

**Gulf Insurance Group K.S.C.P. and its
Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF INSURANCE GROUP K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Gulf Insurance Group K.S.C.P. (the "Parent Company") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the related consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *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 other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF INSURANCE GROUP K.S.C.P. (continued)

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

Key Audit Matters (continued)

a) Recoverability of receivables arising from insurance and reinsurance contracts

The receivables arising from insurance and reinsurance contracts are significant to the Group's consolidated financial statements at 31 December 2018. The determination as to whether a receivable is collectable involves significant management judgment. Management considers specific factors including the age of the balance, location of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for a customer's balance overall.

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF INSURANCE GROUP K.S.C.P. (continued)

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

Key Audit Matters (continued)

b) Impairment of Goodwill

The impairment testing of goodwill performed by the management is significant to our audit because assessment of the recoverable amount of cash generating unit (CGU) under the value-in-use basis is complex and requires considerable judgment on the part of management. As disclosed in Note 2.3 and 8 to the consolidated financial statements, management's impairment assessment process is highly judgmental and is carried out using various variables and assumptions, including estimated future cashflows, terminal growth rate and discount rates, which are affected by expected future market or economic conditions. Given the high level of management judgment in their impairment assessment, we considered this area to be a key audit matter.

Our audit procedures included an assessment of the management's estimates, evaluation and testing the assumptions, methodologies, cash generating unit (CGU) determination, discount rates and data used by the Group. We evaluated the basis of preparing those forecasts taking into account the appropriateness of forecasts and the evidence supporting underlying assumptions. Future cashflows assumptions were evaluated through comparison of current performance, seeking corroborative evidence and enquiry with management in respect of key growth and performance assumptions. We further evaluated the reasonableness of other key assumptions such as the discount rate and long-term growth rate in the value in use model. We also performed procedures in relation to the mathematical integrity of management's model and carried out audit procedures on management's sensitivity calculations, which are disclosed in Note 8 of the consolidated financial statements.

c) Insurance and Reinsurance Technical Reserves

Insurance and reinsurance technical reserves include Outstanding Claims reserve ("OCR"), Unearned Premiums Reserve ("UPR"), Life Mathematical Reserve ("LMR") and Incurred But Not Reported reserve ("IBNR"). As at 31 December 2018, the insurance and reinsurance technical reserves are significant to the Groups total liabilities. As disclosed in Notes 2.3 and 12 to the consolidated financial statements, the determination of these reserves involves significant judgment over uncertain future outcomes, including primarily the timing and ultimate full settlement of long term policyholder liabilities. The Group uses valuation models to support the calculations of the insurance and reinsurance technical reserves. The complexity of the models may give rise to errors as a result of inadequate/ incomplete data or the design or application of the models.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF INSURANCE GROUP K.S.C.P. (continued)

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

Key Audit Matters (continued)

c) Insurance and Reinsurance Technical Reserves (continued)

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

For non-life insurance technical reserves, the management uses the work of their internal specialist to assess the liabilities. Our audit procedures focused on evaluating the competence, capabilities and objectivity of the management's specialist and evaluating their work. In addition, we have performed test of controls in place, checked the design and the operating effectiveness of key controls and assessed the validity of management's liability adequacy testing are adequate as compared to the expected future contractual obligations. Our work on the liability adequacy tests included assessing the accuracy of the historical data used, and evaluating the projected cashflows and assumptions adopted, and recalculating the non-life insurance technical reserves on a sample basis, in the context of both the Group and industry experience and specific product features. Further, we assessed the adequacy of the disclosures relating to these reserves given in Note 12 to the consolidated financial statements.

Other information included in the Group's 2018 Annual Report

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF INSURANCE GROUP K.S.C.P. (continued)

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF INSURANCE GROUP K.S.C.P. (continued)

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

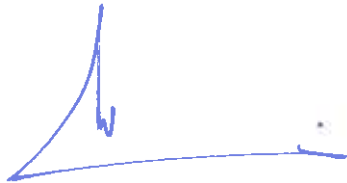
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
GULF INSURANCE GROUP K.S.C.P. (continued)**

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 1 of 2016, as amended, 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 No 1 of 2016, as amended, and its executive regulations, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business of the Parent Company or on its financial position.



BADER A. AL-ABDULJADER
LICENCE NO. 207 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

4 March 2019
Kuwait

Gulf Insurance Group K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2018

	Notes	2018 KD	(Restated)* 2017 KD
Revenue			
Premiums written		335,745,249	304,778,604
Reinsurance premiums ceded		(184,702,155)	(170,222,664)
Net premiums written		151,043,094	134,555,940
Movement in unearned premiums reserve		(6,170,376)	(7,367,671)
Movement in life mathematical reserve		2,747,167	(1,225,597)
Net premiums earned		147,619,885	125,962,672
Commission received on ceded reinsurance		16,121,513	17,332,668
Policy issuance fees		3,368,130	3,464,856
Net investment (loss) income from designated life and medical insurance	4	(388,980)	1,702,931
		166,720,548	148,463,127
Expenses			
Claims incurred	12	107,384,797	95,685,014
Commission and discounts		17,591,806	15,461,462
Maturity and cancellations of life insurance policies		4,132,368	2,402,188
General and administrative expenses		25,634,649	26,661,194
		154,743,620	140,209,858
Net underwriting income		11,976,928	8,253,269
Net investment income	4	9,795,597	6,460,089
Finance costs		(2,921,089)	(1,515,741)
Share of results of associates	7	2,887,119	4,145,623
Net sundry income		3,530,405	1,371,565
		25,268,960	18,714,805
Other charges:			
Unallocated general and administrative expenses		(9,892,675)	(7,281,084)
PROFIT FOR THE YEAR BEFORE CONTRIBUTION TO KFAS, NLST, ZAKAT AND DIRECTORS' REMUNERATION		15,376,285	11,433,721
Provision for contribution to Kuwait Foundation for advancement of science (KFAS)		(122,112)	(193,055)
Provision for National Labour Support Tax (NLST)		(308,404)	(168,982)
Provision for Zakat		(98,043)	(122,098)
Directors' remuneration		(185,000)	(185,000)
PROFIT FOR THE YEAR		14,662,726	10,764,586
Attributable to:			
Equity holders of the Parent Company		11,901,838	10,067,494
Non-controlling interests		2,760,888	697,092
		14,662,726	10,764,586
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	5	66.49 fils	56.24 fils

* Certain numbers shown here do not correspond to the 31 December 2017 consolidated financial statements and reflect adjustments made as explained in Note 32.

The attached notes 1 to 32 form part of these consolidated financial statements.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 KD	(Restated)* 2017 KD
Profit for the year		<u>14,662,726</u>	<u>10,764,586</u>
Other comprehensive income (loss)			
<i>Other comprehensive loss to be reclassified to consolidated statement of income in subsequent periods:</i>			
- Financial assets available for sale:			
Net unrealised (loss) gain on investments available for sale		(1,103,206)	335,137
Net realised gain transferred to consolidated statement of income on sale of investments available for sale	4	(2,570,683)	(1,173,221)
Transfer to consolidated statement of income on impairment of investment available for sale	4	2,586,559	1,144,900
		<u>(1,087,330)</u>	306,816
- Share of other comprehensive (loss) income of associates	7	(77,589)	215,911
- Exchange differences on translation of foreign operations		(4,309,229)	(988,035)
		<u>(5,474,148)</u>	(465,308)
<i>Other comprehensive income that will not to be reclassified subsequently to consolidated statement of income:</i>			
Revaluation of property and equipment	6	9,763,130	-
Other comprehensive income (loss) for the year		<u>4,288,982</u>	(465,308)
Total comprehensive income for the year		<u>18,951,708</u>	<u>10,299,278</u>
ATTRIBUTABLE TO:			
Equity holders of the Parent Company		12,943,872	9,182,253
Non-controlling interests		6,007,836	1,117,025
		<u>18,951,708</u>	<u>10,299,278</u>

* Certain numbers shown here do not correspond to the 31 December 2017 consolidated financial statements and reflect adjustments made as explained in Note 32.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

			<i>(Restated)*</i>	<i>(Restated)*</i>
		2018	2017	As at 1 January 2017
	<i>Notes</i>	KD	KD	KD
ASSETS				
Property and equipment	6	29,270,773	18,049,538	15,131,203
Investment in associates	7	43,269,439	40,850,904	39,958,891
Goodwill	8	15,104,460	15,104,460	14,093,553
Financial instruments:				
Investments held to maturity		21,793,233	19,509,904	19,654,769
Debt securities (loans)		16,651,860	18,329,989	14,489,750
Investments available for sale	9	38,400,265	36,168,453	17,027,588
Investments carried at fair value through profit or loss	10	19,369,175	26,421,139	24,088,901
Loans secured by life insurance policies		1,266,637	1,604,035	1,655,396
Premiums and insurance balances receivable	11	99,497,076	93,247,129	58,385,367
Reinsurance recoverable on outstanding claims	12	123,620,660	103,303,313	50,039,384
Investment properties		4,522,780	2,878,466	3,167,163
Other assets	13	24,219,696	23,328,927	18,442,312
Time deposits	14	29,488,863	38,438,911	25,618,550
Cash and cash equivalents	15	62,785,001	55,581,425	73,069,509
TOTAL ASSETS		529,259,918	492,816,593	374,822,336
EQUITY AND LIABILITIES				
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS				
Share capital	16	18,703,913	18,703,913	18,703,913
Share premium		3,600,000	3,600,000	3,600,000
Treasury shares	17	(4,203,067)	(4,203,067)	(4,195,301)
Treasury shares reserve		2,051,215	2,051,215	2,051,215
Statutory reserve	18	18,703,913	18,703,913	18,703,913
Voluntary reserve	19	26,149,664	24,888,125	23,792,262
Other reserve		(3,101,138)	(3,062,725)	(3,062,725)
Cumulative changes in fair values		(1,778,260)	(754,256)	(1,074,550)
Foreign currency translation adjustments		(20,903,698)	(16,590,050)	(15,384,515)
Revaluation reserve		8,939,446	2,559,760	2,559,760
Retained earnings		40,978,391	35,708,096	33,896,923
Equity attributable to equity holders of the Parent Company		89,140,379	81,604,924	79,590,895
Non-controlling interests		23,282,933	18,363,679	16,842,232
Total equity		112,423,312	99,968,603	96,433,127
LIABILITIES				
Liabilities arising from insurance contracts:				
Outstanding claims reserve	12	184,137,808	159,174,925	106,356,736
Unearned premiums reserve	12	52,143,506	51,156,006	34,996,619
Life mathematical reserve	12	17,443,014	20,186,446	18,962,899
Incurred but not reported reserve	12	1,650,000	1,650,000	1,650,000
Total liabilities arising from insurance contracts		255,374,328	232,167,377	161,966,254
Premiums received in advance		4,376,713	4,430,319	9,761,288
Insurance payable	20	66,200,677	66,729,198	59,881,348
Other liabilities	21	44,211,712	34,139,439	22,024,301
Bank overdrafts	15	46,673,176	55,381,657	24,756,018
TOTAL LIABILITIES		416,836,606	392,847,990	278,389,209
TOTAL EQUITY AND LIABILITIES		529,259,918	492,816,593	374,822,336

* Certain numbers shown here do not correspond to the 31 December 2017 and 2016 consolidated financial statements and reflect adjustments made as explained in Note 32.

Farqad A. Al-Sane
Chairman

The attached notes 1 to 32 form part of these consolidated financial statements.

Gulf Insurance Group K.S.C.P. and its Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Attributable to equity holders of the Parent Company													
	Share capital KD	Share premium KD	Treasury shares KD	Treasury share reserve KD	Statutory reserve KD	Voluntary reserve KD	Other reserve KD	Cumulative changes in fair values KD	Foreign currency translation adjustments KD	Revaluation reserve KD	Retained earnings KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2018 (Restated)	18,703,913	3,600,000	(4,203,067)	2,051,215	18,703,913	24,888,125	(3,062,725)	(754,256)	(16,590,050)	2,559,760	35,708,096	81,604,924	18,363,679	99,968,603
Profit for the year	-	-	-	-	-	-	-	-	-	-	11,901,838	11,901,838	2,760,888	14,662,726
Other comprehensive (loss) income for the year	-	-	-	-	-	-	-	(1,024,004)	(4,313,648)	6,379,686	-	1,042,034	3,246,948	4,288,982
Total comprehensive (loss) income for the year	-	-	-	-	-	-	-	(1,024,004)	(4,313,648)	6,379,686	11,901,838	12,943,872	6,007,836	18,951,708
Dividend for 2017 (Note 16)	-	-	-	-	-	-	-	-	-	-	(5,370,004)	(5,370,004)	-	(5,370,004)
Change in ownership of a subsidiary	-	-	-	-	-	-	(38,413)	-	-	-	-	(38,413)	(425,863)	(464,276)
Transfer to voluntary reserve	-	-	-	-	-	1,261,539	-	-	-	-	(1,261,539)	-	-	-
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(662,719)	(662,719)
As at 31 December 2018	18,703,913	3,600,000	(4,203,067)	2,051,215	18,703,913	26,149,664	(3,101,138)	(1,778,260)	(20,903,698)	8,939,446	40,978,391	89,140,379	23,282,933	112,423,312

* Certain numbers shown here do not correspond to the 31 December 2017 consolidated financial statements and reflect adjustments made as explained in Note 32.

The attached notes 1 to 32 form part of these consolidated financial statements.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2018

	Attributable to equity holders of the Parent Company													
	Share capital KD	Share premium KD	Treasury shares KD	Treasury share reserve KD	Statutory reserve KD	Voluntary reserve KD	Other reserve KD	Cumulative changes in fair values KD	Foreign currency translation adjustments KD	Revaluation reserve KD	Retained earnings KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2017	18,703,913	3,600,000	(4,195,301)	2,051,215	18,703,913	23,792,262	(3,062,725)	(1,074,550)	(15,384,515)	2,559,760	36,619,761	82,313,733	19,456,694	101,770,427
(As previously reported)														
Effect of restatement (Note 32)											(2,722,838)	(2,722,838)	(2,614,462)	(5,337,300)
As at 1 January 2017 (Restated)	18,703,913	3,600,000	(4,195,301)	2,051,215	18,703,913	23,792,262	(3,062,725)	(1,074,550)	(15,384,515)	2,559,760	33,896,923	79,590,895	16,842,232	96,433,127
Profit for the year											10,067,494	10,067,494	697,092	10,764,586
Other comprehensive income (loss) for the year								320,294	(1,205,535)			(885,241)	419,933	(465,308)
Total comprehensive income (loss) for the year								320,294	(1,205,535)		10,067,494	9,182,253	1,117,025	10,299,278
Dividend for 2016 (Note 16)											(7,160,458)	(7,160,458)		(7,160,458)
Purchase of treasury shares			(7,766)									(7,766)		(7,766)
Change in ownership of a subsidiary (Note 3)														
Transfer to voluntary reserve (Note 19)				1,095,863						(1,095,863)			1,565,769	1,565,769
Dividend to non-controlling interests													(1,161,347)	(1,161,347)
As at 31 December 2017	18,703,913	3,600,000	(4,203,067)	2,051,215	18,703,913	24,888,125	(3,062,725)	(754,256)	(16,590,050)	2,559,760	35,708,096	81,604,924	18,363,679	99,968,603

* Certain numbers shown here do not correspond to the 31 December 2017 consolidated financial statements and reflect adjustments made as explained in Note 32.

The attached notes 1 to 32 form part of these consolidated financial statements.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 KD	(Restated)* 2017 KD
OPERATING ACTIVITIES			
Profit before contribution to KFAS, NLST, Zakat tax and directors' fees		15,376,285	11,433,721
Adjustments for:			
Depreciation	6	2,265,837	2,122,472
Net investment income		(9,296,766)	(9,307,920)
Impairment losses	4	2,586,559	1,144,900
Share of results of associates	7	(2,887,119)	(4,145,623)
Change in fair value of investment properties	4	(2,867,211)	-
Finance costs		2,921,089	1,515,741
		<u>8,098,674</u>	<u>2,763,291</u>
<i>Changes in operating assets and liabilities:</i>			
Investments carried at fair value through profit or loss		4,609,934	(1,382,779)
Premiums and insurance balances receivable		(6,502,654)	(18,502,635)
Reinsurance recoverable on outstanding claims		(21,216,270)	(45,918,596)
Other assets		1,058,303	3,995,289
Liabilities arising from insurance contracts		21,442,267	42,040,386
Premiums received in advance		(53,606)	(5,330,969)
Insurance payable		(528,521)	(7,554,390)
Other liabilities		9,972,816	4,869,478
		<u>16,880,943</u>	<u>(25,020,925)</u>
Paid to KFAS		(101,026)	(112,963)
Paid to NLST		(215,764)	(80,367)
Zakat paid		(112,312)	(68,132)
Paid to directors		(185,000)	(185,000)
		<u>16,266,841</u>	<u>(25,467,387)</u>
INVESTING ACTIVITIES			
Purchase of property and equipment	6	(3,073,807)	(4,257,484)
Proceeds from sale of property and equipment		106,424	288,164
Acquisition of a subsidiary, net of cash acquired	3	-	(1,536,314)
Dividend received from associates	7	552,578	1,278,143
Movement in investment held to maturity		(2,283,329)	144,865
Movement in debt securities (loans)		1,678,129	(3,840,239)
Net movement on investments available for sale		(3,940,988)	1,773,184
Movement in loans secured by life insurance policies		337,398	51,361
Other assets		(1,851,524)	(1,443,737)
Time deposits withdrawn (placed)		8,950,048	(12,820,361)
Interest income received		7,233,096	5,991,872
Dividend income received		1,837,469	1,749,040
		<u>9,545,494</u>	<u>(12,621,506)</u>
FINANCING ACTIVITIES			
Dividends paid	16	(5,370,004)	(7,160,458)
Purchase of treasury shares		-	(7,766)
Dividends to non-controlling interests		(662,719)	(1,161,347)
Finance costs paid		(2,921,089)	(1,515,741)
Acquisition of non-controlling interests		(464,276)	-
		<u>(9,418,088)</u>	<u>(9,845,312)</u>
Foreign currency translation adjustments		(482,190)	(179,518)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		<u>15,912,057</u>	<u>(48,113,723)</u>
Cash and cash equivalents at beginning of the year		199,768	48,313,491
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	15	<u>16,111,825</u>	<u>199,768</u>

* Certain numbers shown here do not correspond to the 31 December 2017 consolidated financial statements and reflect adjustments made as explained in Note 32.

The attached notes 1 to 32 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial statements of Gulf Insurance Group K.S.C.P. (the "Parent Company") and subsidiaries (the "Group") for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 20 February 2019. The Shareholders' General Assembly has the power to amend the consolidated financial statements after issuance.

The Parent Company was incorporated as a Kuwaiti Shareholding Company in accordance with the Amiri Decree No. 25 of 9 April 1962, and is listed on the Kuwait Stock Exchange. The Parent Company's objectives include all types of insurance, indemnities, compensations and investing its capital and assets in various financial and real estate investments, both locally and abroad.

The Parent Company is 44.04% (31 December 2017: 44.04%) owned by Kuwait Projects Company Holding K.S.C. and 41.42% (31 December 2017: 41.42%) by Fairfax Middle East Limited Company.

The address of the Parent Company's registered office is Khaled Ibn Al-Waleed Street, KIPCO Tower, Floor No 42, Office No 1 & 2, Shark, Kuwait City P.O. Box 1040 Safat, 13011 State of Kuwait.

The Group employs 2,555 employees as at 31 December 2018 (31 December 2017: 1,995 employees).

2.1 BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on a historical cost convention modified to include the measurement at fair value of investments carried at fair value through profit or loss, investments available for sale, investment properties and land and buildings. The consolidated financial statements are presented in Kuwaiti Dinars which is the functional and reporting currency of the Parent Company.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable 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 liability simultaneously. Income and expense will not be offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2018.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

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

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2.2 BASIS OF CONSOLIDATION (continued)

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the consolidated statement of income;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to consolidated statement of income or retained earnings, as appropriate.

2.3 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES

New and amended accounting policies, standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial information are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

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

Gulf Insurance Group K.S.C.P. and its Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2.3 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)

New and amended accounting policies, standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

During 2018, the Group performed an impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its consolidated statement of financial position, consolidated statement of income or consolidated statement of comprehensive income except for the effect of applying the impairment requirements of IFRS 9. The Group expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent. The Group meets the eligibility criteria of the temporary exemption of IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) for annual reporting periods beginning on or after 1 January 2022, to applying the temporary exemption from applying IFRS 9 as introduced by the amendments (see below).

Key requirements of IFRS 9:

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding (the SPPI criterion) are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Gulf Insurance Group K.S.C.P. and its Subsidiaries
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2.3 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)

New and amended accounting policies, standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

a) Classification and measurement

	<i>Carrying value at 31 December 2018 KD</i>	<i>IAS 39 classification</i>	<i>IFRS 9 classification</i>
Investments held to maturity	20,987,582	Held to maturity	Amortized cost
Debt securities (loans)	16,651,860	Loans and receivable	FVOCI
Investments available for sale	23,826,973	Available for sale	FVOCI
Total financial assets that meet the SPPI test	61,466,415		
Investments held to maturity	805,651	Held to maturity	FVTPL
Investments available for sale	774,990	Available for sale	FVTPL
Total other financial assets	1,580,641		

All other financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39.

Gulf Insurance Group K.S.C.P. and its Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2.3 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)

New and amended accounting policies, standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

b) Impairment

Financial assets measured at amortised cost, receivables arising from reinsurance contracts and premium accruals, reinsurance recoverable on outstanding claims and other receivables will be subject to the impairment provisions of IFRS 9.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its receivables as permitted by IFRS 9.

The Group anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items.

Hedge accounting

IFRS 9's hedge accounting requirements are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained.

The new hedge accounting requirements will align more closely with the Group's risk management policies. When initially applying IFRS 9, the Group has the option to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. However, the Group determined that any hedge relationships that would currently be designated in effective hedging relationships would continue to qualify for hedge accounting under IFRS 9. The Group does not anticipate that the application of the IFRS 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements.

c) Disclosure

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes previous revenue guidance. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group has applied IFRS 15 using the modified retrospective application. Given that the insurance contracts are scoped out of IFRS 15; the Group concluded that it has insignificant impact from the application of IFRS 15.

A number of new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2018 do have a significant impact on these consolidated financial statements. The Group does not expect the proposed amendments which will become mandatory for the consolidated financial statements for the year 2018 or thereafter, to have a significant impact on the consolidated financial statements.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

New and revised IASB Standards issued but not yet effective

Standards and interpretations issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16: Leases

IFRS 16 was issued in January 2017 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

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

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

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

New and revised IASB Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group will apply these amendments when they become effective.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Product classification

Insurance contracts

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

Investment contracts

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or the other variable.

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

Basis of combinations and goodwill

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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 re-measured to fair value at the acquisition date through consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be re-measured.

Gulf Insurance Group K.S.C.P. and its Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of combinations and goodwill (continued)

Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated statement of income.

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

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

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 premiums written relating to the unexpired period of coverage. The change in the provision for unearned premiums is taken to the consolidated statement of income in order that revenue is recognised over the period of risk.

Commissions earned and paid

Commissions earned and paid are recognised at the time of recognition of the related premiums.

Policy issuance fees

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

Interest income

Interest income is recognised using the effective interest rate method.

Dividend income

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

Rental income

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

Realised gains and losses

Realised gains and losses include gain and loss on financial assets and are calculated as the difference between net sales proceeds and the carrying value, and are recorded on occurrence of the sale transactions.

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 income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Group and those not reported at the reporting 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 reporting date. Any difference between the provisions at the reporting date and settlements and provisions for the following year is included in the underwriting account of that year.

Gulf Insurance Group K.S.C.P. and its Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Policy acquisition costs

Commissions paid to intermediaries and other (incremental) direct costs incurred in relation to the acquisition and renewal of insurance contracts are capitalised as an intangible asset. The Deferred policy Acquisition Costs (DAC) are subsequently amortised over the term of the insurance contracts to which they relate as premiums are earned.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value an impairment loss is recognised in the consolidated statement of income. DAC is also considered in the liability adequacy test for each reporting period.

DAC are derecognised when the related contracts are settled or disposed of.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Liability adequacy test

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

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

Reinsurance contracts held

In order to minimise financial exposure from large claims the Group enters into agreements with other parties for reinsurance purposes. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. These amounts are shown as "reinsurance recoverable on outstanding claims" in the consolidated statement of financial position until the claim is paid by the Group. Once the claim is paid the amount due from the reinsurers in connection with the paid claim is transferred to "premiums and insurance balances receivables".

Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business.

At each reporting date, the Group assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

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

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

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

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

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

The Group calculates the NLST in accordance with Law No. 19 of 2000 and related resolutions at 2.5% of taxable profit for the year. As per the law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

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.

Property and equipment

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised at the date of revaluation. Land is not depreciated. Valuations are performed with sufficient frequency (three years) to ensure that the carrying amount of a revalued asset does not differ materially from its fair value. A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in consolidated statement of income, the increase is recognised in profit and loss. A revaluation deficit is recognised in the consolidated statement of consolidated statement of income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Furniture and fixtures, motor vehicles and leasehold improvements are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is provided on a straight line basis over the useful lives of the following classes of assets:

Buildings	20 – 50	years
Leasehold improvements	Up to 7	years
Computers	3 – 5	Years
Furniture and fixtures	1 – 2	years
Motor vehicles	1 – 4	years

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Group's investment in associates is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

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

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, financial asset available for sale, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include investments held to maturity, debt securities (loans), investments available for sale, investments carried at fair value through profit or loss, loans and other receivables time deposits and cash and cash equivalents.

Subsequent measurement

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

Investments held to maturity

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

Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the effective interest rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in 'net investment income' in the consolidated statement of income. Gains and losses are recognised in the consolidated statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

Investments available for sale

Investments available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as "loans and receivables". After initial measurement, investments available for sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in other comprehensive income, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated statement of income. Investments available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Investments carried at fair value through profit or loss

Investments carried at fair value through profit or loss include financial assets held for trading and those designated at fair value through consolidated statement of income at inception. Investments typically bought for the purpose of selling in the near term are classified as held for trading. For investments designated as at fair value through consolidated statement of income, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value.

Fair value adjustments and realised gain and loss are recognised in the consolidated statement of income.

Receivables

Accounts receivable are stated at their face value less impairment losses or provision for doubtful accounts.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flow, cash and cash equivalent consist of cash on hand and at banks, short term deposits and call accounts net of bank overdrafts.

De-recognition of financial assets

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

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

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

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets

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

Investments available for sale

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

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

Fair values of financial instruments and further details as to how they are measured are provided in Note 30.

Financial liabilities

Financial liabilities consist of insurance payable and certain items under other payables are derecognised when the obligation under the liability is discharged, cancelled or expired.

Initial recognition and measurement

Financial liabilities are initially recognised at fair value.

Subsequent measurement

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

Insurance payables

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

De-recognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract 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 the consolidated statement of income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position 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. Income and expense will not be offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values

For those assets and liabilities carried at fair value, the Group measures fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The Group must be able to access the principal or the most advantageous market at the measurement date.

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

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

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

- Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group 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.

Investments with no reliable measure of their fair value and for which no fair value information could be obtained are carried at their initial cost less impairment in value.

Investment properties

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Outstanding claims reserve

Outstanding claims comprise the estimated cost of claims incurred and reported but not settled at the reporting date. Provisions for reported claims not paid as at the reporting date are made on the basis of individual case estimates.

Any difference between the provisions at the reporting date and settlements and provisions in the following year is included in the underwriting account for that year.

Unearned premium reserve

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

Life mathematical reserve

The reserve for the life business at the reporting date represents the mathematical liability of policies in force at that date as determined by the Group's actuaries.

Incurred but not reported reserve

The incurred but not reported reserve includes amounts reserved for claims incurred but not reported 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 consolidated statement of financial position date.

End of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on reporting date.

Treasury shares

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

Foreign currency transactions

The Group's consolidated financial statements are presented in Kuwaiti Dinars, which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

i) Transactions and balances

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

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

All differences arising on settlement or translation of monetary items are taken to the consolidated statement of income with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the consolidated statement of income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions (continued)

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

ii) Group companies

On consolidation, assets and liabilities of foreign operations are translated into Kuwaiti dinars at the rate of exchange prevailing at the reporting date and their statements of income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Other reserve

Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control.

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Estimation uncertainty

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

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

Non-life insurance contract liabilities (Insurance technical reserves)

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date, provision for outstanding claims (OCR) and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

The main assumption underlying these techniques is that the Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types.

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2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimation uncertainty (continued)

Non-life insurance contract liabilities (Insurance technical reserves) (continued)

Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

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

Life insurance contract liabilities (Life mathematical reserve)

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group base mortality and morbidity tables on standard industry and national tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of receivables

An estimate of the collectible amount of accounts receivable is made when collection of part of or 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.

Judgment

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

Classification of investments

Management decides on acquisition of an investment whether it should be classified as available for sale or investments carried at fair value through profit or loss or held to maturity investments. The Group classifies investments as carried at fair value through profit or loss if the fair value can be reliably determined. The Group classifies investment as "held to maturity" if they meet the relevant criteria for each classification. All other investments are classified as available for sale.

Impairment of investments

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

Classification of real estate

Management decides on acquisition of a real estate whether it should be classified as trading or investment property. The Group classifies property as property held for sale if it is acquired principally for sale in the ordinary course of business. The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

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3 BUSINESS COMBINATION

On 28 April 2017, the Group acquired 100% equity interest of AIG Sigorta Anonim Şirketi ("AIG"), a company incorporated in Turkey from a non-related party. The Group determined that it exercises control over AIG at the date of acquisition and consequently started consolidating AIG from that date in accordance with the requirements of IFRS 3 "Business Combination".

The consideration paid and the fair values of the assets acquired and liabilities assumed recognised at the acquisition date, are summarised as follows:

	<i>Provisional fair value recognised on acquisition</i>
	<i>KD</i>
Assets	
Property and equipment (Note 6)	349,798
Financial assets available for sale	16,784,324
Investments carried at fair value through profit or loss	191,836
Premiums and insurance balances receivable	6,152,217
Other assets	3,639,384
Cash and cash equivalents	8,559,184
Total assets	35,676,743
Liabilities	
Outstanding claims reserve	3,575,105
Unearned premiums reserve	7,131,703
Insurance payable	6,238,969
Other liabilities	6,163,116
Total liabilities	23,108,893
Total identifiable net assets	12,567,850
Purchase consideration transferred	13,578,757
Goodwill on acquisition	1,010,907
<i>Cash flow on acquisition:</i>	
Cash consideration for the acquisition	13,578,757
Less: Net cash acquired in the subsidiary	(8,559,182)
Net cash outflow on acquisition	5,019,575

From the date of acquisition upto 31 December 2017, AIG has contributed premium written and incurred loss of KD 16,100,125 and KD 144,428 respectively to the consolidated statement of income of the Group.

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3 BUSINESS COMBINATION (continued)

In addition, on 2 April 2017, the Group increased its holding in the share capital of Takaful International B.S.C. (Takaful), a listed Company on the Bahrain Bourse, to 63.6% (31 December 2016: 40.9%). As a result, Takaful became a subsidiary of the Group and has been consolidated from that date. On 28 June 2017, the Group further increased its shareholding ownership from 63.6% to 67.3% in Takaful.

The consideration paid and the fair values of the assets acquired and liabilities assumed recognised at the acquisition date, are summarised as follows:

	<i>Provisional fair value recognised on acquisition KD</i>
Property and equipment (Note 6)	1,795,436
Investments available for sale	3,997,021
Premiums and insurance balances receivable	10,206,910
Other assets	3,798,782
Time deposits	100,731
Cash and cash equivalents	4,671,519
Total assets	24,570,399
Insurance payable	8,163,272
Other liabilities	11,615,538
Total liabilities	19,778,810
Total identifiable net assets	4,791,589
Cash consideration for the acquisition	(1,288,988)
Non-controlling interests share in the acquiree's identifiable net assets	(1,565,769)
Fair value of acquirer's previously held equity interests	(1,936,832)
Net gain arising on business combination	-
<i>Cash flow on acquisition:</i>	
Consideration paid	1,288,988
Less: Net cash acquired in the subsidiary	(4,772,249)
Net cash inflow on acquisition	(3,483,261)

From the date of acquisition upto 31 December 2017, Takaful contributed premium written and net profit of KD 6,946,141 and KD 45,978 respectively to the consolidated statement of income of the Group.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4 NET INVESTMENT (LOSS) INCOME

Net investment (loss) income for the year from life and medical insurance segments, analysed by category, is as follows:

	<i>Debt securities (loans)</i> <i>KD</i>	<i>Investments carried at fair value through profit or loss</i> <i>KD</i>	<i>Time and call deposits</i> <i>KD</i>	<i>2018 Total</i> <i>KD</i>	<i>2017 Total</i> <i>KD</i>
Realised loss	-	(48,650)	-	(48,650)	-
Unrealised (loss) gain	-	(889,540)	-	(889,540)	1,199,643
Dividend income	-	51,865	-	51,865	39,609
Interest income	327,555	-	40,414	367,969	327,109
Other investment income	-	134,309	-	134,309	141,007
Total investment income (loss)	327,555	(752,016)	40,414	(384,047)	1,707,368
Financial charges and other expenses	-	(4,933)	-	(4,933)	(4,437)
Total investment expense	-	(4,933)	-	(4,933)	(4,437)
Net investment income (loss)	327,555	(756,949)	40,414	(388,980)	1,702,931

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

4 NET INVESTMENT (LOSS) INCOME (continued)

Net investment income for the year non-life risk insurance segment, analysed by category, is as follows:

	<i>Investments held to maturity</i> KD	<i>Investments available for sale</i> KD	<i>Investments carried at fair value through profit or loss</i> KD	<i>Investment properties</i> KD	<i>Time and call deposits</i> KD	<i>Other investment income</i> KD	<i>2018 Total</i> KD	<i>2017 Total</i> KD
Realised gain	-	2,570,683	380,842	-	-	-	2,951,525	1,185,809
Unrealised loss	-	-	(1,884,682)	-	-	-	(1,884,682)	(454,608)
Dividend income	-	1,330,690	454,914	-	-	-	1,785,604	1,709,431
Interest income	3,171,125	-	-	-	3,590,974	103,028	6,865,127	5,664,763
Rental income	-	-	-	24,295	-	-	24,295	8,360
Change in fair value of investment properties	-	-	-	2,867,211	-	-	2,867,211	-
Other investment income	-	-	-	-	-	505,508	505,508	311,225
Total investment income (loss)	3,171,125	3,901,373	(1,048,926)	2,891,506	3,590,974	608,536	13,114,588	8,424,980
Impairment loss (Note 9)	-	(2,586,559)	-	-	-	-	(2,586,559)	(1,144,900)
Other investment expenses	-	(370,088)	-	-	-	(362,344)	(732,432)	(819,991)
Total investment expense	-	(2,956,647)	-	-	-	(362,344)	(3,318,991)	(1,964,891)
Net investment income	3,171,125	944,726	(1,048,926)	2,891,506	3,590,974	246,192	9,795,597	6,460,089

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit for the year attributable to equity holders of the Parent Company by the weighted average number of shares, less weighted average number of treasury shares outstanding during the year. Diluted earnings per share is calculated by dividing profit for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares, less weighted average number of treasury shares, outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares which is reserved from employees' share option scheme.

The information necessary to calculate basic and diluted earnings per share based on weighted average number of share outstanding during the year is as follow:

	<i>2018</i>	<i>(Restated) 2017</i>
Profit for the year attributable to equity holders of the Parent Company (KD)	<u>11,901,838</u>	<u>10,067,494</u>
	<i>Shares</i>	<i>Shares</i>
Number of shares outstanding at the beginning of the year	187,039,125	187,039,125
Weighted average number of treasury shares	(8,038,979)	(8,028,679)
Weighted average number of shares outstanding during the year	<u>179,000,146</u>	<u>179,010,446</u>
Basic and diluted earnings per share attributable to equity holders of the Parent Company	<u>66.49 fils</u>	<u>56.24 fils</u>

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

Gulf Insurance Group K.S.C.P. and its Subsidiaries
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6 PROPERTY AND EQUIPMENT

	Land KD	Buildings KD	Leasehold improvements KD	Computers KD	Furniture and Fixtures KD	Motor vehicles KD	Total KD
Cost:							
As at 1 January 2018 <i>(Restated)</i>	8,582,046	9,379,132	1,960,496	9,251,224	5,227,565	727,897	35,128,360
Additions	921,918	1,008,600	107,054	684,514	184,455	167,266	3,073,807
Disposals	-	-	(16,687)	(230,209)	(326,857)	(152,428)	(726,181)
Transfer from investment properties	296,916	1,449,647	-	-	-	-	1,746,563
Transfer to investment properties	(89,830)	(584,506)	-	-	-	-	(674,336)
Revaluation adjustment	3,195,042	6,568,088	-	-	-	-	9,763,130
Exchange differences	(167,225)	26,894	(111,667)	(557,569)	(100,245)	(27,674)	(937,486)
As at 31 December 2018	12,738,867	17,847,855	1,939,196	9,147,960	4,984,918	715,061	47,373,857
Accumulated depreciation:							
As at 1 January 2018	-	2,896,736	1,349,972	8,096,082	4,202,006	534,026	17,078,822
Charge for the year	-	983,042	137,155	715,590	266,398	163,652	2,265,837
On disposals	-	-	(21,839)	(203,817)	(253,388)	(140,713)	(619,757)
Exchange differences	-	8,703	(46,927)	(498,728)	(60,677)	(24,189)	(621,818)
As at 31 December 2018	-	3,888,481	1,418,361	8,109,127	4,154,339	532,776	18,103,084
Net carrying amount:							
As at 31 December 2018	12,738,867	13,959,374	520,835	1,038,833	830,579	182,285	29,270,773

Part of the Group's buildings with net carrying amount of KD 1,260,000 (2017: KD 1,260,000) have been mortgaged with the Ministry of Commerce and Industry.

Gulf Insurance Group K.S.C.P. and its Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6 PROPERTY AND EQUIPMENT (continued)

	Land KD	Buildings KD	Leasehold improvements KD	Computers KD	Furniture and Fixtures KD	Motor vehicles KD	Total KD
Cost:							
As at 1 January 2017 (Restated)	7,360,402	7,714,453	1,532,795	5,711,459	3,936,408	617,922	26,873,439
Additions	385,359	1,070,942	193,493	1,573,319	914,814	119,557	4,257,484
Arising on acquisition of subsidiary (Note 3)	863,057	674,226	74,818	299,878	198,686	34,569	2,145,234
Disposals	-	-	(403,416)	(93,326)	(60,982)	(120,096)	(677,820)
Exchange differences	(26,772)	(80,489)	562,806	1,759,894	238,639	75,945	2,530,023
As at 31 December 2017 (Restated)	8,582,046	9,379,132	1,960,496	9,251,224	5,227,565	727,897	35,128,360
Accumulated depreciation:							
At 1 January 2017	-	2,295,128	1,105,570	4,803,100	3,136,621	401,817	11,742,236
Charge for the year	-	355,176	69,036	1,000,462	588,615	109,183	2,122,472
On disposals	-	-	(217,811)	(33,331)	(45,315)	(93,200)	(389,657)
Exchange differences	-	246,432	393,177	2,325,851	522,085	116,226	3,603,771
As at 31 December 2017	-	2,896,736	1,349,972	8,096,082	4,202,006	534,026	17,078,822
Net carrying amount:							
As at 31 December 2017 (Restated)	8,582,046	6,482,396	610,524	1,155,142	1,025,559	193,871	18,049,538
Net carrying amount:							
As at 31 December 2016 (As previously reported)	7,190,975	5,419,325	427,225	908,359	799,787	216,105	14,961,776
Effect of restatement (Note 32)	169,427	-	-	-	-	-	169,427
As at 31 December 2016 (Restated)	7,360,402	5,419,325	427,225	908,359	799,787	216,105	15,131,203

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7 INVESTMENT IN ASSOCIATES

The Group has the following investment in associates:

	Country of incorporation	Percentage of ownership		Principal Activity
		2018	2017	
Al-Buruj Co-Operative Insurance Company (A Saudi Public Stock Company) ("Al-Buruj)	Kingdom of Saudi Arabia	27%	27%	Insurance
Al-Argan International Real Estate Company K.S.C.P. (Al-Argan)	State of Kuwait	20%	20%	Real Estate
Alliance Insurance Company P.S.C.	United Arab Emirates	20%	20%	Insurance
Egyptian Takaful Property and Liability S.A.E.	Egypt	25%	25%	Insurance
United Networks Company K.S.C. (Closed)	State of Kuwait	17%	17%	Communication & Broadcasting
Algeria Gulf Life Insurance Company ("AGLIC")	Algeria	42.5%	42.5%	Insurance

Carrying amount of investment in associates

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

	2018 KD	2017 KD
Carrying value at 1 January	40,850,904	39,958,891
Disposals *	-	(2,090,295)
Dividends received	(552,578)	(1,278,143)
Share of results of associates	2,887,119	4,145,623
Share of other comprehensive (loss) income of associates	(77,589)	215,911
Foreign currency translation adjustments	161,583	(101,083)
Carrying value at 31 December	43,269,439	40,850,904

* During the year ended 31 December 2017, the Group increased its holding in the share capital of Takaful International B.S.C. (Takaful), a listed Company on the Bahrain Bourse, to 63.6%. As a result, Takaful became a subsidiary of the Group and has been consolidated from that date (Note 3).

Summarised financial information of material associates of the Group is as follows:

	Al-Buruj KD	Al-Argan KD	Others KD	2018 KD	2017 KD
<i>Share of associates' financial position:</i>					
Assets	21,273,891	33,912,287	29,350,738	84,536,916	71,173,877
Liabilities	(11,269,739)	(15,575,206)	(17,022,238)	(43,867,183)	(32,922,679)
Net assets	10,004,152	18,337,081	12,328,500	40,669,733	38,251,198
Goodwill	640,164	-	1,959,542	2,599,706	2,599,706
Net assets	10,644,316	18,337,081	14,288,042	43,269,439	40,850,904
<i>Share of associates' revenues and net profit:</i>					
Revenues	7,837,951	1,601,877	6,317,774	15,757,602	5,883,424
Net profit	1,327,690	55,948	1,503,481	2,887,119	4,145,623

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7 INVESTMENT IN ASSOCIATES (continued)

Investment in associates include quoted associate with a carrying value of KD 38,876,149 (2017: KD 36,998,913) having a market value of KD 27,430,559 (2017: KD 32,695,311).

8 GOODWILL

Goodwill has been allocated to individual cash-generating units. The carrying amount of goodwill allocated to each of the cash-generating units is shown below:

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Arab Misr Insurance Group Company S.A.E.	308,340	308,340
Bahrain Kuwaiti Insurance Company B.S.C.	2,625,935	2,625,935
Arab Orient Insurance Company J.S.C.	5,292,099	5,292,099
Dar Al-Salam Insurance Company	604,073	604,073
Egypt Life Takaful Insurance Company S.A.E.	167,904	167,904
L'Algerienne Des Assurance (2a)	3,932,981	3,932,981
Gulf Sigorta A.Ş.	2,173,128	2,173,128
	<u>15,104,460</u>	<u>15,104,460</u>

Movement on goodwill during the year is as follows:

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
As at 1 January	15,104,460	14,093,553
Goodwill on acquisition of a subsidiary	-	1,010,907
As at 31 December	<u>15,104,460</u>	<u>15,104,460</u>

The recoverable amount of each segment unit has been determined based on a value in use calculation, using cash flow projections approved by senior management covering a five-year period. The average discount rate used was 24.63% (2017: 22.37%) applied to cash flow projections over a five years period. Cash flows beyond the five year period are extrapolated using a projected growth rate of 3% (2017: 3%).

The calculation of value in use for each segment unit is sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share assumptions
- Projected growth rates used to extrapolate cash flows beyond the budget period; and
- Inflation rates.

Interest margins

Interest margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated market conditions.

Discount rates

Discount rates reflect management's estimate of return on capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC).

Market share assumptions

These assumptions are important because, as well as using industry data for growth rates, management assess how the unit's relative position to its competitors might change over the budget period.

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8 GOODWILL (continued)

Projected growth rates and local inflation rates

Assumptions are based on published industry research.

Inflation rates

Estimates are obtained from published indices for countries where the Group operates.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

9 INVESTMENTS AVAILABLE FOR SALE

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Quoted equity securities	11,451,612	12,179,490
Unquoted equity securities	5,499,180	5,309,895
Quoted managed funds	212,109	221,425
Quoted Bonds	20,674,483	17,983,673
Unquoted managed funds	562,881	473,970
	<u>38,400,265</u>	<u>36,168,453</u>

Impairment loss of KD 2,586,559 (2017: KD 1,144,900) has been made against quoted securities on which there has been a significant or prolonged decline in fair value below cost.

10 INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Held for trading:		
Quoted securities	6,241,582	10,723,931
Designated upon initial recognition:		
Managed funds of quoted securities	13,127,593	15,697,208
	<u>19,369,175</u>	<u>26,421,139</u>

Gulf Insurance Group K.S.C.P. and its Subsidiaries
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11 PREMIUMS AND INSURANCE BALANCES RECEIVABLE

	<i>2018</i> <i>KD</i>	<i>(Restated)</i> <i>2017</i> <i>KD</i>
Policyholders' accounts receivable		
Premiums receivable	102,718,253	95,356,336
Insured debts receivable	255,633	290,531
	<u>102,973,886</u>	<u>95,646,867</u>
Provision for doubtful debts	(10,201,813)	(8,874,577)
Net policyholders' accounts receivable	<u>92,772,073</u>	<u>86,772,290</u>
	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Insurance and reinsurers' accounts receivable		
Reinsurers' receivables	8,797,356	7,901,450
Provision for doubtful debts	(2,072,353)	(1,426,611)
Net insurance and reinsurers' accounts receivable	<u>6,725,003</u>	<u>6,474,839</u>
Total premiums and insurance balances receivable	<u>99,497,076</u>	<u>93,247,129</u>

The Group's terms of business require amounts to be paid within the underwriting year, and as such these receivables are remeasured at cost. Arrangements with the reinsurance companies normally require settlement on a quarterly basis.

Movements in the allowance for impairment of policyholders' accounts receivable were as follows:

	<i>2018</i> <i>KD</i>	<i>(Restated)</i> <i>2017</i> <i>KD</i>
As at 1 January	8,874,577	7,587,153
Charge for the year	1,467,538	1,387,012
Amounts written off	(140,302)	(99,588)
As at 31 December	<u>10,201,813</u>	<u>8,874,577</u>

Movements in the allowance for insurance and reinsurers' accounts receivable were as follows:

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
As at 1 January	1,426,611	871,891
Charge for the year	645,742	554,720
As at 31 December	<u>2,072,353</u>	<u>1,426,611</u>

Gulf Insurance Group K.S.C.P. and its Subsidiaries

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12 LIABILITIES AND ASSETS ARISING FROM INSURANCE CONTRACTS

31 December 2018	Marine and aviation KD	Motor vehicles KD	Property KD	Engineering KD	General accidents KD	Life KD	Medical KD	Total KD
OUTSTANDING CLAIMS RESERVE:								
Gross balance at beginning of the year (Restated)	5,763,751	29,798,930	42,201,518	12,720,480	24,302,578	13,034,460	31,353,208	159,174,925
Reinsurance recoverable on outstanding claims (Restated)	(5,391,860)	(6,802,035)	(40,274,638)	(10,587,983)	(17,707,610)	(3,269,837)	(19,269,350)	(103,303,313)
Net balance at beginning of the year	371,891	22,996,895	1,926,880	2,132,497	6,594,968	9,764,623	12,083,858	55,871,612
Foreign currency translation difference	441,812	292,050	248,148	(586,346)	(1,283,136)	(1,868)	(8,021)	(897,361)
Incurred during the year (net)	964,693	38,859,540	2,428,801	5,391,525	2,409,271	2,554,942	54,776,025	107,384,797
Paid during the year (net)	(579,630)	(36,376,207)	(1,532,352)	(3,539,428)	(1,595,751)	(3,729,424)	(54,489,108)	(101,841,900)
NET BALANCE AT END OF THE YEAR	1,198,766	25,772,278	3,071,477	3,398,248	6,125,352	8,588,273	12,362,754	60,517,148
Represented in:								
Gross balance at end of the year	10,343,360	31,680,045	37,915,645	30,885,867	29,945,093	12,003,952	31,363,846	184,137,808
Reinsurance recoverable	(9,144,594)	(5,907,767)	(34,844,168)	(27,487,619)	(23,819,741)	(3,415,679)	(19,001,092)	(123,620,660)
NET BALANCE AT END OF THE YEAR	1,198,766	25,772,278	3,071,477	3,398,248	6,125,352	8,588,273	12,362,754	60,517,148
Unearned premiums reserve (net)	672,615	21,802,098	2,795,944	8,066,671	4,825,802	868,530	13,111,846	52,143,506
Life mathematical reserve (net)	-	-	-	-	-	17,217,457	225,557	17,443,014
Incurred but not reported reserve (net)	100,000	1,100,000	150,000	200,000	100,000	-	-	1,650,000

There are no material claims for which the amounts and timing of claims are not settled within one year of the consolidated statement of financial position date.

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12 LIABILITIES AND ASSETS ARISING FROM INSURANCE CONTRACTS (continued)

31 December 2017 (Restated)	Marine and aviation KD (Restated)	Motor vehicles KD (Restated)	Property KD (Restated)	Engineering KD (Restated)	General accidents KD (Restated)	Life KD	Medical KD	Total KD (Restated)
OUTSTANDING CLAIMS RESERVE:								
Gross balance at beginning of the year	3,412,940	28,387,675	13,973,660	8,371,946	5,483,741	19,413,666	27,313,108	106,356,736
Reinsurance recoverable on outstanding claims	(2,752,444)	(7,631,331)	(12,085,013)	(5,993,397)	(1,629,378)	(3,204,470)	(16,743,351)	(50,039,384)
Net balance at beginning of the year	660,496	20,756,344	1,888,647	2,378,549	3,854,363	16,209,196	10,569,757	56,317,352
Arising from acquisition of a subsidiary	368,387	387,523	213,452	315,624	2,258,433	-	31,686	3,575,105
Foreign currency translation difference	(762,670)	875,355	(223,493)	(332,622)	71,117	64,507	(16,594)	(324,400)
Incurred during the year (net)	555,155	33,546,359	1,219,019	1,535,760	1,802,122	2,733,180	54,293,419	95,685,014
Paid during the year (net)	(449,477)	(32,568,686)	(1,170,745)	(1,764,814)	(1,391,067)	(9,242,260)	(52,794,410)	(99,381,459)
NET BALANCE AT END OF THE YEAR	371,891	22,996,895	1,926,880	2,132,497	6,594,968	9,764,623	12,083,858	55,871,612
Represented in:								
Gross balance at end of the year	5,763,751	29,798,930	42,201,518	12,720,480	24,302,578	13,034,460	31,353,208	159,174,925
Reinsurance recoverable	(5,391,860)	(6,802,035)	(40,274,638)	(10,587,983)	(17,707,610)	(3,269,837)	(19,269,350)	(103,303,313)
NET BALANCE AT END OF THE YEAR	371,891	22,996,895	1,926,880	2,132,497	6,594,968	9,764,623	12,083,858	55,871,612
Unearned premiums reserve (net)	674,006	20,330,564	2,714,656	9,153,651	5,470,861	1,008,869	11,803,399	51,156,006
Life mathematical reserve (net)	-	-	-	-	-	20,060,463	125,983	20,186,446
Incurred but not reported reserve (net)	100,000	1,100,000	150,000	200,000	100,000	-	-	1,650,000

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13 OTHER ASSETS

	2018 KD	2017 KD
Accrued interest income	1,969,483	2,059,981
Inward reinsurance retentions	231,028	53,081
Refundable claims	292,648	165,758
Advances towards acquisition of investment	3,295,261	1,443,737
Amounts due from related parties	-	1,402,689
Prepaid expenses and others	18,431,276	18,203,681
	<u>24,219,696</u>	<u>23,328,927</u>

14 TIME DEPOSITS

Time deposits of KD 29,488,863 (2017: KD 38,438,911) are placed with local and foreign banks and carry an average effective interest rate of 12.5% (2017: 10.7%) per annum. Time deposits mature within one year.

15 CASH AND CASH EQUIVALENTS

	2018 KD	2017 KD
Cash on hand and at banks	13,373,028	16,698,303
Short term deposits and call accounts	49,411,973	38,883,122
Cash and cash equivalents in the consolidated statement of financial position	62,785,001	55,581,425
Bank overdrafts	(46,673,176)	(55,381,657)
Cash and cash equivalents in the consolidated statement of cash flows	<u>16,111,825</u>	<u>199,768</u>

Bank overdrafts represents a facility obtained from a local bank and carries an average interest rate of 1.34% (2017: 1.125%).

16 SHARE CAPITAL

Authorised, issued and fully paid capital consists of 187,039,125 shares of 100 fils each (2016: 187,039,125 shares) which was fully paid in cash.

Cash dividends, bonus shares and directors' remuneration

At the Board of Directors meeting held on 20 February 2019, the directors of the Parent Company proposed distribution of a cash dividend of 36 fils (2017: 30 fils) per share for the year ended 31 December 2018. The proposed dividend is subject to the approval of the shareholders at the General Assembly meeting.

The Ordinary Annual General Assembly of the Parent Company's shareholders held on 29 March 2018 approved the payment of cash dividends amounting to KD 5,370,004 for the year ended 31 December 2017 (2016: KD 7,160,458), which represents 29% of paid up share capital (2016: 38%).

Directors' remuneration of KD 185,000 for the year ended 31 December 2018 is subject to approval by the Ordinary Annual General Assembly of the Parent Company's shareholders. Directors' remuneration of KD 185,000 for the year ended 31 December 2017 was approved by the Ordinary Annual General Assembly of the Parent Company's shareholders held on 29 March 2018.

17 TREASURY SHARES

	2018	2017
Number of shares (share)	8,038,979	8,038,740
Percentage of issued shares (%)	4.30%	4.29%
Market value (KD)	<u>5,233,375</u>	<u>6,615,883</u>

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18 STATUTORY RESERVE

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year attributable to the equity holders of the Parent Company before KFAS, NLST, Zakat and board of directors' remuneration shall be transferred to the statutory reserve based on the recommendation of the Parent Company's board of directors. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital. The Parent Company discontinued the annual transfer since the reserve has reached 100% of the share capital.

19 VOLUNTARY RESERVE

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year attributable to the equity holders of the Parent Company before KFAS, NLST, Zakat and board of directors' remuneration shall be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

20 INSURANCE PAYABLE

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Policyholders and agencies payables	18,041,672	18,531,926
Insurance and reinsurance payables	43,734,957	48,739,296
Amounts due to (from) policyholders of Takaful unit (Note 29)	4,424,048	(542,024)
	<u>66,200,677</u>	<u>66,729,198</u>

21 OTHER LIABILITIES

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Accrued expenses and others	33,571,618	24,716,025
Reserve for reinsurance premiums	2,395,838	1,282,278
KFAS, NLST and Zakat payables	528,559	484,135
Provision for end of service benefits	7,530,697	7,472,001
Proposed directors' remuneration	185,000	185,000
	<u>44,211,712</u>	<u>34,139,439</u>

22 SEGMENT INFORMATION

a) Segmental consolidated statement of income

The Group operates in two segments, general risk insurance and life and medical insurance; there are no inter-segment transactions. Following are the details of those two primary segments:

- The general risk insurance segment offers general insurance to individuals and businesses. General insurance products offered include marine and aviation, motor vehicles, property, engineering and general accidents. These products offer protection of policyholder's assets and indemnification of other parties that have suffered damage as a result of policyholder's accident.
- The life and medical insurance segment offers savings, protection products and other long-term contracts. It comprises a wide range of whole life insurance, term insurance, unitized pensions (Misk individual policies), pure endowment pensions, group life and disability, credit life (banks), group medical including third party administration (TPA), preferred global health and FAY products. Revenue from this segment is derived primarily from insurance premium, fees, commission income, investment income and fair value gains and losses on investments.

Unallocated category comprises of assets and liabilities' relating to the Group's investing activities which do not fall under the Group's primary segments.

Executive Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment result and is measured consistently with the results in the consolidated financial statements.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

22 SEGMENT INFORMATION (continued)

a) Segmental consolidated statement of income (continued)

Year ended 31 December 2018:	General risk insurance						Life and medical insurance		
	Marine and aviation KD	Motor vehicles KD	Property KD	Engineering KD	General accidents KD	Total general risk insurance KD	Life KD	Medical KD	Total life and medical insurance KD
Revenue:									
Premiums written	10,174,024	51,149,819	38,844,811	31,927,330	22,360,957	154,456,941	8,784,752	172,503,556	181,288,308
Reinsurance premiums ceded	(7,201,643)	(2,723,261)	(34,416,858)	(22,447,179)	(12,574,775)	(79,363,716)	(3,332,420)	(102,006,019)	(105,338,439)
Net premiums written	2,972,381	48,426,558	4,427,953	9,480,151	9,786,182	75,093,225	5,452,332	70,497,537	75,949,869
Movement in unearned premiums reserve	(69,389)	(1,945,888)	(1,632,646)	(1,033,771)	(300,062)	(4,981,756)	141,365	(1,329,985)	(1,188,620)
Movement in life mathematical reserve	-	-	-	-	4,181	4,181	2,842,560	(99,574)	2,742,986
Net premiums earned	2,902,992	46,480,670	2,795,307	8,446,380	9,490,301	70,115,650	8,436,257	69,067,978	77,504,235
Commission received on ceded reinsurance	1,908,209	521,676	4,474,629	2,415,264	2,731,763	12,051,541	1,513,232	2,556,740	4,069,972
Policy issuance fees	173,558	1,334,172	285,270	45,251	181,516	2,019,767	8,705	1,339,658	1,348,363
Net investment (loss) income from designated life and medical insurance	-	-	-	-	-	-	(396,511)	7,531	(388,980)
Total revenue	4,984,759	48,336,518	7,555,206	10,906,895	12,403,580	84,186,958	9,561,683	72,971,907	82,533,590
Expenses:									
Claims incurred	964,693	38,859,540	2,428,801	5,391,525	2,409,271	50,053,830	2,554,942	54,776,025	57,330,967
Commission and discounts	1,092,492	6,982,126	2,515,277	1,386,996	3,421,088	15,397,979	669,240	1,524,587	2,193,827
Maturity and cancellations of life insurance policies	-	-	-	-	-	-	4,132,368	-	4,132,368
General and administrative expenses	1,349,859	6,424,590	2,681,086	1,870,077	3,255,791	15,581,403	1,395,143	8,658,103	10,053,246
Total expenses	3,407,044	52,266,256	7,625,164	8,648,598	9,086,150	81,033,212	8,751,693	64,958,715	73,710,408
Net underwriting income	1,577,715	(3,929,738)	(69,958)	2,258,297	3,317,430	3,153,746	809,990	8,013,192	8,823,182
Net investment income	-	-	-	-	-	-	-	-	-
Finance costs	-	-	-	-	-	9,795,597	-	-	9,795,597
Share of results of associates	-	-	-	-	-	(2,916,156)	-	(4,933)	(2,921,089)
Net sundry income	-	-	-	-	-	2,887,119	-	-	2,887,119
Unallocated general and administrative expenses	-	-	-	-	-	2,345,223	-	-	2,345,223
Profit for the year before contribution to KFAS, NLSI, Zakat tax and Directors' remuneration	-	-	-	-	-	(5,436,413)	-	-	(5,436,413)
						9,829,116			9,829,116
									5,547,169
									15,376,285

Gulf Insurance Group K.S.C.P. and its Subsidiaries
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22 SEGMENT INFORMATION (continued)

a) Segmental consolidated statement of income (continued)

Year ended 31 December 2017:	General risk insurance					Life and medical insurance			Total life and medical insurance KD	Total KD
	Marine and aviation KD	Motor vehicles KD	Property KD	Engineering KD	General accidents KD	Total general risk insurance KD	Life KD	Medical KD		
Revenue:										
Premiums written	8,688,300	50,840,025	31,309,417	22,422,627	20,648,974	(Restated) 133,909,343	9,796,254	161,073,007	170,869,261	(Restated) 304,778,604
Reinsurance premiums ceded	(6,399,571)	(3,148,164)	(28,403,663)	(13,722,164)	(11,999,549)	(63,673,111)	(3,222,144)	(103,327,409)	(106,549,553)	(170,222,664)
Net premiums written	2,288,729	47,691,861	2,905,754	8,700,463	8,649,425	70,236,232	6,574,110	57,745,598	64,319,708	134,555,940
Movement in unearned premiums reserve	(177,095)	(4,064,205)	(605,926)	(3,803,155)	(676,906)	(9,327,287)	233,488	1,726,128	1,959,616	(7,367,671)
Movement in life mathematical reserve							(1,192,495)	(33,102)	(1,225,597)	(1,225,597)
Net premiums earned	2,111,634	43,627,656	2,299,828	4,897,308	7,972,519	60,908,945	5,615,103	59,438,624	65,053,727	125,962,672
Commission received on ceded reinsurance	1,942,881	575,431	4,717,963	2,045,011	3,488,735	12,770,021	1,472,844	3,089,803	4,562,647	17,332,668
Policy issuance fees	191,677	1,570,418	162,806	70,214	150,640	2,145,755	19,018	1,300,083	1,319,101	3,464,856
Net investment income from designated life and medical insurance							1,694,908	8,023	1,702,931	1,702,931
Total revenue	4,246,192	45,773,505	7,180,597	7,012,533	11,611,894	75,824,721	8,801,873	63,836,533	72,638,406	148,463,127
Expenses:										
Claims incurred	555,155	33,546,359	1,219,019	1,535,760	1,802,122	38,658,415	2,733,180	54,293,419	57,026,599	95,685,014
Commission and discounts	881,802	6,033,143	2,078,180	915,533	3,600,526	13,509,184	522,114	1,430,164	1,952,278	15,461,462
Maturity and cancellations of life insurance policies							2,402,188		2,402,188	2,402,188
General and administrative expenses	1,281,045	7,046,633	2,685,857	3,143,669	3,164,053	17,321,257	1,767,982	7,571,955	9,339,937	26,661,194
Total expenses	2,718,002	46,626,135	5,983,056	5,594,962	8,566,701	69,488,856	7,425,464	63,295,538	70,721,002	140,209,858
Net underwriting income	1,528,190	(852,630)	1,197,541	1,417,571	3,045,193	6,335,865	1,376,409	540,995	1,917,404	8,253,269
Net investment income						6,460,089				6,460,089
Finance costs						(1,515,741)				(1,515,741)
Share of results of associates						4,145,623				4,145,623
Net sundry income						330,242			1,041,323	1,371,565
Unallocated general and administrative expenses						(4,238,339)			(3,042,745)	(7,281,084)
Profit for the year before contribution to KEAS, NILST, Zakat tax and Directors' remuneration						11,517,739			(84,018)	11,433,721

Gulf Insurance Group K.S.C.P. and its Subsidiaries
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22 SEGMENT INFORMATION (continued)

b) Segment consolidated statement of financial position

<i>31 December 2018</i>	<i>General risk Insurance KD</i>	<i>Life and medical insurance KD</i>	<i>Un-allocated KD</i>	<i>Total KD</i>
Total assets	336,093,937	94,715,320	98,450,661	529,259,918
Total liabilities	264,512,149	97,460,547	54,863,910	416,836,606
<i>31 December 2017</i>	<i>General risk Insurance KD (Restated)</i>	<i>Life and medical insurance KD</i>	<i>Un-allocated KD (Restated)</i>	<i>Total KD (Restated)</i>
Total assets	293,306,610	96,303,578	103,206,405	492,816,593
Total liabilities	231,877,524	102,513,426	58,457,040	392,847,990
<i>31 December 2016</i>	<i>General risk Insurance KD (Restated)</i>	<i>Life and medical insurance KD</i>	<i>Un-allocated KD (Restated)</i>	<i>Total KD (Restated)</i>
Total assets	201,375,173	92,171,719	81,275,444	374,822,336
Total liabilities	151,211,956	94,184,743	32,992,510	278,389,209

Balances relating to investments activities are reported within unallocated category since these activities does not relate to any of the primary two segments.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

22 SEGMENT INFORMATION (continued)

c) Geographic information

	Kuwait		GCC Countries				Other ME Countries				Total		
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	
Segment revenue	<u>98,072,606</u>	<u>87,626,139</u>	<u>11,892,110</u>	<u>10,030,777</u>	<u>56,755,832</u>	<u>50,806,211</u>	<u>166,720,548</u>	<u>148,463,127</u>					
						(Restated)						(Restated)	
Segment results (net underwriting income)	<u>9,885,505</u>	<u>9,933,059</u>	<u>776,292</u>	<u>721,450</u>	<u>1,315,131</u>	<u>(2,401,240)</u>	<u>11,976,928</u>	<u>8,253,269</u>					
Profit (loss) for the year attributable to equity holders of the Parent Company	<u>4,799,841</u>	<u>11,282,657</u>	<u>811,338</u>	<u>608,758</u>	<u>6,290,659</u>	<u>(1,823,921)</u>	<u>11,901,838</u>	<u>10,067,494</u>					
Total assets	<u>283,762,173</u>	<u>266,614,554</u>	<u>240,664,575</u>	<u>240,664,575</u>	<u>77,650,191</u>	<u>66,524,411</u>	<u>34,142,076</u>	<u>167,847,554</u>	<u>159,677,628</u>	<u>100,015,685</u>	<u>529,259,918</u>	<u>492,816,593</u>	<u>374,822,336</u>
Total liabilities	<u>247,098,575</u>	<u>232,539,724</u>	<u>191,020,588</u>	<u>191,020,588</u>	<u>59,951,644</u>	<u>49,208,944</u>	<u>19,758,706</u>	<u>109,786,387</u>	<u>111,099,322</u>	<u>67,609,915</u>	<u>416,836,606</u>	<u>392,847,990</u>	<u>278,389,209</u>

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

23 STATUTORY GUARANTEES

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

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Current accounts and deposits at banks	20,710,333	20,438,079
Loans secured by life insurance policies	1,599,688	1,647,205
	22,310,021	22,085,284

Statutory guarantees of KD 32,865,541 (2017: KD 28,329,001) are held outside the State of Kuwait as security for the subsidiary companies' activities.

24 CONTINGENT LIABILITIES

At the reporting date, the Group is contingently liable in respect of letters of guarantee and other guarantees amounting to KD 16,393,283 (2017: KD 17,333,994).

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

25 COMMITMENTS

The Group does not have future commitments with respect to purchase of financial instruments (2017: Nil).

26 RISK MANAGEMENT

(a) Governance framework

The Group's risk and financial management objective is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Risk management also protects policyholders' fund by ensuring that all liabilities towards the policyholders are fulfilled in duly matter. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Group established a risk management function with clear terms of reference from the Parent Company's board of directors, its committees and the associated executive management committees. The risk management function will support the Parent Company as well as the subsidiaries in all risk management practices. This supplemented with a clear organisational structure that document delegated authorities and responsibilities from the board of directors to executive and senior managers.

26 RISK MANAGEMENT (continued)

(b) Regulatory framework

Law No. 24 of 1961, Law No.13 of 1962, which were subsequently amended by decrees No.510 and 511 of 2011 and decrees No. 578 and 579 of 2013, and the rules and regulations issued by the Ministry of Commerce provide the regulatory framework for the insurance industry in Kuwait. All insurance companies operating in Kuwait are required to follow these rules and regulations.

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

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

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

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

(c) Capital management objectives, policies and approach

The Group has established the following capital management objectives, policies and approach to manage the risks that affect its capital position.

Capital management objectives

The capital management objectives are:

- To maintain the required level of financial stability of the Group thereby providing a degree of security to policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders.
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.
- To align the profile of assets and liabilities taking account of risks inherent in the business.
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and shareholders.
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value.
- To allocate capital towards the regional expansion where the ultimate goal is to spread the risk and maximize the shareholders returns through obtaining the best return on capital.

The operations of the Group are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

In reporting financial strength, capital and solvency is measured using the rules prescribed by the Ministry of Commerce (MOC). These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written.

26 RISK MANAGEMENT (continued)

(c) Capital management objectives, policies and approach (continued)

Capital management policies

The Group's capital management policy for its insurance and non-insurance business is to hold sufficient capital to cover the statutory requirements based on the Ministry of commerce, including any additional amounts required by the regulator as well as keeping a capital buffer above the minimum regulatory requirements, where the Group operates to maintain a high economic capital for the unforeseen risks.

Capital management approach

The Group seeks to optimize the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and secure the policyholders fund.

The Group's approach to managing capital involves managing assets, liabilities and risks in a co-ordinated way, assessing shortfalls between reported and required capital levels (by each regulated entity) on a regular basis and taking appropriate actions to influence the capital position of the Group in the light of changes in economic conditions and risk characteristics through the Group's internal Capital Model. An important aspect of the Group's overall capital management process is the setting of target risk adjusted rates of return which are aligned to performance objectives and ensure that the Group is focused on the creation of value for shareholders.

The capital requirements are routinely forecasted on a periodic basis using the Group's internal Capital Model, and assessed against both the forecasted available capital and the expected internal rate of return including risk and sensitivity analyses. The process is ultimately subject to approval by the board.

(d) Insurance risk

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

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

The majority of insurance business ceded is placed on a reinsurance program covering the Group to benefit from high commission income derived from economy of scale in a portfolio which is well balanced and to spread the risk in which the Group is exposed.

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

26 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

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

(1) Life and medical insurance contracts

Life insurance contracts offered by the Group include whole life insurance, term insurance, unitized pensions (Misk individual policies), pure endowment pensions, group life and disability, credit life (banks), group medical including third party administration (TPA), preferred global health and FAY.

Whole life and term assurance are conventional regular premium products when lump sum benefits are payable on death or permanent disability. Few contracts have a surrender value.

Pensions are contracts when retirement benefits are expressed in the form of an annuity payable at retirement age. If death occurs before retirement, contracts generally return the higher value of the fund accumulated or sum assured. Most contracts give the policyholder the option at retirement to take a cash sum at guaranteed conversion rates allowing the policyholders the option of taking the more valuable of the two. Under unitized pensions, a percentage of the premium is applied towards the purchase of accumulation units in one or more of the linked funds. Provision of additional death benefits may be provided by cancellation of units or through supplementary term assurance contracts. Certain personal pension plans also include contribution protection benefits that provide for payment of contributions on behalf of policyholders in periods of total disability. For contracts with discretionary participation features (DPF), changes in the level of pensions are based on the rate of return declared annually by the insurer which is not guaranteed.

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

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

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

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

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

26 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life and medical insurance contracts (continued)

The Group's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, 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 promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

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

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

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

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

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26 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life and medical insurance contracts (continued)

Type of contract	2018			2017		
	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
Whole life insurance	56,839	48,826	8,013	5,964	1,812	4,152
Term insurance	97,363	1,806	95,557	367,752	31,892	335,860
Pure endowment	1,563,873	-	1,563,873	1,460,469	-	1,460,469
Preferred global health	55,477	-	55,477	50,182	-	50,182
FAY	340,160	170,080	170,080	252,669	176,868	75,801
Misk individual policies	-	-	-	-	-	-
Total life insurance contract	2,113,712	220,712	1,893,000	2,137,036	210,572	1,926,464
Unitised pensions (Misk individual policies)	15,550,014	-	15,550,014	18,259,982	-	18,259,982
Total investments contracts	15,550,014	-	15,550,014	18,259,982	-	18,259,982
Total life insurance and investment contracts	17,663,726	220,712	17,443,014	20,397,018	210,572	20,186,446
Other life insurance contract liabilities	62,816,379	27,884,975	34,931,404	81,888,319	47,227,570	34,660,749

The geographical concentration of the Group's life insurance and investment contracts with Discretionary Participation Feature (DPF) liabilities is noted below. The disclosure is based on the countries where the business is written.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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26 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life and medical insurance contracts (continued)

	2018			2017		
	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
Kuwait	2,113,712	220,712	1,893,000	2,137,036	210,572	1,926,464

Investment contracts

	2018			2017		
	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
Kuwait	6,009,616	-	6,009,616	6,472,713	-	6,472,713
Europe	9,540,398	-	9,540,398	11,787,269	-	11,787,269
Total	15,550,014	-	15,550,014	18,259,982	-	18,259,982

The assumptions that have been provided by an external independent actuarial are as follows:

Key assumptions

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.

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

•Mortality and morbidity rates

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

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

26 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life and medical insurance contracts (continued)

Key assumptions (continued)

• *Longevity*

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

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

• *Investment return*

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

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

• *Expenses*

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

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

• *Lapse and surrender rates*

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

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

• *Discount rate*

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

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

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(1) Life and medical insurance contracts (continued)

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

Portfolio assumptions by type of business impacting net liabilities	Mortality and morbidity rates		Investment return		Lapse and surrender rates		Discount rates		Renewal expenses		Inflation rate	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<i>Investment contracts:</i>												
With fixed and guaranteed terms	A49/52	A49/52	3.5%	4%	N/A	N/A	3%	3%	"5% of AP+1% of SA"	"5% of AP+1% of SA"	2%	2%
Non-guaranteed terms	A49/52	A49/52	N/A	N/A	N/A	N/A	3%	3%	5% of AP+1% of SA	5% of AP+1% of SA	2%	2%
<i>Life term assurance:</i>												
Males	A49/52	A49/52	4%	4%	N/A	N/A	3%	3%	5% of AP+1% of SA	5% of AP+1% of SA	2%	2%
Females	A49/52-3yr	A49/52-3yr	4%	4%	N/A	N/A	3%	3%	5% of AP+1% of SA	5% of AP+1% of SA	2%	2%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)**(d) Insurance risk (continued)****(1) Life and medical insurance contracts (continued)****Sensitivities**

The analysis below is performed, by an independent third party actuarial with experience and qualifications, for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and profit if significant. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist they are the main reason for the asymmetry of sensitivities.

Life insurance contracts**31 December 2018**

	<i>Change in assumptions</i>	<i>Impact on gross liabilities</i>	<i>Impact on net liabilities</i>	<i>Impact on profit</i>
Mortality/morbidity	Conservative	Reduction	Reduction	Positive
Investment return	-1%	-	-	(27,000)
Expenses	10%	248,000	248,000	(248,000)
Discount rate	-1%	72,000	72,000	(72,000)
Longevity	N/A	N/A	N/A	N/A
Lapse and surrenders rate	N/A	N/A	N/A	N/A

31 December 2017

	<i>Change in assumptions</i>	<i>Impact on gross liabilities</i>	<i>Impact on net liabilities</i>	<i>Impact on profit</i>
Mortality/morbidity	Conservative	Reduction	Reduction	Positive
Investment return	-1%	-	-	(20,000)
Expenses	10%	270,000	270,000	(270,000)
Discount rate	-1%	80,000	80,000	(80,000)
Longevity	N/A	N/A	N/A	N/A
Lapse and surrenders rate	N/A	N/A	N/A	N/A

Investment contracts**31 December 2018**

	<i>Change in assumptions</i>	<i>Impact on gross liabilities</i>	<i>Impact on net liabilities</i>	<i>Impact on profit</i>
Mortality/morbidity	Conservative	Reduction	Reduction	Positive
Investment return	-1%	-	-	(46,000)
Expenses	10%	50,000	50,000	(50,000)
Discount rate	-1%	60,000	60,000	(60,000)
Longevity	N/A	N/A	N/A	N/A
Lapse and surrenders rate	N/A	N/A	N/A	N/A

31 December 2017

	<i>Change in assumptions</i>	<i>Impact on gross liabilities</i>	<i>Impact on net liabilities</i>	<i>Impact on profit</i>
Mortality/morbidity	Conservative	Reduction	Reduction	Positive
Investment return	-1%	-	-	(53,000)
Expenses	10%	60,000	60,000	(60,000)
Discount rate	-1%	65,000	65,000	(65,000)
Longevity	N/A	N/A	N/A	N/A
Lapse and surrenders rate	N/A	N/A	N/A	N/A

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts

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

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

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

These risks vary in relation to the type of risk insured, location of the risk insured and by industry.

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

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

In additions; the Group also have an excess of loss agreements which cover both of the catastrophic and risk excess of loss.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

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

Concentration of insurance contract liabilities by type of contract:	2018		2017		2016	
	Gross liabilities		Reinsurer's share of liabilities		Net liabilities	
	KD	KD	(Restated) KD	(Restated) KD	(Restated) KD	(Restated) KD
Marine and Aviation	12,017,619	10,046,238	7,352,963	6,207,065	1,145,898	1,240,294
Motor vehicles	55,049,066	6,374,690	51,874,815	8,330,839	43,543,976	38,222,369
Property	56,035,147	50,017,726	56,128,168	51,359,528	4,768,640	3,316,423
Engineering	56,910,306	45,245,388	32,566,901	22,626,356	9,940,545	5,321,499
General Accidents	38,712,469	27,661,315	34,290,016	22,124,186	12,165,830	6,144,407
Total	218,724,607	139,345,357	182,212,863	110,647,974	71,564,889	54,244,992

The geographical concentration of the Group's non-life insurance contract liabilities is noted below. The disclosure is based on the countries where the business is written.

Geographical concentration of insurance contract liabilities:	2018		2017		2016	
	Gross liabilities		Reinsurer's share of liabilities		Net liabilities	
	KD	KD	(Restated) KD	(Restated) KD	(Restated) KD	(Restated) KD
Kuwait	68,928,432	45,732,764	45,935,251	23,573,211	22,362,040	22,107,389
GCC and Middle East countries	149,796,175	93,612,593	136,277,612	87,074,763	49,202,849	32,137,603
Total	218,724,607	139,345,357	182,212,863	110,647,974	71,564,889	54,244,992

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

Key assumptions

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

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

Sensitivities

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

	<i>Change in assumption</i>	<i>Impact on gross liabilities KD</i>	<i>Impact on net liabilities KD</i>	<i>Impact on profit KD</i>
31 December 2018				
Average claim cost	±15%	10,656,502	4,797,920	4,797,920
Average number of claim	±15%	39,239	33,198	619,687
	Reduce from 18 months to 12 months			
Average claim settlement paid		7,104,335	3,830,129	312,287
	<i>Change in assumption</i>	<i>Impact on gross liabilities KD</i>	<i>Impact on net liabilities KD</i>	<i>Impact on profit KD</i>
31 December 2017				
Average claim cost	±15%	7,719,160	3,418,044	3,418,044
Average number of claim	±15%	37,016	31,317	584,581
	Reduce from 18 months to 12 months			
Average claim settlement paid		5,146,107	2,774,398	226,209

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(d) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

Claims development table

The following tables show the estimate of cumulative incurred claims for both Non-life and Life and Medical segments, including claims notified for each successive accident year at each statement of financial position date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to the presentation currency at the spot rates of the current financial year.

31 December 2018

	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
At end of accident year	1,179,335,445	78,679,477	89,555,565	94,021,887	89,026,900	90,713,406	115,767,181	238,320,212	255,471,027	
One year later	344,727,558	88,608,723	105,451,833	123,049,429	115,028,898	107,262,772	126,453,059	247,717,822	-	
Two years later	338,614,695	89,908,552	106,243,283	120,765,501	113,348,740	110,122,254	127,039,952	-	-	
Three years later	334,785,708	88,309,858	104,881,994	115,594,283	116,039,580	110,259,331	-	-	-	
Four years later	332,252,691	87,967,006	103,932,073	117,928,059	116,640,217	-	-	-	-	
Five years later	330,229,851	88,024,652	106,636,211	118,293,459	-	-	-	-	-	
Six years later	328,176,982	88,322,880	107,644,093	-	-	-	-	-	-	
Seven years later	332,066,255	88,319,605	-	-	-	-	-	-	-	
Eight years later	333,338,505	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	333,338,505	88,319,605	107,644,093	118,293,459	116,640,217	110,259,331	127,039,952	247,717,822	255,471,027	1,504,724,011

Gulf Insurance Group K.S.C.P. and its Subsidiaries

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As at and for the year ended 31 December 2018

	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
26 RISK MANAGEMENT (continued)										
(d) Insurance risk (continued)										
2) Non-life insurance contracts (continued)										
At end of accident year	(861,431,944)	(47,023,925)	(53,687,293)	(56,598,561)	(56,835,392)	(56,656,953)	(66,991,620)	(157,856,387)	(159,030,549)	
One year later	(304,045,887)	(76,914,914)	(88,891,018)	(97,894,885)	(101,990,575)	(94,952,494)	(108,464,895)	(226,848,691)	-	
Two years later	(312,087,834)	(82,573,468)	(94,053,337)	(105,857,873)	(106,695,945)	(99,651,928)	(115,876,615)	-	-	
Three years later	(314,210,217)	(84,263,723)	(98,823,789)	(111,063,406)	(108,289,763)	(101,702,109)	-	-	-	
Four years later	(316,022,052)	(84,887,781)	(100,105,528)	(112,244,491)	(109,725,151)	-	-	-	-	
Five years later	(317,072,290)	(85,621,245)	(100,618,883)	(113,061,455)	-	-	-	-	-	
Six years later	(317,755,681)	(86,192,536)	(100,966,494)	-	-	-	-	-	-	
Seven years later	(318,388,319)	(86,693,820)	-	-	-	-	-	-	-	
Eight years later	(324,235,090)	-	-	-	-	-	-	-	-	
Cumulative payment to date	(324,235,090)	(86,693,820)	(100,966,494)	(113,061,455)	(109,725,151)	(101,702,109)	(115,876,615)	(226,848,691)	(159,030,549)	(1,338,139,974)
Gross insurance contract outstanding claims at 31 December 2018	9,103,415	1,625,785	6,677,599	5,232,004	6,915,066	8,557,222	11,163,337	20,869,131	96,440,478	166,584,037
Incurred but not reported reserve included into the outstanding claims reserve at 31 December 2018									19,203,771	19,203,771
Total gross insurance outstanding claims provision per consolidated statement of financial position at 31 December 2018	9,103,415	1,625,785	6,677,599	5,232,004	6,915,066	8,557,222	11,163,337	20,869,131	115,644,249	185,787,808

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks

(1) Credit risk

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

- A Group credit risk policy setting out the assessment and determination of what constitutes credit risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Board Audit Committee (BAC).
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- The credit risk in respect of customer balances, incurred on non-payment of premiums will only persist during the grace period specified in the policy document until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

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

	31 December 2018			
	<i>General KD</i>	<i>Life KD</i>	<i>Unit linked KD</i>	<i>Total KD</i>
Exposure to credit risk by classifying financial assets according to type of insurance				
Investments held to maturity	21,793,233	-	-	21,793,233
Debt securities (loans)	2,940,860	9,137,200	4,573,800	16,651,860
Loans secured by life insurance policies	-	3,946	1,262,691	1,266,637
Policyholders' accounts receivable (gross)	86,972,833	16,001,053	-	102,973,886
Reinsurers' accounts receivable (gross)	8,307,381	489,975	-	8,797,356
Reinsurance recoverable on outstanding claims	103,826,725	19,793,935	-	123,620,660
Other assets	577,078	-	-	577,078
Time deposits	29,425,251	63,612	-	29,488,863
Cash and cash equivalents	50,992,476	11,792,525	-	62,785,001
Total credit risk exposure	304,835,837	57,282,246	5,836,491	367,954,574

Gulf Insurance Group K.S.C.P. and its Subsidiaries

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As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(1) Credit risk (continued)

	31 December 2017			31 December 2016				
	General KD (Restated)	Life KD	Unit linked KD	Total KD (Restated)	General KD (Restated)	Life KD	Unit linked KD	Total KD (Restated)
Exposure to credit risk by classifying financial assets according to type of insurance								
Investments held to maturity	19,509,904	-	-	19,509,904	19,654,769	-	-	19,654,769
Debt securities (loans)	2,925,989	10,120,895	5,283,105	18,329,989	2,027,750	7,162,000	5,300,000	14,489,750
Loans secured by life insurance policies	-	4,347	1,599,688	1,604,035	-	8,191	1,647,205	1,655,396
Policyholders' accounts receivable (gross)	81,767,271	13,879,596	-	95,646,867	49,079,250	11,358,634	-	60,437,884
Reinsurers' accounts receivable (gross)	7,764,322	137,128	-	7,901,450	6,256,737	149,790	-	6,406,527
Reinsurance recoverable on outstanding claims	84,511,919	18,782,565	8,829	103,303,313	35,362,730	14,676,654	-	50,039,384
Other assets	1,649,206	-	-	1,649,206	1,663,134	-	-	1,663,134
Time deposits	26,942,614	11,496,297	-	38,438,911	25,518,202	100,348	-	25,618,550
Cash and cash equivalents	55,086,116	495,309	-	55,581,425	50,672,474	22,397,035	-	73,069,509
Total credit risk exposure	280,157,341	54,916,137	6,891,622	341,965,100	190,235,046	55,852,652	6,947,205	253,034,903
Exposure to credit risk by classifying financial assets according to type of insurance								
Investments held to maturity								
Debt securities (loans)								
Loans secured by life insurance policies								
Policyholders' accounts receivable (gross)								
Reinsurers' accounts receivable (gross)								
Reinsurance recoverable on outstanding claims								
Other assets								
Time deposits								
Cash and cash equivalents								
Total credit risk exposure								

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As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(1) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the financial assets at 31 December 2018 by classifying assets according to International credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as not rated.

Exposure to credit risk by classifying financial assets according to international credit rating agencies	AAA	AA	A	BBB	BB and below	Not rated	Total
	KD	KD	KD	KD	KD	KD	KD
31 December 2018							
Investments held to maturity	-	-	1,457,256	2,460,480	17,875,069	428	21,793,233
Debt securities (loans)	-	-	-	10,572,860	6,079,000	-	16,651,860
Loans secured by life insurance policies	-	-	-	-	-	1,266,637	1,266,637
Policyholders' accounts receivable (gross)	-	12,319,333	35,431,134	1,026,987	8,604,645	45,591,787	102,973,886
Reinsurers accounts receivable (gross)	165,301	32,044	2,901,760	66,762	2,959,842	2,671,647	8,797,356
Reinsurance recoverable on outstanding claims	1,161,545	24,800,398	75,797,424	3,734,944	9,681,876	8,444,473	123,620,660
Other assets	-	-	-	-	-	577,078	577,078
Time Deposits	-	-	16,198,715	8,736,075	4,015,132	538,941	29,488,863
Cash and cash equivalents	-	1,048,463	40,836,236	13,519,553	6,766,208	614,541	62,785,001
Total credit risk exposure	1,326,846	38,200,238	172,622,525	40,117,661	55,981,772	59,705,532	367,954,574

Unrated responses are classified as follows using internal credit ratings.

	Neither past due nor impaired		Past due or impaired	Total
	High grade	Standard grade		
	KD	KD	KD	KD
31 December 2018				
Investments held to maturity	-	-	428	428
Loan secured by life insurance policy	-	1,266,637	-	1,266,637
Policyholders' accounts receivable (gross)	25,694,357	13,832,607	6,064,823	45,591,787
Reinsurance accounts receivable (gross)	1,917,846	705,344	48,457	2,671,647
Reinsurance recoverable on outstanding claims	5,705,637	2,738,836	-	8,444,473
Other assets	577,078	-	-	577,078
Time deposits	538,941	-	-	538,941
Cash and cash equivalents	596,601	-	17,940	614,541
	35,030,460	18,543,424	6,131,648	59,705,532

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(1) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the financial assets at 31 December 2017 by classifying assets according to International credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as not rated.

Exposure to credit risk by classifying financial assets according to international credit rating agencies	AAA	AA	A	BBB	BB and below	Not rated	Total
	KD	KD	KD	KD	KD	(Restated) KD	(Restated) KD
<i>31 December 2017</i>							
Investments held to maturity	-	244,496	1,357,766	639,236	17,267,980	426	19,509,904
Debt securities (loans)	-	-	1,509,000	10,784,989	6,036,000	-	18,329,989
Loans secured by life insurance policies	-	-	-	-	-	1,604,035	1,604,035
Policyholders' accounts receivable (gross)	-	34,025,787	13,128,938	3,387,032	11,149,862	33,955,248	95,646,867
Reinsurers accounts receivable (gross)	-	108,425	1,840,324	1,443,914	2,147,408	2,361,379	7,901,450
Reinsurance recoverable on outstanding claims	1,272,017	20,801,382	68,155,366	3,209,547	3,338,901	6,526,100	103,303,313
Other assets	-	-	-	-	-	1,649,206	1,649,206
Time Deposits	-	33,087	21,996,793	12,044,241	3,956,952	407,838	38,438,911
Cash and cash equivalents	-	1,471,889	34,504,263	8,327,761	10,003,489	1,274,023	55,581,425
Total credit risk exposure	1,272,017	56,685,066	142,492,450	39,836,720	53,900,592	47,778,255	341,965,100

Unrated responses are classified as follows using internal credit ratings.

	Neither past due nor impaired			Past due or impaired	Total
	High grade	Standard grade	Low grade		
	KD	KD	KD	KD	KD
<i>31 December 2017</i>					
Investments held to maturity	-	-	-	426	426
Loan secured by life insurance policy	1,599,688	4,347	-	-	1,604,035
Policyholders' accounts receivable (gross)	23,099,043	5,559,594	5,296,611	5,296,611	33,955,248
Reinsurance accounts receivable (gross)	930,592	642,386	788,401	788,401	2,361,379
Reinsurance recoverable on outstanding claims	6,526,100	-	-	-	6,526,100
Other assets	1,649,206	-	-	-	1,649,206
Time deposits	407,838	-	-	-	407,838
Cash and cash equivalents	1,010,846	249,039	14,138	14,138	1,274,023
Total	35,223,313	6,455,366	6,099,576	6,099,576	47,778,255

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(1) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the financial assets at 31 December 2016 by classifying assets according to International credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as not rated.

Exposure to credit risk by classifying financial assets according to international credit rating agencies	AAA KD	AA KD	A KD	BBB KD	BB and below KD	Not rated KD (Restated)	Total KD (Restated)
<i>31 December 2016</i>							
Investments held to maturity	-	247,567	2,908,445	10,720,097	5,778,229	431	19,654,769
Debt securities (loans)	-	-	-	14,489,750	-	-	14,489,750
Loans secured by life insurance policies	-	-	-	-	-	1,655,396	1,655,396
Policyholders' accounts receivable (gross)	-	679,564	9,006,515	24,930,205	464	25,821,136	60,437,884
Reinsurers accounts receivable (gross)	93,715	120,145	994,177	1,413,072	1,345,265	2,440,153	6,406,527
Reinsurance recoverable on outstanding claims	240,328	14,653,745	22,176,989	5,183,771	3,615,208	4,169,343	50,039,384
Other assets	-	-	-	-	-	1,663,134	1,663,134
Time Deposits	-	-	14,853,029	7,589,287	852,368	2,323,866	25,618,550
Cash and cash equivalents	-	4,452,635	46,809,940	18,294,903	2,302,316	1,209,715	73,069,509
Total credit risk exposure	334,043	20,153,656	96,749,095	82,621,085	13,893,850	39,283,174	253,034,903

Unrated responses are classified as follows using internal credit ratings.

31 December 2016

	Neither past due nor impaired High grade KD (Restated)	Standard Grade KD	Past due or impaired KD	Total KD (Restated)
Investments held to maturity	431	-	-	431
Loan secured by life insurance policy	8,191	1,647,205	-	1,655,396
Policyholders' accounts receivable (gross)	14,051,586	8,713,562	3,055,988	25,821,136
Reinsurance accounts receivable (gross)	907,212	1,161,583	371,358	2,440,153
Reinsurance recoverable on outstanding claims	4,130,462	38,881	-	4,169,343
Other assets	1,663,134	-	-	1,663,134
Time deposits	680,323	1,643,543	-	2,323,866
Cash and cash equivalents	952,961	215,182	41,572	1,209,715
Total	22,394,300	13,419,956	3,468,918	39,283,174

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(1) Credit risk (continued)

The following table represents the aging analysis of premiums and insurance balance receivable that are not past due nor impaired:

	<i>Up to 1 month KD</i>	<i>Within 1-3 months KD</i>	<i>Within 3-12 months KD</i>	<i>More than 1 year KD</i>	<i>Total KD</i>
31 December 2018:					
Policyholders' accounts receivable (net)	21,007,737	13,825,515	57,271,211	667,610	92,772,073
Reinsurance receivables (net)	4,495,311	-	1,581,374	648,318	6,725,003
Total	25,503,048	13,825,515	58,852,585	1,315,928	99,497,076
	<i>Up to 1 month KD</i>	<i>Within 1-3 months KD</i>	<i>Within 3-12 months KD</i>	<i>More than 1 year KD (Restated)</i>	<i>Total KD (Restated)</i>
31 December 2017:					
Policyholders' accounts receivable (net)	15,690,513	10,868,138	59,382,122	831,517	86,772,290
Reinsurance receivables (net)	1,378,101	1,612,618	2,740,220	743,900	6,474,839
Total	17,068,614	12,480,756	62,122,342	1,575,417	93,247,129

(2) Liquidity risk

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

The table below summarises the maturity of the financial liabilities of the Group based on remaining undiscounted contractual obligations for 31 December. As the Group does not have any interest bearing liabilities (except for bank overdrafts), the figures below agree directly to the consolidated statement of financial position.

	<i>Up to 1 month KD</i>	<i>Within 1-3 months KD</i>	<i>Within 3-12 months KD</i>	<i>Within 1-5 years KD</i>	<i>Within 5-10 years KD</i>	<i>Total KD</i>
31 December 2018						
Insurance payable	34,837,954	9,704,630	13,126,083	6,267,677	2,264,333	66,200,677
Other liabilities	9,330,842	8,921,844	12,042,145	13,916,881	-	44,211,712
Bank overdrafts	2,826	28,039,632	18,630,718	-	-	46,673,176
	44,171,622	46,666,106	43,798,946	20,184,558	2,264,333	157,085,565

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(2) Liquidity risk (continued)

	<i>Up to 1 month KD</i>	<i>Within 1-3 months KD</i>	<i>Within 3-12 months KD</i>	<i>Within 1-5 years KD</i>	<i>Within 5-10 years KD</i>	<i>Total KD</i>
31 December 2017						
Insurance payable	26,114,563	15,054,018	17,963,558	5,348,678	2,248,381	66,729,198
Other liabilities	5,798,516	7,432,602	13,951,825	6,956,496	-	34,139,439
Bank overdrafts	-	-	55,381,657	-	-	55,381,657
	<u>31,913,079</u>	<u>22,486,620</u>	<u>87,297,040</u>	<u>12,305,174</u>	<u>2,248,381</u>	<u>156,250,294</u>

(3) Market risk

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

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

The Group has developed its policies and procedures to enhance the Group's mitigation of market risk.

(i) Currency risk

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

The Group's principal transactions are carried out in KD and its exposure to foreign exchange risk arises primarily with respect to US dollar, Bahraini dinar, Egyptian pound, Jordanian dinar, Euro, and Pound sterling.

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

The table below summarises the Group's exposure to foreign currency exchange rate risk at reporting date by categorising assets and liabilities by major currencies.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2018:	Local currency							Total KD	
	KD equivalent	USD KD equivalent	BD KD equivalent	EGP KD equivalent	JD KD equivalent	Euro KD equivalent	GBP KD equivalent		Other KD equivalent
ASSETS									
Property and equipment	15,386,497	896,343	3,980,558	3,227,320	2,333,694	-	-	3,446,361	29,270,773
Investments in associates	20,078,099	-	-	1,533,064	-	-	-	21,658,276	43,269,439
Goodwill	-	-	2,625,935	476,244	5,292,099	-	-	6,710,182	15,104,460
Investments held to maturity	500,310	1,115,649	2,198,205	14,442,220	1,057,523	-	-	2,479,326	21,793,233
Debt securities (loans)	5,100,000	11,551,860	-	-	-	-	-	-	16,651,860
Investments available for sale	4,292,889	7,003,833	2,456,527	136,389	3,078,216	-	-	21,432,411	38,400,265
Investments carried at fair value through profit or loss	4,645,268	4,834,127	-	968,564	2,161,490	-	-	6,759,726	19,369,175
Loans secured by life insurance policies	1,262,691	-	-	-	-	-	-	3,946	1,266,637
Premium and insurance balances receivable	57,769,866	16,021,820	3,635,437	2,549,346	11,194,034	-	74,389	7,384,643	99,497,076
Reinsurance recoverable on outstanding claims	47,927,583	23,971,941	28,508,765	2,403,528	3,749,145	-	2,364,073	9,982,617	123,620,660
Investment properties	3,035,857	60,016	-	376,121	-	-	-	1,050,786	4,522,780
Other assets	8,366,031	518,873	3,116,820	2,111,630	4,854,047	-	-	5,252,295	24,219,696
Cash and cash equivalents and time deposits	36,843,372	13,505,837	5,022,522	3,357,960	21,179,176	1,082,563	541,838	10,740,596	92,273,864
Total assets	205,208,463	79,480,299	51,544,769	31,582,386	54,899,424	6,663,112	2,980,300	96,901,165	529,259,918

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2018	Local currency KD equivalent	USD KD equivalent	BD KD equivalent	EGP KD equivalent	JD KD equivalent	Euro KD equivalent	GBP KD equivalent	Other KD equivalent	Total KD
LIABILITIES									
Liabilities arising from insurance contracts									
Outstanding claims reserve (gross)	92,923,747	12,435,673	34,249,044	4,525,561	11,785,564	5,387,308	69,100	22,761,811	184,137,808
Unearned premiums reserve (net)	19,981,670	-	4,302,249	4,168,869	6,727,750	-	-	16,962,968	52,143,506
Life mathematical reserve (net)	17,384,021	130	-	-	-	-	-	58,863	17,443,014
Incurred but not reported reserve (net)	1,650,000	-	-	-	-	-	-	-	1,650,000
Total liabilities arising from insurance contracts	131,939,438	12,435,803	38,551,293	8,694,430	18,513,314	5,387,308	69,100	39,783,642	255,374,328
Premiums received in advance	3,966,876	-	396,939	-	-	-	-	12,898	4,376,713
Insurance payable	26,719,933	20,774,253	3,136,538	1,093,652	12,168,907	481,790	(5,985)	1,831,589	66,200,677
Other liabilities	31,324,369	7,813	3,408,479	4,059,411	839,718	-	-	4,571,922	44,211,712
Bank overdrafts	23,424,703	23,152,722	-	-	-	-	-	95,751	46,673,176
Total liabilities	217,375,319	56,370,591	45,493,249	13,847,493	31,521,939	5,869,098	63,115	46,295,802	416,836,606

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2017:	Local currency KD equivalent	USD KD equivalent	BD KD equivalent	EGP KD equivalent	JD KD equivalent	Euro KD equivalent	GBP KD equivalent	Other KD equivalent (Restated)	Total KD (Restated)
ASSETS									
Property and equipment	5,863,252	904,654	4,163,345	2,517,662	2,498,016	-	-	2,102,609	18,049,538
Investments in associates	19,641,858	-	-	1,251,040	-	-	-	19,958,006	40,850,904
Goodwill	15,104,460	-	-	-	-	-	-	-	15,104,460
Investments held to maturity	499,799	1,202,466	539,234	12,365,060	1,055,665	-	-	3,847,680	19,509,904
Debt securities (loans)	6,850,000	11,479,989	-	-	-	-	-	-	18,329,989
Investments available for sale	4,504,719	7,584,462	3,388,233	141,393	4,676,322	-	-	15,873,324	36,168,453
Investments carried at fair value through profit or loss	5,335,564	7,606,632	-	1,164,698	3,850,422	-	-	8,463,823	26,421,139
Loans secured by life insurance policies	1,599,688	-	-	-	-	-	-	4,347	1,604,035
Premium and insurance balances									
Receivable	55,951,835	5,395,960	6,271,764	2,023,199	14,470,019	1,462,578	43,561	7,628,213	93,247,129
Reinsurance recoverable on outstanding claims	32,023,300	15,452,358	30,797,490	2,402,197	4,673,699	5,639,891	559,379	11,754,999	103,303,313
Investment properties	-	-	-	20,830	-	-	-	2,857,636	2,878,466
Other assets	8,946,838	234,331	1,430,648	2,128,153	5,114,537	-	-	5,474,420	23,328,927
Cash and cash equivalents and time deposits	37,566,837	12,310,380	8,257,530	4,315,557	18,703,372	1,969,084	452,649	10,444,927	94,020,336
Total assets	193,888,150	62,171,232	54,848,244	28,329,789	55,042,052	9,071,553	1,055,589	88,409,984	492,816,593

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)	(e) Financial risks (continued)	(3) Market risk (continued)	(i) Currency risk (continued)	31 December 2017									
				Local currency KD equivalent	USD KD equivalent	BD KD equivalent	EGP KD equivalent	JD KD equivalent	Euro KD equivalent	GBP KD equivalent	Other KD equivalent (Restated)	Total KD (Restated)	
LIABILITIES													
Liabilities arising from insurance contracts													
				71,761,863	7,010,970	36,111,288	4,178,277	13,360,680	6,081,530	490,705	20,179,612	159,174,925	
				18,686,847	7,411	4,107,052	3,236,899	7,032,027	-	-	18,085,770	51,156,006	
				11,792,744	6,219	-	-	-	-	-	8,387,483	20,186,446	
				1,650,000	-	-	-	-	-	-	-	1,650,000	
				103,891,454	7,024,600	40,218,340	7,415,176	20,392,707	6,081,530	490,705	46,652,865	232,167,377	
Total liabilities arising from insurance contracts													
				3,931,623	18,619	480,077	-	-	-	-	-	4,430,319	
				34,337,834	7,679,827	4,457,018	1,104,205	12,393,888	1,008,480	(15,827)	5,763,773	66,729,198	
				23,965,148	178,383	1,485,277	3,091,262	693,389	25,291	2,371	4,698,318	34,139,439	
				30,649,439	24,732,218	-	-	-	-	-	-	55,381,657	
				196,775,498	39,633,647	46,640,712	11,610,643	33,479,984	7,115,301	477,249	57,114,956	392,847,990	

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2016:	Local currency KD equivalent	USD KD equivalent	BD KD equivalent	EGP KD equivalent	JD KD equivalent	Euro KD equivalent	GBP KD equivalent	Other KD equivalent (Restated)	Total KD (Restated)
ASSETS									
Property and equipment	6,092,616	-	2,585,822	1,727,145	2,413,329	-	-	2,312,291	15,131,203
Investments in associates	19,039,624	-	1,936,832	1,004,753	-	-	-	17,977,682	39,958,891
Goodwill	-	-	2,625,935	476,244	5,292,099	-	-	5,699,275	14,093,553
Investments held to maturity	499,999	1,217,569	2,085,710	11,775,737	432,004	-	-	3,643,750	19,654,769
Debt securities (loans)	6,850,000	7,639,750	-	-	-	-	-	-	14,489,750
Investments available for sale	5,461,469	2,190,728	3,616,952	211,648	4,605,145	-	-	941,646	17,027,588
Investments carried at fair value through profit or loss	9,105,506	3,694,319	-	906,577	2,834,991	-	-	7,547,508	24,088,901
Loans secured by life insurance policies	1,647,205	-	-	-	-	-	-	8,191	1,655,396
Premium and insurance balances									
receivable	23,943,057	4,178,057	5,330,009	1,651,890	19,688,405	235,623	17,467	3,340,859	58,385,367
Reinsurance recoverable on outstanding Claims	24,454,652	8,497,394	3,785,180	1,858,532	9,481,572	-	70,907	1,891,147	50,039,384
Investment properties	-	60,313	-	21,196	-	-	-	3,085,654	3,167,163
Other assets	7,869,698	1,760,044	669,524	2,140,662	4,463,558	11	4	1,538,811	18,442,312
Cash and cash equivalents and time Deposits	59,744,017	8,075,286	9,244,373	1,505,544	15,609,588	712,601	41,785	3,754,865	98,688,059
Total assets	164,707,843	37,313,460	31,880,337	23,279,928	64,820,691	948,235	130,163	51,741,679	374,822,336

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(ii) Currency risk (continued)

31 December 2016	Local currency KD equivalent	USD KD equivalent	BD KD equivalent	EGP KD equivalent	JD KD equivalent	Euro KD equivalent	GBP KD equivalent	Other KD equivalent (Restated)	Total KD (Restated)
LIABILITIES									
Liabilities arising from insurance Contracts									
Outstanding claims reserve (gross)	66,910,071	1,741,095	7,819,799	4,507,147	17,923,473	26,769	10,657	7,417,725	106,356,736
Unearned premiums reserve (net)	17,797,929	-	2,499,596	2,486,704	7,439,873	-	-	4,772,517	34,996,619
Life mathematical reserve (net)	8,038,524	3,332,087	-	-	-	-	-	7,592,288	18,962,899
Incurred but not reported reserve (net)	1,650,000	-	-	-	-	-	-	-	1,650,000
Total liabilities arising from insurance contracts	94,396,524	5,073,182	10,319,395	6,993,851	25,363,346	26,769	10,657	19,782,530	161,966,254
Premiums received in advance	9,394,480	-	335,962	-	-	-	-	30,846	9,761,288
Insurance payable	31,992,740	9,080,837	2,779,689	1,308,054	12,796,891	25,469	(11,829)	1,909,497	59,881,348
Other liabilities	14,935,736	269,546	1,619,063	2,372,780	1,177,351	47,077	1,730	1,601,018	22,024,301
Bank overdrafts	22,311,218	2,444,800	-	-	-	-	-	-	24,756,018
Total liabilities	173,030,698	16,868,365	15,054,109	10,674,685	39,337,588	99,315	558	23,323,891	278,389,209

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

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

	Change in variables	2018		2017	
		Impact on profit KD	Impact on equity KD	Impact on profit KD	Impact on equity KD
USD	±5%	801,928	350,192	747,656	379,223
BD	±5%	196,770	122,826	240,965	169,412
EGP	±5%	772,611	83,473	766,336	69,622
JD	±5%	891,351	261,985	844,287	233,816

(ii) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk guideline requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The guideline also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. The Group is not exposed to interest rate risk with respect of its term deposits carrying fixed interest rates.

The Group has no significant concentration of interest rate risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

Currency	2018		2017	
	Change in variables	Impact on profit before tax KD	Change in variables	Impact on profit before tax KD
KD	±50 bps	135,777	±50 bps	154,258
USD	±50 bps	150,839	±50 bps	91,347
BD	±50 bps	37,635	±50 bps	37,059
Others	±50 bps	239,418	±50 bps	165,483

The method used for deriving sensitivity information and significant variables did not change from the previous year.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(iii) Equity price risk

The Group is exposed to equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through profit or loss (including trading securities) or available for sale investments.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group management and the Investment Strategy and Policy.

The equity price risk sensitivity is determined on the following assumptions:

	2018 %	2017 %
Kuwait market	8%	3%
Rest of GCC market	(14%)	(15%)
MENA	14%	54%
Other international markets	5%	12%

The above percentages have been determined based on basis of the average market movements over a year period from January to December 2018 and 2017. The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date. The analysis reflects the impact of changes to equity prices in accordance with the above-mentioned equity price risk sensitivity assumptions.

	<i>Profit for the year</i>		<i>Equity</i>	
	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Investment available for sale	-	-	(588,228)	3,164,816
Investment carried at fair value through profit or loss	789,122	4,057,819	-	-

The table below presents the geographical concentration of financial instruments exposed to equity price risk:

<i>31 December 2018</i>	<i>GCC</i> <i>KD</i>	<i>MENA</i> <i>KD</i>	<i>Europe</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Investments available for sale	7,844,409	3,578,662	28,541	11,451,612
Investments carried at fair value through profit or loss	1,038,666	5,202,916	-	6,241,582
	<u>8,883,075</u>	<u>8,781,578</u>	<u>28,541</u>	<u>17,693,194</u>

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

26 RISK MANAGEMENT (continued)

(e) Financial risks (continued)

(3) Market risk (continued)

(iii) Equity price risk (continued)

31 December 2017	GCC KD	MENA KD	Europe KD	Total KD
Investments available for sale	6,937,766	5,207,232	34,492	12,179,490
Investments carried at fair value through profit or loss	3,378,152	7,345,779	-	10,723,931
	<u>10,315,918</u>	<u>12,553,011</u>	<u>34,492</u>	<u>22,903,421</u>

27 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, 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 Parent Company's management.

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

	2018		2017	
	Premiums KD	Claims KD	Premiums KD	Claims KD
Directors and key management personnel	292,177	27,945	291,926	215,643
Other related parties	3,916,968	871,617	2,424,839	432,300
	<u>4,209,145</u>	<u>899,562</u>	<u>2,716,765</u>	<u>647,943</u>

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

	2018		2017	
	Amounts owed by related parties KD	Amounts owed to related parties KD	Amounts owed by related Parties KD	Amounts owed to related parties KD
Directors and key management personnel	163,696	20,703	156,225	7,000
Other related parties	1,158,652	667,900	1,182,592	674,610
	<u>1,322,348</u>	<u>688,603</u>	<u>1,338,817</u>	<u>681,610</u>

In addition to the above balances, the Group has also engaged with related parties in its investment activities as follows:

- The Group holds certain deposits and call accounts with related entities under common control amounting to KD 4,987,605 (2017: KD 5,392,479). The Group also holds bonds issued by Kuwait Projects Company Holding Company K.S.C and other related entity amounting to KD 7,855,250 (2017: KD 9,577,000).

Gulf Insurance Group K.S.C.P. and its Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

27 RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation:

	<i>2018</i>	<i>2017</i>
	<i>KD</i>	<i>KD</i>
Salaries and other short term benefits	572,392	565,953
Employees' end of service benefits	267,413	71,192
	<u>839,805</u>	<u>637,145</u>

Gulf Insurance Group K.S.C.P. and its Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

28 SUBSIDIARIES COMPANIES

The consolidated financial statements include the following subsidiaries:

<i>Entity</i>	<i>Country of incorporation</i>	<i>% ownership 2018</i>			<i>% ownership 2017</i>			<i>Nature of operation</i>
		<i>Direct</i>	<i>In-direct</i>	<i>Total %</i>	<i>Direct</i>	<i>In-direct</i>	<i>Total %</i>	
Gulf Insurance and Reinsurance Company K.S.C.(closed)	Kuwait	99.80%	-	99.80%	99.80%	-	99.80%	Life and medical insurance and General risk
Fajr Al Gulf Insurance and Reinsurance Company S.A.L.	Lebanon	92.51%	0.18%	92.69%	92.51%	0.18%	92.69%	General risk and life insurance and Reinsurance
Arab Mistr Insurance Group Company S.A.E.	Egypt	94.85%	-	94.85%	94.85%	-	94.85%	General risk insurance
Syrian Kuwait Insurance Company S.S.C.	Syria	38.96%	15.39%	54.35%	38.96%	15.39%	54.35%	General risk and life insurance
Bahrain Kuwaiti Insurance Company B.S.C.	Bahrain	56.12%	-	56.12%	56.12%	-	56.12%	General risk insurance
Arab Orient Insurance Company J.S.C.	Jordan	90.44%	-	90.44%	90.44%	-	90.44%	General risk insurance
Egypt Life Takaful Insurance Company S.A.E.	Egypt	10.56%	50.75%	61.31%	8.75%	50.75%	59.50%	Life Takaful insurance
Dar Al-Salam Insurance Company	Iraq	71.81%	-	71.81%	59.83%	-	59.83%	General risk & life insurance
L'Algerienne Des Assurance (2a)	Algeria	49.00%	2.00%	51.00%	49.00%	2.00%	51.00%	General risk insurance
Gulf Sigorta A.S.	Turkey	99.22%	-	99.22%	99.22%	-	99.22%	General risk insurance

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

28 SUBSIDIARIES COMPANIES (continued)

Material partly owned subsidiary:

The Group has concluded that Bahrain Kuwaiti Insurance Company B.S.C. ("BKIC") and L'Algerienne Des Assurance (2a) ("2A") are the only subsidiaries with non-controlling interests that are material to the consolidated financial statements. Financial information of subsidiaries that have material non-controlling interests are provided below:

Accumulated balances of material non-controlling interests:

	2018	2017	2016
	KD	KD	KD
Bahrain Kuwaiti Insurance Company B.S.C.	14,678,898	13,744,290	12,022,521
	2018	2017	2016
	KD	KD	KD
L'Algerienne Des Assurance (2a)	2,998,929	(Restated) 458,497	(Restated) 572,317

Profit allocated to material non-controlling interests:

	2018	2017
	KD	KD
Bahrain Kuwaiti Insurance Company B.S.C.	1,222,462	910,108
L'Algerienne Des Assurance (2a)	1,107,321	238,762

Summarised financial information of these subsidiaries is provided below. This information is based on amounts before eliminating intra Group transactions and consolidation related adjustments.

	2018		2017		2016	
	<i>BKIC</i>	<i>2A</i>	<i>BKIC</i>	<i>2A</i>	<i>BKIC</i>	<i>2A</i>
	KD	KD	KD	KD	KD	KD
				<i>(Restated)</i>		<i>(Restated)</i>
<i>Statement of income</i>						
Income	17,333,662	7,823,395	15,432,279	8,431,325	13,150,926	8,543,328
Expenses	14,547,741	5,563,556	13,358,195	7,944,056	10,860,269	7,896,315
Profit for the year	<u>2,785,921</u>	<u>2,259,839</u>	<u>2,074,084</u>	<u>487,269</u>	<u>2,290,657</u>	<u>647,013</u>
Total comprehensive income	<u>2,437,691</u>	<u>2,259,839</u>	<u>2,091,468</u>	<u>487,269</u>	<u>1,546,269</u>	<u>647,013</u>
<i>Statement of financial position</i>						
Total assets	123,181,731	20,929,854	98,023,810	16,725,767	65,595,529	15,113,164
Total liabilities	(89,729,365)	(14,809,589)	(66,701,362)	(10,454,421)	(38,196,894)	(8,609,533)
Total equity	<u>33,452,366</u>	<u>6,120,265</u>	<u>31,322,448</u>	<u>6,271,346</u>	<u>27,398,635</u>	<u>6,503,631</u>

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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29 TAKAFUL INSURANCE - POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND

The Group (Manager of Takaful Fund) conducts business on behalf of the policyholders and advances funds to the policyholders' operations as and when required. The Manager of Takaful Fund is responsible for liabilities incurred by policyholders in the event the policyholders' fund is in deficit and the operations are liquidated. The Manager holds the physical custody and title of all assets related to the policyholders' operations. Since such assets and liabilities together with the results of policyholders' lines of business are contractually related to specific policyholders, the related amounts are presented as due to policyholders of Takaful unit in the Parent Company's statement of financial position and the details are disclosed below.

Takaful business in the Group consists of the Takaful Insurance Unit established by the Parent Company and the Takaful fund of its subsidiary Egypt Life Takaful Insurance Company (S.A.E).

Policyholders' result by line of business:

The following tables summarise the consolidated policyholders' results by line of business and fund:

For the year ended 31 December 2018:

	<i>Marine and aviation KD</i>	<i>Property KD</i>	<i>Motor KD</i>	<i>Engineering KD</i>	<i>General accidents KD</i>	<i>Life and medical KD</i>	<i>Total KD</i>
Premium written	462,104	2,224,246	7,104,425	803,185	1,521,360	16,743,284	28,858,604
Surplus (deficit) from insurance operations	86,979	353,889	(76,499)	(38,134)	87,199	174,184	587,618

For the year ended 31 December 2017:

	<i>Marine and aviation KD</i>	<i>Property KD</i>	<i>Motor KD</i>	<i>Engineering KD</i>	<i>General accidents KD</i>	<i>Life and medical KD</i>	<i>Total KD</i>
Premium written	356,030	1,103,478	4,596,375	589,806	1,280,586	11,723,163	19,649,438
Surplus (deficit) from insurance operations	37,051	58,509	(136,137)	(52,032)	107,235	49,111	63,737

	<i>2018 KD</i>	<i>2017 KD</i>
Amounts due to (from) policyholders (Note 20)	4,424,048	(542,024)

Gulf Insurance Group K.S.C.P. and its Subsidiaries
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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30 FAIR VALUE MEASUREMENT

The following table provides the fair value measurement hierarchy of the Group's assets carried at fair value.

Quantitative disclosures fair value measurement hierarchy for financial assets as at 31 December 2018:

	Date of valuation	Total KD	Fair value measurement using		
			Quoted prices in active markets (Level 1) KD	Significant observable inputs (Level 2) KD	Significant unobservable inputs (Level 3) KD
Assets measured at fair value					
<i>Investments available for sale:</i>					
Quoted equity securities	31 December 2018	11,451,612	11,451,612	-	-
Unquoted equity securities	31 December 2018	5,499,180	-	20,504	5,478,676
Quoted managed funds	31 December 2018	212,109	212,109	-	-
Quoted bonds	31 December 2018	20,674,483	20,674,483	-	-
Unquoted managed funds	31 December 2018	562,881	-	507,231	55,650
<i>Investments carried at fair value through profit or loss:</i>					
Held for trading:					
Quoted securities	31 December 2018	6,241,582	6,241,582	-	-
Designated upon initial recognition:					
Managed funds of quoted Securities	31 December 2018	13,127,593	13,127,593	-	-
<i>Property and equipment</i>					
Land	31 December 2018	12,738,867	-	12,738,867	-
Buildings	31 December 2018	13,959,374	-	13,959,374	-
<i>Investment properties</i>	31 December 2018	4,522,780	-	4,522,780	-
		88,990,461	51,707,379	31,748,756	5,534,326

Gulf Insurance Group K.S.C.P. and its Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

30 FAIR VALUE MEASUREMENT (continued)

Quantitative disclosures fair value measurement hierarchy for financial assets as at 31 December 2017:

	Date of valuation	Total <i>KD</i>	<i>Fair value measurement using</i>		
			Quoted prices in active markets (Level 1) <i>KD</i>	Significant observable inputs (Level 2) <i>KD</i>	Significant unobservable inputs (Level 3) <i>KD</i>
<i>Assets measured at fair value</i>					
<i>Investments available for sale:</i>					
Quoted equity securities	31 December 2017	12,179,490	12,179,490	-	-
Unquoted equity securities	31 December 2017	5,309,895	-	20,504	5,289,391
Quoted managed funds	31 December 2017	221,425	221,425	-	-
Quoted bonds	31 December 2017	17,983,673	17,983,673	-	-
Unquoted managed funds	31 December 2017	473,970	-	436,064	37,906
<i>Investments carried at fair value through income statements:</i>					
<i>Held for trading:</i>					
Quoted securities	31 December 2017	10,723,931	10,723,931	-	-
<i>Designated upon initial recognition:</i>					
Managed funds of quoted Securities	31 December 2017	15,697,208	15,697,208	-	-
<i>Property and equipment</i>					
Land	31 December 2017	8,582,046	-	8,582,046	-
Buildings	31 December 2017	6,482,396	-	6,482,396	-
<i>Investment properties</i>	31 December 2017	2,878,466	-	2,878,466	-
		<u>80,532,500</u>	<u>56,805,727</u>	<u>18,399,476</u>	<u>5,327,297</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

30 FAIR VALUE MEASUREMENT (continued)

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

	<i>At 1 January 2018 KD</i>	<i>Transfer from Level 3 to Level 2 KD</i>	<i>Loss recorded in the consolidated statement of income KD</i>	<i>Gain recorded in the consolidated statement of comprehensive income KD</i>	<i>Net purchases and disposals KD</i>	<i>At 31 December 2017 KD</i>
<i>Financial assets available for sale:</i>						
Unquoted equity securities	5,289,391	-	-	189,285	-	5,478,676
Unquoted managed funds	37,906	-	-	17,744	-	55,650
	<u>5,327,297</u>	<u>-</u>	<u>-</u>	<u>207,029</u>	<u>-</u>	<u>5,534,326</u>

	<i>At 1 January 2017 KD</i>	<i>Transfer from Level 3 to Level 2 KD</i>	<i>Loss recorded in the consolidated statement of income KD</i>	<i>Gain recorded in the consolidated statement of comprehensive income KD</i>	<i>Net purchases and disposals KD</i>	<i>At 31 December 2017 KD</i>
<i>Financial assets available for sale:</i>						
Unquoted equity securities	4,403,342	-	-	615,088	270,961	5,289,391
Unquoted managed funds	37,906	-	-	-	-	37,906
	<u>4,441,248</u>	<u>-</u>	<u>-</u>	<u>615,088</u>	<u>270,961</u>	<u>5,327,297</u>

Description of significant unobservable inputs to valuation of financial assets:

Unquoted securities represent delisted securities on stock exchange, which are valued based on last traded prices, adjusted for additional impairment losses recognised on a prudent basis. The Group is confident of realising the remaining amount and believes it to be reasonable estimates of fair value.

Unquoted managed funds are valued based on net assets value method using latest available financial statements of the funds, wherein the underlying assets are fair valued.

Gulf Insurance Group K.S.C.P. and its Subsidiaries

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31 CAPITAL MANAGEMENT

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

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

No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017. The Group monitors its capital at the Group level and at each of its subsidiaries.

The Group monitors capital using a gearing ratio "Financial Leverage Ratio", which is net debt divided by total capital plus net debt. The Group includes within net debt, credit facilities granted from banks (such as loans and bank overdrafts) and debt securities issued (if exist). Capital represents equity attributable to the equity holders of the Parent Company.

The Group's gearing ratio as at 31 December was as follows:

	2018 KD	2017 KD <i>(Restated)</i>	2016 KD <i>(Restated)</i>
Credit facilities:			
Bank overdrafts	46,673,176	55,381,657	24,756,018
Net debt	46,673,176	55,381,657	24,756,018
Equity attributable to the equity holders of the Parent Company	89,140,379	81,604,924	79,590,895
Total capital and net debt	135,813,555	136,986,581	104,346,913
Gearing ratio	34.4%	40.4%	23.7%

Liabilities arising from insurance contracts are usually checked against designated funds to policyholders as per the regulators of each country of the Group's operations, and is monitored on periodic basis through an adequate Asset Liability Model developed at Parent Company level as well as subsidiaries level.

Insurance and reinsurance payables are also monitored against insurance and reinsurance receivables.

All the above ratios are monitored on periodic basis and any breach (if exists) is directly reported to the key management for their information and immediate actions.

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32 RESTATEMENT OF COMPARATIVE INFORMATION

The comparative information presented in the consolidated financial statements have been restated in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* to rectify the effect of the error related to overstatement of premiums and insurance balances receivable for the year ended 31 December 2017 and overstatement of reinsurance recoverable on outstanding claims and understatement of property and equipment, outstanding claims reserve and unearned premium reserve for the year ended 31 December 2016 and 2015 of two of the Group's subsidiaries. These were due to improper calculation of reinsurance recoverable on outstanding claims and unearned premium reserve and the depreciation expenses that were charged erroneously on the one of the Group subsidiary's property and equipment as at that period.

	<i>As previously reported KD</i>	<i>Effect of restatement KD</i>	<i>After restatement KD</i>
<i>Consolidated statement of financial position</i>			
<i>As at 31 December 2017</i>			
ASSETS			
Property and equipment	17,880,111	169,427	18,049,538
Premiums and insurance balances receivable	93,470,873	(223,744)	93,247,129
Reinsurance recoverable on outstanding claims	104,529,303	(1,225,990)	103,303,313
LIABILITIES			
Outstanding claims reserve	156,687,629	2,487,296	159,174,925
Unearned premiums reserve (net)	49,362,565	1,793,441	51,156,006
TOTAL EQUITY			
Retained earnings	38,652,932	(2,944,836)	35,708,096
Non-controlling interests	20,979,887	(2,616,208)	18,363,679
	<i>As previously reported KD</i>	<i>Effect of restatement KD</i>	<i>After restatement KD</i>
<i>Consolidated statement of income</i>			
<i>As at 31 December 2017</i>			
Profit for the year	10,988,330	(223,744)	10,764,586
Basic and diluted earnings per share attributable to equity holders of the parent company	57.48	(1.24)	56.24
	<i>As previously reported KD</i>	<i>Effect of restatement KD</i>	<i>After restatement KD</i>
<i>Consolidated statement of financial position</i>			
<i>As at 31 December 2016</i>			
ASSETS			
Property and equipment	14,961,776	169,427	15,131,203
Reinsurance recoverable on outstanding claims	51,265,374	(1,225,990)	50,039,384
LIABILITIES			
Outstanding claims reserve	103,869,440	2,487,296	106,356,736
Unearned premiums reserve (net)	33,203,178	1,793,441	34,996,619
TOTAL EQUITY			
Retained earnings	36,619,761	(2,722,838)	33,896,923
Non-controlling interests	19,456,694	(2,614,462)	16,842,232