302	-	590,302	-	-	590,302
Total revenue of insurance and reinsurance operations	3,169,751	8,966,460	1,837,304	13,973,515	5,449,305	30,749,729	50,172,549
Expenses:							
Net claims incurred	(525,292)	(2,908,334)	54,561	(3,379,065)	(2,234,016)	(19,552,555)	(25,165,636)
Commissions and premiums' acquisition costs	(399,047)	(776,991)	(221,019)	(1,397,057)	(796,688)	(8,599,302)	(10,793,047)
Movement in life mathematical reserve	-	-	-	-	(368,000)	-	(368,000)
Maturity and cancellations of life insurance policies	-	-	-	-	(141,605)	-	(141,605)
Operating and administrative expenses for insurance business	(625,932)	(1,581,226)	(541,307)	(2,748,465)	(702,021)	(1,572,432)	(5,022,918)
Total expenses of insurance and reinsurance operations	(1,550,271)	(5,266,551)	(707,765)	(7,524,587)	(4,242,330)	(29,724,289)	(41,491,206)
Net underwriting results	1,619,480	3,699,909	1,129,539	6,448,928	1,206,975	1,025,440	8,681,343
Net investment income				3,132,145	157,628	2,100,039	5,389,812
Rental income from investment properties				-	-	665,647	665,647
Other income				118,688	12,902	12,592	144,182
Impairment loss on financial assets available for sale				(1,907,757)	-	-	(1,907,757)
Other administrative expenses, investment properties expenses and valuation loss				(1,109,312)	(759)	(1,605,136)	(2,715,207)
Impairment loss on other receivables				-	-	(80,000)	(80,000)
Profit before contribution to KFAS, NLST, Zakat and Directors' fees				6,682,692	1,376,746	2,118,582	10,178,020

19 SEGMENT INFORMATION (continued)

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

	General risk insurance						
Year ended 31 December 2015:	*Marine and Aviation KD*	*General accidents KD*	*Fire KD*	*Total general risk insurance KD*	*Life and medical insurance KD*	*Reinsurance operations KD*	*Total KD*
Revenue:							
Gross premiums written	7,102,774	12,397,901	5,076,684	24,577,359	8,714,437	10,067,253	43,359,049
Premiums ceded to reinsurers	(5,573,748)	(5,929,787)	(4,313,005)	(15,816,540)	(5,608,379)	(2,662,779)	(24,087,698)
Net premiums written	1,529,026	6,468,114	763,679	8,760,819	3,106,058	7,404,474	19,271,351
Movement in unearned premiums	(97,201)	562,686	19,190	484,675	-	10,325,707	10,810,382
Net premiums earned	1,431,825	7,030,800	782,869	9,245,494	3,106,058	17,730,181	30,081,733
Commission income on ceded reinsurance	2,060,171	1,876,082	1,027,906	4,964,159	1,192,260	246,751	6,403,170
Policy issuance fees	-	625,180	-	625,180	-	-	625,180
Total revenue of insurance and reinsurance operations	3,491,996	9,532,062	1,810,775	14,834,833	4,298,318	17,976,932	37,110,083
Expenses:							
Net claims incurred	(498,700)	(4,359,035)	(316,336)	(5,174,071)	(1,938,887)	(9,454,436)	(16,567,394)
Commissions and premiums' acquisition costs	(529,401)	(1,143,330)	(199,117)	(1,871,848)	(220,169)	(6,094,225)	(8,186,242)
Movement in life mathematical reserve	-	-	-	-	(36,000)	-	(36,000)
Maturity and cancellations of life insurance policies	-	-	-	-	(287,505)	-	(287,505)
Operating and administrative expenses for insurance business	(691,811)	(1,331,756)	(399,214)	(2,422,781)	(665,129)	(1,240,184)	(4,328,094)
Total expenses of insurance and reinsurance operations	(1,719,912)	(6,834,121)	(914,667)	(9,468,700)	(3,147,690)	(16,788,845)	(29,405,235)
Net underwriting results	1,772,084	2,697,941	896,108	5,366,133	1,150,628	1,188,087	7,704,848
Net investment income				6,111,465	168,299	890,548	7,170,312
Net gain on business combinations				6,973,401	-	-	6,973,401
Rental income from investment properties				-	-	306,678	306,678
Other income				181,997	14,193	-	196,190
Impairment loss on financial assets available for sale				(8,661,136)	-	(140,000)	(8,801,136)
Other administrative expenses, investment properties expenses and valuation loss				(1,046,048)	(218)	(77,899)	(1,124,165)
Profit before contribution to KFAS, NLST, Zakat and Directors' fees				8,925,812	1,332,902	2,167,414	12,426,128

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

19 SEGMENT INFORMATION (continued)

B) Segment information – Consolidated statement of financial position

	General risk insurance KD	*Life and medical insurance KD*	*Reinsurance operations*	*Total KD*
31 December 2016				
Assets	**125,031,837**	**21,900,933**	**103,530,539**	**250,463,309**
Liabilities	**60,471,726**	**21,900,933**	**60,808,739**	**143,181,398**
31 December 2015				
Assets	116,074,046	21,067,375	105,896,612	243,038,033
Liabilities	51,457,254	21,067,375	64,062,177	136,586,806

Takaful Insurance Department
In 2009, The Group established a new insurance unit named Takaful Insurance for life and non-life insurance which will be specialised in issuing Islamic insurance products. The impact of the related operations' results on the Group's consolidated financial statements is immaterial to be disclosed separately.

20 ARAB WAR RISKS INSURANCE SYNDICATE (AWRIS)

According to the latest advice received from AWRIS, the Group's interest in the undistributed profits of AWRIS amounted to KD 1,647,093 (USD 5,375,407) [2015: KD 1,543,987 (USD 5,077,608)].

21 RELATED PARTY TRANSACTIONS

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

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

31 December 2016	***Key management and board members KD***	***Associates KD***	***Parent Company's shareholders KD***	***Others KD***	***2016 KD***
Gross premiums	**181,665**	**676,412**	**3,002,954**	**127,632**	**3,988,663**
Claims incurred	-	**236,621**	**852,308**	**40,562**	**1,129,491**

31 December 2015	*Key management and board members KD*	*Associates KD*	*Parent Company's shareholders KD*	*Others KD*	*2015 KD*
Gross premiums	22,344	1,073,871	4,833,516	401,567	6,331,298
Claims incurred	-	423,664	819,429	35,104	1,278,197

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

21 RELATED PARTY TRANSACTIONS (continued)

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

31 December 2016	***Key management and board members KD***	***Associates KD***	***Parent Company's shareholders KD***	***Others KD***	***2016 KD***
Premiums and insurance balances receivable	**20,621**	**427,510**	**4,679,745**	**207,650**	**5,335,526**
Other credit balances	**2,761**	**-**	**139,591**	**2,271**	**144,623**

31 December 2015

	Key management and board members KD	*Associates KD*	*Parent Company's shareholders KD*	*Others KD*	*2015 KD*
Premiums and insurance balances receivable	16,139	399,954	4,719,157	521,225	5,656,475
Other credit balances	2,573	-	55,972	-	58,545

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

	2016 KD	*2015 KD*
Salaries and other short term benefits	**658,591**	505,007
Employees' end of service benefits	**489,478**	407,885
	1,148,069	912,892

22 CAPITAL COMMITMENTS AND CONTINGENCIES

(a) As at 31 December 2016, the Group has future capital commitments with respect to purchase of financial assets available for sale amounting to KD 5,161,430 (2015: KD 5,514,216) and has contingent liabilities in respect of letter of credit arising from the subsidiary, granted by a bank amounting to KD 3,666,762 (2015: KD 4,629,463), and letter of guarantee granted by a bank to the Parent company amounting to KD 269,975 from which it is anticipated that no material liabilities will arise.

(b) The Group operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, The Parent Company's management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

23 FUTURE LEASE RENT RECEIVABLES

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

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

	2016 KD	*2015 KD*
Within one year	**328,240**	376,008
After one year but not more than five years	**327,660**	363,345
	655,900	739,353

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

24 STATUTORY GUARANTEES

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

(a) Investments of KD 500,000 (2015: KD 500,000) have been deposited with a Kuwaiti bank as security to underwrite general insurance business;
(b) Investments of KD 500,000 (2015: KD 500,000) have been deposited with a Kuwaiti bank in respect of the Parent Company's right to transact life assurance business;
(c) Other investments, in the form of deposits and bonds amounting to KD 8,210,040 (2015: KD 8,112,337) are held in Kuwait.
(d) The Parent Company's premise with net carrying amount of KD 595,254 (2015: KD 711,689) have been mortgaged with the Ministry of Commerce and Industry.

25 RISK MANAGEMENT

(a) Governance framework

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

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

(b) Regulatory framework

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

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

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

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

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

(c) Insurance risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

25 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

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

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

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

(1) Life insurance contracts

Life insurance contracts offered by the Group include term insurance, life and disability, endowment, investment and pension (individual policies).

Term assurance are conventional regular premium products when lump sum benefits are payable on death or permanent disability.

Pension plans are contracts when retirement benefits are expressed in the form of an annuity payable at retirement age. If death occurs before retirement, contracts generally return the value of the fund accumulated or sum assured whichever is greater. Some contracts give the policyholder the option at retirement to take a cash sum or pension annuity allowing the policyholders the option of taking the more valuable of the two. Provision of additional death benefits may be provided by cancellation of units or through supplementary term assurance contracts. Certain personal pension plans also include contribution protection benefits that provide for payment of contributions on behalf of policyholders in periods of total disability.

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

25 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

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

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

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

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

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

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

31 December 2016 **Type of contract**	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*
Term insurance	20,361	(14,253)	6,108
Life and disability	1,202,702	(1,064,392)	138,310
Medical	421,973	(242,634)	179,339
Endowment individual policies	1,682,974	(1,127,043)	555,931
Pensions (individual policies)	120,414	-	120,414
Total life insurance contracts	**3,448,424**	**(2,448,322)**	**1,000,102**
Total investment contracts and participation feature	**4,297,796**	**-**	**4,297,796**
Other life insurance contracts liabilities	**52,102**	**-**	**52,102**
Life insurance contracts outstanding claims reserve	**13,501,444**	**(10,722,555)**	**2,778,889**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

25 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

31 December 2015 Type of contract	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*
Term insurance	21,250	(16,764)	4,486
Life and disability	1,250,818	(1,140,746)	110,072
Medical	400,643	(356,232)	44,411
Endowment individual policies	1,529,433	(922,000)	607,433
Pensions (individual policies)	112,121	-	112,121
Total life insurance contracts	3,314,265	(2,435,742)	878,523
Total investment contracts and participation feature	4,053,944	-	4,053,944
Other life insurance contracts liabilities	49,533	-	49,533
Life insurance contracts outstanding claims reserve	12,946,721	(10,386,251)	2,560,470

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

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

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

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

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

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

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

• ***Investment return***
The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments.

An increase in investment return would lead to a reduction in expenditure and an increase in profits for the shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

25 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions (continued)

• ***Expenses***
Operating expenses assumptions reflect the projected costs of maintaining and servicing in-force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate.

An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

• ***Lapse and surrender rates***
Lapses relate to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Group's experience and vary by product type, policy duration and sales trends.

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

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

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

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

25 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions (continued)

Portfolio assumptions by type of business impacting net liabilities	*Mortality and morbidity rates*		*Investment return*		*Lapse and surrender rates*		*Discount rates*		*Renewal expenses*		*Inflation rate*	
	2016	*2015*	***2016***	*2015*	***2016***	*2015*	***2016***	*2015*	***2016***	*2015*	***2016***	*2015*
Investment contracts:												
With fixed and guaranteed terms	**A49/52 Ult**	A49/52	**3%**	3%	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Non-guaranteed terms	**A49/52 Ult**	A49/52	**N/A**	N/A	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Life term assurance:												
Males	**A49/52 Ult**	A49/52	**N/A**	4%	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Females	**A49/52 Ult**	A52	**N/A**	4%	**N/A**	N/A	**4%**	4%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

25 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions (continued)

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

(2) Non-life insurance contracts

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

25 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

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

31 December 2016	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*
Marine and Aviation	**5,886,381**	**(4,906,375)**	**980,006**
Accident	**12,984,937**	**(6,303,560)**	**6,681,377**
Fire	**11,762,932**	**(11,472,567)**	**290,365**
Reinsurance operations	**32,860,641**	**(1,288,730)**	**31,571,911**
Total	**63,494,891**	**(23,971,232)**	**39,523,659**
31 December 2015			
Marine and Aviation	5,030,061	(4,185,360)	844,701
Accident	11,246,941	(4,702,456)	6,544,485
Fire	10,750,564	(10,186,450)	564,114
Reinsurance operations	55,456,489	(12,853,051)	42,603,438
Total	82,484,055	(31,927,317)	50,556,738

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

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

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

31 December 2016	*Change in assumption %*	*Impact on gross liabilities KD'000*	*Impact on net liabilities KD'000*	*Impact on profit KD'000*
Average claim cost	**+10**	**380**	**340**	**340**
Average number of claims	**+10**	**460**	**460**	**460**
31 December 2015	*Change in assumption %*	*Impact on gross liabilities KD'000*	*Impact on net liabilities KD'000*	*Impact on profit KD'000*
Average claim cost	+10	345	305	305
Average number of claims	+10	415	415	415

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

25 RISK MANAGEMENT (continued)

(d) Financial risks

(1) Credit risk

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

- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

- The credit risk in respect of customer balances, incurred on non-payment of premiums will only persist during the grace period specified in the policy document until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

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

	31 December 2016			
Exposure credit risk by classifying financial assets according to type of insurance	***General insurance KD***	***Life and Medical insurance KD***	***Reinsurance operations KD***	***Total KD***
Financial assets available for sale (debt securities)	**5,750,000**	**2,000,000**	**13,135,437**	**20,885,437**
Loans secured by life insurance policyholders	**-**	**213,892**	**-**	**213,892**
Policyholders accounts receivable (gross)	**7,799,296**	**2,246,159**	**-**	**10,045,455**
Reinsurance receivables (gross)	**3,575,444**	**679,123**	**-**	**4,254,567**
Reinsurance recoverable on outstanding claims	**22,682,502**	**10,722,555**	**21,345,369**	**54,750,426**
Other debit balances	**1,582,953**	**12,876**	**3,303,666**	**4,899,495**
Fixed deposits	**4,205,662**	**5,961,418**	**35,165,840**	**45,332,920**
Bank balances	**939,604**	**770**	**3,223,723**	**4,164,097**
Total credit risk exposure	**46,535,461**	**21,836,793**	**76,174,035**	**144,546,289**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

25 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(1) Credit risk (continued)

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

Exposure credit risk by classifying financial assets according to international credit rating agencies	***A*** **KD**	***B*** **KD**	***Not rated*** **KD**	***Total*** **KD**
31 December 2016				
Financial assets available for sale (debt securities)	-	-	**20,885,437**	**20,885,437**
Loans secured by life insurance policyholders	-	-	**213,892**	**213,892**
Policyholders accounts receivable (gross)	-	-	**10,045,455**	**10,045,455**
Premiums and insurance receivable (gross)	**3,946,102**	**308,465**	-	**4,254,567**
Reinsurance recoverable on outstanding claims	**33,520,105**	**21,230,321**	-	**54,750,426**
Other debit balances	-	-	**4,899,495**	**4,899,495**
Fixed deposits	**45,332,920**	-	-	**45,332,920**
Bank balances	**4,164,097**	-	-	**4,164,097**
Total credit risk exposure	**86,963,224**	**21,538,786**	**36,044,279**	**144,546,289**

Exposure credit risk by classifying financial assets according to international credit rating agencies	*A* *KD*	*B* *KD*	*Not rated* *KD*	*Total* *KD*
31 December 2015				
Financial assets available for sale (debt securities)	-	-	1,018,222	1,018,222
Loans secured by life insurance policyholders	-	-	97,487	97,487
Policyholders accounts receivable (gross)	-	-	7,019,093	7,019,093
Premiums and insurance receivable (gross)	3,846,911	521,687	-	4,368,598
Reinsurance recoverable on outstanding claims	32,867,125	23,512,268	-	56,379,393
Other debit balances	-	-	6,216,685	6,216,685
Fixed deposits	47,262,857	-	-	47,262,857
Bank balances	3,042,867	-	-	3,042,867
Total credit risk exposure	87,019,760	24,033,955	14,351,487	125,405,202

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

25 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(2) Liquidity risk

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

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

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

31 December 2016	***Within 1 year KD***	***More than 1 year KD***	***Total KD***
Insurance and reinsurance payables	**11,210,005**	**1,042,770**	**12,252,775**
Other credit balances	**2,987,610**	**4,839,072**	**7,826,682**
	14,197,615	**5,881,842**	**20,079,457**

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

3) Market risk

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

25 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

3) Market risk (continued)

(i) Currency risk (continued)
The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear. The effect of decreases in profit and other comprehensive income is expected to be equal and opposite to the effect of the increases shown.

		2016		*2015*	
	Change in Variables %	***Impact on profit for the year KD***	***Impact on other comprehensive income KD***	*Impact on profit for the year KD*	*Impact on other comprehensive income KD*
USD	±5	**299,001**	**1,261,875**	301,268	1,352,165
JD	±5	**8,005**	**26,976**	9,215	28,105
EGP	±5	**1,779**	**17,102**	3,008	4,598
Euro	±5	**59,107**	**129,002**	6,985	131,123
GBP	±5	**2,100**	**366,102**	2,005	37,762
Others	±5	**38,650**	**158,976**	39,872	161,000

(ii) Interest rate risk

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

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates, on the Group's profit before contribution to KFAS, NLST, Zakat and directors' fees, based on floating rate financial assets and financial liabilities held at 31 December 2016 and 2015.

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

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

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

Market indices	***2016***	*2015*
Kuwait	± **2,227,956**	± 2,465,703
Other GCC countries	± **134,958**	± 650,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

26 CAPITAL MANAGEMENT

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

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

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

	2016 ***KD***	*2015* *KD*
Liabilities arising from insurance contracts	**110,330,686**	110,668,664
Payables	**20,141,972**	19,771,027
Bank overdraft	**12,708,740**	6,147,115
Less:		
Term deposits	**(45,332,920)**	(47,262,857)
Bank balances and cash	**(4,164,097)**	(3,042,867)
Net debt	**93,684,381**	86,281,082
Total capital	**107,281,911**	106,451,227
Total capital and net debt	**200,966,292**	192,732,309
Gearing ratio	**47%**	45%

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

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

The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost amounting to KD 18,633,300 (2015: KD 16,879,974) (Note 9), are not materially different from their carrying values.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2016

27 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

31 December 2016	***Quoted prices in active markets (Level 1)*** ***KD***	***Significant unobservable inputs (Level 3)*** ***KD***	***Total fair value*** ***KD***
Financial assets available for sale:			
Quoted	**30,639,354**	**-**	**30,639,354**
Unquoted equity securities	**-**	**12,021,728**	**12,021,728**
Unquoted foreign funds	**-**	**20,766,053**	**20,766,053**
Total	**30,639,354**	**32,787,781**	**63,427,135**
31 December 2015			
Financial assets available for sale:			
Quoted	28,480,961	-	28,480,961
Unquoted equity securities	-	16,054,908	16,054,908
Unquoted foreign funds	-	25,545,187	25,545,187
Total	28,480,961	41,600,095	70,081,056

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

	Valuation Technique	***Significant unobservable inputs***	***Range***	***Sensitivity of the input to fair value***
Unquoted equity securities	Price to book value	Discount for lack of marketability & lack of Control	10%	An increase (decrease) by 10% in the Discount for lack of marketability & lack of Control would result in increase (decrease) in fair value by KD 1,021 thousands.
	Price to book value	Price to book multiple "Represents amounts used when the Group has determined that market participants would use such multiples when pricing the investments"	10%	An increase (decrease) by 10% in the price to book multiple would result in increase (decrease) in fair value by KD 1,021 thousands.
Unquoted foreign funds	Adjusted net assets value	Discount for lack of marketability	10%	An increase (decrease) by 10% in the Discount for lack of would result in increase (decrease) in fair value by KD 2,077 thousands.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	At the beginning of the year KD	***Arising from consolidated subsidiary KD***	***Net result recorded in the statement of comprehensive income KD***	***Net result recorded in statement of income KD***	***Net purchase, transfer, sale & settlements KD***	***At the end of the year KD***
2016						
Financial assets available for sale:						
Unquoted equity securities	**16,054,908**	**-**	**1,073,980**	**-**	**(5,107,160)**	**12,021,728**
Unquoted managed funds	**25,545,187**	**-**	**(1,346,007)**	**648,288**	**(4,081,415)**	**20,766,053**
	41,600,095	**-**	**(272,027)**	**648,288**	**(9,188,575)**	**32,787,781**

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