بسم الله الرحمن الرحيم

الشركة الوطنية للتأمين التكافلي
National Takaful Insurance Co.

H. H. Sheikh

Sabah Al-Ahmad Al-Jaber Al-Sabah

Amir of the State of Kuwait

H. H. Sheikh

Nawaf Al-Ahmad Al-Jaber Al-Sabah

Crown Prince

H. H. Sheikh

Jaber Mubarak Al-Hamad Al-Sabah

Prime Minister

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COMPANY SUMMARY

Established in State of Kuwait in 24 November 2003
with a License No.: MM/842/2003

Capital: KD 10,000,000
Paid Capital: KD 10,000,000

Registration No.: 98179
Insurance License: (29)

A Company subject to Insurance Companies Law No.: 24/1961

Headquarters:

Al-Mergab - Al-Soor st. - Al-Tejarya tower - Floor 8 & 9
P.O. Box: 21149 Safat - Postal code: 13072 Kuwait
Tel.: 1833381
Fax: 22901383

BOARD MEMBERS

Khaled Abdulaziz Al-Muraikhi	Chairman
Badr Fahed Al-Rezaihan	Vice Chairman
Abdulaziz Abdulaziz Almeshal	CEO
Talal Sager Al-Qatami	Deputy CEO
Khalifah Mohamad Al-Ghanim	Board Member
Bader Musaed Al-Sayer	Board Member
Amal Hossein Al-Dalal	Board Member

Board's Report for the Fiscal year 2013

Dear shareholders,

Peace be upon you,

On behalf of my colleagues the Board members and executive management of National Takaful Insurance Company, I have the honor to welcome you in the tenth meeting of the company's Ordinary General Assembly.

We have the pleasure to present to you the annual report of the fiscal year ending on 31st December 2013 including the Fatwa and Shariah Control Board report as well as the Auditor's report and a brief on the strategy adopted by the company to achieve its objectives.

The company's management continued the implementation of the strategies which have been adopted during the preceding years by focusing on the quality of products and the insurance services provided and ensuring the maximum limit of protection to the company that led to the realization of positive results the success of which is reflected on the confrontation of the challenges arousing from the increasing number of insurance companies and the creation of a gap between demand and supply in the insurance services and dearth in insurance products pricing among the companies.

Despite that, the Company's management, with praise to Al Mighty Allah, managed to increase its market share, improve performance and minimize the exposure to risks and safeguard the shareholders and policy holders' interests and rights.

We wish to express the Board's gratitude and appreciation to our shareholders for the trust they vested into us thus emphasizing our commitment to spare no efforts, with Allah's willing, to achieve further successes and prospects in the forthcoming stage.

Allow me to present to you the results of the company's operations as follows:

First: Insurance Activity

The subscriptions in 2013 of all branches amounted to KD 8,653,135 against KD 6,688,976 in 2012 equivalent to an increase of KD 1,964,159 reflecting an increase of an average of 29%. Your Company is still meeting its obligations diligently and steadily and paying the indemnities payable to participants. The provisions and technical reserves amounted to KD 4,369,486 at the end of 2013. The indemnities paid during 2013 amounted to KD 4,415998 against KD 4,023,962 at the end of 2012 being equivalent to an increase of KD, 392,036 representing10%.

The company managed to maintain an advanced ranking in terms of premiums in comparison to other Takaful insurance companies operating in Kuwait's market during 2013 and maintained its credit rating at (Ba1) by MOODY'S with a positive future prospectus.

Second: Investment Activity

National Takaful Insurance Company kept on applying a reserved policy during 2013 by maintaining provision to minimize the exposure to risks and selecting investment in trust which safeguard the funds of shareholders and participants and generate good return.

Third: Administrative Activity

With Praise to Almighty Allah, the company's administrative structure development is completed in a manner consistent with the company's prospected vision and updating the job descriptions and procedures manual administratively and technically.

Regarding, the technological development in parallel to the administrative development an advanced insurance computer system (PREMIA-10G) is being installed for all technical and financial departments by an international company (3i INFOTECH) which is a leading solution provider of information technology services and solutions and specialized in the programs in line with the scheduled plan and it is expected to be completed during the second half of the present year.

Fourth: Results of Operations

The results of the participants' board concluded a surplus of KD 9,865 in 2013 in comparison to 2012 which realized a deficit of (KD 1,256,068). The results of the shareholders board operations concluded a deficit of (KD 78,308) in comparison to a realized surplus of KD 2,307,646 in 2012 which resulted from redeeming a provision calculated in earlier years against Murabhat collected fully in the same year.

The Board of Directors wishes to express its deep thanks to the Fatwa and Shariah Control Board members for their cooperation and all personnel for their great efforts for the progress and upgrading of the company's business. Finally, we wish to thank our dear shareholders for the support and trust they vest into us.

IN THE NAME OF ALLAH,
THE MOST COMPASSIONATE, THE MOST MERCIFUL

Report of the Sharia Board of the National Takaful Insurance Company

All praises be to Allah, the Lord of all worlds, and peace be upon Prophet Muhammad and his companions to the Day of Resurrection;

The shareholders of National Takaful Insurance Company;

Peace be upon you:

According to the Articles of Association of the Company that requires the appointment of a Sharia Supervisory Board for the National Takaful Insurance Company, assigns this responsibility to us, we reviewed and audited the financial report and balance sheet of the Company for the year ended 31/12/2013 to give our opinion concerning their conformity with the provisions of the Islamic Sharia.

The Company assumes the responsibility of fulfilling the contracts, transactions and the types of insurance coverage according to the provisions of the Islamic Sharia, while the responsibility of the Sharia Board is confined to giving the Sharia opinion concerning the conformity of such contracts and transactions with the provisions of the Islamic Sharia.

Based on our review and audit as stated above, and in view of the provisions of the jurisprudence of Islamic financial transactions and contemporary efforts as well as any resolutions issued by the jurisprudence academies and accounting standards, we believe that the explanations and assurances we obtained from the Company management provide an appropriate basis to give our Sharia opinion on the presented transactions.

In our opinion, and based on the explanations we received, we decide that:

First: The Company did not achieve any profits from illegal sources or ways and the businesses of the Company for the year ended 31/12/2013 conform to the provisions of the Islamic Sharia.

Second: The decision of the Board concerning the insurance surplus:

The Board assures that the insurance surplus is a mere right of the subscribers as it was deducted from their subscriptions and it should be repaid to the subscribers' accounts.

The Sharia Board calls upon the Company Management to effectively and promptly amend its Articles of Association in accordance with the Islamic Takaful Insurance System.

Third: Zakat is only due on the shareholders accounts rather than the subscribers. The shareholder is exclusively responsible for paying Zakat after calculating the value of Zakat share adopting the calculation method of Kuwait Zakat House.

Issued on 27/04/2014

Members of the Sharia Board of the National Takaful Insurance Company

Dr. Eissa Zaki	Dr. Youssef Al-Sharah	Dr. Khaled Al-Safi
Board Chairman	Board member	Board member

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

Financial Statements and Independent Auditor's Report

For the year ended 31 December 2013

Deloitte.

Deloitte & Touche
Al-Wazzan & Co.

Ahmed Al-Jaber Street, Sharq
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National Takaful Insurance Company

K.S.C. (Closed)

State of Kuwait

Independent Auditor's Report to the Shareholders

Report on the Financial Statements

We have audited the accompanying financial statements of National Takaful Insurance Company - KSCC "the Company" which comprise the statement of financial position as at 31 December 2013, and statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Deloitte & Touche
Al-Wazzan & Co.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of accounts have been kept by the Company and the financial statements, together with the contents of the report of the Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained the information that we deemed necessary for the purpose of our audit and that the financial statements incorporate all the information that is required by the Companies Law No. 25 of 2012 as amended, and by the Company's Memorandum and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of Companies Law No. 25 of 2012, as amended or the Company's Memorandum and Articles of Association have occurred during the year ended 31 December 2013 that might have had a material effect on the business of the Company or on its financial position.

Talal Y. Al-Muzaini
Licence No. 209 A
Deloitte & Touche
Al-Wazzan & Co.

Kuwait, 17 April 2014

Statement of Financial Position as at 31 December 2013

(All amounts are in Kuwaiti Dinars)

	Note	2013	2012
Assets			
Cash and cash equivalents	5	1,593,652	4,400,087
Time deposit and Murabaha Placement	6	4,204,306	2,204,306
Profit free loan to the policyholders' fund	7	1,737,031	1,746,896
Accounts receivable	8	46,398	625,487
Investments available for sale	9	3,110,037	2,450,131
Investment properties	10	667,915	688,606
Total Assets		11,359,339	12,115,513
Liabilities and Equity			
Liabilities			
Due to policyholders' fund	7	1,683,490	1,463,048
Accounts payable	11	221,508	119,701
		1,904,998	1,582,749
Equity			
Share capital	12	10,000,000	10,000,000
Statutory reserve	13	183,241	183,241
Voluntary reserve	13	176,632	176,632
Change in fair value reserve		190,168	190,283
Accumulated losses		(1,095,700)	(17,392)
Total equity		9,454,341	10,532,764
Total Liabilities and Equity		11,359,339	12,115,513

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

Khaled Abdul-Aziz Al Mareekhy
Chairman

Abdul-Aziz Abdul-Aziz Al Meshal
Chief Executive Officer

Statement of Income for the Year ended 31 December 2013

(All amounts are in Kuwaiti Dinars)

	Note	2013	2012
Revenues			
Time deposits and Murabaha placement income		57,314	189,008
Net loss from investments available for sale	14	(224,326)	(480,696)
Net income from investment properties	15	52,209	51,028
Shareholders' share in net surplus from insurance operations	16	53,541	-
Provisions no longer required		-	2,631,303
		(61,262)	2,390,643
Expenses			
General and administrative expenses		17,046	6,121
Net (loss) / profit for the year before deductions		(78,308)	2,384,522
Contribution to Kuwait Foundation for Advancement of Science (KFAS)		-	(595)
Zakat		-	(23,781)
Board of Director's remunerations		-	(52,500)
Net (loss)/ profit for the year		(78,308)	2,307,646
(Loss)/ earnings per share (fils)	17	(0.78)	23.08

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

Statement of Comprehensive Income for the Year ended 31 December 2013

(All amounts are in Kuwaiti Dinars)

	2013	2012
Net (loss)/profit for the year	**(78,308)**	2,307,646
Other comprehensive income:		
Items that may be reclassified subsequently to statement of income:		
Change in fair value of investments available for sale	**18,868**	199,479
Transferred to statement of income on sale of investments available for sale	**(7,780)**	2,980
Impairment of investments available for sale	**(11,203)**	-
Total other comprehensive income	**(115)**	202,459
Total comprehensive (losses) / income for the year	**(78,423)**	2,510,105

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

Statement of Changes in Equity for the Year ended 31 December 2013

(All amounts are in Kuwaiti Dinars)

	Share capital	Statutory reserve	Voluntary reserve	Change in fair value reserve	Accumulated losses	Total
Balance as at 1 January 2012	**10,000,000**	**176,632**	**176,632**	**(12,176)**	**(2,318,429)**	**8,022,659**
Total other comprehensive income	-	-	-	202,459	2,307,646	2,510,105
Transfer to statutory reserve	-	6,609	-	-	(6,609)	-
Balance as at 31 December 2012	**10,000,000**	**183,241**	**176,632**	**190,283**	**(17,392)**	**10,532,764**
Balance as at 1 January 2013	**10,000,000**	**183,241**	**176,632**	**190,283**	**(17,392)**	**10,532,764**
Total other comprehensive losses	-	-	-	(115)	(78,308)	(78,423)
Cash dividends (Note 18)	-	-	-	-	(1,000,000)	(1,000,000)
Balance as at 31 December 2013	**10,000,000**	**183,241**	**176,632**	**190,168**	**(1,095,700)**	**9,454,341**

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

Statement of Cash Flows for the Year ended 31 December 2013

(All amounts are in Kuwaiti Dinars)

	Note	2013	2012
Cash flows from operating activities			
Net (loss) / profit for the year		**(78,308)**	2,307,646
Adjustments:			
Time deposits and Murabaha placement income		**(57,314)**	(189,008)
Net loss from investments available for sale	14	**224,326**	480,696
Provisions no longer required		**-**	(2,631,303)
Depreciation	15	**20,691**	20,691
Operating profit/ (loss) before changes in operating assets and liabilities		**109,395**	(11,278)
Profit free loan to the policyholders' fund		**9,865**	-
Accounts receivable		**588,919**	7,282
Due to policyholders' fund		**220,442**	(142,495)
Accounts Payable		**(66,580)**	65,495
Net cash generated from / (used in) operating activities		**862,041**	(80,996)
Cash flows from investing activities			
Cash dividends received		**15,289**	6,653
Time deposits and Murabaha placement		**(2,000,000)**	3,483,404
Paid for purchase of investments available for sale	9	**(1,124,398)**	(154,955)
Proceeds from sale of investments available for sale		**236,712**	311,149
Time deposits and Murabaha placement income received		**47,484**	192,358
Net cash (used in) / generated from investing activities		**(2,824,913)**	3,838,609
Cash flows from financing activities			
Cash dividends paid		**(843,563)**	(9,150)
Net cash used in financing activities		**(843,563)**	(9,150)
Net changes in cash and cash equivalents		**(2,806,435)**	3,748,463
Cash and cash equivalents at beginning of the year		**4,400,087**	651,624
Cash and cash equivalents at end of the year	5	**1,593,652**	4,400,087

The accompanying notes form an integral part of these financial statements

1. Incorporation and activities

National Takaful Insurance Company is a Kuwaiti Shareholding Company Closed ("the Company") incorporated in the State of Kuwait under Articles of Association No. 5747 Vol. 1 dated 24 November 2003 and is registered with Ministry of Commerce and is subject to the provision of Insurance Companies and Agent Law No. 24 of 1961. The Company conducts its activities in accordance with Noble Islamic Sharia Principles.

The main objectives of the Company are to carry out: all the work of Takaful (cooperative) insurance and the related activity required to follow them and carry out insurance and reinsurance and the conclusion of all contracts and do all legal actions it deems necessary to achieve its purposes, invest all or some of the company's funds movable or real estate in different ways as it deems appropriate and not inconsistent with the insurance laws, counseling and doing technical studies in the field of insurance and insurance management for companies or others interested in the field of Takaful insurance, as well as owning and acquiring the right to dispose of all that it deems necessary of its movable and immovable fund or any part thereof or any concessions the Company believes is necessary and appropriate for the nature of their work and are necessary for the development of its investments.

Takaful is an Islamic alternative to conventional insurance and investment program, based on mutual funds concepts, where each policyholder will receive his share in the surplus arising from the insurance activities, in accordance with the Company's Memorandum of Association and the approval of Fatwa and Sharia Supervisory Board provided that, the policyholders' funds share from the net insurance surplus will not be less than 50%.

The Company conducts business on behalf of the policyholders and advances funds to the policyholders' operations as and when required. The shareholders are responsible for liabilities incurred by policyholders in the event of the policyholders' fund is in deficit and the operations are liquidated. The Company holds the physical custody and title of all assets related to the policyholders' and shareholders' operations. However, such assets and liabilities together with the results of policyholders' lines of business are disclosed in the notes (19 & 20).

The registered office of the Company is P.O. Box 21149 Safat, 13072, Kuwait.

The financial statements for the year ended 31 December 2013 were approved for issue by the Board of Directors on 17 April 2014.

2. Basis of preparation and Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below.

2.2 New and revised standards

New and revised IFRSs issued and effective

In the current year, the Company has applied a number of new and revised IFRSs that are issued and effective for accounting periods that begin on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement to similar arrangement.

The amendments have been applied retrospectively. As the Company does not have any offsetting arrangements in place, the application of amendments has had no material impact on the disclosures or on the amounts recognised in the financial statements.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and of SIC-12 Consolidation – Special Purpose Entities.

Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements:

(a) power over an investee

(b) exposure, or rights, to variable returns from its involvement with the investee

(c) the ability to use its power over the investee to affect the amount of the investor’s returns.

The adoption of this standard has not resulted in any significant impact on the performance of the Company or its financial position.

IFRS 11 Joint Arrangements

The standard replaces IAS 31 “Interests in Joint Ventures”. The standard removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Under IFRS 11, there are only two types of joint arrangements (a) joint ventures and (b) joint operations. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Investments in joint operations are accounted for such that each joint operator recognizes its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from sale of the output by the operation) and its expenses (including its share of expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards. The adoption of this standard has no impact on the performance of the Company or its financial position.

IFRS 12 Disclosure of interest in Other Entities

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of this standard resulted in more extensive disclosures in the financial statements. The adoption of this standard has no impact on the performance of the Company or its financial position.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market conditions. Fair value under this standard is an exit price regardless of whether price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements (notes 3 &10).

Other than the additional disclosures, the application of the standard has not had any material impact on the amounts recognised in the financial statements.

IAS 1 Presentation of Financial Statement Presentation of Items of Other Comprehensive Income (Amendment)

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified ('recycled') to profit or loss at a future point in time have to be presented separately from items that will not be reclassified. The adoption of this standard has no effect on the financial position or performance of the Company.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. As a result, the Company has not included any additional voluntarily comparative information in its financial statements. The amendments have no impact on the Company's financial position or performance.

IAS 27: Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Company does not present separate financial statements.

IAS 28 Investments in associates and joint ventures.

As a consequence of the new IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in other entities IAS 28 Investments in Associates has been renamed to IAS 28 Investments in Associates and Joint Ventures and describes the application of the equity method to investments in Joint Ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013. The adoption of this standard has no effect on the financial position or performance of the Company.

IAS 32: Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the financial information for the Company, as there is no tax consequences attached to cash or non-cash distribution.

New and revised IFRSs in issue but not yet effective

For annual periods beginning on or after 1 January 2014

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Company do not anticipate that the investment entities amendments will have a material effect on the Company's financial statements.

IAS 19: Employee Benefits (Amendment)

IAS 19 includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The adoption of this standard has no material effect on the financial position or performance of the Company.

IAS 32 "Financial Instruments – Presentation"

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off'.

The Company does not anticipate that the application of these amendments will have a significant impact on the Company's financial statements as the Company does not have any financial assets and financial liabilities that qualify for offset.

For annual periods beginning on or after 1 January 2015

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 introduced new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. The Company anticipates that the application of IFRS 9 in the future may have impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

2.3 Significant accounting policies

2.3.1 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), held to maturity, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. The Company has determined the classification of its financial assets as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including cash and cash equivalents, time deposits and Murabaha placement and receivables) are measured at amortized cost using the effective interest method, less any impairment.

Available for sale (AFS)

AFS financial assets are non-derivative financial assets and are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Financial assets available for sale are re-measured at fair value. The fair value is determined in the manner described in note (3.3).

Changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income and accumulated under the heading of changes in fair value reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established. Foreign exchange gains and losses are recognized in other comprehensive income.

Impairment in value

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the income statement.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

Derecognition

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

The difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Financial liabilities

Financial liabilities (including borrowings and trade and other payables) are recognized initially at fair value, net of transaction costs incurred and subsequently measured at amortized cost using the effective interest method.

Derecognition

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

2.3.2 Policyholders and shareholders accounts

The Company maintains separate books of accounts for policyholders and shareholders. Transactions related to the insurance and reinsurance activities are recorded in the policyholders' books of accounts.

Policyholders' assets, liabilities, revenues and expenses do not form part of the primary financial statements. These assets, liabilities, revenues and expenses are disclosed in the notes (19).

The Company actually maintains all the assets related to the policyholders and shareholders. Other transactions which do not pertain to policyholders are recorded in the shareholders' books of accounts.

Management determines the basis on which the joint operations expenses are allocated between the policyholders and the shareholders.

2.3.3 Investment properties

The investment property is real estate that has been acquired for the leased for long periods of time or take advantage of the high capital value (including real estate investment is still under construction). Investments properties are recognized at acquisition cost, which includes the acquisition price and associated costs, net of accumulated depreciation and impairment losses. Land is not depreciated established real estate investments. Depreciation is calculated on a straight-line basis over the estimated useful lives of the buildings.

Investment properties are excluded when sold or excluded from use and not expected to generate future benefits. Gains and losses resulting from the disposal (calculated by the difference between the net disposal proceeds and the carrying amount of the asset) in the statement of income in the disposal period.

2.3.4 Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Impairment losses are recognized in the statement of income for the period in which they arise. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

2.3.5 End of service indemnity

The Company is liable under Kuwait Labor Law to make payments under defined benefit plans to employees at termination of employment, regarding the labor in other countries; the indemnity is calculated based on law identified in these countries. Such payment is made on a lump sum basis at the end of an employee service. Defined benefit plan is un-funded and is based on the liability that would arise on involuntary termination of all employees on the financial position date. This basis is considered to be a reliable approximation of the present value of the company's liability.

2.3.6 Provisions

Provisions are recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of economic benefits will be required to settle the obligation; and the amount can be reliably estimated. The provisions are reviewed on each statement of financial position date and amended to show the best estimation.

2.3.7 Dividends

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2.3.8 Revenue recognition

Time deposits and Murabaha placement income are recognized on a time proportion basis using the effective rate of return on outstanding balances for such transactions.

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

Revenue from sale of investments is recognized on completion of the sale contract and transfer of ownership.

2.3.9 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Finance lease income is allocated to accounting periods in order to reflect a constant periodic rate of return on the Company's net investments outstanding in respect of these leases.

The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Operating lease payments are recognized as an expenses on a straight-line basis over the lease term.

2.3.10 Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Kuwaiti Dinars' (KD).

Transactions and balances

Foreign currency transactions are translated into Kuwaiti Dinars using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Resulting foreign exchange gains and losses on settlement of such transactions and from the translation at the year-end are recognised in the income statement.

2.3.11 Zakat

The Obligation of zakat is on the shareholders of the Company.

2.3.12 Contingencies

Contingent assets are not recognized as an asset until realization becomes virtually certain. Contingent liabilities, other than those arising on acquisition of subsidiaries, are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present legal or constructive obligation and the amount can be reliably estimated. Contingent liabilities arising in a business combination are recognized if their fair value can be measured reliably.

3. Financial Risk Management

3.1 Financial Risks

The Company's activities expose it to a variety of financial risks: market risks (including foreign currency risks, profit rate risk, and price risk) in addition to credit risk and liquidity risks.

The Company's overall risk management program focuses on unpredictability of financial market and seeks to minimize potential adverse effects on the Company financial performance.

The Company does not use derivative financial instruments to manage the risk exposures.

The Company's risk management is managed by its senior management in accordance with policies approved by the Board of Directors. The various risks that the Company is exposed to and the processes in place to manage those risks are described below.

3.1.1 Market risk

(i) Foreign currency risk

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

The Company's operation is exposed to foreign exchange risk arising from various currency exposures and currency exposure arising from the assets or liabilities denominated in foreign currency, primarily with respect to the US Dollar, AED. The Company monitors on an ongoing basis any fluctuation in foreign currency rates which may have an adverse effect on the Company's financial performance.

The following is the Company's net exposure of foreign currencies:

	2013	2012
US Dollar	1,180,616	1,061,191
AED	1,122,626	775,915
Other	149,405	-

A 5% appreciation of the following foreign currencies against KD with all other variables held constant, would have affected the net profit and equity as shown below.

	2013		2012	
	Effect on equity	Effect on statement of income	Effect on equity	Effect on statement of income
US Dollar	59,031	-	53,060	-
AED	56,131	-	38,796	-
Other	7,470	-	-	-

(ii) Price risk

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from rate of return risk or currency risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company is exposed to equity securities price risk because of investments classified as financial assets classified as held for trading or as available for sale. The Company manages this risk by diversifying its investments on the basis of the pre-determined asset allocations across various categories, continuous appraisal of market conditions and trends and management estimate of long and short term changes in fair value.

The Company's quoted investments are managed by specialized investment companies, who send periodical reports to management regarding the performance of investments for follow-up and decision making.

The Company evaluates unquoted investments on a regular basis to assess any impairment in those investments. The Company also regularly assesses investments available for sale for impairment.

(iii) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments.

The Company is not exposed to profit rate risks on its time deposits and Murabaha placements and payables, as these are fixed profit rate contracts.

3.1.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Financial assets, other than investments in equities are exposed to credit risk. The asset values presented in the statement of financial position represent the maximum level exposed to those risks. The Company seeks to mitigate this risk by dealing with credit worthy parties including banks, financial institutions, insurance and reinsurance companies and non-concentration of its assets with one counter party.

The table below shows the Company's credit risk exposure in the Statement of Financial Position, as at 31 December:

Assets	**2013**	**2012**
Shareholders' Accounts		
Cash and cash equivalents	**1,593,652**	4,400,087
Time deposits and Murabaha Placement	**4,204,306**	2,204,306
Accounts receivable	**46,398**	625,487
Policyholders' Accounts		
Cash and cash equivalents	**222,364**	334,881
Premiums under collection	**1,319,629**	820,401
Reinsurance companies accounts	**2,185,273**	2,689,738

3.1.3 Liquidity Risk

Liquidity risk is the risk that the Company may not be able to meet its financial obligations as they fall due. The policy of the Company is to ensure that sufficient liquidity is available at all times to meet contractual obligations, including loss claims. Liquidity risk management of the Company includes maintaining sufficient cash and marketable securities, having adequate amount of credit facilities and investing in securities which can be easily closed out. The Company also has the option to raise additional capital to meet funding requirements.

3.1.4 Capital Risk Management

The Company's objectives when managing capital are:-

- To ensure adequate funds are available to underwrite risks and market conditions
- To make available funds for future development of the business
- To safeguard the Company's ability to continue as a going concern so that it can continue to operate
- To provide adequate return to shareholders and policyholders

The Board of Directors constantly monitors the capital structure of the Company with a view to ensuring that a balance is maintained between returns and risk. The management ensures that the Company is not geared beyond acceptable limits. For this purpose, the Company may adjust the amount of dividend payable to its shareholders, issue new shares or sell assets to reduce debt.

Furthermore in order to protect against the impact of large claims and catastrophes, the Company is not required under law to maintain technical reserves depending on the exposure to various types of underwriting exposures.

The Company places some of its investments securities and bank deposits under lien to the regulator. The amount of securities and deposits is determined as a percentage of direct premiums, received during the year for all the segments other than life insurance segment.

During the year ended 31 December 2013, the Company has relied mainly on its internal resources to finance its operations, and no external finance was relied on.

3.2 Fair value estimation

The fair values of financial assets and liabilities are estimated as follows.

- **Level 1:** Quoted prices in active markets for identified assets and liabilities.
- **Level 2:** Quoted prices in an active market for similar instruments or prices quoted by managers of investment funds or other valuation methods where all the important inputs are based on observable market data either directly or indirectly.
- **Level 3:** Valuation methods in which the inputs that are not based on any observable market data.

Fair value of the Company's financial assets and financial liabilities that are measured at fair value on a recurring basis:

Financial assets	Fair value as at 2013	Fair value as at 2012	Valuation date	Fair value hierarchy	Valuation technique(s) and Key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Available for sale investments	**975,380**	434,899	31 Dec 2013	Level 1	Last bid price	N/A	N/A
	197,947	329,243	31 Dec 2013	Level 2	Net asset values declared	N/A	N/A
	932,669	-	31 Dec 2013	Level 3	Technical assessment methods	Adjusted book value of market risk	The higher market risk, the lower the fair value

At 31 December 2013, the fair values of financial instruments approximate their carrying amounts, with the exception of certain financial assets available for sale carried at cost as indicated in Note 9. The management of the Company has assessed that fair value of cash and cash equivalents and payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

During the year, there were no transfers between Level 1, Level 2 and Level 3.

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

4. Significant estimates

Judgments

In applying the accounting policies disclosed in note (2.3), management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The following are the key assumptions concerning the future, and other key sources concerning current period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years.

Classification of investments

On acquisition of an investment, the Company decides whether it should be classified as "at fair value through profit or loss" or "available for sale". The Company follows the guidance of IAS 39 to classify that investment.

The Company classifies investments as "at fair value through profit or loss" if they are acquired primarily for the purpose of short term profit making or if they are managed and their performance is evaluated on a reliable fair value basis in accordance with a documented investment strategy. All other investments are classified as "available for sale".

Impairment of investments

The Company identifies "available for sale" equity investments as impaired when there has been a significant or prolonged decline in their fair value below their cost. The determination of what is "significant" or "prolonged" requires significant judgment. In addition, the Company also evaluates among other factors, normal volatility in the share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be considered appropriate when there is evidence of deterioration in the financial position of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

Fair value of unquoted equity investments

Valuation techniques for unquoted investment securities are based on estimates such as expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; recent arm's length market transactions, current fair value of another instrument that is substantially the same, or valuation models.

5. Cash and cash equivalents

	2013	2012
Murabaha placement (less than three months)	1,000,000	-
Cash at banks and financial institutions	559,683	4,400,087
Cash with portfolio managers	33,969	-
	1,593,652	4,400,087

6. Time deposits and Murabaha Placement

6.1 Time deposits and Murabaha placement are denominated in Kuwaiti Dinars and deposited at local Islamic Financial Institutions. The effective rate of return on the Murabaha and investment deposit is 1.66% as at 31 December 2013 (1.76% - 2012).

6.2 Time deposits and Murabaha placement includes KD 1,569,306 as of 31 December 2013 (KD 1,569,306 - 2012) held under lien to Ministry of Commerce and Industry in the State of Kuwait. Also it includes KD 235,000 as of 31 December 2013 (KD 235,000 - 2012) pledged against letters of guarantee.

7. Profit free loan to the policyholders' fund/ Due to policyholders' fund

According to the Company's Memorandum of Association, the net deficit in each insurance activity is covered by the Company's shareholders in the form of free of profit loan. Free of profit loan offered by the shareholders is settled from the surpluses that are expected to be accumulated in the future years.

Following is the movement of profit free loan to policyholders and the amount due to policyholders:

	2013	2012
Balance at beginning of the year	1,746,896	490,828
(Proceed from)/ profit free loan to the policyholders	(9,865)	1,256,068
Balance at end of the year	1,737,031	1,746,896

Due to policyholders' fund:

	2013	2012
Accumulated deficit from insurance operations	**(1,463,048)**	(1,746,896)
Amounts (received from)/ paid by the shareholders	**(220,442)**	283,848
	(1,683,490)	(1,463,048)

8. Accounts receivable

	2013	2012
Accrued investment income	**43,266**	33,436
Accrued rent income	**3,132**	3,281
Due from sale of investments available for sale	**-**	588,770
	46,398	625,487

9. Investments available for sale

	2013	2012
Investments in foreign shares – unquoted	**1,265,366**	1,507,863
Investments in foreign shares –quoted	**496,115**	-
Investments in foreign Sukuk	**493,218**	-
Investments in local shares – quoted	**479,265**	434,899
Investments in local shares – unquoted	**178,126**	178,126
Investments in local fund – unquoted	**197,947**	329,243
	3,110,037	2,450,131

Movement in available for sale investments balance during the year is as follows:

	2013	2012
Balance as at 1 January	**2,450,131**	3,352,000
Additions	**1,124,398**	154,955
Disposals	**(243,307)**	(998,803)
Changes in fair value	**7,668**	199,479
Impairment (note 14)	**(228,853)**	(257,500)
Balance as at 31 December	**3,110,037**	2,450,131

9.1 Available for sale investments includes investment in unquoted shares of KD 1,004,041 as of 31 December 2013 (KD 1,685,989 - 2012) carried at cost as its fair value cannot be reliably measured, and for which the Company's management believes that there is no indication of impairment.

9.2 Investments available for sale are dominated into the following currencies:

	2013	2012
US Dollar	1,180,615	753,692
AED	1,122,626	775,915
Kuwaiti Dinar	657,391	920,524
SAR	149,405	-
	3,110,037	2,450,131

10. Investment properties

	2013	2012
Cost	862,750	862,750
Accumulated depreciation	(194,835)	(174,144)
	667,915	688,606

The fair value of the investment property of KD 1,284,000 (2012: KD 1,128,000) has been determined on the basis of a valuation carried out by independent valuers not related to the Company. The independent valuers are licensed by official authorities, and they have appropriate and recent experience in the valuation of investment properties in the relevant locations. The fair value of investment properties classified as (Level 2) was determined based on the market comparable approach that reflects recent transaction prices for similar properties & discounted cash flows. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

11. Accounts payables

	2013	2012
Dividends payable	193,556	37,119
Zakat payable	23,781	25,886
Accrued expenses	4,171	3,601
Contribution to Kuwait Foundation for Advancement of Science (KFAS)	-	595
Board of Director's remunerations	-	52,500
	221,508	119,701

12. Share capital

The issued and fully paid up, in cash, share capital of the Company is KD 10,000,000 comprising of 100,000,000 shares of 100 fils each.

13. Reserves

Statutory reserve

In accordance with the Companies Law and the Memorandum of Association, 10% of the net profit before KFAS, National Labor Support Tax, Board of Directors' remuneration and Zakat expense for the year is required to be transferred to statutory reserve. The General Assembly may resolve to discontinue such annual transfers when the statutory reserve reaches 50% of the Company's paid up capital.

Voluntary reserve

As required by the Company's Articles of Association, a percentage of the net profit for the year is required to be transferred to the voluntary reserve as proposed by the board and agreed by the general assembly. Such transfers can be discontinued by a resolution of the general assembly upon recommendation by the Board of Directors.

14. Net loss from investments available for sale

	2013	2012
Gain/(Loss) on sale of investments	1,189	(212,216)
Cash dividends	15,289	6,653
Impairment losses	(228,853)	(257,500)
Portfolio management fees	(11,951)	(17,633)
	(224,326)	(480,696)

15. Net investment property income

	2013	2012
Real estate rental income	77,040	74,900
Depreciation	(20,691)	(20,691)
Other expenses	(4,140)	(3,181)
	52,209	51,028

16. Shareholders' Share in net surplus from insurance operations

The Management decided to use 50% of the net surplus of takaful operation to cover part of the interest-free loan provided by the shareholders which cover the deficit in takaful operation during the previous years. And distribute to the remaining surplus of takaful operation as a dividends to shareholders accounts which included in the statement of income for the current year, these decisions have been presented to the regulators at the Ministry of Commerce, Industry. and the ministry approved it.

17. (Loss)/earnings per share

(Loss)/ earnings per share are calculated by dividing net (loss)/ profit for the year by the weighted average number of outstanding shares during the year as follows:

	2013	2012
Net (loss)/profit for the year	**(78,308)**	2,307,646
Weighted average number of issued shares (share)	**100,000,000**	100,000,000
(Loss)/earnings per share (Fils)	**(0.78)**	23.08

18. Dividends

Based on the recommendation of the Board of Directors, the shareholders of the Company approved At the annual general meeting held on 15 May 2013 the payment of a cash dividend of KD 1 million for the year ended 31 December 2012.

On 17 April 2014, the Company's Board of Directors proposed to not distribute dividends for the year ended 31 December 2013. This proposal is subject to the approval of the General Assembly of the shareholders of the Company.

19. Takaful insurance operations

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

The Company maintains separate books of account 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 general and administrative expenses.

Transactions related to the insurance activities or retakaful are recorded in the policyholders' accounts.

Policyholders' assets, liabilities, revenues and expenses do not form part of the Company's primary financial statements.

The significant accounting policies used in accounting for the takaful insurance business are set out below. Policies used in accounting for other accounts and transactions are the same as those adopted by the Company. The accounting policies were consistently applied during all the financial years presented in these financial statement.

Accounting policies used in insurance operation

- **Revenue recognition**

Premiums are recognized as revenue over the period of the insurance coverage. Unearned premiums are reported as unearned premiums in the liabilities in the statement of financial position.
Commissions earned are recognized at the time of recognition of its related premium.

- **Premiums under collection**

Premiums under collection are carried at its nominal value less impairment losses or provision for doubtful debts.

- **Reinsurance**

Inward and outward of insurance business are conducted with other insurance and reinsurance companies. Reinsurance business includes quota share, excess of loss, facultative and other forms of reinsurance for all lines of business.

Reinsurance ceded contracts do not relieve the policyholders from their obligations. Since the failure of the reinsures to meet their obligations may lead to losses, accordingly a provision for expected uncollectible amounts is formed. Reinsures' share in the claims reserve is stated in a method that is consistent with policyholders' obligation for each claim.

- **Zakat**

Based on Company's Articles of Association, share of Zakat results related to the policyholders is deducted from the net insurance surplus of the policyholders' fund.

- **Reserve for outstanding claims**

A provision is calculated against claims presented and not settled up to the statement of financial position date.

- **Reserve for claims incurred but not reported (IBNR)**

A provision for incurred claims but not reported up to the statement of financial position date is calculated based on prior experience of loss ratio.

- **Reserve for unexpired risks**

  - **General insurance**

    Calculated at 40% of net Premium retained by the property and 25% of net premium retained by the marine and aviation.

  - **Life insurance**

    Life insurance provision is calculated at 40% of net maintained installments.

  - **Accounting reserve used in family insurance operation**

    Accounting reserve is calculated from a provision for family Takaful insurance liabilities at 40% of net maintained installments.

- **Liability adequacy test**

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

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

- **Business segments**

  The Company is operating in four major business segments:

  - **Marine and aviation**

    Provides insurance against risk of transferring of goods and by sea and air carrier's bodies in their various forms.

  - **Motors**

    Includes insurance coverage against all motor accident kinds.

  - **General accidents**

    Includes insurance against contracts risk and machinery breakdowns and physical damage to computers and business interruption and funds insurance, dishonesty and occupational hazards and work injuries and civil liability and fire.

- **Family takaful insurance**

  Provides various family Takaful insurance programs for family insurance.

  None of these activities are considered a segment by itself nor is the allocation of assets and liabilities on the basis of segment of activity except for the life insurance segment.

The following is an analysis of assets and liabilities of policyholders as at 31 December:

Policyholders' assets and liabilities

	2013	2012
Assets		
Cash and bank balances	222,364	334,881
Premiums under collection	1,319,629	820,401
Due from reinsurance	590,344	720,037
Receivables	80,861	84,885
Investments available for sale	679,178	725,823
Due from shareholders	1,683,490	1,463,048
Outstanding claims recoverable from reinsurers	1,594,929	1,969,701
Property and equipment	313,385	155,873
	6,484,180	6,274,649
Liabilities		
Due to reinsurance	501,138	592,102
Reserve for unexpired risks	2,172,549	1,583,002
Reserve of outstanding claims	2,091,313	2,611,788
Reserve for claims incurred but not reported (IBNR)	90,654	100,241
Additional reserve	14,970	14,970
Profit free loan from shareholders	1,737,031	1,746,896
Other liabilities	1,599,034	1,358,024
	8,206,689	8,007,023
Policyholders' fund		
Changes in fair value reserve	14,522	14,522
	8,221,211	8,021,545
Net deficit from insurance operations	(1,737,031)	(1,746,896)
Total liabilities less policyholders' rights	6,484,180	6,274,649

The Company carries out its activities in the State of Kuwait; accordingly no geographical distribution has been presented.

(All amounts are in Kuwaiti Dinars unless otherwise stated)

Policyholders' result of operation by business segments (Continued)

	Marine & aviation	Fire	General accidents	Motors	Total general risk insurance	Life insurance	Total
Year ended 31 December 2013							
Premiums:							
Gross premium written	1,232,033	321,592	222,678	5,407,878	7,184,181	1,468,954	8,653,135
Less: Premium ceded to reinsurers	(959,287)	(302,193)	(137,273)	(362,899)	(1,761,652)	(1,168,416)	(2,930,068)
Net premiums written	272,746	19,399	85,405	5,044,979	5,422,529	300,538	5,723,067
Reserve for unexpired risks	15,758	683	22,889	(726,402)	(687,072)	97,526	(589,546)
Net premium earned	288,504	20,082	108,294	4,318,577	4,735,457	398,064	5,133,521
Net commissions	28,882	23,597	5,633	(1,481,372)	(1,423,260)	307,817	(1,115,443)
Issue fees	10,848	(2,591)	676	376,377	385,310	1,543	386,853
Total revenues	328,234	41,088	114,603	3,213,582	3,697,507	707,424	4,404,931
Claims paid	(64,513)	(782,910)	(18,044)	(2,774,059)	(3,639,526)	(776,472)	(4,415,998)
Less: reinsurance share from claims paid	151,151	752,507	1,472	73,230	978,360	623,618	1,601,978
Net claims	86,638	(30,403)	(16,572)	(2,700,829)	(2,661,166)	(152,854)	(2,814,020)
Provision for outstanding claims and compensation incurred but not reported (IBNR)	5,185	22,384	(16,344)	145,571	156,796	(1,507)	155,289
Net claims incurred	91,823	(8,019)	(32,916)	(2,555,258)	(2,504,370)	(154,361)	(2,658,731)
Surplus by business segments	420,057	33,069	81,687	658,324	1,193,137	553,063	1,746,200
Allocation of general and administrative expenses	(222,013)	(37,907)	(78,030)	(956,903)	(1,294,853)	(344,266)	(1,639,119)
Surplus/(deficit) from insurance operations before investment (loss)/ income	198,044	(4,838)	3,657	(298,579)	(101,716)	208,797	107,081
Shareholders' Share in the surplus from insurance operations – before investment (loss) / income	-	-	-	-	-	-	(53,541)
Net investment (loss) / income	(1,254)	-	(3,003)	(39,552)	(43,809)	134	(43,675)
Net surplus/(deficit) from insurance operations							9,865
Beginning balance of policyholders' fund							**(1,746,896)**
Ending balance of policyholders' fund							**(1,737,031)**

(All amounts are in Kuwaiti Dinars unless otherwise stated)

Policyholders' result of operation by business segments (Continued)

	Marine & aviation	Fire	General accidents	Motors	Total general risk insurance	Life insurance	Total
Year ended 31 December 2012							
Premiums:							
Gross premium written	1,279,945	318,638	368,321	3,584,728	5,551,632	1,137,344	6,688,976
Less: Premium ceded to reinsures	(944,167)	(297,532)	(225,693)	(725,563)	(2,192,955)	(592,991)	(2,785,946)
Net premiums written	335,778	21,106	142,628	2,859,165	3,358,677	544,353	3,903,030
Reserve for unexpired risks	(79,403)	(5,406)	(38,284)	369,151	246,058	(172,302)	73,756
Net premium earned	256,375	15,700	104,344	3,228,316	3,604,735	372,051	3,976,786
Net investment (loss)/ income	(10,897)	(4,207)	(19,293)	(196,112)	(230,509)	135	(230,374)
Net commissions	47,952	23,625	(4,989)	(1,040,337)	(973,749)	(52,822)	(1,026,571)
Issue fees	4,917	1,013	3,284	567,775	576,989	1,438	578,427
Total revenues	298,347	36,131	83,346	2,559,642	2,977,466	320,802	3,298,268
Claims paid	(561,178)	(63,347)	(9,937)	(2,702,273)	(3,336,735)	(687,227)	(4,023,962)
Less: reinsurance share from claims paid	516,812	54,521	10,058	441,775	1,023,166	544,991	1,568,157
Net claims	(44,366)	(8,826)	121	(2,260,498)	(2,313,569)	(142,236)	(2,455,805)
Provision for outstanding claims and compensation incurred but not reported (IBNR)	2,111	(22,717)	74,479	(143,973)	(90,100)	(17,722)	(107,822)
Net claims incurred	(42,255)	(31,543)	74,600	(2,404,471)	(2,403,669)	(159,958)	(2,563,627)
Surplus by business segments	256,092	4,588	157,946	155,171	573,797	160,844	734,641
Allocation of general and administrative expenses	(181,869)	(58,999)	(197,902)	(1,275,616)	(1,714,386)	(276,323)	(1,990,709)
Net surplus/ (deficit) from insurance operation	74,223	(54,411)	(39,956)	(1,120,445)	(1,140,589)	(115,479)	(1,256,068)
Beginning balance of policyholders' fund							**(490,828)**
Ending balance of policyholders' fund							**(1,746,896)**

20. Insurance Risk Management

The Company issues contracts that transfer insurance risk. This section summarizes these risks and the way the Company manages them.

Insurance risk

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of the insurance contract, this risk is random and therefore unpredictable.

The principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

Sources of uncertainty in the estimation of future claim payments

Non-life

Claims are payable on a claims occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and an element of the claims provision relates to incurred but not reported claims (IBNR). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures adopted.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for (IBNR), a provision for reported claims not yet paid and a provision for unexpired risks at the statement of financial position date.

In estimating the liability for the cost of reported claims not yet paid the Company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately.

Life

Uncertainty in the estimation of future benefit payments and premium receipts for life insurance contracts arises from the unpredictability of overall levels of mortality, health and the variability in contract holder behavior.

For health and disability insurance covers there is no need to estimate mortality rates or morbidity rates for future years because these contracts have short duration and the claims are payable on a claims-occurrence basis. These insurance contracts are exposed to similar risks of uncertainty in the estimation of future claim payments as non-life insurance contracts and are managed in a similar manner.

21. Related parties transaction

In the ordinary course of business of the Company, there are transactions with related parties representing in shareholders, senior management and executive managers and all of these transactions have been done according to basis of dealing with other parties and with management approval.

Transactions and balances are as follows:

	2013	2012
Policyholders'		
Transactions		
Total premiums written	3,813,974	2,731,159
Key management benefits	122,548	249,761
Board of Director's remunerations	-	52,500
Balances		
Premiums under collection	726,343	235,276

Related party transactions are subject to the approval of General Assembly of shareholders.

22. Contingent liabilities

In July 2006, Kuwait's Ministry of Health suspended the governmental health insurance operation, which was carried out by the corporate insurance companies. The Company believes that any related claims will not have a material effect on the Company's financial position.