

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

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

31 MARCH 2015 (UNAUDITED)



Building a better
working world

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**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION TO THE BOARD OF DIRECTORS OF GULF INSURANCE GROUP K.S.C.P.
(FORMERLY GULF INSURANCE COMPANY K.S.C.)**

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Gulf Insurance Group K.S.C.P. (the "Parent Company") and its subsidiaries (collectively the "Group") (Formerly Gulf Insurance Company K.S.C.) as at 31 March 2015 and the related interim condensed consolidated statement of income, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three months period then ended. The management of the Parent Company is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Parent Company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No 25 of 2012, as amended and its executive regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, during the three months period ended 31 March 2015 that might have had a material effect on the business of the Parent Company or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL AIBAN AL OSAIMI & PARTNERS

DR. SAUD HAMAD AL-HUMAIDI
LICENSE NO. 51 A
OF DR. SAUD HAMAD AL-HUMAIDI & PARTNERS
MEMBER OF BAKER TILLY INTERNATIONAL

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

Period ended 31 March 2015

	Notes	3 months ended 31 March	
		2015 KD	2014 KD
Revenue:			
Premiums written		54,273,639	53,890,690
Reinsurance premiums ceded		(21,608,449)	(18,440,522)
Net premiums written		32,665,190	35,450,168
Movement in unearned premiums reserve		(494,564)	(122,296)
Movement in life mathematical reserve		(10,757,011)	(9,060,346)
Net premiums earned		21,413,615	26,267,526
Commission received on ceded reinsurance		3,946,636	3,239,746
Policy issuance fees		960,426	791,950
Net investment income from life insurance	3	988,143	424,866
		<u>27,308,820</u>	<u>30,724,088</u>
Expenses:			
Claims incurred		16,292,440	18,604,840
Commission and discounts		2,591,203	3,772,539
Increase in incurred but not reported reserve		-	522,073
Maturity and cancellations of life insurance policies		732,887	587,518
General and administrative expenses		4,123,770	5,484,468
		<u>23,740,300</u>	<u>28,971,438</u>
Net underwriting income:		3,568,520	1,752,650
Net investment income	3	2,629,707	3,634,683
Net sundry income		117,193	58,900
		<u>6,315,420</u>	<u>5,446,233</u>
Other charges:			
Unallocated general and administrative expenses		(2,011,820)	(1,558,967)
PROFIT FOR THE PERIOD BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST) AND ZAKAT TAX		4,303,600	3,887,266
Contribution to KFAS		(50,015)	(31,184)
NLST		(66,785)	(44,689)
Zakat tax		(12,355)	(11,329)
PROFIT FOR THE PERIOD		<u>4,174,445</u>	<u>3,800,064</u>
Attributable to:			
Equity holders of the Parent Company		3,741,587	3,047,217
Non-controlling interests		432,858	752,847
		<u>4,174,445</u>	<u>3,800,064</u>
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	4	<u>20.86 fils</u>	<u>16.71 fils</u>

The attached notes 1 to 9 form part of this interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

Period ended 31 March 2015

	Note	3 months ended 31 March	
		2015 KD	2014 KD
Profit for the period		4,174,445	3,800,064
Other comprehensive income:			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Net unrealised gain on investments available for sale		384,272	642,674
Net realised gain transferred to statement of income on sale of investments available for sale	3	(190,923)	(1,502,821)
Impairment loss on investments available for sale	3	181,002	271,358
Share of other comprehensive income of associates		12,647	66,279
Exchange differences on translation of foreign operations		157,233	(567,667)
Other comprehensive income (loss) for the period		544,231	(1,090,177)
Total comprehensive income for the period		4,718,676	2,709,887
ATTRIBUTABLE TO:			
Equity holders of the Parent Company		4,285,818	1,957,040
Non-controlling interests		432,858	752,847
		4,718,676	2,709,887

The attached notes 1 to 9 form part of this interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

At 31 March 2015

	Note	31 March 2015 KD	(Audited) 31 December 2014 KD	31 March 2014 KD
ASSETS				
Property and equipment		14,599,337	15,682,210	12,514,129
Investments in associates		29,425,549	28,142,091	24,819,910
Goodwill		8,998,351	8,998,351	8,998,351
Financial instruments:				
Investments held to maturity		19,719,366	19,271,576	20,559,925
Debt securities (loans)		11,726,869	11,733,148	11,751,985
Investments available for sale		37,933,140	35,170,682	33,711,520
Investments carried at fair value through income statement		20,754,399	19,854,424	17,828,617
Loans secured by life insurance policies		1,221,240	1,266,153	1,148,222
Premiums and insurance balances receivable		54,276,943	47,164,201	52,586,789
Reinsurance recoverable on outstanding claims		54,345,468	50,140,310	50,874,649
Properties held for sale		229,455	286,876	283,446
Other assets		15,444,427	12,767,641	13,698,280
Time deposits		43,060,199	23,565,538	31,021,560
Cash and cash equivalents	5	49,183,336	73,176,130	58,724,899
TOTAL ASSETS		360,918,079	347,219,331	338,522,282
LIABILITIES AND EQUITY				
LIABILITIES				
Liabilities arising from insurance contracts:				
Outstanding claims reserve (gross)		103,548,373	98,444,923	93,376,710
Unearned premiums reserve (net)		31,963,913	32,654,100	30,975,648
Life mathematical reserve (net)		32,443,031	21,697,645	30,605,597
Incurred but not reported reserve (net)		1,650,000	4,126,296	5,423,445
Total liabilities arising from insurance contracts		169,605,317	156,922,964	160,381,400
Premiums received in advance		1,485,416	761,444	362,930
Insurance payable		40,698,705	44,382,066	40,125,925
Other liabilities		27,421,560	21,762,413	20,035,732
Bank overdraft	5	21,905,844	21,532,000	21,495,777
TOTAL LIABILITIES		261,116,842	245,360,887	242,401,764
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY				
Share capital		18,703,913	18,703,913	18,703,913
Share premium		3,600,000	3,600,000	3,600,000
Treasury shares		(4,040,263)	(3,967,705)	(2,744,527)
Treasury shares reserve		2,051,215	2,051,215	2,051,215
Statutory reserve		17,081,913	17,081,913	15,830,998
Voluntary reserve		21,035,326	21,035,326	19,784,411
Other reserve		(3,057,705)	(3,054,726)	(3,037,115)
Cumulative changes in fair values		2,455,733	2,068,735	3,642,153
Foreign currency translation adjustments		(3,728,603)	(3,885,836)	(5,285,447)
Revaluation reserve		2,559,760	2,559,760	-
Retained earnings		25,813,287	27,986,879	26,982,260
Non-controlling interests		82,474,576	84,179,474	79,527,861
		17,326,661	17,678,970	16,592,657
Total equity		99,801,237	101,858,444	96,120,518
TOTAL LIABILITIES AND EQUITY		360,918,079	347,219,331	338,522,282


Khaled S. Al-Hassan
Chief Executive Officer

The attached notes 1 to 9 form part of this interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Period ended 31 March 2015

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
Balance at 1 January 2015 (Audited)	18,703,913	3,600,000	(3,967,705)	2,051,215	17,081,913	21,035,326	(3,054,726)	2,068,735	(3,885,836)	2,559,760	27,986,879	84,179,474	17,678,970	101,858,444
Profit for the period	-	-	-	-	-	-	-	-	-	-	3,741,587	3,741,587	432,858	4,174,445
Other comprehensive income	-	-	-	-	-	-	-	386,998	157,233	-	-	544,231	-	544,231
Total comprehensive income for the period	-	-	-	-	-	-	-	386,998	157,233	-	3,741,587	4,285,818	432,858	4,718,676
Dividends for 2014	-	-	-	-	-	-	-	-	-	-	(5,915,179)	(5,915,179)	-	(5,915,179)
Purchase of treasury shares	-	-	(72,558)	-	-	-	-	-	-	-	-	(72,558)	-	(72,558)
Change in ownership of a subsidiary	-	-	-	-	-	-	(2,979)	-	-	-	-	(2,979)	-	(2,979)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(785,167)	(785,167)
Balance at 31 March 2015	18,703,913	3,600,000	(4,040,263)	2,051,215	17,081,913	21,035,326	(3,057,705)	2,455,733	(3,728,603)	2,559,760	25,813,287	82,474,576	17,326,661	99,801,237

The attached notes 1 to 9 form part of this interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Period ended 31 March 2015

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		Revaluation reserve KD	Retained earnings KD	Sub total KD	Non-controlling interests KD	Total equity KD
									KD	KD					
Balance at 1 January 2014 (Audited)	18,703,913	3,600,000	(1,837,125)	2,051,215	15,830,998	19,784,411	(3,015,966)	4,164,663	(4,717,780)	-	23,935,043	78,499,372	16,795,727	95,295,099	
Profit for the period	-	-	-	-	-	-	-	-	-	-	3,047,217	3,047,217	752,847	3,800,064	
Other comprehensive loss	-	-	-	-	-	-	-	(522,510)	(567,667)	-	-	(1,090,177)	-	(1,090,177)	
Total comprehensive (loss) income for the period	-	-	-	-	-	-	-	(522,510)	(567,667)	-	3,047,217	1,957,040	752,847	2,709,887	
Purchase of treasury shares	-	-	(907,402)	-	-	-	-	-	-	-	-	(907,402)	-	(907,402)	
Change in ownership of a subsidiary	-	-	-	-	-	-	(21,149)	-	-	-	-	(21,149)	-	(21,149)	
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(955,917)	(955,917)	
Balance at 31 March 2014	18,703,913	3,600,000	(2,744,527)	2,051,215	15,830,998	19,784,411	(3,037,115)	3,642,153	(5,285,447)	-	26,982,260	79,527,861	16,592,657	96,120,518	

The attached notes 1 to 9 form part of this interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

Period ended 31 March 2015

	Notes	3 months ended 31 March	
		2015 KD	2014 KD
OPERATING ACTIVITIES			
Profit for the period		4,174,445	3,800,064
Adjustments for:			
Depreciation		244,694	278,556
Gain on sale of property and equipment		-	(14,321)
Net investment income		(2,799,812)	(3,695,861)
Impairment loss on investments available for sale	3	181,002	271,358
Share of results of associates	3	(999,040)	(635,046)
Contribution to KFAS		50,015	31,184
NLST		66,785	44,689
Zakat tax		12,355	11,329
		<u>930,444</u>	<u>91,952</u>
Changes in operating assets and liabilities:			
Investments carried at fair value through income statement		101,730	539,400
Premiums and insurance balances receivable		(7,112,742)	(3,992,593)
Reinsurance recoverable on outstanding claims		(4,205,158)	(3,521,120)
Property held for sale		57,421	139,073
Other assets		(3,018,996)	(1,067,995)
Liabilities arising from insurance contracts		12,682,353	15,170,210
Premiums received in advance		723,972	82,875
Insurance payable		(3,683,361)	(1,565,785)
Other liabilities		5,534,427	2,199,134
		<u>2,010,090</u>	<u>8,075,151</u>
INVESTING ACTIVITIES			
Purchase of property and equipment		-	(99,605)
Purchase of investment in a subsidiary		(4,435)	-
Proceeds from sale of property and equipment		838,179	49,802
Net movement of investments available for sale		(2,381,165)	1,709,021
Net movement of debt securities (loans)		6,279	6,052
Net movement of investments held to maturity		(447,790)	(640,959)
Time deposits		(19,494,661)	(9,700,514)
Loans secured by life insurance policies		44,913	37,210
Dividends income received		861,900	1,008,120
Interest received		1,087,494	986,239
		<u>(19,489,286)</u>	<u>(6,644,634)</u>
FINANCING ACTIVITIES			
Purchase of treasury shares		(72,558)	(907,402)
Dividends paid		(5,915,179)	-
Dividends to non-controlling interests		(785,167)	(955,917)
		<u>(6,772,904)</u>	<u>(1,863,319)</u>
DECREASE IN CASH AND CASH EQUIVALENTS		(24,252,100)	(432,802)
Net foreign exchange difference		(114,538)	(567,667)
Cash and cash equivalents at 1 January		51,644,130	38,229,591
CASH AND CASH EQUIVALENTS AT 31 MARCH	5	27,277,492	37,229,122

The attached notes 1 to 9 form part of this interim condensed consolidated financial information.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 31 March 2015

1 ACTIVITIES

The interim condensed consolidated financial information of Gulf Insurance Group K.S.C.P. (the "Parent Company") and its subsidiaries (the "Group") were authorised for issue by the Board of Directors on 06 May 2015. The general assembly meeting of the Parent Company's shareholders was held on 31 March 2015. Approved the financial statements for the year ended 31 December 2014 and approved the proposed distribution of cash dividends of 33 fils per share.

The Parent Company is a Kuwaiti Shareholding Company incorporated in the State of Kuwait in accordance with the Amiri Decree No. 25 of 9 April 1962, and is listed on the Kuwait Stock Exchange. The address of the Parent Company's registered office is P.O. Box 1040 Safat 13011, State of Kuwait. 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 2014: 44.04% and 31 March 2014: 44.04%) owned by Kuwait Project Company Holding K.S.C.P and 41.42% by Fairfax Financial Holding Limited as at 31 March 2015.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group is prepared in accordance with International Accounting Standard (IAS 34), Interim Financial Reporting.

The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2014.

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with the IFRS. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. Operating results for the three months period ended 31 March 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

The interim condensed consolidated financial information is presented in Kuwaiti Dinars (KD).

Standards issued but not yet effective

IFRS 9 Financial Instruments (effective for annual periods on or after 1 January 2018)

Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The Group is in the process of quantifying the impact of this standard on the Group's consolidated financial statements, when adopted.

IFRS 15 – Revenue from Contracts with customers

IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRS 15, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Parent Company is in the process of evaluating the effect of IFRS 15 on the Group and do not expect any significant impact on adoption of this standard

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

At 31 March 2015

3 NET INVESTMENT INCOME

	<i>3 months ended</i>	
	<i>31 March</i>	
	<u>2015</u>	<u>2014</u>
	<i>KD</i>	<i>KD</i>
Net realised gain on sale of investments available for sale	190,923	1,502,821
Realised gain on sale of investments at fair value through income statement	151,336	428,760
Dividend income	861,900	1,008,120
Share of results of associates	999,040	635,046
Unrealised gain on investments at fair value through income statement	810,782	199,668
Interest on investments held to maturity	376,679	386,046
Interest on debt securities (loans)	208,245	199,727
Interest on time and call deposits	502,570	540,824
Foreign exchange gain	204,687	52,498
Other investment income	121,507	1,234,742
Impairment loss on investments available for sale	(181,002)	(271,358)
Finance costs	(188,169)	(113,274)
Other investment expenses	(440,648)	(1,744,071)
	<u>3,617,850</u>	<u>4,059,549</u>

Net investment income is presented in the interim condensed consolidated statement of income as follows:

	<i>3 months ended</i>	
	<i>31 March</i>	
	<u>2015</u>	<u>2014</u>
	<i>KD</i>	<i>KD</i>
Net investment income from life insurance	988,143	424,866
Net investment income from non-life insurance	2,629,707	3,634,683
	<u>3,617,850</u>	<u>4,059,549</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 31 March 2015

4 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

Basic earnings per share is calculated by dividing profit for the period attributable to equity holders of the Parent Company by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by dividing profit for the period attributable to equity holders of the Parent Company by the weighted average number of ordinary shares, less treasury shares, outstanding during the period.

	<i>3 months ended</i>	
	<i>31 March</i>	
	<i>2015</i>	<i>2014</i>
	<i>KD</i>	<i>KD</i>
Profit attributable to equity holders of the Parent Company	<u>3,741,587</u>	<u>3,047,217</u>
	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares, less treasury shares outstanding during the period	<u>179,341,966</u>	<u>182,390,484</u>
Basic and diluted earnings per share	<u>20.86 fils</u>	<u>16.71 fils</u>

5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the interim condensed consolidated statement of cash flows include the following balances:

	<i>31 March</i>	<i>(Audited)</i>	<i>31 March</i>
	<i>2015</i>	<i>31 December</i>	<i>2014</i>
	<i>KD</i>	<i>2014</i>	<i>KD</i>
		<i>KD</i>	<i>KD</i>
Bank balances and cash	13,931,448	15,499,503	11,804,988
Short term and call deposits	35,251,888	57,676,627	46,919,911
Cash and cash equivalents in the interim condensed consolidated statement of financial position	<u>49,183,336</u>	<u>73,176,130</u>	<u>58,724,899</u>
Bank overdraft	<u>(21,905,844)</u>	<u>(21,532,000)</u>	<u>(21,495,777)</u>
Cash and cash equivalents in the interim condensed consolidated statement of cash flows	<u>27,277,492</u>	<u>51,644,130</u>	<u>37,229,122</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 31 March 2015

6 SEGMENT INFORMATION

For the management purpose the Group operates in two segments, general risk insurance and life and medical insurance; there are no inter-segment transactions. The following are the details of these two segments:

	General risk insurance				Life and medical					
	Marine and aviation KD	Property KD	Motor KD	Engineering KD	General accidents KD	Sub-total KD	Life insurance KD	Medical insurance KD	Sub-total KD	Total KD
<i>Three months ended</i>										
<i>31 March 2015</i>										
Segment revenue	922,922	1,531,168	9,279,331	825,994	1,869,740	14,429,155	4,051,872	8,827,793	12,879,665	27,308,820
Segment results (net underwriting income)	425,003	248,724	429,350	260,545	848,086	2,211,708	317,966	1,038,846	1,356,812	3,568,520
<i>Three months ended</i>										
<i>31 March 2014</i>										
Segment revenue	1,043,889	2,059,489	10,619,199	789,579	2,215,075	16,727,231	5,024,401	8,972,456	13,996,857	30,724,088
Segment results (net underwriting income)	339,663	265,263	27,220	48,219	470,258	1,150,623	443,571	158,456	602,027	1,752,650

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 31 March 2015

7 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 interim condensed consolidated statement of income are as follows:

	31 March 2015		31 March 2014	
	Premiums KD	Claims KD	Premiums KD	Claims KD
Major shareholders				
Directors and key management personnel	169,060	17,631	150,355	6,238
Other related parties	1,856,816	5,168	1,837,879	114,613
	<u>2,025,876</u>	<u>22,799</u>	<u>1,988,234</u>	<u>120,851</u>

Compensation of key management personnel is as follows:

	3 months ended 31 March	
	2015 KD	2014 KD
Salaries and other short-term benefits	213,844	231,669
Employees' end of service benefits	54,671	200,606
	<u>268,515</u>	<u>432,275</u>

Balances with related parties included in the interim condensed consolidated statement of financial positions are as follows:

	31 March 2015		31 December 2014 (Audited)		31 March 2014	
	Amounts owed by related parties KD	Amounts owed to related parties KD	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	283,905	-	193,447	-	334,730	-
Other related parties	1,222,598	(1,107,248)	592,514	958,727	1,053,120	(412,510)
	<u>1,506,503</u>	<u>(1,107,248)</u>	<u>785,961</u>	<u>958,727</u>	<u>1,387,850</u>	<u>(412,510)</u>

The Group has also engaged with related parties in its investment activities as follows:

- The Group holds certain deposits and call accounts with a related party financial institution amounting to KD 21,565,446 (31 December 2014: KD 17,795,406 and 31 March 2014: KD 16,776,004). The Group also holds bonds issued by a major shareholder and other related companies amounting to KD 10,726,869 (31 December 2014: KD 10,733,148 and 31 March 2014: KD 10,751,985).
- Included under other assets an amount of KD 1,402,689 (31 December 2014: KD 1,402,689 and 31 March 2014: KD 1,402,689) which represents loan granted to an entity under common control. This loan is interest free and repayable on demand.

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

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At 31 March 2015

7 RELATED PARTY TRANSACTIONS (continued)

Group Restructure plan:

On 24 September 2014, the General Assembly of the Parent Company's shareholder and its subsidiary Gulf Insurance and Re-insurance Company K.S.C. (Closed) "GIRC" (Formerly Gulf Life Insurance Company K.S.C. (Closed)) were held and approved the following:

- Transfer the ownership of certain assets held by the Parent Company to GIRC at its carrying value of KD 64,454,181
- Transfer of certain corresponding liabilities from the Parent Company to GIRC at its carrying value of KD 60,189,548
- In addition, it was agreed to transfer the investment in Egypt Life Takaful Insurance Company S.A.E., a 59.5 % owned subsidiary held by GIRC to the Parent Company at its carrying value as of 30 June 2014.

The effective date of the above transaction is 1 July 2014 which was approved by the General Assembly of the Parent Company and the General Assembly of the subsidiary company.

The management of the Group believes that there will be no significant impact on policyholders and shareholders as result of transferring the Non-life insurance portfolios.

8 CONTINGENT LIABILITIES

At 31 March 2015, the Group was contingently liable in respect of letters of guarantees and other guarantees amounting to KD 6,995,710 (31 December 2014: KD 6,986,076 and 31 March 2014: KD 4,192,555).

9 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of investments held to maturity, debt securities (loans), investments available for sale, investments carried at fair value through income statement, loans secured by life insurance policies, premiums and insurance balances receivable, reinsurance on outstanding claims, time deposits, bank balances and short term deposits. Financial liabilities consist of bank overdrafts, insurance payable and certain other liabilities.

The fair values of financial instruments, with the exception of certain available for sale investments carried at cost, are not materially different from their carrying values. The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 31 March 2015

9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

31 March 2015	Level 1 KD	Level 2 KD	Level 3 KD	Total fair value KD
Financial instruments:				
Investments available for sale:				
Quoted equity securities	24,515,683	-	-	24,515,683
Unquoted equity securities	-	8,857,789	4,397,224	13,255,013
Unquoted managed funds	-	37,602	124,842	162,444
Investments carried at fair value through income statements:				
Held for Trading:				
Quoted securities	7,817,503	-	-	7,817,503
Designated upon initial recognition:				
Managed funds of quoted securities	12,936,896	-	-	12,936,896
Total	45,270,082	8,895,391	4,522,066	58,687,539

31 December 2014 (Audited)	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Financial instruments:				
Investments available for sale:				
Quoted equity securities	21,697,303	-	-	21,697,303
Unquoted equity securities	-	8,851,050	4,364,196	13,215,246
Unquoted managed funds	-	-	163,377	163,377
Investments carried at fair value through income statements:				
Held for Trading:				
Quoted securities	5,008,511	-	-	5,008,511
Designated upon initial recognition:				
Managed funds of quoted securities	14,845,913	-	-	14,845,913
Total	41,551,727	8,851,050	4,527,573	54,930,350

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 31 March 2015

9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

31 March 2014	Level 1 KD	Level 2 KD	Level 3 KD	Total fair value KD
Financial instruments:				
Investments available for sale:				
Quoted equity securities	15,759,483	-	-	15,759,483
Unquoted equity securities	-	11,801,400	5,623,037	17,424,437
Unquoted managed funds	-	-	241,466	241,466
Investments carried at fair value through income statements:				
Held for Trading:				
Quoted securities	3,448,209	-	-	3,448,209
Designated upon initial recognition:				
Managed funds of quoted securities	14,380,408	-	-	14,380,408
Total	33,588,100	11,801,400	5,864,503	51,254,003

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

	At 1 January 2015 KD	Transfer from available for sale to investment in associate KD	Gain / (loss) recorded in the consolidated statement of income KD	Gain / (loss) recorded in the consolidated statement of comprehensive income KD	Net purchases And disposals KD	At 31 March 2015 KD
Financial assets available for sale:						
Unquoted equity securities	4,364,196	-	-	33,028	-	4,397,224
Unquoted managed funds	163,377	-	-	(38,535)	-	124,842
	<u>4,527,573</u>	<u>-</u>	<u>-</u>	<u>(5,507)</u>	<u>-</u>	<u>4,522,066</u>

	At 1 January 2014 KD	Transfer from available for sale to investment in associate KD	Gain / (loss) recorded in the consolidated statement of income KD	Gain / (loss) recorded in the consolidated statement of comprehensive income KD	Net purchases And disposals KD	At 31 December 2014 KD
Financial assets available for sale:						
Unquoted equity securities	5,585,067	(1,138,750)	(11,210)	(66,734)	(4,177)	4,364,196
Unquoted managed funds	356,636	-	(84,230)	82,918	(191,947)	163,377
	<u>5,941,703</u>	<u>(1,138,750)</u>	<u>(95,440)</u>	<u>16,184</u>	<u>(196,124)</u>	<u>4,527,573</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 31 March 2015

9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	<i>At 1 January 2014 KD</i>	<i>loss recorded in the consolidated statement of income KD</i>	<i>Gain (Loss) recorded in the consolidated statement of comprehensive income KD</i>	<i>Net purchases and disposals KD</i>	<i>At 31 March 2014 KD</i>
<i>Financial assets available for sale:</i>					
Unquoted equity securities	5,585,067	-	69,691	(31,721)	5,623,037
Unquoted managed funds	356,636	(108,928)	(4,553)	(1,689)	241,466
	<u>5,941,703</u>	<u>(108,928)</u>	<u>65,138</u>	<u>(33,410)</u>	<u>5,864,503</u>

During the period ended 31 March 2015, there were no transfers between Level 1 and Level 2 fair value measurements.

The calculation of fair value of level 3 financial instruments is not materially sensitive to changes in assumptions.

Description of significant unobservable inputs to valuation of financial assets:

Local unquoted securities represent delisted securities on local 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 equity investment is valued based on net book value method using latest available financial statement of the investee entity, wherein the underlying assets are fair valued.