WARBA INSURANCE COMPANY K.S.C.P.
AND ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

Building a better working world

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF WARBA INSURANCE COMPANY K.S.C.P.

Report on the Audit of Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Warba Insurance Company K.S.C.P. (the "Parent Company") and its subsidiary (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, 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 (including International Independence Standards)* (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 period. 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.

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

Report on the Audit of 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 amounting to KD 12,728,033 representing 11% of the Group's total assets are significant to the Group's consolidated financial statements as at 31 December 2020. The determination as to whether a receivable is collectable involves significant management judgement. Management considers specific factors, which include the age of the balance, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties, including COVID-19 considerations. Management uses this information to determine whether a allowance for impairment is required either for a specific transaction or for a customer's balance.

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

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

We selected a sample of receivable balances where allowance for impairment of receivables was recognised and inquired about the rationale behind management's judgement. In order to evaluate the appropriateness of these judgements, we verified whether balances were overdue, the customer's historical payment patterns and whether any post year-end payments have been received up to the date of completing our audit procedures, including COVID-19 considerations. We also obtained corroborated evidences including correspondence supporting any disputes between the parties involved, attempts by management to recover the amounts outstanding and on the credit status of significant counterparties where available.

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

Further, we assessed the adequacy of disclosures relating to the receivables arising from insurance and reinsurance contracts given in Note 9 to the consolidated financial statements.

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

b) Insurance Contract Liabilities

Insurance contract liabilities include: (“Outstanding Claims reserve” or “OCR”), (“Unearned Premiums Reserve” or “UPR”), (“Life Mathematical Reserve” or “LMR”) and (“Incurred But Not Reported reserve” or “IBNR”). Insurance contract liabilities are significant to the Group’s consolidated financial statements as at 31 December 2020. As disclosed in Note 2.5 to the consolidated financial statements, the determination of these reserves involves significant judgment over uncertain future outcomes, including primarily the timing and ultimate full settlement of long-term policyholder liabilities. The Group uses different models to calculate the insurance contract 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.

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

The Group uses the work of a management’s specialist, and an external independent actuary for the determination of Insurance contract liabilities. Our audit procedures focused on evaluating the competence, capabilities and objectivity of the management’s specialist and external independent actuary and evaluating their work, which involved analysing the rationale for the economic and actuarial assumptions used by the managements of the Group along with comparison to applicable industry benchmarks. Our internal actuarial specialists were part of our audit team to assist us in evaluating the key inputs and assumptions.

In addition, we have performed test of controls in place, checked the design and the operating effectiveness of key controls. We have also performed substantive analytical procedures, and tested on a sample basis the accuracy of the historical data used, and reasonableness of assumptions adopted, and recalculating the non-life insurance technical reserves on a sample basis whenever required, in the context of both the Group and industry experience and specific product features. We further evaluated the adequacy of disclosures relating to insurance contract liabilities in Note 16 to the consolidated financial statements.

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

Report on the Audit of Consolidated Financial Statements (continued)

Other information included in the Group's 2020 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 Annual Report after the date of our auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this 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.

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

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

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

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

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

Report on the Audit of Consolidated Financial Statements (continued)

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

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

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

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

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

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

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

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

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, actions taken to eliminate threats or safeguards applied.

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

Report on the Audit of Consolidated Financial Statements (continued)

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 1 of 2016, 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, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2020 that might have had a material effect on the business of the Parent Company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2020 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

21 February 2021
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2020

	Notes	***2020*** ***KD***	*2019* *KD*
Revenues:			
Gross premiums written		**30,632,653**	29,679,000
Premiums ceded to reinsurers		**(14,691,531)**	(14,569,096)
Net premiums written		**15,941,122**	15,109,904
Movement in unearned premiums reserve		**15,964**	(261,188)
Movement in life mathematical reserve		**(19,400)**	(122,415)
Net premiums earned		**15,937,686**	14,726,301
Commissions income earned on ceded reinsurance		**1,405,594**	1,351,334
Policy issuance fees		**124,728**	180,608
		17,468,008	16,258,243
Expenses:			
Net claims incurred	16	**(9,047,843)**	(9,722,803)
Commissions and premiums' acquisition costs		**(2,046,279)**	(1,947,130)
General and administrative expenses		**(4,564,837)**	(4,774,001)
		(15,658,959)	(16,443,934)
Net underwriting income (loss)		**1,809,049**	(185,691)
Net investment income	3	**998,789**	1,664,671
Other insurance services income		**433,971**	516,662
Foreign currency exchange differences		**(418,080)**	39,666
Other income		**39,345**	93,088
Share of results of associates	6	**243,392**	294,990
		3,106,466	2,423,386
Other expenses:			
Other insurance services expense		**(718,151)**	(745,123)
Allowances for impairment for doubtful and bad debts	9	**(500,000)**	(500,000)
		(1,218,151)	(1,245,123)
Profit before contribution to Kuwait Foundation for the Advancement of Science (KFAS), National Labor Support Tax (NLST) and Zakat		**1,888,315**	1,178,263
Contribution to KFAS		**(17,776)**	(10,504)
NLST		**(44,662)**	(28,210)
Zakat		**(16,557)**	(9,601)
PROFIT FOR THE YEAR		**1,809,320**	1,129,948
Attributable to:			
Equity holders of the Parent Company		**1,822,172**	1,170,379
Non-controlling interest		**(12,852)**	(40,431)
		1,809,320	1,129,948
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	4	**10.97 Fils**	7.04 Fils

The attached notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	***2020*** ***KD***	*2019* *KD*
Profit for the year		**1,809,320**	1,129,948
Other comprehensive (loss) income:			
Items that are or may be reclassified to the consolidated statement of income in subsequent periods:			
Net unrealised (loss) gain of financial assets available for sale		**(1,777,564)**	941,681
Impairment loss on financial assets available for sale		**172,420**	-
Loss on sale of financial assets available for sale	3	**-**	93,089
Share of other comprehensive gain of associates	6	**593**	-
Other comprehensive (loss) income for the year		**(1,604,551)**	1,034,770
Total comprehensive income for the year		**204,769**	2,164,718
Attributable to:			
Equity holders of the Parent Company		**217,621**	2,205,149
Non-controlling interests		**(12,852)**	(40,431)
		204,769	2,164,718

The attached notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	*31 December 2020 KD*	*31 December 2019 KD*
ASSETS			
Property and equipment	5	**7,308,776**	7,302,192
Investment in associates	6	**7,683,578**	7,565,095
Loan secured by life insurance policies		**26,918**	26,491
Financial assets available for sale	7	**19,267,759**	20,445,323
Financial assets at fair value through profit or loss	8	**8,960,006**	7,911,186
Reinsurance share in outstanding claims reserve	16	**45,469,252**	49,202,692
Insurance and reinsurance receivables	9	**12,728,033**	13,503,821
Other assets	10	**6,662,918**	6,097,469
Fixed deposits	11	**6,588,215**	6,671,600
Cash and cash equivalents	12	**5,733,749**	414,143
TOTAL ASSETS		**120,429,204**	119,140,012
EQUITY AND LIABILITIES			
Equity			
Share capital	13	**17,710,846**	17,278,874
Statutory reserve	14	**8,781,109**	8,781,109
General reserve		**4,000,000**	4,000,000
Voluntary reserve	14	**764,895**	764,895
Treasury shares	15	**(1,275,970)**	(1,275,970)
Treasury shares reserve		**164,760**	164,760
Cumulative changes in fair values reserve		**4,836,890**	6,441,441
Retained earnings		**2,126,424**	1,951,903
Equity attributable to equity holders of the Parent Company		**37,108,954**	38,107,012
Non-controlling interests		**(41,999)**	(29,147)
Total equity		**37,066,955**	38,077,865
Liabilities			
Long term loan		**2,000,000**	-
Insurance contract liabilities	16	**62,555,184**	65,285,130
Insurance and reinsurance payables	17	**8,794,212**	9,177,949
Other liabilities	18	**10,012,853**	6,599,068
Total liabilities		**83,362,249**	81,062,147
TOTAL EQUITY AND LIABILITIES		**120,429,204**	119,140,012

Anwar Jawad Bu-Khamseen
Chairman

Sheikh Mohammed Jarrah Sabah Al-Sabah
Vice Chairman

WARBA INSURANCE
وربــــة للتأمين

The attached notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Equity attributable to equity holders of the Parent Company										
	Share capital KD	*Statutory reserve KD*	*General reserve KD*	*Voluntary reserve KD*	*Treasury shares KD*	*Treasury shares reserve KD*	*Cumulative changes in fair values reserve KD*	*Retained earnings KD*	*Sub total KD*	*Non-controlling interests KD*	*Total equity KD*
As at 1 January 2020	17,278,874	8,781,109	4,000,000	764,895	(1,275,970)	164,760	6,441,441	1,951,903	38,107,012	(29,147)	38,077,865
Profit (loss) for the year	-	-	-	-	-	-	-	1,822,172	1,822,172	(12,852)	1,809,320
Other comprehensive loss	-	-	-	-	-	-	(1,604,551)	-	(1,604,551)	-	(1,604,551)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(1,604,551)	1,822,172	217,621	(12,852)	204,769
Bonus shares (Note 13)	431,972	-	-	-	-	-	-	(431,972)	-	-	-
Cash dividends (Note 13)	-	-	-	-	-	-	-	(1,215,679)	(1,215,679)	-	(1,215,679)
As at 31 December 2020	**17,710,846**	**8,781,109**	**4,000,000**	**764,895**	**(1,275,970)**	**164,760**	**4,836,890**	**2,126,424**	**37,108,954**	**(41,999)**	**37,066,955**
As at 1 January 2019	17,278,874	8,781,109	4,000,000	764,895	(1,275,970)	164,760	5,406,671	781,524	35,901,863	11,284	35,913,147
Profit (loss) for the year	-	-	-	-	-	-	-	1,170,379	1,170,379	(40,431)	1,129,948
Other comprehensive income	-	-	-	-	-	-	1,034,770	-	1,034,770	-	1,034,770
Total comprehensive income (loss) for the year	-	-	-	-	-	-	1,034,770	1,170,379	2,205,149	(40,431)	2,164,718
As at 31 December 2019	17,278,874	8,781,109	4,000,000	764,895	(1,275,970)	164,760	6,441,441	1,951,903	38,107,012	(29,147)	38,077,865

The attached notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	*2020* *KD*	*2019* *KD*
OPERATING ACTIVITIES			
Profit for the year before contribution to KFAS, NLST and Zakat		**1,888,315**	1,178,263
Adjustments to reconcile profit for the year to net cash flows:			
Unrealised loss (gain) of financial assets at fair value through profit or loss	3	**366,017**	(436,977)
Loss on sale of financial assets available for sale	3	**-**	93,089
Realized gain from sale of financial assets at fair value through profit or loss	3	**(17,973)**	-
Impairment loss on financial assets available for sale	3	**172,420**	-
Allowances for impaired receivables	9	**500,000**	500,000
Dividend income	3	**(1,001,359)**	(900,561)
Interest income	3	**(517,894)**	(420,222)
Share of results of associates	6	**(243,392)**	(294,990)
Depreciation of property and equipment	5	**182,109**	213,000
Provision for employees' end of service benefits		**173,155**	259,829
		1,501,398	191,431
Changes in operating assets and liabilities:			
Reinsurance share in outstanding claims reserve		**3,733,440**	(15,056,536)
Insurance and reinsurance receivables		**275,788**	5,384,503
Other assets		**(503,263)**	868,118
Insurance contract liabilities		**(2,729,946)**	13,082,359
Insurance and reinsurance payables		**(383,737)**	(4,549,094)
Other liabilities		**3,339,785**	768,747
Cash flows from operations		**5,233,465**	689,528
Employees' end of service benefits paid		**(273,449)**	(245,216)
Net cash flows from operating activities		**4,960,016**	444,312
INVESTING ACTIVITIES			
Net movement in fixed deposits		**83,385**	3,457
Purchase of financial assets at fair value through profit or loss		**(3,587,904)**	(569,447)
Purchase of financial assets available for sale		**(600,000)**	(2,440,759)
Proceeds from sale of financial assets at fair value through profit or loss		**2,191,041**	-
Dividends proceed from investment in associates	6	**125,502**	-
Proceeds from sale of financial assets available for sale		**-**	41,119
Movement on loans secured by life insurance policies		**(426)**	(3,841)
Purchase of property and equipment	5	**(188,693)**	(135,705)
Dividends received		**939,176**	900,561
Interest income received		**517,894**	257,197
Net cash flows used in investing activities		**(520,025)**	(1,947,418)
FINANCING ACTIVITIES			
Dividend paid		**(1,120,385)**	-
Proceeds from long term loan		**2,000,000**	-
Net cash flows from financing activities		**879,615**	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**5,319,606**	(1,503,106)
Cash and cash equivalents as at 1 January		**414,143**	1,917,249
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	12	**5,733,749**	414,143

The attached notes 1 to 26 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial information of Warba Insurance Company K.S.C.P. (the "Parent Company") and its subsidiary – WAPMED TPA Services Company K.S.C.C. (collectively "the Group") for the year ended 31 December 2020 were authorised for issuance with a resolution of the Board of Directors on 21 February 2021. The general assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

The Parent Company is a subsidiary of Bu-Khamseen Holding Company (the "Ultimate Parent Company").

The Parent Company is a Kuwaiti Shareholding Company registered in 1962 under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments. The Parent Company has been engaging in various insurance and reinsurance activities, as set forth in the Parent Company's Articles of Association. The Parent Company's registered head office address is at P. O. Box 24282, Safat 13103, Kuwait.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

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

Further, certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications were made in order to more appropriately present certain items of consolidated statement of income, consolidated statement of financial position and consolidated statement of cash flows, and disclosures. Such reclassifications do not affect previously reported equity and profit for the year.

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

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

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the consolidated financial statements of the Parent Company and its subsidiary as at 31 December 2020. Subsidiary is an investee that the Group has control over.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets
Disclosures relating to impairment of non-financial assets are summarised in the following notes:
a) Disclosures for significant assumptions Note 2.5

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

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

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

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

Impairment losses are recognised in the consolidated statement of income.

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

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

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

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount, an impairment loss is recognised.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Deferred Acquisition Costs (DAC)
Those direct and indirect costs incurred during the financial period arising from the acquiring or renewals of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums from insurance contract.

Commissions paid to intermediaries and other incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts. These costs are subsequently amortised over the terms of the insurance contracts to which they relate, in line with the line of business premiums earned.

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

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

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

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

‣ Buildings	35 years
‣ Furniture and equipment	5 years
‣ Computers	5 to 8 years

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

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

Projects under progress are stated at cost less impairment losses, if any, until projects are complete. Projects under progress includes costs for long-term projects if the recognition criteria are met. Upon the completion of projects, the costs of such asset together with the cost directly attributable to projects are transferred to the respective class of asset. No depreciation is charged on projects under progress.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee and which is neither a subsidiary nor a joint venture.

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

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

The consolidated statement of income reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of the associates is presented as part of the other comprehensive income of the Group. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The aggregate of the Group's share of result of an associate is included in the consolidated statement of income.

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

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

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

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

(i) Financial assets

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

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

The Group's financial assets include "financial assets available for sale", "financial assets at fair value through profit or loss" and "receivable balances". During the year end as at 31 December, the Group did not have any derivatives instruments.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (continued)

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

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

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

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

Financial assets available for sale when fair value cannot be reliably measured, are carried at cost less impairment loss, if any.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and non-trading financial assets designated upon initial recognition as at fair value through statement of income. Financial assets at fair value through profit or loss are remeasured at fair value with all changes in fair value being recorded in the consolidated statement of income. Transaction costs associated with the acquisition of financial assets at fair value through profit or loss are expensed as incurred.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognised in consolidated statement of income.

Non-trading financial assets may be designated at initial recognition as financial assets designated as at fair value through statement of income if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a Group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented investment and risk management strategy.

The Group evaluated its financial assets at fair value through profit or loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through consolidated statement of income using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

Receivable balances
Receivable balances are stated at their face value less impairment losses or allowance for doubtful accounts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (continued)

Subsequent measurement (continued)
Fixed deposits
Fixed deposits are deposits with an original maturity of more than three months but less than one year.

Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand and bank balances, deposits with an original maturity of less than three months and bank overdrafts.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:
- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iii) Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include borrowings and payables. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

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

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

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

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

Fair value measurement
The Group measures financial instruments such as available for sale investments, financial assets through profit or loss, at fair value at each reporting date.

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

A)	Disclosures for significant accounting judgements, estimates and assumptions	Note 2.5
B)	Financial instruments	Note 25
C)	Quantitative disclosures of fair value measurement hierarchy	Note 25

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

National Labour Support Tax (NLST)
The Group calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. As per law, income from associates and 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 in accordance with the requirements of Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

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

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

Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of income.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Life insurance contract liabilities
Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured using the net premium level method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, if any, which are directly related to the contract, less the discounted value of the expected premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, as determine by the Group's actuary. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and premium deficiency, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group. Adjustments to the liabilities at each reporting date are recorded in the consolidated statement of income in 'Gross change in contract liabilities'. The liability is derecognised when the contract expires, is discharged or cancelled.

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

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

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

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date.

At each reporting date, the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums.

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

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of income net of any reimbursement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Gross premiums

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

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense.

Premiums relating to the expired risk period is taken as earned and recognised as revenue for the year while premium relating to the unexpired risk period is treated as a reserve for unexpired risks.

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

Reinsurance premiums

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

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

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

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

Fees and commission income

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

Interest income

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

Dividend income

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

Net realised gains and losses

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

Contingent liabilities and assets
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 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended accounting policies, standards and interpretations
The accounting policies adopted in the preparation of the consolidated financial statement are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: *Definition of a Business*
The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on consolidated financial statements of the Group but may impact in the future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39: *Interest Rate Benchmark Reform:*
The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate bench marker form. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: *Definition of Material*:
The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of the Group, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact consolidated financial statements of the Group.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(ii) Estimation and assumptions

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

Useful lives of property and equipment

The Group's management determines the estimated useful lives of its equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Impairment losses on receivables arising on insurance and reinsurance

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

Impairment of non-financial assets

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

Fair value of financial instruments

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

Life insurance contract liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(ii) Estimation and assumptions (continued)

Life insurance contract liabilities (continued)
Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current market risk rates, adjusted for the Group's own risk exposure.

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

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

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

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.

2.6 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.

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

The amendments introduce two alternative options of applying IFRS 9 for entities issuing contracts within the scope of IFRS 4: a temporary exemption; and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2022 and continue to apply IAS 39 to financial assets and liabilities. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as FVPL; and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for certain designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (continued)
During 2018, the Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance. The Group applied the temporary exemption from IFRS 9 and, therefore, continue to apply IAS 39 to its financial assets and liabilities in its reporting period starting on 1 January 2018.

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.

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 Company 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 from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) of annual reporting periods beginning on or after 1 January 2023, 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 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments (continued)

Key requirements of IFRS 9: (continued)

a) Classification and measurement

<table>
<tr><th>Financial Assets classifications</th><th>IAS 39</th><th>IFRS 9</th><th></th></tr>
<tr><td rowspan="3">EQUITY INSTRUMENTS</td><td rowspan="2">AFS</td><td>FVOCI</td><td>The instruments that are currently classified as available for sale ("AFS") investments are financial instruments whose contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding and are held within a business model whose objective is not achieved both by collecting contractual cash flows and selling in the open market.
Accordingly, such instrument will be subsequently measured at fair value through other comprehensive income ("FVOCI") upon the adoption of IFRS 9.</td></tr>
<tr><td>FVTPL</td><td>The instruments that were classified as available for sale ("AFS") investments are held for selling or are managed on a fair value basis.
Accordingly, such instrument will be subsequently measured at fair value through profit or loss ("FVTPL") upon the adoption of IFRS 9.</td></tr>
<tr><td>FVTPL</td><td>FVTPL</td><td>The instruments that were classified as Financial assets through profit or loss ("FVTPL") investments and carried at fair value. These instruments will be held for trading and are managed on a fair value basis.
Accordingly, such instrument will be subsequently measured at fair value through profit or loss ("FVTPL") upon the adoption of IFRS 9.</td></tr>
<tr><td rowspan="4">DEBT INSTRUMENTS</td><td rowspan="2">AFS</td><td>FVOCI</td><td>The instruments that were classified as available for sale ("AFS") investments are those instruments whose contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding and will be held within a business model whose objective is achieved both by collecting contractual cash flows and selling in the open market.
Accordingly, such instrument will be subsequently measured at fair value through other comprehensive income ("FVOCI") upon the adoption of IFRS 9.</td></tr>
<tr><td>AMORTISED COST</td><td>The instruments that were classified as available for sale ("AFS") investments will be held within a business model whose objective is achieved by collecting contractual cash flows and the instruments contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding.
Accordingly, such instrument will be subsequently measured at amortised cost upon the adoption of IFRS 9.</td></tr>
<tr><td rowspan="2">FVTPL</td><td>AMORTISED COST</td><td>The instruments that were classified as Financial assets through profit or loss ("FVTPL") investments and carried at fair value. These instruments will be held within a business model whose objective is achieved by collecting contractual cash flows, and the instruments contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding.
Accordingly, such instrument will be subsequently measured at amortised cost upon the adoption of IFRS 9.</td></tr>
<tr><td>FVTPL</td><td>The instruments that were classified as Financial assets through profit or loss ("FVTPL") investments are those instruments whose contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL upon the adoption of IFRS 9.</td></tr>
</table>

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments (continued)
Key requirements of IFRS 9: (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 Company'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 consolidated financial instruments particularly in the year of the adoption of IFRS 9.

Overall, the Group performed a high-level 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 Management of the Parent Company concluded that the impact is not material on its consolidated statement of financial position, consolidated statement of income or consolidated statement of comprehensive income.

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

IFRS 17 Insurance Contracts (continued)

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows).
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period).
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period.
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.
- The recognition of insurance revenue and insurance service expenses in the profit or loss based on the concept of services provided during the period.
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet.
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense.
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, 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. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

The Group plans to adopt the new standard on the required effective date together with IFRS 9. The Group started a project to implement IFRS 17 and has been performing a high-level impact assessment of IFRS 17. The Group expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Group and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

3 NET INVESTMENT INCOME

	2020 ***KD***	*2019* *KD*
Dividend income	**1,001,359**	900,561
Interest income	**517,894**	420,222
Realized gain from fair value through profit or loss investments	**17,973**	-
Loss on sale of financial assets available for sale	**-**	(93,089)
Impairment loss of financial assets available for sale (Note 6)	**(172,420)**	-
Unrealised (loss) gain of financial assets at fair value through profit or loss	**(366,017)**	436,977
	998,789	1,664,671

4 BASIC AND DILUTED EARNINGS PER SHARE

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

	2020	*2019 Restated*
Profit for the year attributable to equity holders of the parent company (KD)	**1,822,172**	1,170,379
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares) (Shares)	**166,142,835**	166,142,835
Earnings per share	**10.97 Fils**	7.04 fils

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

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

The comparative basic and diluted earnings per share have been restated to reflect the impact of bonus shares issued in 2020.

5 PROPERTY AND EQUIPMENT

	Land and buildings KD	***Furniture and equipment KD***	***Computers KD***	***Projects under progress KD***	***Total KD***
Cost:					
As at 1 January 2020	8,625,006	734,604	1,741,141	-	11,100,751
Additions	-	19,175	37,463	132,055	188,693
As at 31 December 2020	8,625,006	753,779	1,778,604	132,055	11,289,444
Depreciation:					
As at 1 January 2020	1,692,516	530,912	1,575,131	-	3,798,559
Charge for the year	119,133	30,781	32,195	-	182,109
As at 31 December 2020	1,811,649	561,693	1,607,326	-	3,980,668
Net carrying amount:					
As at 31 December 2020	**6,813,357**	**192,086**	**171,278**	**132,055**	**7,308,776**

	Land and buildings KD	*Furniture and equipment KD*	*Computers KD*	*Projects under progress KD*	*Total KD*
Cost:					
As at 1 January 2019	8,625,006	618,125	1,721,915	-	10,965,046
Additions	-	116,479	19,226	-	135,705
As at 31 December 2019	8,625,006	734,604	1,741,141	-	11,100,751
Depreciation:					
As at 1 January 2019	1,573,709	500,724	1,511,126	-	3,585,559
Charge for the year	118,807	30,188	64,005	-	213,000
As at 31 December 2019	1,692,516	530,912	1,575,131	-	3,798,559
Net carrying amount:					
As at 31 December 2019	6,932,490	203,692	166,010	-	7,302,192

Land and buildings with a net carrying value of KD 2,233,042 (2019: KD 2,827,501) are under lien to the Insurance Regulation Unit.

6 INVESTMENT IN ASSOCIATES

The Group has the following investment in associates:

	Ownership percentage		*Country of*	***2020***	*2019*
	2020	*2019*	*incorporation*	***KD***	*KD*
KIB Takaful Insurance Company K.S.C.C.	**25.1%**	25.1%	Kuwait	**3,544,112**	3,532,577
Partners Properties Company – WLL.	**40.5%**	40.5%	Kuwait	**4,139,466**	4,032,518
				7,683,578	7,565,095

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

	2020	*2019*
	KD	*KD*
Carrying value as at 1 January	**7,565,095**	7,270,105
Share of results of associates	**243,392**	294,990
Share of other comprehensive income	**593**	-
Dividends	**(125,502)**	-
Carrying value as at 31 December	**7,683,578**	7,565,095

Summarized financial information in respect of each of the Group's associates is set out below. The summarized financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs (adjusted by the Group for equity accounting purposes).

KIB Takaful Insurance Company K.S.C.C.

	2020	*2019*
	KD	*KD*
Current assets	**9,245,741**	9,021,632
Non- current assets	**5,992,113**	6,171,379
Current liabilities	**(317,887)**	(318,999)
Non-Current liabilities	**(800,000)**	(800,000)
Equity	**14,119,967**	14,074,012
Revenue	**621,036**	916,696
Profit for the year	**543,597**	656,711
Other comprehensive income for the year	**2,363**	-
Total comprehensive income for the year	**545,960**	656,711

Reconciliation of the above summarized financial information to the carrying amount of the interest in KIB Takaful Insurance Company K.S.C.C. recognized in the consolidated financial statements.

	2020	*2019*
	KD	*KD*
Net assets of the associate	**14,119,967**	14,074,012
Proportion of the Group's ownership interest	**25.1%**	25.1%
Carrying amount of the Group's interest	**3,544,112**	3,532,577

6 INVESTMENT IN ASSOCIATES (continued)

Partners Properties Company – W.L.L.

	2020	*2019*
	KD	*KD*
Current assets	**425,545**	143,163
Non- current assets	**11,100,000**	11,250,000
Current liabilities	**(1,304,640)**	(1,436,329)
Equity	**10,220,905**	9,956,834
Revenue	**478,707**	537,360
Profit for the year	**264,071**	321,372

Reconciliation of the above summarized financial information to the carrying amount of the interest in Partners Properties Company – W.L.L. recognized in the consolidated financial statements.

	2020	*2019*
	KD	*KD*
Net assets of the associate	**10,220,905**	9,956,834
Proportion of the Group's ownership interest	**40.5%**	40.5%
Carrying amount of the Group's interest	**4,139,466**	4,032,518

7 FINANCIAL ASSETS AVAILABLE FOR SALE

	2020	*2019*
	KD	*KD*
Quoted securities *	**12,148,385**	13,843,498
Unquoted securities **	**623,694**	723,284
Investment in bonds ***	**6,495,680**	5,878,541
	19,267,759	20,445,323

Investments available for sale are denominated in the following currencies:

	2020	*2019*
	KD	*KD*
Local currency (KD)	**10,929,671**	12,274,060
Foreign currencies	**8,338,088**	8,171,263
	19,267,759	20,445,323

* As at 31 December 2020, quoted equity securities are carried at fair value. Management has performed a review of these investments to assess whether any impairment has occurred in their value and accordingly, no impairment loss was recognised in the consolidated statement of income. Quoted shares with a fair value of KD 2,908,518 (2019: KD 3,476,205) are under lien to the Insurance Regulation Unit.

** Unquoted equity securities amounting KD 623,694 (2019: KD 723,284) (net of impairment) are carried at fair value. Management has performed a review of these investments to assess whether any changes have occurred in their values and accordingly, an impairment loss of KD 172,420 (2019: KD Nil) has been recorded in the consolidated statement of income for the year ended 31 December 2020 (Note 3).

*** Bonds carry interest rate ranging from 4% to 6.5% per annum (2019: 4.75% to 6.75%), mature in 10 years. Bonds amounting KD 3,100,000 (2019: KD 2,500,000) are carried at cost less impairment loss since their fair values cannot be reliably determined.

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	*2019*
	KD	*KD*
Quoted shares	**1,021,924**	1,169,438
Investments in fund	**168,911**	195,216
Investments in portfolio	**7,769,171**	6,546,532
	8,960,006	7,911,186

9 INSURANCE AND REINSURANCE RECEIVABLES

	2020	*2019*
	KD	*KD*
Premiums receivable	**7,416,144**	8,480,536
Insurance and reinsurance companies	**9,051,668**	8,014,651
	16,467,812	16,495,187
Less: Allowances for impairment of receivables	**(4,000,000)**	(3,500,000)
	12,467,812	12,995,187
Reinsurance share on premiums received in advance	**260,221**	508,634
	12,728,033	13,503,821

As at 31 December 2020, insurance and reinsurance receivables amounting to KD 4,000,000 (2019: KD 3,500,000) were impaired and fully provided for.

Movement in the allowance for impairment of insurance and reinsurance receivables was as follows:

	2020	*2019*
	KD	*KD*
As at the beginning of the year	**3,500,000**	3,000,000
Charge for the year	**500,000**	500,000
As at the end of the year	**4,000,000**	3,500,000

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

		Past due but not impaired		
	Total	*Less than 3 months*	*3-6 months*	*More than 6 months*
	KD	*KD*	*KD*	*KD*
2020	**12,467,812**	**4,025,615**	**1,930,663**	**6,511,534**
2019	12,995,187	4,959,140	1,473,882	6,562,165

10 OTHER ASSETS

	2020	*2019*
	KD	*KD*
Due from related parties	**5,021,212**	4,637,128
Due from staff	**50,112**	77,631
Deferred acquisition cost	**641,700**	587,384
Accrued income	**509,929**	362,314
Prepaid expenses	**174,055**	176,831
Refundable deposit	**11,180**	16,230
Others	**254,730**	239,951
	6,662,918	6,097,469

11 FIXED DEPOSITS

Fixed deposits represent deposits with banks whose original maturity period exceeds three months from date of deposit.

Fixed deposits include an amount of KD 5,185,415 held in State of Kuwait under lien to the Insurance Regulation Unit in accordance with insurance regulations of State of Kuwait (31 December 2019: KD 5,185,415).

The effective interest rate on fixed deposits was 1.95% to 3.5% per annum (31 December 2019: 1.6% to 3.5%).

The Insurance Companies and Agent Law No. 24 of 1961 as amended, requires the Parent Company to deposit in a Kuwaiti bank or in a Kuwaiti branch of a foreign bank, a deposit amounting to KD 500,000 for general insurance and KD 500,000 for life insurance.

Additionally, a minimum 15% of premiums collected on marine insurance contracts and 30% of premiums collected on non-marine insurance contracts except for life insurance contracts are to be retained in Kuwait.

12 CASH AND CASH EQUIVALENTS

	2020	*2019*
	KD	*KD*
Cash on hand	**15,072**	40,826
Cash in portfolio	**20,672**	12,851
Bank balances	**5,698,005**	360,466
Cash and cash equivalents	**5,733,749**	414,143

13 SHARE CAPITAL AND CASH DIVIDENDS

The authorised, issued, and fully paid-up share capital comprises of 177,108,460 shares of 100 fils each (2019: 172,788,740 shares of 100 fils each) fully paid up in cash.

Cash dividend and bonus shares
The Board of Directors' meeting held on 21 February 2021 recommended to distribute cash dividends of 8 % for the year ended 31 December 2020 (2019: 7.5), and Nil bonus shares, in addition the board of directors recommendation to distribute 7,086,026 shares from treasury shares (2019: KD 2.5%). This recommendation is subject to the approval of the Parent Company's Annual General Assembly and completion of legal formalities.

The Parent Company's shareholders at their general assembly meeting held on 7 May 2020 approved the consolidated financial statements for the year ended 31 December 2019 and dividend distributions.

14 RESERVES

Statutory reserve
As required by the Companies Law and the Parent Company's Memorandum of Incorporation and Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees shall be transferred to the statutory reserve. 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. Since the reserve has reached 50% of the capital, the Board of Directors have resolved to discontinue transfer to statutory reserve and was approved by the Parent Company Annual General Assembly on 26 March 2012.

Voluntary reserve
As required by the Parent Company's Articles of Association, 10% of the profit for the year attributable to the shareholders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' Annual General Assembly Meeting upon recommendation by the Board of Directors. The Parent Company's General Assembly held on 19 May 2015 resolved to discontinue transfer to voluntary reserve.

15 TREASURY SHARES

	2020	*2019*
Number of shares	**10,965,625**	10,698,171
Percentage of issued shares (%)	**6.19**	6.19
Market value (KD)	**932,078**	663,287

An amount of KD 1,275,970 (31 December 2019: KD 1,275,970) equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from reserves and retained earnings throughout the holding period of treasury shares.

The weighted average market price of the Parent Company's shares for the year ended 31 December 2020 was 85 fils per share (31 December 2019: 62 fils per share).

16 INSURANCE CONTRACT LIABILITIES

	2020 ***KD***	*2019* *KD*
Reserve for outstanding claims	**55,859,340**	58,634,610
Reserve for unexpired risks	**4,380,224**	4,396,188
Reserve for life insurance fund	**1,964,811**	1,945,411
Unearned reinsurance commission	**350,809**	308,921
	62,555,184	65,285,130

16 INSURANCE CONTRACT LIABILITIES (continued)

The reserve for outstanding claims comprises of:

	General risk insurance				
2020	*Marine and aviation KD*	*Motor KD*	*Fire and general accidents KD*	*Life and medical KD*	*Total KD*
Reserve for outstanding claims (reported and not reported):					
Gross balance at beginning of the year	1,276,174	3,943,541	45,613,701	7,801,194	58,634,610
Reinsurance share	(956,569)	(835,883)	(43,708,164)	(3,702,078)	(49,202,694)
Net balance at beginning of the year	319,605	3,107,658	1,905,537	4,099,116	9,431,916
Incurred during the year, net	(204,811)	2,454,231	52,280	6,746,143	9,047,843
Paid during the year, net	(103,080)	(2,072,004)	(230,026)	(5,684,561)	(8,089,671)
Net balance at end of the year	**11,714**	**3,489,885**	**1,727,791**	**5,160,698**	**10,390,088**
Represented by:					
Gross outstanding claims at end of the year	886,346	4,317,985	41,702,525	8,952,484	55,859,340
Reinsurance share	(617,537)	(828,101)	(40,231,828)	(3,791,786)	(45,469,252)
	268,809	**3,489,884**	**1,470,697**	**5,160,698**	**10,390,088**
Reserve for unexpired risks	**28,798**	**1,685,088**	**455,726**	**2,210,612**	**4,380,224**
Unearned reinsurance commission	**33,819**	**2,092**	**223,646**	**91,252**	**350,809**

16 INSURANCE CONTRACT LIABILITIES (continued)

	General risk insurance				
2019	*Marine and aviation KD*	*Motor KD*	*Fire and general accidents KD*	*Life and medical KD*	*Total KD*
Reserve for outstanding claims (reported and not reported):					
Gross balance at beginning of the year	1,687,609	3,931,775	30,585,052	9,726,013	45,930,449
Reinsurance share	(955,115)	(969,850)	(28,201,551)	(4,019,640)	(34,146,156)
Net balance at beginning of the year	732,494	2,961,925	2,383,501	5,706,373	11,784,293
Incurred during the year, net	(391,804)	3,674,739	296,644	6,143,224	9,722,803
Paid during the year, net	(21,085)	(3,529,006)	(774,608)	(7,750,479)	(12,075,178)
Net balance at end of the year	319,605	3,107,658	1,905,537	4,099,118	9,431,918
Represented by:					
Gross outstanding claims at end of the year	1,276,174	3,943,541	45,613,701	7,801,194	58,634,610
Reinsurance share	(956,569)	(835,883)	(43,708,164)	(3,702,076)	(49,202,692)
	319,605	3,107,658	1,905,537	4,099,118	9,431,918
Reserve for unexpired risks	63,190	1,518,835	604,242	2,209,921	4,396,188
Unearned reinsurance commission	31,593	245	188,292	88,791	308,921

17 INSURANCE AND REINSURANCE PAYABLES

	2020	*2019*
	KD	*KD*
Trade payables	**2,690,788**	3,305,585
Premiums received in advance	**532,245**	930,446
Insurance and reinsurance companies	**4,783,988**	4,499,295
Reserve for reinsurance operations	**656,024**	257,780
Provision for supervision fees	**131,167**	184,843
	8,794,212	9,177,949

18 OTHER LIABILITIES

	2020	*2019*
	KD	*KD*
Due to related parties	**706,169**	462,712
Provision for end of service indemnity	**1,638,916**	1,739,210
Dividends payable	**1,181,478**	1,085,095
Accrued staff leave	**371,412**	358,595
Accrued expenses	**1,014,843**	446,036
Considerations payable for investments acquired	**4,714,106**	2,344,914
Other liabilities	**385,929**	162,506
	10,012,853	6,599,068

19 SEGMENT INFORMATION

The Group operates in three segments: General risk insurance, Life and Medical insurance and Investment. Within General risk insurance are Marine and Aviation, Fire and general accidents and Motor.

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

The following are the details of these segments:

- Marine and aviation: Insurance against the risks related to goods transportation and different types of marine and aviation vessels.

- General accident: Insurance against risks of contractors, machine and computer damages and cessation of work; insurance for cash, fidelity bonds, professional risks, work accidents, civil responsibility and cars.

- Fire: Insurance against fire for different types of buildings, stores, industrial risks and oil and gas industry.

- Motor: Insurance against accidents for different types of motor vehicles.

- Life and medical insurance: Providing various life and health insurance cover for individuals and Companies.

19 SEGMENT INFORMATION (continued)

(A) Segment information – Consolidated statement of income

	General risk insurance						
Year ended 31 December 2020	*Marine and aviation* *KD*	*General accidents and fire* *KD*	*Motor* *KD*	*Total general risk insurance* *KD*	*Life and medical insurance* *KD*	*Unallocated* *KD*	*Total* *KD*
Revenue:							
Gross premiums written	1,178,121	10,790,012	6,114,957	18,083,090	12,549,563	-	**30,632,653**
Premiums ceded to reinsurers	(986,116)	(9,270,917)	(497,997)	(10,755,030)	(3,936,501)	-	**(14,691,531)**
Net premiums written	192,005	1,519,095	5,616,960	7,328,060	8,613,062	-	**15,941,122**
Movement in unearned premiums	34,389	148,519	(166,253)	16,655	(691)	-	**15,964**
Movement in life mathematical reserve	-	-	-	-	(19,400)	-	**(19,400)**
Net premiums earned	226,394	1,667,614	5,450,707	7,344,715	8,592,971	-	**15,937,686**
Commission income earned on ceded reinsurance	223,236	710,130	5,124	938,490	467,104	-	**1,405,594**
Policy issuance fees	2,744	1,090	118,742	122,576	2,152	-	**124,728**
Total revenues	452,374	2,378,834	5,574,573	8,405,781	9,062,227	-	**17,468,008**
Expenses:							
Net claims incurred	(52,280)	204,814	(2,454,232)	(2,301,698)	(6,746,145)	-	**(9,047,843)**
Commissions and premiums' acquisition costs	(65,634)	(280,759)	(757,108)	(1,103,501)	(942,778)	-	**(2,046,279)**
Operating and administrative expenses for insurance business	(144,227)	(1,371,961)	(1,103,076)	(2,619,264)	(1,461,721)	(483,852)	**(4,564,837)**
Total expenses	(262,141)	(1,447,906)	(4,314,416)	(6,024,463)	(9,150,644)	(483,852)	**(15,658,959)**
Net underwriting results	190,233	930,928	1,260,157	2,381,318	(88,417)	(483,852)	**1,809,049**
`							
Net investment income						998,789	**998,789**
Share of results of associates						243,392	**243,392**
Other income and foreign currency exchange differences						(378,735)	**(378,735)**
Other Insurance service expense						(718,151)	**(718,151)**
Other Insurance service income						433,971	**433,971**
Other administrative expenses, contribution to KFAS, NLST and Zakat						(578,995)	**(578,995)**
Profit for the year						(483,582)	**1,809,320**

19 SEGMENT INFORMATION (CONTINUED)

(B) Segment information – Consolidated statement of income

	General risk insurance						
Year ended 31 December 2019	*Marine and aviation KD*	*General accidents and fire KD*	*Motor KD*	*Total general risk insurance KD*	*Life and medical insurance KD*	*Unallocated KD*	*Total KD*
Revenue:							
Gross premiums written	1,097,411	9,808,918	6,299,426	17,205,755	12,473,245	-	29,679,000
Premiums ceded to reinsurers	(676,144)	(7,794,777)	(1,236,644)	(9,707,565)	(4,861,531)	-	(14,569,096)
Net premiums written	421,267	2,014,141	5,062,782	7,498,190	7,611,714	-	15,109,904
Movement in unearned premiums	(3,190)	(110,242)	(130,835)	(244,267)	(16,921)	-	(261,188)
Movement in life mathematical reserve	-	-	-	-	(122,415)	-	(122,415)
Net premiums earned	418,077	1,903,899	4,931,947	7,253,923	7,472,378	-	14,726,301
Commission income earned on ceded reinsurance	214,989	649,421	(12,547)	851,863	499,471	-	1,351,334
Policy issuance fees	3,137	1,333	173,786	178,256	2,352	-	180,608
Total revenues	636,203	2,554,653	5,093,186	8,284,042	7,974,201	-	16,258,243
Expenses:							
Net claims incurred	(391,804)	296,645	3,674,738	3,579,579	6,143,224	-	9,722,803
Commissions and premiums' acquisition costs	63,680	358,187	554,559	976,426	970,704	-	1,947,130
Operating and administrative expenses for insurance business	334,840	1,269,554	1,265,191	2,869,585	1,458,819	445,597	4,774,001
Total expenses	6,716	1,924,386	5,494,488	7,425,590	8,572,747	445,597	16,443,934
Net underwriting results	629,487	630,267	(401,302)	858,452	(598,546)	(445,597)	(185,691)
Net investment income						1,664,671	1,664,671
Share of results of associates						294,990	294,990
Other income and foreign currency exchange differences						132,754	132,754
Other Insurance service expense						(745,123)	(745,123)
Other Insurance service income						516,662	516,662
Other administrative expenses, contribution to KFAS, NLST and Zakat						(548,315)	(548,315)
Profit for the year						870,042	1,129,948

19 SEGMENT INFORMATION (continued)

B) Segment information – Consolidated statement of financial position

	General risk insurance KD	*Life and medical insurance KD*	*Investment KD*	*Total KD*
31 December 2020				
Assets	**80,667,924**	**3,849,937**	**35,911,343**	**120,429,204**
Liabilities	**78,435,203**	**2,927,046**	**2,000,000**	**83,362,249**
31 December 2019				
Assets	78,675,248	4,543,160	35,921,604	119,140,012
Liabilities	68,255,816	12,806,331	-	81,062,147

20 RELATED PARTY TRANSACTIONS

The Group has entered into various transactions with related parties, i.e. shareholders, Board of directors, key management personnel, associates and other related parties in the normal course of its business concerning financing and other related services. Prices and terms of payment are approved by the Group's management. Significant related party transactions and balances are as follows:

Balances included in the consolidated statement of financial position:

	Parent Company's shareholders KD	*Entities under common control KD*	*Total 2020 KD*	*Total 2019 KD*
Investment activities				
Investments at fair value through profit or loss	-	**7,827,400**	**7,827,400**	6,546,532
Investments available for sale	-	**7,707,239**	**7,707,239**	9,530,661
Investments in associates	-	**7,683,578**	**7,683,578**	7,565,095
Fixed deposits	-	**6,271,800**	**6,271,800**	6,271,800
Cash and cash equivalents	-	**1,633,918**	**1,633,918**	97,286
Other liabilities	-	**4,814,106**	**4,814,106**	2,419,914
Insurance activities				
Insurance services receivable	**1,661**	**5,019,552**	**5,021,212**	4,637,128
Insurance services payable	-	**706,169**	**706,169**	462,712

Transactions included in the consolidated statement of income:

	Parent Company's shareholders KD	*Entities under common control KD*	*Total 2020 KD*	*Total 2019 KD*
Premiums written	**13,773**	**1,436,489**	**1,450,262**	1,429,200
Dividend income	-	**719,512**	**719,512**	335,445
Share of results of associates	-	**243,392**	**243,392**	294,990

Compensation to key management personnel:

	2020 KD	*2019 KD*
Salaries and short term employee benefits	**848,764**	717,466
Employees end of service benefits	**27,985**	38,060
	876,749	755,526

21 CAPITAL COMMITMENTS AND CONTINGENCIES

	2020 KD	*2019 KD*
Letters of guarantee	**222,905**	796,794
Capital commitments	**6,480**	6,480

22 STATUTORY GUARANTEES

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

(a) Deposits and investments amounting to KD 5,097,220 (2019: KD 4,880,216) have been deposited with a Kuwaiti bank as security to underwrite general insurance business;

(b) Deposits and investment amounting to KD 4,229,755 (2019: KD 5,599,280) have been deposited with a Kuwaiti bank in respect of the Parent Company's right to transact life assurance business;

23 RISK MANAGEMENT

(a) Governance framework

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

The Group has established a risk management function since 2013 with clear terms of reference from the Group's board of directors, its committees and the associated executive management committees. This will be supplemented with a clear organisational structure that document delegated authorities and responsibilities from the board of directors to the management. Also, a Group policy framework including risk profiles for the Group, risk management, control and business conduct standards for the Group's operations.

(b) Regulatory framework

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

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

- For the life and capital insurance contracts issued in Kuwait, the full mathematical reserves are to be retained in Kuwait.
- For marine insurance contracts, at least 15% of the premiums collected in the previous year are to be retained in Kuwait.
- For all other types of insurance, at least 30% of the premiums collected in the previous year are to be retained in Kuwait.
- For the life Insurance Companies KD 500,000 FD under the ministerial name to be retained in Kuwait.
- For the Non-life Insurance Companies KD 500,000 FD under the ministerial name to be retained in Kuwait.
- For the Life and Non-life Insurance Companies KD 1,000,000 FD under the ministerial name to be retained in Kuwait.
- In addition, all insurance companies to maintain a provision of 20% of its gross premium written.
- The funds retained in Kuwait should be invested as under:
  - 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 corporate governance and compliance 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) Insurance risk

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

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

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

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not 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.

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)
Insurance risk is divided into risk of life insurance contracts and risk of non-life insurance contracts as follows:

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

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

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

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

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

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

The main risks that the Group is exposed to are as follows:
- Mortality risk - risk of loss arising due to policyholder death experience being different than expected.
- Morbidity risk - risk of loss arising due to policyholder health experience being different than expected.
- Longevity risk - risk of loss arising due to the annuitant living longer than expected.
- Investment return risk - risk of loss arising from actual returns being different than expected.
- Expense risk - risk of loss arising from expense experience being different than expected.
- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

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

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

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

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

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

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

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

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

31 December 2020 **Type of contract**	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*
Term insurance	**465,826**	**465,055**	**771**
Life and disability	**4,180**	**2,930**	**1,250**
Medical	**5,834,090**	**813,045**	**5,021,045**
Endowment individual policies	**2,042,209**	**32,556**	**2,009,653**
Pensions (individual policies)	**7,942**	**472**	**7,470**
Group Life	**6,440,029**	**4,144,093**	**2,295,936**
Total life insurance contracts	**14,794,276**	**5,458,151**	**9,336,125**
Individual life insurance contracts liabilities	**2,520,156**	**501,013**	**2,019,143**
Group life insurance contracts liabilities	**12,274,120**	**4,957,138**	**7,316,982**

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

31 December 2019 Type of contract	*Gross liabilities* *KD*	*Reinsurers' share of liabilities* *KD*	*Net liabilities* *KD*
Term insurance	743	-	743
Life and disability	1,344	-	1,344
Medical	4,534,567	-	4,534,567
Endowment individual policies	1,975,258	-	1,975,258
Pensions (individual policies)	8,055	-	8,055
Group Life	5,525,350	3,702,076	1,823,274
Total life insurance contracts	12,045,317	3,702,076	8,343,241
Individual life insurance contracts liabilities	1,985,401	-	1,985,401
Group life insurance contracts liabilities	10,059,916	3,702,076	6,357,840

Key assumptions

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

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

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

• ***Mortality and morbidity rates***

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

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

• ***Longevity***

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

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

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions (continued)
• ***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.

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions (continued)
Discount rate (continued)
The assumptions that have the maximum effect on the consolidated statement of financial position and consolidated statement of income of the Group are listed below.

Portfolio assumptions by type of business impacting net liabilities	*Mortality and morbidity rates*		*Investment return*		*Lapse rates*		*Discount rates*		*Renewal expenses*		*Inflation rate*	
	2020	*2019*	***2020***	*2019*	***2020***	*2019*	***2020***	*2019*	***2020***	*2019*	***2020***	*2019*
Investment contracts:												
With fixed and guaranteed terms	40% AM/80 Ult	40% AM/80 Ult	3%	3.50%	0%	0%	3%	3.50%	5%	5%	N/A	N/A
Non-guaranteed terms	40% AM/80 Ult	40% AM/80 Ult	3%	3.50%	0%	0%	3%	3.50%	5%	5%	N/A	N/A
Life term assurance:												
Males	40% AM/80 Ult	40% AM/80 Ult	3%	3.50%	0%	0%	3%	3.50%	5%	5%	N/A	N/A
Females	40% AM/80 Ult	40% AM/80 Ult	3%	3.50%	0%	0%	3%	3.50%	5%	5%	N/A	N/A

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

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

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

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

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

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

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

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

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.

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

Claims development table (continued)

31 December 2020

	2014	*2015*	*2016*	*2017*	*2018*	*2019*	***2020***	***Total***
	KD	*KD*	*KD*	*KD*	*KD*	*KD*	***KD***	***KD***
Current estimate of cumulative claims incurred	19,256,456	16,360,006	14,224,148	13,418,478	50,247,424	13,720,496	**11,623,456**	**138,850,464**
At end of accident year								
One year later	7,890,483	8,925,925	8,682,931	4,961,305	3,265,281	4,251,498	**3,746,434**	**-**
Two years later	12,846,917	12,781,881	11,944,387	9,161,498	12,488,847	8,778,469	**-**	**-**
Three years later	13,513,775	14,133,410	12,420,374	11,711,718	16,598,386	-	-	-
Four years later	13,422,232	14,270,249	13,093,645	11,938,913	-	-	-	-
Five years later	13,538,565	14,838,288	12,975,061	-	-	-	-	-
Six years later	13,768,909	15,184,952	-	-	-	-	-	-
Cumulative payment to date	13,768,909	15,184,952	12,975,061	11,938,913	16,598,386	8,778,469	**3,746,434**	**82,991,124**
Gross outstanding claims and IBNR at 31 December 2020	5,487,547	1,175,054	1,249,087	1,479,565	33,649,038	4,942,027	**7,877,022**	**55,859,340**

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

Claims development table (continued)

31 December 2019

	2014	*2015*	*2016*	*2017*	*2018*	*2019*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*
Current estimate of cumulative claims Incurred	19,324,550	16,690,418	14,480,854	11,884,233	53,028,592	13,290,013	128,698,660
At end of accident year	7,890,483	8,925,925	8,682,931	4,961,305	3,265,281	4,251,498	-
One year later	12,846,917	12,781,881	11,944,387	9,161,498	12,488,847	-	-
Two years later	13,513,775	14,133,410	12,420,374	11,711,718	-	-	-
Three years later	13,422,232	14,270,249	13,093,645	-	-	-	-
Four years later	13,538,565	14,838,288	-	-	-	-	-
Five years later	13,680,054	-	-	-	-	-	-
Cumulative payment to date	13,680,054	14,838,288	13,093,645	11,711,718	12,488,847	4,251,498	70,064,050
Gross outstanding claims and IBNR at 31 December 2019	5,644,496	1,852,130	1,387,209	172,515	40,539,745	9,038,515	58,634,610

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

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

31 December 2020	***Gross liabilities KD***	***Reinsurers' share of liabilities KD***	***Net liabilities KD***
Motor	**6,005,165**	**(828,101)**	**5,177,064**
Marine and Aviation	**948,963**	**(617,537)**	**331,426**
Fire and general Accident	**42,381,897**	**(40,231,828)**	**2,150,069**
Total	**49,336,025**	**(41,677,466)**	**7,658,559**
31 December 2019			
Motor	5,833,615	(835,883)	4,997,732
Marine and Aviation	1,370,957	(956,569)	414,388
Fire and general Accident	46,406,235	(43,708,164)	2,698,071
Total	53,610,807	(45,500,616)	8,110,191

Key assumptions

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

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

Sensitivities

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

31 December 2020	***Change in Assumption %***	***Impact on gross liabilities KD***	***Impact on net liabilities KD***	***Impact on profit KD***
Ultimate Loss Ratio Increase	**2**	**986,721**	**153,171**	**153,171**

31 December 2019	*Change in Assumption %*	*Impact on gross liabilities KD*	*Impact on net liabilities KD*	*Impact on profit KD*
Ultimate Loss Ratio Increase	2	1,072,216	162,204	162,204

23 RISK MANAGEMENT (continued)

(d) Financial risks

(1) Credit risk

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

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

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

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

	31 December 2020			
Exposure credit risk by classifying financial assets according to type of insurance	***General insurance KD***	***Life and Medical insurance KD***	***Reinsurance operations KD***	***Total KD***
Cash and cash equivalents - excluding cash on hand	**2,173,098**	**2,115,910**	**1,429,669**	**5,718,677**
Fixed deposits	**2,503,522**	**2,437,640**	**1,647,054**	**6,588,215**
Financial assets available for sale – bonds	**2,468,358**	**2,403,402**	**1,623,920**	**6,495,680**
Financial assets at fair value through profit or loss – bonds	**2,952,275**	**2,874,584**	**1,942,287**	**7,769,146**
Insurance and reinsurance receivable	**4,836,653**	**4,709,372**	**3,182,008**	**12,728,033**
Other assets - excluding prepayments	**2,465,768**	**2,400,880**	**1,622,216**	**6,488,863**
Loans secured by life insurance policies	**10,229**	**9,960**	**6,730**	**26,918**
Reinsurance share in reserve for outstanding claims	**17,278,316**	**16,823,623**	**11,367,313**	**45,469,252**
Total credit risk exposure	**34,688,219**	**33,775,370**	**22,821,196**	**91,284,784**

	31 December 2019			
Exposure credit risk by classifying financial assets according to type of insurance	*General insurance KD*	*Life and Medical insurance KD*	*Reinsurance operations KD*	*Total KD*
Cash and cash equivalents - excluding cash on hand	141,860	138,127	93,330	373,317
Fixed deposits	2,535,208	2,468,492	1,667,900	6,671,600
Financial assets available for sale – bonds	2,233,847	2,175,061	1,469,633	5,878,541
Financial assets at fair value through profit or loss – bonds	2,487,682	2,422,217	1,636,633	6,546,532
Insurance and reinsurance receivable	5,131,452	4,996,413	3,375,956	13,503,821
Other assets - excluding prepayments	2,249,842	2,190,637	1,480,159	5,920,638
Loans secured by life insurance policies	10,067	9,802	6,622	26,491
Reinsurance share in reserve for outstanding claims	18,697,023	18,204,996	12,300,673	49,202,692
Total credit risk exposure	33,486,981	32,605,745	22,030,906	88,123,632

23 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(1) Credit risk (continued)

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

Exposure credit risk by classifying financial assets according to international credit rating agencies	***A*** ***KD***	***B*** ***KD***	***Not rated*** ***KD***	***Total*** ***KD***
31 December 2020				
Cash and cash equivalents - excluding cash on hand	**5,718,677**	**-**	**-**	**5,718,677**
Fixed deposits	**6,588,215**	**-**	**-**	**6,588,215**
Financial assets available for sale – bonds	**6,495,680**	**-**	**-**	**6,495,680**
Financial assets at fair value through profit or loss – bonds	**7,769,146**	**-**	**-**	**7,769,146**
Insurance and reinsurance receivable	**5,161,214**	**2,545,607**	**5,021,212**	**12,728,033**
Other assets - excluding prepayments	**2,465,768**	**2,400,880**	**1,622,215**	**6,488,863**
Loans secured by life insurance policies	**26,918**	**-**	**-**	**26,918**
Reinsurance share in reserve for outstanding claims	**36,375,402**	**9,093,850**	**-**	**45,469,252**
Total credit risk exposure	**70,601,020**	**14,040,337**	**6,643,427**	**91,284,784**

Exposure credit risk by classifying financial assets according to international credit rating agencies	*A* *KD*	*B* *KD*	*Not rated* *KD*	*Total* *KD*
31 December 2019				
Cash and cash equivalents - excluding cash on hand	373,317	-	-	373,317
Fixed deposits	6,671,600	-	-	6,671,600
Financial assets available for sale – bonds	5,878,541	-	-	5,878,541
Financial assets at fair value through profit or loss – bonds	6,546,532	-	-	6,546,532
Insurance and reinsurance receivable	10,803,057	2,700,764	-	13,503,821
Other assets - excluding prepayments	2,249,842	2,190,637	1,480,159	5,920,638
Loans secured by life insurance policies	26,491	-	-	26,491
Reinsurance share in reserve for outstanding claims	39,362,154	9,840,538	-	49,202,692
Total credit risk exposure	71,911,534	14,731,939	1,480,159	88,123,632

23 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(2) Liquidity risk

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

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

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

31 December 2020	***Within 1 year***	***More than 1 year***	***Total***
	KD	***KD***	***KD***
Insurance and reinsurance payables	**8,138,188**	**656,024**	**8,794,212**
Other liabilities	**8,373,937**	**1,638,916**	**10,012,853**
Long Term Loan	**-**	**2,000,000**	**2,000,000**
	16,512,125	**4,294,940**	**20,807,065**

31 December 2019	*Within 1 year*	*More than 1 year*	*Total*
	KD	*KD*	*KD*
Insurance and reinsurance payables	8,920,169	257,780	9,177,949
Other liabilities	4,859,858	1,739,210	6,599,068
	13,780,027	1,996,990	15,777,017

3) Market risk

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

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

(i) Currency risk

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

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

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

23 RISK MANAGEMENT (continued)

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

		2020		*2019*	
	Change in Variables %	***Impact on profit for the year KD***	***Impact on other comprehensive income KD***	*Impact on profit for the year KD*	*Impact on other comprehensive income KD*
USD	±5	**388,459**	**169,784**	328,603	169,891
BHD	±5	**-**	**259,978**	-	238,672

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

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates, on the Group's profit before contribution to KFAS, NLST, Zakat and directors' fees, based on floating rate financial assets and financial liabilities held as at 31 December 2020 and 2019.

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

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

The effect on other comprehensive income as a result of a change in the fair value of financial assets available for sale at 31 December due to ±5% change in the following market indices with all other variables held constant is as follows:

	Impact of profit for the year		***Impact of profit for other comprehensive income***	
Market indices	***2020 KD***	*2019 KD*	***2020 KD***	*2019 KD*
Kuwait	**± 64,108**	± 76,670	**± 259,395**	± 452,539
Other countries	**-**	-	**± 247,120**	± 239,636

24 CAPITAL MANAGEMENT

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

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

24 CAPITAL MANAGEMENT (continued)

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

	2020	*2019*
	KD	*KD*
Liabilities arising from insurance contracts	**62,555,184**	65,285,130
Insurance and reinsurance payables	**8,794,212**	9,177,949
Other liabilities	**10,012,853**	6,599,068
Long term loan	**2,000,000**	-
Less:		
Cash and cash equivalents	**(5,733,749)**	(414,143)
Net debt	**77,628,500**	80,648,004
Total capital	**37,066,955**	38,077,865
Total capital and net debt	**114,695,455**	118,725,869
Gearing ratio	**68%**	68%

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of financial assets available for sale, financial assets at fair value through profit or loss, accounts receivable, fixed deposits and bank balances. Financial liabilities consist of borrowing and credit balances.

The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost amounting to KD 3,100,000 (2019: KD 2,500,000) (Note 7), are not materially different from their carrying values.

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

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

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

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

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

31 December 2020	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total fair value***
	KD	***KD***	***KD***	***KD***
Financial assets at fair value though profit or loss	**8,960,006**	**-**	**-**	**8,960,006**
Financial assets available for sale	**12,148,385**	**3,395,680**	**623,694**	**16,167,759**
Total	**21,108,391**	**3,395,680**	**623,694**	**25,127,765**

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

31 December 2019	*Quoted prices in active markets (Level 1)* *KD*	*Significant observable inputs (Level 2)* *KD*	*Significant unobservable inputs (Level 3)* *KD*	*Total fair value* *KD*
Financial assets at fair value though profit or loss	7,911,186	-	-	7,911,186
Financial assets available for sale	13,843,498	3,378,541	723,284	17,945,323
Total	21,754,684	3,378,541	723,284	25,856,509

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

	Valuation Technique	***Significant unobservable inputs***	***Range***	***Sensitivity of the input to fair value***
Unquoted equity securities	Price to book value	Discount for lack of marketability & lack of control	10%	An increase (decrease) by 10% in the Discount for lack of marketability & lack of Control would result in (decrease) increase in fair value by KD 62 thousands.
	Price to book value	Price to book multiple "Represents amounts used when the Group has determined that market participants would use such multiples when pricing the investments"	10%	An increase (decrease) by 10% in the price to book multiple would result in increase (decrease) in fair value by KD 62 thousands.

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

2020	***At the beginning of the year KD***	***Net fair value recorded in the consolidated statement of comprehensive income KD***	***Net result recorded in the consolidated statement of income KD***	***Net purchase, transfer, sale & settlements KD***	***At the end of the year KD***
Financial assets available for sale:	**723,284**	**72,831**	**(172,421)**	**-**	**623,694**
	723,284	**72,831**	**(172,421)**	**-**	**623,694**

2019	*At the beginning of the year KD*	*Net fair value recorded in the consolidated statement of comprehensive income KD*	*Net result recorded in the consolidated statement of income KD*	*Net purchase, transfer, sale & settlements KD*	*At the end of the year KD*
Financial assets available for sale:	604,602	118,682	-	-	723,284
	604,602	118,682	-	-	723,284

26 COVID-19

The existence of novel corona virus was confirmed in early 2020 and has spread globally, causing disruptions to businesses and economic activity. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty as a result of measures taken by governments to contain or delay the spread of the virus. As of to date, the actual scope of the impact is very difficult to measure.

Recoverability of receivables
The COVID-19 outbreak led to a increase in the credit risk of companies within the economy as a result of operational disruption. Based on management's, the Group has not identified a material impact to the recoverability of receivables for the year ended 31 December 2020.

Fair value measurement of financial instruments
COVID-19 outbreak led to significant market turmoil and price volatility on the global financial markets.

The Group is closely monitoring whether the fair values of the financial assets and liabilities represent the price that would be achieved for transactions between market participants in the current scenario.

Based on management's, the Group has not identified a material impact to the fair values of financial assets and liabilities for the year ended 31 December 2020 except for what is disclosed in the consolidated financial statements under financial assets available for sale and financial assets at fair value through profit or loss.

Outstanding claims
The Group expected that there is no material impact on its risk position and provision balances for outstanding claims for the year ended 31 December 2020. It will continue monitoring its claims experience and the developments around the pandemic and revisit the assumptions and methodologies in future reporting periods.