



للتأمين  
التكافلي

ANNUAL REPORT

2019

Our values.. Imprinted by our name

Loyalty

Trust

Compliance

Closeness

In The Name Of Allah. The Most Gracious, The Most Merciful

**“ And Say, Work And God And His Messenger  
And Believers Will See Your Work”**

The Holy Qu’ran, Altawba (105)

**Wethaq Takaful Insurance Company (K.S.C.P)**

**Insurance License No. 25,**

Registered In Accordance With Insurance Companies &  
Agent Law No. 24 For 1961 And Its Subsequent Amendment  
Authorised & Paid Up Capital K.D. 11,025,000 /-

**Kuwait - Sharq - Khalid Bin Al-Waleed st. - City Tower**

P.O.Box: 371 Safat 13004 Kuwait

Tel.: 1866662 - Fax: 22491280

[www.wethaq.com](http://www.wethaq.com)



**His Highness**  
**Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah**  
Amir of the State of Kuwait



**His Highness**  
**Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah**  
Crown Prince of the State of Kuwait



**His Highness**  
**Sheikh Jaber Mubarak Al-Hamad Al-Sabah**  
Prime Minister of the State of Kuwait

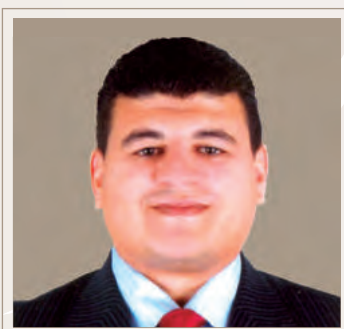
## BOARD OF DIRECTORS



Ibrahim Abbas Othman Sukhi  
Chairman



Abdullah Mishari Al-Humaidhi  
Vice Chairman



Ziad Ahmed Zaki Motawea  
Member



Mubarak A. Mubarak Al Quoud  
Member



Naser Ali Mohammed Al Obaid  
Member



## EXECUTIVE MANAGEMENT



Abdulrahman F. Al-Suwaidan  
CEO



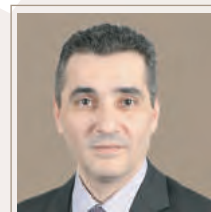
Al-Sadiq A. Al-Tawali  
D.CEO



Baha M. Maarouf  
A.CEO - Administration & IT



Fawaz Saad El Mazroui  
A.CEO - Production,  
Marketing & Development



Ayman M. Tahan  
Manager Of Marketing  
& Development Dept.



Basheer Mohamad Ali  
Head of Marine Dept.



Khalid Ghanim Aldeei  
Head of Motors Dept.



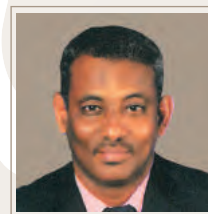
Mohammad A. Alsayed  
Head of Internal Audit



Naser A. Tammam  
Head of Finance Dept.



Naser A. Al-Taher  
Head of Legal Dept.



Haytham M. AL Shazli  
Head of FGA Dept.

# WE ASPIRE TO BE

A SYMBIOTIC PIONEERS INSURANCE INDUSTRY



We aim to provide service and insurance products using the most distinctive means of technology to all segments of customers through innovation of new products aimed at achieving a surplus of insurance activity and maximizing return on investment for each of the policy holders & shareholders.

MANDR

Date:14/04/2020

**The Sharia Report of WETHAQ TAKAFUL INSURANCE CO.  
Fatwa and Shariah Supervisory Board  
For the period from 01/01/2019 to 31/12/2019**

To: The Shareholders of Wethaq Takaful Insurance Company (K.S.C).

Peace, mercy and blessings of Allah be upon you.

According to the contract signed with us we at Fatwa and Shariah Supervisory Board in Al Mashora and Al Raya have audited and supervised the principles adopted and the contracts related to the transactions concluded by the Company during the period from 01/01/2019 to 31/12/2019. We have carried out the necessary supervision to give our opinion on whether or not the Company has complied with the Islamic Shariah rules and principles as well as the Fatwas, decisions and guidelines made by us.

However, our liability is limited to the expression of independent opinion on the extent of the company compliance with same based on our audit.

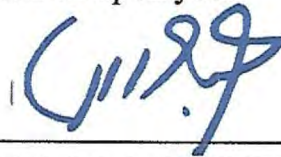
Our supervision included examining the contracts and procedures used by the Company on the basis of examining each type of operations.

In our opinion, the contracts, operations and transactions concluded or used by the Company during the period from 01/01/2019 to 31/12/2019. and which have been reviewed by us, were in compliance with the provisions and principles of the Islamic Shariah.

Moreover, The Company has to draw the attention of its shareholders to the fact that they should pay their Zakat by themselves.

We wish the Company all success and prosperity in serving our religion and our country.

Peace, mercy and blessings of Allah be upon you.



**Prof /Abdul Aziz k. Al-Qassar**  
*Chairman of the Sharia Committee*



**Dr. Essa Zaki Essa**  
*Sharia Committee Member*



**Dr. Ali Ibrahim Al-Rashed**  
*Sharia Committee Member*



## **Board of Directors Statement**

**2019 AD**

Praise be to God, Lord of the worlds, peace and blessings be upon the master of the messengers, our honest Prophet Muhammad, his Households, all his companions, and their followers of charity until doomsday.

**Dear esteemed shareholders,**

Peace, mercy and blessings of God be upon you,

First of all, it is my pleasure, on behalf of myself and on behalf of the members of the board of directors of “Wethaq Takaful Insurance Company” for accepting the invitation to attend the 19<sup>th</sup> meeting of the General Assembly, also we are honored to present the Annual Report of the business and achievements of the company for the fiscal year ending 31/12/2019, Including the report of the Sharia Supervisory Board from Al Mashora & Al Rayah for Islamic Financial Consulting Company, the auditor’s report, glimpses of the markets status and performance of the insurance sector activity, summary of the company's achievements and its strategies in order to achieve its goals.

Major financial markets around the world managed to achieve strong gains, despite the economic tensions witnessed in global markets during year 2019, as some indicators of financial markets recorded gains exceeding 35% in light of the economic war between the two largest economies in the world, and extended to the European Union countries, In addition to the blurring of the scene about Britain's exit mechanism from the European Union.

As for the performance of the Gulf markets, most of the indicators of those markets ended in year 2019 with a rise in varying proportions, and the Kuwaiti market topped the list of gains, achieving its highest level since April 2018, in terms of trading value and the most high companies.

The most prominent economic event domestically during year 2019, is Morgan Stanley Capital International (MSCI) confirmation that Kuwait is promoted to the rank of emerging markets due to the reforms taken by the Capital Markets and Stock Exchange Authority with the assistance of the Kuwait Clearing Company.



It is believed that this upgrade to the market is a milestone in the history of the local economy, as foreign investment is expected to flow by about one billion Kuwaiti dinars, in line with that upgrade.

As for the Oil markets, despite the severe fluctuations that struck the global Oil market during the year 2019 on the impact of the drums of trade war between America and China, in addition to the geopolitical factors in the Middle East, the factors of supply and demand and its impact on industrial production, the Oil prices have made strong gains since the beginning year 2019 increased by 23%,

In the Arab Gulf region, the signing of the agreement to return production in the divided region between Kuwait and Saudi Arabia captured the attention of the energy sector locally, regionally and internationally, due to the strategic importance of this region for the two countries and the global Oil market, especially since it was producing 500 thousand barrels of Oil per day and constituted 0.5% of global production,

In year 2019, the Organization of Petroleum Exporting Countries (OPEC) kept its forecasts for economic growth and Oil demand for 2020 steady.

On the level of the state's development plan and its future vision for year 2035, and its accomplished projects in this framework, which have contributed significantly to the promotion of the Kuwaiti market, the General Secretariat of the Supreme Council for Planning and Development announced -according to the semi-annual follow-up report of the plan- that the total projects included in the development plan for the year (2019/2020) 135 projects, of which 51 are in the preparatory stage 38%, 75 projects in the executive phase 56%, 5 projects that have not started yet 4%, 3 projects that have been completed 2%, and one project in the handover phase 1%.

The report pointed out that the percentage of projects in the implementation phase in the development plan for the current year 2019/2020 amounted to 56% compared to 59% in the plan (2018/2019).

As for insurance markets regionally and locally, the volume of insurance underwritten premiums in the Arab Gulf states during the year 2018 reached about 29.1 billion US dollars, a slight decrease of 1.4% compared to the year 2017, which amounted to about 28.7 billion US dollars, according to expert reports, where those premiums formed in The UAE is about 12.5 billion US dollars, in Saudi Arabia about 9.34 billion US dollars, in Qatar about 3.1 billion US

dollars, in Kuwait 1.7 billion US dollars, in Oman 1.4 billion US dollars, and in Bahrain 0.9 billion US dollars.

Other expert reports also expected the insurance market in the Gulf Cooperation Council countries to grow by 4.3% as a CAGR, increasing from the level of \$ 29.2 billion in year 2019 to \$ 36.1 billion in year 2024.

A report of an investment entity stated that among the major factors that will drive the growth of the insurance sector in the region is the sustainability of economic growth and the increase in the population, in addition to major developments in infrastructure, indicating the same report that government efforts to strengthen regulations and diversify the economy are likely to boost the total insurance underwritten premiums in this sector.

The same report also predicted that the total underwritten premiums of life insurance in the Gulf Cooperation Council countries will grow at a CAGR of 4.9%, to reach USD 4.7 billion in year 2024, while the non-life insurance market grew at a CAGR of 4.3%, the report pointed out too that this sector will continue to acquire about 87% of the total insurance market at \$ 31.4 billion during the year 2024.

The report also drew attention to the presence of about 200 insurance companies operating in the Gulf Cooperation Council countries, which could make sector companies face pressures in profitability due to increased competition momentum and the high cost of adhering to strict accounting regulations and standards.

S&P (Global Credit Rating Agency), in turn, mentioned that escalating competition, higher asset risk and tighter regulation, which can lead to cost increases, are among the major risks that may affect the profits and credit conditions of Gulf insurance companies in year 2020.

Also the agency pointed out that the regression in economic activity led to a slowdown in the growth of insurance underwritten premiums in most of the Gulf insurance markets during the past few years, and led to an escalation of competition among those companies because of the increasing numbers in each market.

It pointed out too that the escalation of geopolitical risks in the Middle East region, and the persistence of trade disputes between some of the major global economies, and other events, could lead to higher risks associated with

fluctuations in the value of assets, especially as some Gulf insurance companies invest a large part of their assets in stocks, which It could be affected by the increasing volatility of the capital markets after achieving relatively strong results in year 2019.

As for the insurance market in Kuwait, the volume of underwritten premiums increased from 435 million kuwaiti dinar in year 2017 to 449 million kuwaiti dinar in year 2018, an increase of 3.2%. Unfortunately, it is the weakest rate since year 2010, and companies have increased 4 additional companies in year 2019 (3 national companies and 1 Arab company), as number of insurance companies became in total 42, by 31 national companies, 7 Arab companies and 4 foreign companies, of which Takaful insurance companies comprise 18 companies.

Specialized reports expected the growth of the local insurance market at the highest rate in the Gulf region, with an annual average of 8.2%, during the period between years 2019 and 2024.

Reports expect that the insurance sector in Kuwait will remain one of the fastest growing and most profitable sectors among the Gulf countries, although the size of locally underwritten insurance premiums constitutes about 6% of the total premiums in the Gulf Cooperation Council states, noting that the rate of growth of total insurance underwritten premiums is also expected to reach in Kuwait about 10% and to stabilize profitability in the year 2020.

In this context, we believe that the market revived itself after the pressure of years of competition, as high prices led to growth in total premiums despite the reluctance of about 30% of customer numbers in year 2018 compared to year 2017, therefore we hope that the general results of this sector in year 2019 will be than year 2018.

Among the factors that may contribute to support the growth of total underwritten insurance premiums and increase profitability in the local market, are the high rates of energy and real estate reinsurance and third party liability.

We will not forget the decisions issued by the Kuwaiti Ministry of Commerce and Industry at the end of year 2019, and approved for implementation as of the beginning of year 2020, especially with regard to coding insurance policies, or requiring a bank deposit as a guarantee of business, which contributes significantly to organizing the work of the insurance sector, and helps solve many obstacles that hinder its work, as it would contribute to protecting the sector



from harmful practices that affected it, along with the adoption of a number of insurances, such as health insurance for visitors to the country, insurance of auditors, insurance of engineering companies, and others, in addition to studying health insurance for Housewives.

The establishment of an independent unit concerned with the insurance sector would also regulate work in the sector and protect public money by preventing some companies from tampering with their revenues and fees due to the concerned authorities, which would lead to the growth of the sector's work and the development of its companies' actions in the end of the interest of the Kuwaiti economy .

In contrast, local insurance companies are still struggling to achieve better market shares, as they suffer from a rise in insurance losses and high compensations, as the rate of losses for all companies in this aspect reached 132%, and about 27 companies (about 64%) out of 42 companies operating insurance losses exceeding 100%.

Insurance companies are still facing many challenges that it hopes to solve soon, most notably the weakness of government support, the lack of insurance of government property and its various assets, the scarcity of technical and under writer competencies, the weak insurance awareness, the deactivation of bank insurance, and the lack of mandatory many important and necessary insurances, along with Not changing the conditions of a third-party auto insurance policy, which remains the most prominent problem for the sector, as the price of the insurance policy is never commensurate with the size of the compensation that companies pay for it, as well as the continued work of Takaful windows for traditional companies, and most car agencies are arbitrary to remove discounts on spare parts and riseing repair fees, as the hospitals and health services centers raised their prices, among these challenges.

In this regard, WETHAQ is keen to continue its prudent approach and strategy in developing competitive underwriting mechanisms and policies, also adopting a policy of selectivity on the principle of beneficial partnership, in order to preserve the best reinsurance operations to protect the rights of shareholders and policyholders.

Alos thank God, WETHAQ able to meet the new legal requiments for the year 2020 to carry out its activities.

The company also achieved strategic growth in some of the insurances that were targeted to increase and reduce other insurances attributable to the company with losses and damages, and, thank God, it was able to maintain its performance, achieving growth in the overall total of underwritten premiums reached about 16.4%.

WETHAQ also maintained its rating granted by S&P Standard & Poor's global credit rating agency in year 2019 at (B) outlook, based on improved liquidity and reduced investment risk.

Where the agency expected that WETHAQ would remain stable, unrestricted, and operationally independent, while maintaining its competitive position, levels of capital adequacy and liquidity.

WETHAQ also works to introduce technology and use it in insurance operations, whether in terms of issuing insurance policies or collecting insurance premiums. It is also in the process of offering many services and products electronically to serve its work and keep pace with the customers' continuous needs, and to achieve growth in its performance and competitive capabilities.

Accordingly, it was agreed the annual financial statements of the company for the financial year ended 31/12/2019, the company did not distribute any bonuses to the members of the Board of Directors and upon recommendation the Board of Directors no profits should be distributed for this ended year.

**The following is a review of the financial results..**

"WETHAQ" achieved a loss of KD 87,120 thousand by (0.79) fils per share in year 2019, compared to 0.79 fils per share for the same period compared to year 2018.

The total assets increase rate reached 1.972%, and the shareholders' equity increased by 2% compared to last year 2018.

The growth rate of total operating income was 16.325%, and a decrease of 176.864% in net operating profit, compared to year 2018.

In conclusion .. We cannot but to express our sincere thanks and great gratitude to His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, His Highness Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, the Crown Prince, and to His Highness Sheikh Sabah Al-Khaled Al-Hamad Al-Sabah, the Prime Minister -may God protect

them-, for all their special attention to Islamic companies.

We also thank all the official authorities in the country, particularly the Ministry of Commerce and Industry, the Capital Markets Authority, the Kuwait Stock Exchange Market, and all our shareholders and our valued customers for their support and encouragement we have seen in the path of Takaful.

We also extend our sincere thanks and appreciation to the members of the Fatwa and Sharia Supervision Board whose reviews and observations were the best help for us, we also thank the executive management of the company and all its employees for their dedication and keenness in accomplishing the work entrusted to them with all seriousness and commitment.

God grants success.

**Ibrahim Abbas Othman Al-Sukhi**

**Chairman of Board of Directors**

**31/12/2019**





Wethaq Takaful Insurance Company K.S.C.P  
And Subsidiaries - State of Kuwait

**CONSOLIDATED  
FINANCIAL STATEMENTS  
& INDEPENDENT  
AUDITORS'  
REPORT**

as at 31 December 2019

Consolidated financial statements and independent auditor's report  
**Wethaq Takaful Insurance Company – KPSC and Subsidiary**  
**Kuwait**

31 December 2019

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## Independent auditor's report

To the Shareholders of  
Wethaq Takaful Insurance Company – KPSC  
Kuwait

### Report on the Audit of the Consolidated Financial Statements

#### Qualified opinion

We have audited the consolidated financial statements of Wethaq Takaful Insurance Company - KPSC ("the Parent Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other 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, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 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 Qualified Opinion

1- As stated in Notes (11 and 12) to the consolidated financial statements, the Parent Company's board of directors decided on 21 June 2017 to calculate management fees to the shareholders at 20% of profit instead of 20% of revenue until the balances due from policyholders stated in Notes (11) and (12) are settled. Management of the Parent Company expects that the balances due from policyholders will be settled and the outstanding deficit will be covered during the future years. Although during the year ended 31 December 2017, the management of the Parent Company recognised impairment losses against the amount due from policyholders and Qard Hassan to policyholders' fund amounting to KD434,574 and KD162,500 respectively, the remaining balances of KD6,292,981 and KD1,463,111 respectively, remain to be doubtful for collection.

Furthermore, the policyholders' assets include accounts receivable and other assets and premiums receivable of KD797,539 and KD1,078,262 respectively which have been long outstanding and have not been provided for. Accordingly, the policyholders may not have the adequate funds to repay the amounts due to shareholders.

2- As stated in Note (13-a) to the consolidated financial statements, the value of the investment building has been determined using the fair value of an evaluation prepared by an external valuator as at 31 December 2019, and although this investment building is part of the assets of the subsidiary company in Egypt, no financial statements or information on that subsidiary were available to us and the value of the building has been recognized only after a confirmation by the Parent Company's management that there are no other assets or liabilities associated with this building or subsidiary and carried in the records of that subsidiary.





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

### **Basis for Qualified Opinion (continued)**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our 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 qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated 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. We have determined the matter described below as the key audit matter.

### **Valuation of Investment properties**

The Group's investment properties represent a significant part of the total assets and comprise of buildings outside Kuwait. The valuation of investment properties is a significant judgment area requiring a number of assumptions including capitalization yields, future rental income, occupancy rates, right of use contract periods and renewability. Changes in these assumptions and judgments could lead to significant movements in valuation of investment properties and consequently unrealized gains or losses in the consolidated statement of profit or loss. The Group's disclosures about its investment properties are included in Note 13.

Our audit procedures included assessing the appropriateness of management's process for reviewing and assessing the work of the external valuer and the valuation including management's consideration of competence and independence of the external valuer. We assessed the appropriateness of the valuation methodologies used in assessing the fair value of the investment properties including discussions with the management and challenging the estimates, assumptions and valuation methodology used in assessing the fair value of investment properties. We also obtained the underlying information provided by management to the independent valuer to confirm that it was consistent with the information obtained during our audit.

### **Other information included in the Group's Annual Report for the year ended 31 December 2019**

Management is responsible for the other information. Other information consists of the information included in the Group's Annual Report for the year ended 31 December 2019, 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 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, we conclude that there is a material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

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

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





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

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements (continued)**

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 on the basis of these consolidated financial statements.

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

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





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

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

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.

### **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 Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law, the Executive Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2019 that might have had a material effect on the business or financial position of the Parent Company.

Abdullatif M. Al-Aiban (CPA)  
(Licence No. 94-A)  
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Kuwait  
29 March 2020

## Consolidated statement of profit or loss

	Notes	Year ended 31 Dec. 2019 KD	Year ended 31 Dec. 2018 KD
<b>Revenue</b>			
Change in fair value of investments at fair value through profit or loss		2,875	1,735
Net change in fair value of investment properties	13	(48,668)	71,848
Rental income		20,000	17,200
Dividend income		9,788	34,805
Income from investment deposits		10,668	6,159
Management fees from policyholders	17	-	2,082
		(5,337)	133,829
<b>Expenses and other charges</b>			
General and administrative expenses		(81,783)	(44,245)
		(81,783)	(44,245)
(Loss)/profit for the year before provisions for National Labour Support Tax (NLST) and Zakat		(87,120)	89,584
Provision for NLST		-	(2,240)
Provision for Zakat		-	(896)
(Loss)/profit for the year		(87,120)	86,448
Basic and diluted (loss)/earnings per share	7	(0.79) Fils	0.79 Fils

*The notes set out on pages 11 to 56 form an integral part of these consolidated financial statements.*


## Consolidated statement of profit or loss and other comprehensive income


	Year ended 31 Dec. 2019 KD	Year ended 31 Dec. 2018 KD
(Loss)/profit for the year	(87,120)	86,448
<b>Other comprehensive income/(loss):</b>		
<i>Items that may be reclassified subsequently to the consolidated statement of profit or loss:</i>		
Exchange differences arising on translation of foreign operations	287,552	(3,584)
<b>Total other comprehensive income/(loss) that may be reclassified subsequently to consolidated statement of profit or loss</b>	<b>287,552</b>	<b>(3,584)</b>
<i>Items that will not be reclassified subsequently to consolidated statement of profit or loss:</i>		
Investments at fair value through other comprehensive income		
-Net change in fair value arising during the year	36,304	(227,988)
<b>Total other comprehensive income/(loss) that will not be reclassified subsequently to consolidated statement of profit or loss</b>	<b>36,304</b>	<b>(227,988)</b>
Total other comprehensive income/(loss)	323,856	(231,572)
<b>Total comprehensive income/(loss) for the year</b>	<b>236,736</b>	<b>(145,124)</b>

*The notes set out on pages 11 to 56 form an integral part of these consolidated financial statements.*

## Consolidated statement of financial position

	Notes	31 Dec. 2019 KD	31 Dec. 2018 KD
<b>Assets</b>			
Cash and cash equivalents	8	10,174	8,990
Investment deposits	8	52,000	862,000
Investments at fair value through profit or loss	9	227,303	211,369
Investments at fair value through other comprehensive income	10	1,112,996	1,632,033
Amount due from policyholders	11	6,292,981	4,985,890
Qard Hassan to policyholders' fund	12	1,463,111	1,463,111
Investment properties	13	2,911,070	2,672,186
Other assets		6,602	7,111
<b>Total assets</b>		<b>12,076,237</b>	<b>11,842,690</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	14.1	11,025,000	11,025,000
Share premium	14.2	7,340,937	7,340,937
Treasury shares	14.3	(50,489)	(50,489)
Treasury shares reserve	14.3	3,508	3,508
Statutory reserve	15	388,139	388,139
Voluntary reserve	15	388,139	388,139
Fair value reserve		(442,170)	(457,780)
Foreign currency translation reserve	13-a	(1,282,478)	(1,570,030)
Employees' share purchase plan reserve		65,964	65,964
Accumulated losses		(5,385,561)	(5,319,135)
<b>Total Equity</b>		<b>12,050,989</b>	<b>11,814,253</b>
<b>Liabilities</b>			
Other liabilities		25,248	28,437
<b>Total equity and liabilities</b>		<b>12,076,237</b>	<b>11,842,690</b>

  
Ibrahim Abbas Othman Sukhi  
Chairman

  
Abdullah Meshari Ahmed Al-Humaidhi  
Vice chairman

*The notes set out on pages 11 to 56 form an integral part of these consolidated financial statements.*



## Consolidated statement of changes in equity

	Share capital KD	Share premium KD	Treasury shares KD	Treasury shares KD	Treasury shares reserve KD	Statutory reserve KD	Voluntary reserve KD	Fair value reserve KD	Foreign currency translation reserve (Note 13-a) KD	Employees' share purchase plan reserve KD	Accumulated losses KD	Total KD
Balance at 31 December 2018	11,025,000	7,340,937	(50,489)		3,508	388,139	388,139	(457,780)	(1,570,030)	65,964	(5,319,135)	11,814,253
Loss for the year	-	-	-	-	-	-	-	-	-	-	(87,120)	(87,120)
Other comprehensive income	-	-	-	-	-	-	-	36,304	287,552	-	-	323,856
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	-	36,304	287,552	-	(87,120)	236,736
Profit on redemption of equity investments at FVOCI (note 10)	-	-	-	-	-	-	-	(20,694)	-	-	20,694	-
Balance at 31 December 2019	11,025,000	7,340,937	(50,489)		3,508	388,139	388,139	(442,170)	(1,282,478)	65,964	(5,385,561)	12,050,989

The notes set out on pages 11 to 56 form an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity (continued)

	Share capital KD	Share premium KD	Treasury shares KD	Treasury shares reserve KD	Statutory reserve KD	Voluntary reserve KD	Fair value reserve KD	Foreign currency translation reserve (Note 13-a) KD	Employees' share purchase plan reserve KD	Accumulated losses KD	Total KD
<b>Balance at 31 December 2017</b>	11,025,000	7,340,937	(50,489)	3,508	388,139	388,139	600,019	(1,566,446)	65,964	(6,235,394)	11,959,377
Adjustments arising on adoption of IFRS 9 on 1 January 2018	-	-	-	-	-	-	(705,395)	-	-	705,395	-
<b>Balance at 1 January 2018 (Restated)</b>	11,025,000	7,340,937	(50,489)	3,508	388,139	388,139	(105,376)	(1,566,446)	65,964	(5,529,999)	11,959,377
Profit for the year	-	-	-	-	-	-	-	-	-	86,448	86,448
Other comprehensive loss	-	-	-	-	-	-	(227,988)	(3,584)	-	-	(231,572)
<b>Total comprehensive (loss)/income for the year</b>	-	-	-	-	-	-	(227,988)	(3,584)	-	86,448	(145,124)
Profit on redemption of equity investments at FVOCI (note 10)	-	-	-	-	-	-	(124,416)	-	-	124,416	-
<b>Balance at 31 December 2018</b>	11,025,000	7,340,937	(50,489)	3,508	388,139	388,139	(457,780)	(1,570,030)	65,964	(5,319,135)	11,814,253

The notes set out on pages 11 to 56 form an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

	Note	Year ended 31 Dec. 2019 KD	Year ended 31 Dec. 2018 KD
<b>OPERATING ACTIVITIES</b>			
(Loss)/profit for the year		(87,120)	86,448
Adjustments for:			
Change in fair value of investments at fair value through profit or loss		(2,875)	(1,735)
Rental income		(20,000)	(17,200)
Income from investment deposits		(10,668)	(6,159)
Dividend income		(9,788)	(34,805)
Change in fair value of investment properties		48,668	(71,848)
Management fees from policyholders		-	(2,082)
		(81,783)	(47,381)
<b>Changes in operating assets and liabilities:</b>			
Other assets		509	2,279
Other liabilities		(3,189)	4,884
Amount due from policyholders		(1,307,091)	(749,725)
<b>Net cash used in operating activities</b>		<b>(1,391,554)</b>	<b>(789,943)</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from redemption of investments at fair value through other comprehensive income		555,341	1,428,650
Purchase of investments at fair value through profit or loss		(13,059)	-
Dividend income received		9,788	34,805
Rental income received		20,000	17,200
Income received from investments deposits		10,668	17,498
Additions to investment properties		-	(6,210)
Movement of investment deposits		810,000	(862,000)
<b>Net cash from investing activities</b>		<b>1,392,738</b>	<b>629,943</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>1,184</b>	<b>(160,000)</b>
Cash and cash equivalents at the beginning of the year	8	8,990	168,990
<b>Cash and cash equivalents at the end of the year</b>	<b>8</b>	<b>10,174</b>	<b>8,990</b>

The notes set out on pages 11 to 56 form an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

### 1 Incorporation and activities of the Parent Company

Wethaq Takaful Insurance Company ("the Parent Company") is a Kuwaiti Public Shareholding Company that was incorporated on 30 October 2004 and is registered under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments. The shares of the Parent Company are listed on the Kuwait Stock Exchange.

On 1 September 2019, the new insurance law No.125 for the year 2019 has been issued, this law is effective from 28 August 2019. This law supersedes the law No. 24 of 1961. The Executive Regulations of the new law have not been issued yet.

The Group comprises the Parent Company and its subsidiaries as detailed in note 6.

The Parent Company is a subsidiary of the Investment Dar Company - KPSC (Closed) (Ultimate Parent Company).

The objectives for which the Parent Company is incorporated are as follows:

First: Carry out all Takaful, mutual and retakaful insurance business of all forms in accordance with the provisions of Islamic Sharia governing laws.

Second: To achieve its above mentioned objectives and as per its Articles of Association, the Parent Company shall have authority to conduct the following business and acts as Board of Directors deems appropriate:

- a) Acquire and gain the right to all or any part of moveable or immovable properties, as it deems necessary, or any privileges that the company believes to be necessary or appropriate for its business or required for growing its funds.
- b) Carry out transactions and enter into all contracts with all legal dispositions as it deems necessary and suitable to achieve and facilitate its objectives on the conditions it elects.
- c) Purchase, sell, mortgage, lease, replace, possess or endorse in any manner whatsoever any lands, real estate properties, securities, sukuk, stocks or any other moveable or real estate property, or sell, lease, mortgage or dispose of all or part of the company's moveable or real estate property and funds.
- d) Provide advisories and conduct technical studies in insurance or reinsurance industry for companies and other entities directly interested in engaging in Takaful insurance or reinsurance business.
- e) Act as valuer or appraiser in insurance industry and agent for insurance or reinsurance companies to perform all activities that are consistent with the Islamic Sharia after obtaining the necessary licenses.
- f) Invest all or part of the company's moveable property or real estate properties in different sectors as it deems appropriate in accordance with governing laws and resolutions.
- g) Merge with, incorporate or participate in incorporating and subscribing for shares in companies, buy and sell companies, shares and support them in any form in line with the company's objectives as per applicable laws.
- h) Utilize the financial surpluses available with the company through investing the same in financial portfolios managed by specialised companies and entities.



## Notes to the consolidated financial statements (continued)

### 1 Incorporation and activities of the Parent Company (continued)

The Parent Company may carry out the above-mentioned businesses in the State of Kuwait or abroad directly or through agency. The Parent Company may have an interest or participate in any way with the entities that engage in similar business that help to achieve its objectives in Kuwait or abroad and it may establish, participate, purchase, merge with such entities.

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

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

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

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

The address of the Parent Company's registered office is at City Tower, Khaled Bin Al-Waleed Street, Sharq State of Kuwait.

These consolidated financial statements for the year ended 31 December 2019 were authorised for issue by the board of directors of the Parent Company on 29 March 2020. The Parent Company's shareholders has the power to amend these consolidated financial statements after issuance.

### 2 Statement of compliance

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

### 3 Changes in accounting policies

#### 3.1 New and amended standards adopted by the Group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2019 which have been adopted by the Group. Information on these new standards is presented below:

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IFRS 16 Leases	1 January 2019

## Notes to the consolidated financial statements (continued)

### 3 Changes in accounting policies (continued)

#### 3.1 New and amended standards adopted by the Group (continued)

##### *IFRS 16 Leases*

IFRS 16 replaced IAS 17 and three related interpretations. IFRS 16 introduced new and amended requirements with respect to accounting for leases. As a result, lessee accounting is now significantly different and removes distinction between finance and operating lease. It now requires recognition of a right-to-use asset and lease liability at commencement date for all leases, except for short term leases and low value leases. However, the accounting by lessor has largely remained unchanged.

Adoption of IFRS 16 did not result in any significant impact on the Group's consolidated financial statements. The Group's new accounting policy for lease under IFRS 16 is explained in (note 4.18).

#### 3.2 IASB Standards issued but not yet effective

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

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

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IFRS 3 - Amendments	1 January 2020
IAS 1 and IAS 8 - Amendments	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021

##### *IFRS 3 – Amendments*

The Amendments to IFRS 3 Business Combinations are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only with respect to Definition of Business. The amendments:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business

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

## Notes to the consolidated financial statements (continued)

### 3 Changes in accounting policies (continued)

#### 3.2 IASB Standards issued but not yet effective

##### *IAS 1 and IAS 8 – Amendments*

The amendments to IAS 1 and IAS 8 clarify the definition of ‘material’ and align the definition used in the Conceptual Framework and the standards. The threshold for materiality influencing users has been changed from ‘could influence’ to ‘could reasonably be expected to influence’.

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

##### *IFRS 17 Insurance Contracts*

IFRS 17 supersedes the IFRS 4 and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. It requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

Management is in the process of assessing the impact of this new standard to the Group’s consolidated financial statements.

### 4 Significant accounting policies

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

#### 4.1 Basis of preparation

These consolidated financial statements are presented in Kuwaiti Dinars (“KD”) which is the functional and presentation currency of the Parent Company and are prepared under the historical cost convention, except for investments at fair value through profit or loss, investments at fair value through other comprehensive income and investment properties which are measured at fair value.

The Group has elected to present the “statement of profit or loss and other comprehensive income” in two separate statements: the “statement of profit or loss” and “statement of profit or loss and other comprehensive income”.

#### 4.2 Basis of consolidation

The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of the subsidiaries are prepared for reporting dates which are typically not more than three months from that of the Parent Company, using consistent accounting policies. Adjustments are made for the effect of any significant transactions or events that occur between that date and the reporting date of the Parent Company’s financial statements.



## Notes to the consolidated financial statements (continued)

### 4 Significant accounting policies (continued)

#### 4.2 Basis of consolidation (continued)

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-Group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

When a controlling interest in the subsidiaries is disposed of, the difference between the selling price and the net asset value plus cumulative translation difference and goodwill is recognised in the consolidated statement of profit or loss. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

However, changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Parent Company.

#### 4.3 Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

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

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

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.



## Notes to the consolidated financial statements (continued)

### 4 Significant accounting policies (continued)

#### 4.3 Business combinations (continued)

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in the consolidated statement of profit or loss immediately.

#### 4.4 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. See note 4.3 for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. Refer to note 4.16 for a description of impairment testing procedures.

#### 4.5 Dividend income

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

#### 4.6 Rental income

Rental income is recognised on a straight-line basis over the term of the lease.

#### 4.7 Income from investment deposits

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

#### 4.8 Operating expenses

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

#### 4.9 Taxation

##### 4.9.1 *Kuwait Foundation for the Advancement of Sciences (KFAS)*

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

##### 4.9.2 *National Labour Support Tax (NLST)*

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

##### 4.9.3 *Zakat*

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

For the year ended 31 December 2019 and 31 December 2018, the Parent Company has no liabilities towards KFAS due to accumulated losses. Under the NLST and Zakat regulations no carry forward of losses to the future years or any carry back to prior year is permitted.

## Notes to the consolidated financial statements (continued)

### 4 Significant accounting policies (continued)

#### 4.9 Taxation (continued)

##### 4.9.4 Taxation on overseas subsidiaries

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

#### 4.10 Segment reporting

The Group has two operating segments: takaful insurance and investment. In identifying these operating segments, management generally follows the Group's service lines representing its main products and services. Each of these operating segments is managed separately as each requires different approaches and other resources. All inter-segment transfers are carried out at arm's length prices.

For management purposes, the Group uses the same measurement policies as those used in its consolidated financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

#### 4.11 Financial instruments

##### 4.11.1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by directly attributable transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

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

- rights to receive cash flows from the assets have expired;
- 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 risks and rewards of the asset, but has transferred control of the asset.

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

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

## Notes to the consolidated financial statements (continued)

### 4 Significant accounting policies (continued)

#### 4.11 Financial instruments (continued)

##### 4.11.2 Classification of financial assets

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

- financial assets at amortised cost
- financial assets at fair value through other comprehensive income (FVTOCI)
- financial assets at fair value through profit or loss (FVTPL)

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

The Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

##### 4.11.3 Subsequent measurement of financial assets

###### a) Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

The Group's financial assets at amortised cost comprise of the following:

###### - Other assets

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

###### - Cash, bank balances and deposits with financial institutions

Cash and cash equivalents comprise cash on hand, bank balances and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Deposits placed with financial institutions with a maturity of three months to one year are classified as investment deposits.



## Notes to the consolidated financial statements (continued)

### 4 Significant accounting policies (continued)

#### 4.11 Financial instruments (continued)

##### 4.11.3 Subsequent measurement of financial assets (continued)

###### a) Financial assets at amortised cost (continued)

###### *Amount due from policyholders*

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

###### b) Financial assets at FVTOCI

The Group's financial assets at FVTOCI comprise investment in equity shares. These represent investment in quoted and unquoted equity shares of a local listed and unlisted companies. Further, investments at fair value through other comprehensive income consists investments in private equity funds.

The Group accounts for financial assets at FVTOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is “hold to collect” the associated cash flows and sell; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled to the consolidated statement of profit or loss upon derecognition of the asset (except for equity investments at FVTOCI as detailed below).

###### *Equity investments at FVTOCI*

On initial recognition, the Group may make an irrevocable election (on an instrument - by - instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short - term profit - taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Equity instruments at FVTOCI are initially measured at fair value plus transaction costs.

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve. The cumulative gain or loss is transferred to retained earnings within the consolidated statement of changes in equity on de-recognition.

Dividends on these investments in equity instruments are recognised in the consolidated statement of profit or loss.

## Notes to the consolidated financial statements (continued)

### 4 Significant accounting policies (continued)

#### 4.11 Financial instruments (continued)

##### 4.11.3 Subsequent measurement of financial assets (continued)

##### c) Financial assets at FVTPL

Financial assets that do not meet the criteria for measurement at amortised cost or FVOCI are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. The category also contains investments in equity shares.

Assets in this category are measured at fair value with gains or losses recognised in consolidated statement of profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

The Group's financial assets at FVTPL comprise of investment in equity shares

##### 4.11.4 Impairment of financial assets

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

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets at amortised cost or at FVTOCI.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at the probability of default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

The Group recognises lifetime ECL for other assets, Qard Hassan to policyholders fund and amount due from policyholders. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

## Notes to the consolidated financial statements (continued)

### 4 Significant accounting policies (continued)

#### 4.11 Financial instruments (continued)

##### 4.11.4 Impairment of financial assets (continued)

The Group recognises an impairment gain or loss in the consolidated statement of profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

##### 4.11.5 Classification and subsequent measurement of financial liabilities

The Group's financial liabilities includes other liabilities.

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

##### *Financial liabilities at amortized cost*

##### *- Other liabilities*

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

#### 4.12 Amortised cost of financial instruments

This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

#### 4.13 Trade and settlement date accounting

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

#### 4.14 Offsetting of financial instruments

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

#### 4.15 Fair value of financial instruments

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

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



## Notes to the consolidated financial statements (continued)

### 4 Significant accounting policies (continued)

#### 4.16 Impairment testing of goodwill and non-financial assets

For impairment assessment purposes, assets are Grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually.

All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

#### 4.17 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

Investment properties are initially measured at cost. Subsequently, investment properties are revalued annually and are included in the consolidated statement of financial position at their fair values. These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in the consolidated statement of profit or loss within "change in fair value of investment properties" and "gain/loss on sale of investment properties"

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, plant and equipment up to the date of change in use.

#### 4.18 Leased assets

##### *The Group as a lessee*

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

## Notes to the consolidated financial statements (continued)

### 4 Significant accounting policies (continued)

#### 4.18 Leased assets (continued)

##### *The Group as a lessee (continued)*

To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

##### *Measurement and recognition of leases as a lessee*

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet measured as follows:

##### *Right-of-use asset*

The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

Subsequent to initial measurement, the Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

##### *Lease liability*

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

## Notes to the consolidated financial statements (continued)

### 4 Significant accounting policies (continued)

#### 4.18 Leased assets (continued)

##### *The Group as a lessor*

The Group enters into lease agreements as a lessor with respect to some of its investment properties. The Group classifies its leases as either operating or finance leases. When the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head-lease and sub-lease as two separate contracts. The sub-lease is classified as finance lease or operating lease by reference to the right-of-use of asset arising from the head-lease.

Rental income from operating leases is recognised on a straight-line basis over lease term. Initial direct cost incurred in arranging and negotiating a lease are added to the carrying amount of the lease assets and recognised on a straight-line basis over the lease term.

Amounts due under finance leases are recognised as receivables. Finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding for the finance lease.

#### 4.19 Equity, reserves and dividend payments

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

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Statutory and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the Companies' Law and the Parent Company's Articles of Association.

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

Fair value reserve – comprises of gains and losses relating to financial assets at fair value through other comprehensive income.

Accumulated losses include all current and prior period retained earnings/losses. All transactions with owners of the Parent Company are recorded separately within equity.

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

#### 4.20 Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity.



## Notes to the consolidated financial statements (continued)

### 4 Significant accounting policies (continued)

#### 4.20 Treasury shares (continued)

When the treasury shares are reissued, gains are credited to a separate account in equity, (the “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 to the voluntary reserve and statutory reserve. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

#### 4.21 Related party transactions

Related parties represent major shareholders, subsidiaries, 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.

#### 4.22 Foreign currency translation

##### 4.22.1 Functional and presentation currency

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

##### 4.22.2 Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the consolidated statement of profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

##### 4.22.3 Foreign operations

In the Group’s financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

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

#### 4.23 Qard Hassan to policyholders

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

#### 4.24 Provisions, contingent assets and contingent liabilities

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

## Notes to the consolidated financial statements (continued)

### 4 Significant accounting policies (continued)

#### 4.24 Provisions, contingent assets and contingent liabilities (continued)

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

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

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

#### 4.25 Share based payments

Certain senior management employees are granted share options of Parent Company as part of their remunerations package.

##### *Equity-settled transactions*

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised, together with a corresponding increase in staff share bonus reserve in equity, over the period in which vesting conditions are fulfilled. The cumulative expenses recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of profit or loss or credit for a period represents the movement in cumulative expenses recognised as at the beginning and end of that period and is recognised in employee benefits expenses.

When the terms of an equity-settled award are modified, the minimum expenses recognised is the expenses had the terms had not been modified, if the original terms of the awards are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transactions, or is otherwise beneficial to the employees as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computations of diluted earnings per share.

### 5 Significant management judgements and estimation uncertainty

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

#### 5.1 Significant management judgments

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

## Notes to the consolidated financial statements (continued)

### 5 Significant management judgements and estimation uncertainty (Continued)

#### 5.1 Significant management judgments (continued)

##### 5.1.1 *Business model assessment*

The Group classifies financial assets after performing the business model test (please see accounting policy for financial instruments sections in note 4.11). This test includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured and the risks that affect the performance of the assets. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

##### 5.1.2 *Classification of real estate*

Management decides on acquisition of a real estate whether it should be classified as trading, property held for development or investment property.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The Group classifies property as property under development if it is acquired with the intention of development.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation.

##### 5.1.3 *Control assessment*

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

#### 5.2 Estimates uncertainty

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

##### 5.2.1 *Impairment of financial assets*

Measurement of estimated credit losses involves estimates of loss given default and probability of default. Loss given default is an estimate of the loss arising in case of default by customer. Probability of default is an estimate of the likelihood of default in the future. The Group based these estimates using reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

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



## Notes to the consolidated financial statements (continued)

### 5 Significant management judgements and estimation uncertainty (Continued)

#### 5.2 Estimates uncertainty (continued)

##### 5.2.2 Fair value of financial instruments

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

##### 5.2.3 Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the consolidated statement of profit or loss. The Group engaged an independent valuation specialist to determine fair value as at 31 December 2019 and the valuer has used valuation techniques to arrive at these fair values. These estimated fair values of the investment properties may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

### 6 Subsidiary companies

The details of the subsidiaries are as follows:

Subsidiary company	Country of incorporation	Ownership Percentage		Principal activities
		31 Dec. 2019	31 Dec. 2018	
<b>Consolidated with shareholders</b>		%	%	
Wethaq Real Estate Investment Company – WLL	Egypt	99.40	99.40	Buying, selling, leasing and owning lands in Egypt
<b>Consolidated with policyholders</b>				
Wared Rent a Car Company – KSC (Closed)	Kuwait	93.32	93.32	Car leasing, trading cars and spare parts in the State of Kuwait

During year ended 31 December 2016, the Parent Company incorporated a 99.40% owned subsidiary, Wethaq Real Estate Investment Company – WLL in Egypt with a share capital of KD8,256. The other shareholders of the subsidiary have signed letters of assignment in favour of the Group and accordingly the Group owns 100% shareholding of the subsidiary.

Also, the other shareholders of Wared Rent a Car Company – KSC (Closed) have signed letters of assignment in favour of the Group. Accordingly, the Group owns 100% shareholding of the subsidiary. The balances and results of this subsidiary have been consolidated with the policyholders accounts.

## Notes to the consolidated financial statements (continued)

### 7 Basic and diluted (loss)/earnings per share

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

	Year ended 31 Dec. 2019	Year ended 31 Dec. 2018
(Loss)/profit for the year (KD)	(87,120)	86,448
Weighted average number of shares outstanding during the year	110,250,000	110,250,000
Less: weighted average number of treasury shares outstanding during the year	(445,500)	(445,500)
	109,804,500	109,804,500
Basic and diluted (loss)/earnings per share (Fils)	(0.79)	0.79

### 8 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents of the Group comprise of the following:

	31 Dec. 2019 KD	31 Dec. 2018 KD
Cash on hand and bank balances	10,174	8,990
Investment deposits with original maturity within three to twelve months	52,000	862,000
	62,174	870,990
Less: Investment deposits with original maturity within three to twelve months	(52,000)	(862,000)
Cash and cash equivalents as per consolidated statement of cash flows	10,174	8,990

Investment deposits carry annual effective interest rate ranging from 2.625% to 3.130% (2018: from 2.3% to 2.9%).

### 9 Investments at fair value through profit or loss

	31 Dec. 2019 KD	31 Dec. 2018 KD
Local quoted securities held through managed portfolios	227,303	211,369
	227,303	211,369

### 10 Investments at fair value through other comprehensive income

	31 Dec. 2019 KD	31 Dec. 2018 KD
Local quoted securities	16,904	20,024
Local unquoted securities	78,263	69,745
Managed portfolios	714,215	859,608
Managed funds	303,614	682,656
	1,112,996	1,632,033

## Notes to the consolidated financial statements (continued)

### 10 Investments at fair value through other comprehensive income (continued)

- These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the Group has elected to designate these investments in equity instruments as at FVTOCI as it believes that recognising short-term fluctuations in the fair value of these investments in consolidated statement of profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.
- Managed funds are investments in units of private equity funds. Fair value of these funds is measured based on the net asset value provided by the respective fund managers. Management believes the net asset value provided by the fund managers represents the best estimate of fair value available for these investments.
- One of the related parties to the Group manages investment portfolios and funds owned by the Parent Company amounting to KD536,067 (31 December 2018: KD503,764).
- During the year, the Group received an amount of KD555,341 (2018: KD1,428,650) representing the proceeds on liquidation of one of the Group's managed funds which resulted in a realized gain of KD20,694 recognised directly in equity (2018: KD124,416).

### 11 Amount due from policyholders

	31 Dec. 2019 KD	31 Dec. 2018 KD
Opening balance	5,420,464	4,668,657
Management fees from policyholders	-	2,082
Net movement during the year	1,307,091	749,725
	6,727,555	5,420,464
Less: Impairment in value	(434,574)	(434,574)
Closing balance	6,292,981	4,985,890

Net movements in policyholders' account represent the net fund transfers from and to their account in addition to the management fees from policyholders. The Parent Company's management had decided to reduce management fees charged to policyholders from 20% of gross premiums to 20% of net profit of policyholders to enable settlement of the above due balances and also to settle the Qard Hassan balance (Note 12) in such a way that ensures continuity of the Takaful insurance activity of the policyholders.

### 12 Qard Hassan to policyholders' fund

	31 Dec. 2019 KD	31 Dec. 2018 KD
Gross amount	1,625,611	1,625,611
Less: Impairment in value	(162,500)	(162,500)
Closing balance	1,463,111	1,463,111



## Notes to the consolidated financial statements (continued)

### 12 Qard Hassan to policyholders' fund (continued)

In line with the Articles of Association, policyholders' net deficit from insurance activities has been covered by the Qard Hassan from the shareholders. The Qard Hassan provided by shareholders to the policyholders will be settled through the expected surplus from insurance activities in future years.

### 13 Investment properties

	31 Dec. 2019 KD	31 Dec. 2018 KD
Carrying value at the beginning of the year	2,672,186	2,597,712
Additions during the year	-	6,210
Right of amortisation charge/change in fair value - (b – below)	(48,668)	71,848
Differences arising from translation of foreign currency	287,552	(3,584)
	<b>2,911,070</b>	<b>2,672,186</b>

- a) The management of the Parent Company recorded the assets of the subsidiary in Egypt, which represent the value of its investment building amounting to KD2,724,387 (2018: KD2,436,835) in these consolidated financial statements. The management of the Parent Company confirms that up to date, no financial statements for the subsidiary were issued, and that the net assets of the subsidiary in Egypt represent the value of the investment building mentioned above only.

The investment property in Egypt, mentioned above, is registered in the name of one of the Parent Company's directors, who has submitted a general irrevocable power of attorney in favour of the Group. The management of the Parent Company is currently in the process of transferring the ownership of the building to the subsidiary in Egypt.

Investment building (of the subsidiary) was valued by an independent evaluator using market comparable approach that reflects recent transaction prices for similar properties. Gain amounting to KD Nil arose from the revaluation (2018: KD120,516).

As a result of consolidating the financial statements of the above mentioned subsidiary, comprising the value of this investment building only, foreign currency exchange loss equivalent to KD1,282,478 (KD1,570,030 in 2018) was recognised in the consolidated statement of changes in equity of the Group.

- b) Furthermore, the investment properties above include a right of use of hotel apartments in Zamzam Tower in Holly Mecca in the Kingdom of Saudi Arabia amounting to KD186,683 (2018: KD235,351). The contract of the right of use expires in 2024. Accordingly, the management of the Parent Company decided to amortize the balance of this investment over the remaining period of the contract with an annual charge of KD48,668 starting from 2017 and included within the change in fair value above.

### 14 Equity

- 14.1 The authorized, issued and paid up share capital of the Parent Company as at 31 December 2019 comprise of 110,250,000 share of 100 Fils each (2018: 110,250,000 share of 100 Fils each). All shares are in cash.
- 14.2 Share premium is not available for distribution.

## Notes to the consolidated financial statements (continued)

### 14 Equity (continued)

14.3 The Group holds treasury shares as follows:

	31 Dec. 2019	31 Dec. 2018
Number of shares	445,500	445,500
Percentage of issued shares	0.40%	0.40%
Market value (KD)	10,692	11,360
Cost (KD)	50,489	50,489

### 15 Statutory and voluntary reserves

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year before KFAS, NLST, Zakat and directors' remuneration is to be transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfer when the reserve totals 50% of the paid up share capital.

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

In accordance with the Parent Company's Articles of Association, 10% of the profit for the year before KFAS, Zakat, NLST and directors' remuneration, is to be transferred to the voluntary reserve at the discretion of the board of directors subject to the approval of the general assembly.

There are no restrictions on the distribution of the voluntary reserve.

No transfers are required in a year in which the Parent Company has incurred a loss or where accumulated losses exist.

### 16 General Assembly of the Shareholders

The board of directors of the Parent Company proposed not to distribute any dividends for the year ended 31 December 2019, and this proposal is subject to the approval of the general assembly of the Parent Company's shareholders.

On 11 April 2019, the general assembly of the shareholders approved the consolidated financial statements of the Group for the year ended 31 December 2018 and the proposal of the board of directors not to distribute any dividends for the year then ended.

Also, the general assembly of the shareholders approved the board of directors' remuneration of KD15,000 for the year ended 31 December 2018.

### 17 Consolidated policyholders' results by line of business and fund

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

## Notes to the consolidated financial statements (continued)

### 17 Consolidated policyholders' results by line of business and fund (continued)

#### Revenue recognition

##### *Premiums earned*

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

##### *Policy issuance fees and policy acquisition costs*

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

#### Reinsurance

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

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

#### Claims

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

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

#### Liability adequacy test

At each financial position date, the 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 the light of estimated future cash flows, the entire deficiency is immediately recognised in the consolidated statement of policyholders' result and an unexpired risk provision 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 financial position date.

#### Premium and reinsurance receivables

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

## Notes to the consolidated financial statements (continued)

### 17 Consolidated policyholders' results by line of business and fund (continued)

#### Equipment

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

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

The following useful lives are applied:

- Buildings: 20 years
- Equipment: 5 -8 years
- Vehicles: 4 - 5 years

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

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

#### Life mathematical reserve

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

#### Additional reserve

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

#### Provision for employees' end of service benefits

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

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



## Notes to the consolidated financial statements (continued)

### 17 Consolidated policyholders' results by line of business and fund (continued)

#### *Estimation uncertainty*

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

#### *Impairment of financial assets*

Measurement of estimated credit losses involves estimates of loss given default and probability of default. Loss given default is an estimate of the loss arising in case of default by customer. Probability of default is an estimate of the likelihood of default in the future. The Group based these estimates using reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

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

#### *Useful lives of depreciable assets*

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

#### *Provision for outstanding claims and IBNR*

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

#### *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 (continued)

### 17 Consolidated policyholders' results by line of business and fund (continued)

Consolidated policyholders' results by line of business:

	Marine and aviation KD	General accident KD	Fire KD	Life KD	Total KD
<b>Year ended 31 December 2019:</b>					
Premiums written	231,923	3,738,862	1,550,276	317,843	5,838,904
Less: reinsurance ceded	(206,851)	(1,092,839)	(1,462,230)	(121,647)	(2,883,567)
Net premiums	25,072	2,646,023	88,046	196,196	2,955,337
Movement in unearned premiums	2,169	(261,852)	(9,445)	(29,597)	(298,725)
Net premiums earned	27,241	2,384,171	78,601	166,599	2,656,612
Policy issuance fees	5,089	66,143	2,301	446	73,979
Reinsurance commission earned	63,645	70,769	80,499	5,873	220,786
Total revenue	95,975	2,521,083	161,401	172,918	2,951,377
Net claims incurred	(50,433)	(4,604,180)	(210,025)	(138,561)	(5,003,199)
Retakaful share of claims incurred	34,633	2,071,019	199,785	34,046	2,339,483
Movement in provision for claims incurred but not reported	-	(95)	-	-	(95)
Movement in life mathematical reserve	-	-	-	3,722	3,722
Policy acquisition costs	(9,375)	(877,469)	(87,291)	(3,883)	(978,018)
Total expenses	(25,175)	(3,410,725)	(97,531)	(104,676)	(3,638,107)
Surplus/(deficit) by line of business	70,800	(889,642)	63,870	68,242	(686,730)
Allocation of general and administrative expenses	(43,008)	(686,988)	(283,753)	(59,005)	(1,072,754)
Net surplus/(deficit) from insurance operations	27,792	(1,576,630)	(219,883)	9,237	(1,759,484)
Net investment and other income	3,218	51,390	21,287	4,353	80,248
Net surplus/ (deficit) from takaful insurance operations	31,010	(1,525,240)	(198,596)	13,590	(1,679,236)
Income from leasing operations					146,099
Expenses in connection with leasing activities					(168,519)
Management fees from policyholders* - below					-
Net deficit transferred to policyholders' fund					(1,701,656)
<b>Other comprehensive loss for the year:</b>					
Equity investments at fair value through other comprehensive income					
-Net change in fair value arising during the year					(9,524)
Total other comprehensive loss for the year					(9,524)
Net deficit including other comprehensive loss					(1,711,180)

## Notes to the consolidated financial statements (continued)

### 17 Consolidated policyholders' results by line of business and fund (continued)

Consolidated policyholders' results by line of business (continued):

	Marine and aviation KD	General accident KD	Fire KD	Life KD	Total KD
<b>Year ended 31 December 2018:</b>					
Premiums written	225,622	3,311,829	1,197,978	284,044	5,019,473
Less: reinsurance ceded	(197,082)	(859,610)	(1,154,150)	(55,787)	(2,266,629)
Net premiums	28,540	2,452,219	43,828	228,257	2,752,844
Movement in unearned premiums	28,003	786,486	(59,331)	100,590	855,748
Net premiums earned	56,543	3,238,705	(15,503)	328,847	3,608,592
Policy issuance fees	3,095	64,055	2,089	1,200	70,439
Reinsurance commission earned	61,208	62,653	56,755	3,213	183,829
Total revenue	120,846	3,365,413	43,341	333,260	3,862,860
Net claims incurred	(80,029)	(2,397,353)	(49,067)	(179,697)	(2,706,146)
Retakaful share of claims incurred	85,269	385,174	123,565	38,458	632,466
Movement in provision for claims incurred but not reported	-	27,803	-	-	27,803
Movement in life mathematical reserve	-	-	-	(74,793)	(74,793)
Policy acquisition costs	(9,926)	(816,308)	(19,854)	(2,671)	(848,759)
Total expenses	(4,686)	(2,800,684)	54,644	(218,703)	(2,969,429)
Surplus by line of business	116,160	564,729	97,985	114,557	893,431
Allocation of general and administrative expenses	(42,775)	(627,877)	(227,120)	(53,851)	(951,623)
Net surplus/(deficit) from insurance operations	73,385	(63,148)	(129,135)	60,706	(58,192)
Net investment and other income	3,083	45,257	16,370	3,882	68,592
Net surplus/ (deficit) from takaful insurance operations	76,468	(17,891)	(112,765)	64,588	10,400
Income from leasing operations					153,112
Expenses in connection with leasing activities					(160,582)
Management fees from policyholders* - below					(2,082)
Net surplus transferred to policyholders' fund					848
<b>Other comprehensive income for the year:</b>					
Equity investments at fair value through other comprehensive income					
-Net change in fair value arising during the year					1,347
Total other comprehensive income for the year					1,347
Net surplus including other comprehensive income					2,195

\* According to the Parent Company's Articles of Association, shareholders are entitled to management fees from policyholders up to 20% of the total premiums written and investment income (note 11).

In its meeting held on 21 June 2017, the Board of Directors decided to calculate management fees at 20% of the profit instead of 20% of revenue as a right to shareholders of the results of policyholders starting from 1 April 2017 until further notice.

## Notes to the consolidated financial statements (continued)

### 17 Consolidated policyholders' results by line of business and fund (continued)

Consolidated policyholders' assets, liabilities and fund:

	31 Dec. 2019 KD	31 Dec. 2018 KD
<b>Assets</b>		
Cash and cash equivalents	17,708	54,680
Investment deposits	1,326,000	1,326,000
Investments at fair value through profit or loss	300,417	295,230
Accounts receivable and other assets	1,328,102	979,293
Premiums receivable	1,609,781	2,198,392
Investments at fair value through other comprehensive income	130,342	177,524
Goodwill	409,766	409,766
Reinsurance share of outstanding claims (see b below)	4,139,475	2,326,486
Retakaful contribution receivables	2,408,165	2,366,253
Leasehold land	277,750	277,750
Equipment	196,063	172,075
<b>Total assets</b>	<b>12,143,569</b>	<b>10,583,449</b>
<b>Liabilities</b>		
Outstanding claims reserve (see b below)	5,561,105	3,923,763
Unearned premiums	1,474,573	962,894
Incurred but not reported reserve	27,708	27,803
Accounts payable and other liabilities (see a below)	4,970,906	5,154,775
Amount due to shareholders	6,727,555	5,420,464
Qard Hassan from shareholders	1,625,611	1,625,611
<b>Total liabilities</b>	<b>20,387,458</b>	<b>17,115,310</b>
<b>Policyholders' fund</b>		
Policyholders' fund at the beginning of the year	(6,382,331)	(6,489,605)
Adjustments arising on adoption of IFRS 9	-	107,274
Policyholders' fund at the beginning of the year	(6,382,331)	(6,382,331)
Net (deficit)/surplus of policyholders for the year	(1,701,656)	848
	(8,083,987)	(6,381,483)
Fair value reserve	(150,378)	(151,725)
Change in fair value during the year	(9,524)	1,347
<b>Total policyholders' fund at the end of the year</b>	<b>(8,243,889)</b>	<b>(6,531,861)</b>
<b>Total liabilities and policyholders' fund</b>	<b>12,143,569</b>	<b>10,583,449</b>

- a) This balance includes an amount relating to liability towards a government institution "prosecutor". During the year ended 31 December 2017, the court of appeal in the State of Kuwait ruled in favour of the prosecutor ordering the Group to pay the sum of KD3,636,022. Therefore, the Group reclassified the balance from "outstanding claims reserve" to "account payable and other liabilities". However, the Group submitted a request to the court of cassation to stop the execution of the judgement where the ruling is still pending (Note 22).
- b) During the year, the Group received an overall assessment of a government claim for damages incurred as a result of recent rainfall in Kuwait. The Group's share of this claim was calculated to be equivalent to KD3,630,000 from which KD1,349,700 was paid during the year. This amount is fully reinsured and has been recognised both in reinsurance share of outstanding claims and outstanding claims reserve.



## Notes to the consolidated financial statements (continued)

### 18 Related party balances and transactions

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Transactions between the Parent Company and its subsidiaries which are related parties of the Parent Company have been eliminated on consolidation and are not disclosed in this note. Details of balances transactions between the Group and other related parties are disclosed below.

Shareholders	31 Dec. 2019 KD	31 Dec. 2018 KD
<i>Consolidated statement of financial position:</i>		
Investments at fair value through other comprehensive income	941,008	1,223,008
Investments at fair value through other comprehensive income above include the Group's investments in the shares of subsidiaries of the Ultimate Parent Company (Investment Dar Company) amounting to KD894,357 (2018: KD1,184,782).		
	Year ended 31 Dec. 2019 KD	Year ended 31 Dec. 2018 KD
<i>Key management compensation</i>		
Salaries and other short term benefits	15,000	20,000
<hr/>		
	Year ended 31 Dec. 2019 KD	Year ended 31 Dec. 2018 KD
<b>Policyholders</b>		
<i>Key management compensation:</i>		
Salaries and other short term benefits	181,152	173,652
End of service benefits	24,347	18,149
	<b>205,499</b>	<b>191,801</b>

### 19 Segmental analysis

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

## Notes to the consolidated financial statements (continued)

### 19 Segmental analysis (continued)

The Group operates in the sectors of investment, takaful insurance and car rental as follows:

	Investment KD	Takaful insurance KD	Unallocated KD	Total KD	
<b>Shareholders</b>					
Year ended at 31 December 2019					
Total revenue	(5,337)	-	-	-	
Profit/(loss) for the year	(5,337)	-	(81,783)	(87,120)	
<b>As at 31 December 2019</b>					
Total assets	4,303,369	7,756,092	16,776	12,076,237	
Total liabilities	-	-	(25,248)	(25,248)	
Net assets	4,303,369	7,756,092	(8,472)	12,050,989	
<b>Shareholders</b>					
Year ended at 31 December 2018					
Total revenue	131,747	2,082	-	133,829	
Profit/(loss) for the year	131,747	2,082	(47,381)	86,448	
<b>As at 31 December 2018</b>					
Total assets	5,337,588	6,449,001	16,101	11,842,690	
Total liabilities	-	-	(28,437)	(28,437)	
Net assets	5,337,588	6,449,001	(12,366)	11,814,253	
	Investment KD	Takaful insurance KD	Car rental KD	Unallocated KD	Total KD
<b>Policyholders</b>					
Year ended at 31 December 2019					
Total revenue	80,248	2,951,377	146,099	-	3,177,724
Surplus/(deficit) for the year	80,248	(1,759,484)	(22,420)	-	(1,701,656)
<b>As at 31 December 2019</b>					
Total assets	2,034,509	8,157,421	459,764	1,491,875	12,143,569
Total liabilities	-	(19,248,523)	(58,924)	(1,080,011)	(20,387,458)
Net assets	2,034,509	(11,091,102)	400,840	411,864	(8,243,889)
<b>Policyholders</b>					
Year ended at 31 December 2018					
Total revenue	68,592	3,862,860	153,112	-	4,084,564
Surplus/(deficit) for the year	68,592	(60,274)	(7,470)	-	848
<b>As at 31 December 2018</b>					
Total assets	2,076,504	6,891,131	441,921	1,173,893	10,583,449
Total liabilities	-	(16,087,934)	(24,200)	(1,003,176)	(17,115,310)
Net assets	2,076,504	(9,196,803)	417,721	170,717	(6,531,861)

## Notes to the consolidated financial statements (continued)

### 20 Risk management objectives and policies

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

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

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

On 1 September 2019, the new insurance law No.125 for the year 2019 has been issued, this law is effective from 28 August 2019. This law supersedes the law No.24 of 1961. The Executive Regulations of the new law have not been issued yet.

1. The following are the key regulations governing the operations 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 senior management is responsible for monitoring compliance with the above regulation and has a delegated authorities and responsibilities from the board of directors to ensure compliance.

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

#### *Frequency and amounts of claims*

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

## Notes to the consolidated financial statements (continued)

### 20 Risk management objectives and policies (continued)

#### *(1) Non-life insurance contracts*

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

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

#### *Marine and aviation*

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Group has reinsurance cover to limit losses for any individual claim up to KD1,400,000 (31 December 2018: KD1,400,000).

#### *Fire and accident*

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

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Group has reinsurance cover for such damage to limit losses for any individual claim up to KD3,250,000 (31 December 2018: KD3,250,000).

#### *Motor*

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years the Group has primarily underwritten comprehensive policies for owner/drivers over 21 years of age. The Group has reinsurance cover to limit losses for any individual claim up to KD600,000 (31 December 2018: KD600,000).

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

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 above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the 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.



## Notes to the consolidated financial statements (continued)

### 20 Risk management objectives and policies (continued)

#### (1) Non-life insurance contracts (continued)

##### Motor (continued)

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 (e.g hurricanes, earthquakes and flood damages).

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

	31 Dec. 2019			31 Dec. 2018		
	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
Marine and aviation	171,257	(145,354)	25,903	258,352	(228,194)	30,158
General accident	4,334,235	(3,024,082)	1,310,153	3,030,565	(1,526,547)	1,504,018
Fire	693,271	(673,433)	19,838	306,535	(283,295)	23,240
<b>Total</b>	<b>5,198,763</b>	<b>(3,842,869)</b>	<b>1,355,894</b>	<b>3,595,452</b>	<b>(2,038,036)</b>	<b>1,557,416</b>

#### 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 one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

#### (2) Life insurance contracts

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

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

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

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

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.

## Notes to the consolidated financial statements (continued)

### 20 Risk management objectives and policies (continued)

#### (2) Life insurance contracts (continued)

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

The Group's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through 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 insurance risks described above are also affected by the contract holders' right to pay reduced or no future premiums, to terminate the contract completely. As a result, the amount of insurance risk is also subject to contract holder behaviour.

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

	31 Dec. 2019			31 Dec. 2018		
	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
<b>Type of contract</b>						
Life takaful insurance	362,342	(296,606)	65,736	328,311	(288,450)	39,861

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

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

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

## Notes to the consolidated financial statements (continued)

### 20 Risk management objectives and policies (continued)

#### Financial risks

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

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

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

#### 20.1 Credit risk

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

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

	31 Dec. 2019 KD	31 Dec. 2018 KD
<b>SHAREHOLDERS</b>		
Cash and cash equivalents	10,174	8,990
Investment deposits	52,000	862,000
Other assets	6,602	7,111
Qard Hassan to policyholders	1,463,111	1,463,111
Amount due from policyholders	6,292,981	4,985,890
	<b>7,824,868</b>	<b>7,327,102</b>
<b>POLICYHOLDERS</b>		
Bank balances	14,080	38,617
Investment deposits	1,326,000	1,326,000
Account receivables and other assets	1,328,102	979,293
Premiums receivable	1,609,781	2,198,392
Reinsurance share of outstanding claims	4,139,475	2,326,486
Retakaful contribution receivables	2,408,165	2,366,253
	<b>10,825,603</b>	<b>9,235,041</b>

#### Credit quality per class of financial assets

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

## Notes to the consolidated financial statements (continued)

### 20 Risk management objectives and policies (continued)

#### 20.1 Credit risk (continued)

##### *Credit quality per class of financial assets (continued)*

At 31 December 2019 and 31 December 2018, credit quality per class is as follows:

	Neither past due nor impaired		Past due or impaired	Total
	High grade KD	Standard grade KD	KD	KD
<b>31 December 2019</b>				
<b>SHAREHOLDERS</b>				
Cash and cash equivalents	10,174	-	-	10,174
Investment deposits	52,000	-	-	52,000
Other assets	-	6,602	-	6,602
Qard Hassan to policyholders	-	-	1,463,111	1,463,111
Amount due from policyholders	-	-	6,292,981	6,292,981
	62,174	6,602	7,756,092	7,824,868
<b>POLICYHOLDERS</b>				
Bank balances	14,080	-	-	14,080
Investment deposits	1,326,000	-	-	1,326,000
Accounts receivable and others assets	264,943	265,620	797,539	1,328,102
Premiums receivable	491,348	40,171	1,078,262	1,609,781
Reinsurance share of outstanding claims	4,139,475	-	-	4,139,475
Retakaful contribution receivables	-	2,408,165	-	2,408,165
	6,235,846	2,713,956	1,875,801	10,825,603
<b>31 December 2018</b>				
<b>SHAREHOLDERS</b>				
Cash and cash equivalents	8,990	-	-	8,990
Investment deposits	862,000	-	-	862,000
Other assets	-	7,111	-	7,111
Qard Hassan to policyholders	-	-	1,463,111	1,463,111
Amount due from policyholders	-	-	4,985,890	4,985,890
	870,990	7,111	6,449,001	7,327,102
<b>POLICYHOLDERS</b>				
Bank balances	38,617	-	-	38,617
Investment deposits	1,326,000	-	-	1,326,000
Accounts receivable and others assets	296,455	197,636	485,202	979,293
Premium receivable	499,642	214,132	1,484,618	2,198,392
Reinsurance share of outstanding claims	2,326,486	-	-	2,326,486
Retakaful contribution receivables	-	2,366,252	-	2,366,252
	4,487,200	2,778,020	1,969,820	9,235,040

#### 20.2 Liquidity risk

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



## Notes to the consolidated financial statements (continued)

### 20 Risk management objectives and policies (continued)

#### 20.2 Liquidity risk (continued)

Maturity profile of assets and liabilities at 31 December 2019 and 31 December 2018:

	Up to 1 year KD	Over 1 year KD	31 Dec. 2019 KD
<b>31 December 2019</b>			
<b>SHAREHOLDERS</b>			
<b>Assets</b>			
Cash and cash equivalents	10,174	-	10,174
Investment deposits	52,000	-	52,000
Investments at fair value through profit or loss	227,303	-	227,303
Investments at fair value through other comprehensive income	-	1,112,996	1,112,996
Amount due from policyholders	-	6,292,981	6,292,981
Qard Hassan to policyholders' fund	-	1,463,111	1,463,111
Investment properties	-	2,911,070	2,911,070
Other assets	6,602	-	6,602
	296,079	11,780,158	12,076,237
<b>Liabilities</b>			
Other liabilities	25,248	-	25,248
	25,248	-	25,248
<b>Net exposure</b>	<b>270,831</b>	<b>11,780,158</b>	<b>12,050,989</b>
<b>POLICYHOLDERS</b>			
<b>Assets</b>			
Cash and cash equivalents	17,708	-	17,708
Investment deposits	1,326,000	-	1,326,000
Investments at fair value through profit or loss	300,417	-	300,417
Accounts receivable and other assets	1,328,102	-	1,328,102
Premiums receivable	1,609,781	-	1,609,781
Investments at fair value through other comprehensive income	-	130,342	130,342
Goodwill	-	409,766	409,766
Reinsurance share of outstanding claims	-	4,139,475	4,139,475
Retakaful contribution receivables	280,554	2,127,611	2,408,165
Leasehold land	-	277,750	277,750
Equipment	-	196,063	196,063
	4,862,562	7,281,007	12,143,569
<b>Liabilities</b>			
Outstanding claims reserve	-	5,561,105	5,561,105
Unearned premiums	-	1,474,573	1,474,573
Incurred but not reported reserve	-	27,708	27,708
Accounts payable and other liabilities	4,970,906	-	4,970,906
Amount due to shareholders	-	6,727,555	6,727,555
Qard Hassan from shareholders	-	1,625,611	1,625,611
	4,970,906	15,416,552	20,387,458
<b>Net exposure</b>	<b>(108,344)</b>	<b>(8,135,545)</b>	<b>(8,243,889)</b>

## Notes to the consolidated financial statements (continued)

### 20 Risk management objectives and policies (continued)

#### 20.2 Liquidity risk (continued)

	Up to 1 year KD	Over 1 year KD	31 Dec. 2018 KD
<b>31 December 2018</b>			
<b>SHAREHOLDERS</b>			
<b>Assets</b>			
Cash and cash equivalents	8,990	-	8,990
Investment deposits	862,000	-	862,000
Investments at fair value through profit or loss	211,369	-	211,369
Investments at fair value through other comprehensive income	-	1,632,033	1,632,033
Amount due from policyholders	-	4,985,890	4,985,890
Qard Hassan to policyholders' fund	-	1,463,111	1,463,111
Investment properties	-	2,672,186	2,672,186
Other assets	7,111	-	7,111
	1,089,470	10,753,220	11,842,690
<b>Liabilities</b>			
Other liabilities	28,437	-	28,437
	28,437	-	28,437
<b>Net exposure</b>	1,061,033	10,753,220	11,814,253
<b>POLICYHOLDERS</b>			
<b>Assets</b>			
Cash and cash equivalents	54,680	-	54,680
Investment deposits	1,326,000	-	1,326,000
Investments at fair value through profit or loss	295,230	-	295,230
Accounts receivable and other assets	979,293	-	979,293
Premiums receivable	2,198,392	-	2,198,392
Investments at fair value through other comprehensive income	-	177,524	177,524
Goodwill	-	409,766	409,766
Reinsurance share of outstanding claims	-	2,326,486	2,326,486
Retakaful contribution receivables	275,671	2,090,582	2,366,253
Leasehold land	-	277,750	277,750
Equipment	-	172,075	172,075
	5,129,266	5,454,183	10,583,449
<b>Liabilities</b>			
Outstanding claims reserve	-	3,923,763	3,923,763
Unearned premiums	-	962,894	962,894
Incurred but not reported reserve	-	27,803	27,803
Accounts payable and other liabilities	5,154,775	-	5,154,775
Amount due to shareholders	-	5,420,464	5,420,464
Qard Hassan from shareholders	-	1,625,611	1,625,611
	5,154,775	11,960,535	17,115,310
<b>Net exposure</b>	(25,509)	(6,506,352)	(6,531,861)

## Notes to the consolidated financial statements (continued)

### 20 Risk management objectives and policies (continued)

#### 20.3 Market risk

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

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

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

##### (a) Currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is not exposed to significant currency risk because the Group's significant transactions, assets and liabilities are dominated in its functional currency.

##### (b) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. As the Group's interest bearing assets are deposits with banks mostly at fixed rates over the contractual term, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group does not have any interest bearing liabilities.

##### (c) Equity price risk

The Group is exposed to equity price risk with respect to its equity investments. Equity investments are classified as investments at fair value through profit or loss and investments at fair value through other comprehensive income.

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

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

If equity prices had been 5% (31 December 2018: 5%) higher/lower, the effect on the loss for the year and equity would have been as follows:

	31 Dec. 2019		31 Dec. 2018	
	Increase 5%	Decrease 5%	Increase 5%	Decrease 5%
<b>SHAREHOLDERS</b>				
Impact on equity	29,005	(29,005)	28,471	(28,471)
Impact on profit for the year	11,365	(11,365)	10,568	(10,568)
<b>POLICYHOLDERS</b>				
Impact on policyholders' fund	838	(838)	1,351	(1,351)
Impact on policyholders' results	-	-	-	-

## Notes to the consolidated financial statements (continued)

### 21 Fair value measurement

#### 21.1 Fair value measurement of financial instruments

The carrying value of the Group's financial assets and liabilities stated in the consolidated statement of financial position are as follows:

	31 Dec. 2019 KD	31 Dec. 2018 KD
<b>Shareholders' assets and liabilities</b>		
<b>Financial assets:</b>		
<i>At amortised cost:</i>		
Cash and cash equivalents	10,174	8,900
Investment deposits	52,000	862,000
Amount due from policyholders (net of provision)	6,292,981	4,985,890
Qard Hassan to policyholders' fund (net of provision)	1,463,111	1,463,111
Other assets	6,602	7,111
<i>Financial assets at fair value:</i>		
Investments at fair value through other comprehensive income	1,112,996	1,632,033
<i>Investments at fair value through profit or loss:</i>		
At fair value	227,303	211,369
	<b>9,165,167</b>	<b>9,170,414</b>
<b>Financial liabilities:</b>		
<i>Financial liabilities at amortised cost:</i>		
Accounts payable and other liabilities	25,248	28,437
	<b>25,248</b>	<b>28,437</b>
<b>Policyholders' assets and liabilities</b>		
<b>Financial assets:</b>		
<i>At amortised cost:</i>		
Cash and cash equivalents	17,708	54,680
Investment deposits	1,326,000	1,326,000
Accounts receivable and other assets	1,328,102	979,293
Premiums receivable	1,609,781	2,198,392
Reinsurance share of outstanding claims	4,139,475	2,326,486
Retakaful contribution receivables	2,408,165	2,366,253
<i>Financial assets at fair value:</i>		
Investments at fair value through other comprehensive income	130,342	177,524
<i>Investments at fair value through profit or loss</i>		
At fair value	300,417	295,230
	<b>11,259,990</b>	<b>9,723,858</b>



## Notes to the consolidated financial statements (continued)

### 21 Fair value measurement (continued)

#### 21.1 Fair value measurement of financial instruments (continued)

	31 Dec. 2019 KD	31 Dec. 2018 KD
<b>Financial liabilities:</b>		
<i>Financial liabilities at amortised cost:</i>		
Unearned premiums	1,474,573	962,894
Accounts payable and other liabilities	4,970,906	5,154,775
Amount due to shareholders	6,727,555	5,420,464
Qard Hassan from shareholders	1,625,611	1,625,611
	<b>14,798,645</b>	<b>13,163,744</b>

Management considers that the carrying amounts of loans and receivables and financial liabilities, which are stated at amortized cost, approximate their fair values.

#### 21.2 Fair value measurement

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group measures financial instruments at fair value and measurement details are disclosed below. In the opinion of the Group's management, the carrying amounts of all other financial assets and liabilities which are carried at amortised costs are considered a reasonable approximation of their fair values.

#### 21.3 Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows,

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

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

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

## Notes to the consolidated financial statements (continued)

### 21 Fair value measurement (continued)

#### 21.3 Fair value hierarchy (continued)

31 December 2019

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
<b>SHAREHOLDERS</b>				
Investments at fair value through profit or loss				
- Local quoted securities held through managed portfolios	227,303	-	-	227,303
Investment at fair value through other comprehensive income				
- Local quoted securities	16,904	-	-	16,904
- Local unquoted securities	-	-	78,263	78,263
- Managed portfolios	335,896	-	378,319	714,215
- Managed funds	-	303,614	-	303,614
	580,103	303,614	456,582	1,340,299
<b>POLICYHOLDERS</b>				
Investments at fair value through profit or loss				
- Managed funds	-	300,417	-	300,417
Investment at fair value through other comprehensive income				
- Local quoted securities	16,750	-	-	16,750
- Managed portfolios	-	-	113,592	113,592
	16,750	300,417	113,592	430,759

31 December 2018

<b>SHAREHOLDERS</b>				
Investments at fair value through profit or loss				
- Local quoted securities held through managed portfolios	211,369	-	-	211,369
Investment at fair value through other comprehensive income				
- Local quoted securities	20,024	-	-	20,024
- Local unquoted securities	-	-	69,745	69,745
- Managed portfolios	338,036	-	521,572	859,608
- Managed funds	-	682,656	-	682,656
	569,429	682,656	591,317	1,843,402
<b>POLICYHOLDERS</b>				
Investments at fair value through profit or loss				
- Managed funds	-	295,230	-	295,230
Investment at fair value through other comprehensive income				
- Local quoted securities	27,024	-	-	27,024
- Managed portfolios	-	-	150,500	150,500
	27,024	295,230	150,500	472,754

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

## Notes to the consolidated financial statements (continued)

### 21 Fair value measurement (continued)

#### 21.3 Fair value hierarchy (continued)

##### Measurement at fair value

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

##### a) Quoted securities

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

##### b) Unquoted securities

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

##### c) Managed funds and portfolios

the underlying investments of managed funds and portfolios primarily comprise of local and foreign quoted and unquoted securities whose fair values have been determined based on the fund's/portfolio's managers report as at the reporting dates.

##### Level 3 fair value measurements

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

	Policyholders		Shareholders	
	Unquoted securities		Unquoted securities	
	Investments at fair value through OCI	Investments at fair value through OCI	Investments at fair value through OCI	Investments at fair value through OCI
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
	KD	KD	KD	KD
Opening balance	150,500	150,500	591,317	723,811
Transfer	-	-	-	14,109
Disposal	(37,625)	-	(10,965)	-
Net change in fair value	717	-	(123,770)	(146,603)
<b>Closing balance</b>	<b>113,592</b>	<b>150,500</b>	<b>456,582</b>	<b>591,317</b>

The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

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

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

## Notes to the consolidated financial statements (continued)

### 21 Fair value measurement (continued)

#### 21.3 Fair value hierarchy (continued)

##### Level 3 fair value measurements (continued)

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

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

#### 21.4 Fair value measurement of non-financial assets

The following table shows the fair value hierarchy of non-financial assets measured at fair value:

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
<b>31 December 2019</b>				
Investment property				
- Investment building in Egypt	-	-	2,724,387	2,724,387
	-	-	2,724,387	2,724,387
<b>31 December 2018</b>				
Investment property				
- Investment building in Egypt	-	-	2,436,836	2,436,836
	-	-	2,436,836	2,436,836

Fair value of the Group's investment property is estimated based on appraisals performed by an independent, professionally-qualified property valuer. The significant inputs and assumptions are developed in close consultation with management. Further information is set out below.

#### Investment property in the Arab Republic of Egypt

The investment property in Egypt of the subsidiary represents three residential and commercial towers categorized as "Investment Building". The fair value of the building has been determined based on valuation obtained from an independent valuer, who is specialized in valuing these types of investment properties. The significant inputs and assumptions are developed in close consultation with management. The valuer who is local reputable valuer has valued the building primarily by using market comparison. When the market comparison approach is used adjustments have been incorporated for factors specific to the building such as plot size, location current use rental yield, age of building and its general condition.



## Notes to the consolidated financial statements (continued)

### 21 Fair value measurement (continued)

#### 21.4 Fair value measurement of non-financial assets (continued)

##### Investment property in the Arab Republic of Egypt (continued)

Further information regarding the fair value measurements is set out in the table below:

#### 31 December 2019

Description	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Investment building in Egypt	Market comparison approach	Estimated market price for building (per sqm)	KD956	Higher the price per square meter, higher the fair value

#### 31 December 2018

Description	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Investment building in Egypt	Market comparison approach	Estimated market price for building (per sqm)	KD855	Higher the price per square meter, higher the fair value

The non-financial instruments within this level can be reconciled from beginning to ending balances as follows:

	Investment Property	
	31 Dec. 2019 KD	31 Dec. 2018 KD
Opening balance	2,436,835	2,313,693
Additions	-	6,210
Change in fair value	-	120,516
Foreign currency adjustment arising on translation of the balances Egypt's subsidiary	287,552	(3,584)
	<b>2,724,387</b>	<b>2,436,835</b>
Total amount included in profit or loss for unrealised gains on level 3 assets	-	120,516

### 22 Contingent liabilities

The Group is a defendant in a number of legal cases filed by Takaful contract holders in respect of claims subject to dispute with the Group including a legal case filed by a government institution against the Group for an amount of KD3,636,022 which the Group has provided for in the accounts payable and other liabilities (note 17a). Although the court of appeal issued its ruling in favour of the State and the Parent Company submitted a request to the court of cassation to stop the execution, the Parent Company has made provisions which, in its opinion, are adequate to cover any resultant liabilities.

## Notes to the consolidated financial statements (continued)

### 23 Capital management objectives

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

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

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

	31 Dec. 2019 KD	31 Dec. 2018 KD
(Loss)/profit for the year	(87,120)	86,448
Total equity	12,050,989	11,814,253
Return on equity	(0.72%)	0.73%

