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

Consolidated financial statements and independent auditor's report for the year ended 31 December 2013

Contents

	Page
Independent auditor's report	1 - 2
Consolidated statement of financial position	3
Consolidated statement of profit or loss	4
Consolidated statement of comprehensive income	5
Consolidated statement of changes in equity	6
Consolidated statement of cash flows	7
Notes to the consolidated financial statements	8 - 34

KPMG Safi Al-Mutawa & Partners
Al Hamra Tower, 25th Floor
Abdulaziz Al Saqr Street
P.O. Box 24, Safat 13001
State of Kuwait

Telephone : +965 2228 7000
Fax : +965 2228 7444
Internet : www.kpmg.com/kw

Independent auditor's report

The Shareholders
Gulf Takaful Insurance Company K.S.C. (Closed)
State of Kuwait

Report on the financial statements

We have audited the accompanying consolidated financial statements of Gulf Takaful Insurance Company K.S.C. (Closed) ("the Company") and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

KPMG Safi Al-Mutawa & Partners, Kuwaiti Public Accountant and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Opinion

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

Report on other legal and regulatory requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Companies Law No. 25 of 2012, as amended, and the Company's Articles and Memorandum of Association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the Board of Directors' report agrees with the books of account. We have not become aware of any contravention, during the year ended 31 December 2013, of the Companies Law No. 25 of 2012, as amended, or the Company's Articles and Memorandum of Association, that would materially affect the Company's activities or its consolidated financial position.

Safi A. Al-Mutawa
License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 29 April 2014

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

Consolidated statement of financial position
as at 31 December 2013

	Note	2013 KD	2012 KD
Assets			
Cash and cash equivalents	*5*	925,683	921,629
Investment deposits	*6*	3,253,499	4,072,260
Investments at fair value through profit or loss	*7*	1,904,808	1,554,294
Available-for-sale investments	*8*	3,310,643	3,122,236
Qard Hassan to participants	*9*	3,423,664	3,120,269
Accounts receivable	*10*	113,737	89,117
Property and equipment		47,117	45,743
Intangible assets		10,474	13,206
Total assets		12,989,625	12,938,754
Liabilities and equity			
Liabilities			
Accounts payable	*11*	112,425	118,657
Due to related parties	*17*	4,477	42,979
Provision for employees' end of service indemnity	*15*	423,081	361,917
Total liabilities		539,983	523,553
Equity			
Share capital	*12*	14,032,412	14,032,412
Change in fair value reserve		314,823	112,657
Accumulated losses		(1,897,593)	(1,729,868)
Total equity		12,449,642	12,415,201
Total liabilities and equity		12,989,625	12,938,754

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

Bader Sulaiman Al-Othman
Chairman

Nasser Sulaiman Al-Drbas
Vice Chairman and CEO

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

Consolidated statement of profit or loss
for the year ended 31 December 2013

	2013 KD	2012 KD
Income		
Investment deposits income	32,880	76,114
Losses from investments at fair value through profit or loss	(141,912)	(823,996)
Gain on sale of available-for-sale investments	4,473	-
Impairment loss on available-for-sale investments	(13,759)	(872,969)
Dividends	58,236	5,991
Other income	13,809	11,980
	(46,273)	(1,602,880)
Expenses		
General and administrative	(78,049)	(82,384)
Staff costs	(43,403)	(44,604)
	(121,452)	(126,988)
Net loss for the year	(167,725)	(1,729,868)

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

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

Consolidated statement of other comprehensive income
for the year ended 31 December 2013

	2013 KD	2012 KD
Net loss for the year	(167,725)	(1,729,868)
Other comprehensive income		
Fair value reserve (available-for-sale investments):		
Net change in fair value	202,166	64,035
Other comprehensive income for the year	202,166	64,035
Total comprehensive income/ (loss) for the year	34,441	(1,665,833)

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

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

Consolidated statement of changes in equity
for the year ended 31 December 2013

	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Change in fair value reserve KD	Accumulated losses KD	Total KD
Balance at 1 January 2012	15,106,500	342,596	342,596	48,622	(1,759,280)	14,081,034
Write off of accumulated losses (note 12)	(1,074,088)	(342,596)	(342,596)	-	1,759,280	-
Total comprehensive income for the year						
Net loss for the year	-	-	-	-	(1,729,868)	(1,729,868)
Other comprehensive income	-	-	-	64,035	-	64,035
Total comprehensive income for the year	-	-	-	64,035	(1,729,868)	(1,665,833)
Balance at 31 December 2012	14,032,412	-	-	112,657	(1,729,868)	12,415,201
Total comprehensive loss for the year						
Net loss for the year	-	-	-	-	(167,725)	(167,725)
Other comprehensive income	-	-	-	202,166	-	202,166
Total comprehensive loss for the year	-	-	-	202,166	(167,725)	34,441
Balance at 31 December 2013	14,032,412	-	-	314,823	(1,897,593)	12,449,642

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

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

Consolidated statement of cash flows
for the year ended 31 December 2013

	Note	2013 KD	2012 KD
Cash flows from operating activities:			
Net loss for the year		(167,725)	(1,729,868)
Adjustments for:			
Investment deposits income		(32,880)	(76,114)
Losses from investments at fair value through profit or loss		141,912	823,996
Gain on sale of available for sale investments		(4,473)	-
Impairment loss on available-for-sale investments		13,759	872,969
Depreciation and amortization		25,772	39,168
Dividends		(58,236)	(5,991)
Provision for employees' end of service indemnity	*15*	65,895	70,958
Operating loss before changes in working capital		(15,976)	(4,882)
Investments at fair value through profit or loss		(487,953)	-
Qard Hassan to participants	*9*	(303,395)	(320,626)
Accounts receivable		(24,620)	(905)
Accounts payable		(6,232)	(10,071)
Due to related parties		(38,502)	2,739
Employees' end of service indemnity paid	*15*	(4,731)	(24,861)
Net cash used in operating activities		(881,409)	(358,606)
Cash flows from investing activities:			
Dividends received		58,236	5,991
Purchase of property and equipment		(24,414)	(17,327)
Proceeds from sale of property and equipment		-	49
Investment deposits		818,761	300,000
Income received from investment deposits		32,880	76,114
Net cash from investing activities		885,463	364,827
Net increase in cash and cash equivalents		4,054	6,221
Cash and cash equivalents at the beginning of the year		921,629	915,408
Cash and cash equivalents at the end of the year	*5*	925,683	921,629

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

1. Reporting entity

Gulf Takaful Insurance Company K.S.C. (Closed) ("the Company") was incorporated as a closed Kuwaiti shareholding company on 6 September 2004. The principal activity of the Company is the writing of all classes of general takaful and family takaful business in accordance with the Noble Islamic Shari'ah principles and in accordance with Kuwait Law No. 24 of 1961, as amended, relating to insurance companies and insurance agents.

The Company's main office is at Sharq, Shuhada Street, KRH Building, PO Box 29279, Safat 13153, State of Kuwait.

The consolidated financial statements comprise the Company and its wholly owned subsidiary, Gulf Real Estate Company K.S.C. (Closed) (together referred to as "the Group").

The share capital of the subsidiary include shares of KD 40,000 as at 31 December 2013 (KD 40,000 as at 31 December 2012) which are registered in the name of others on behalf of the Group, and there are letters of renunciation in favour of the Group.

As at 31 December 2013, the Company was 33.06% owned by Global Investment House K.S.C., Kuwait (2012: 33.06%). The remaining 66.94% of the shares are widely held.

The total number of employees in the Group was 70 as at 31 December 2013 (69 employees as at 31 December 2012).

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

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

The consolidated financial statements were authorized for issue by the Board of Directors on 29 April 2014, and the shareholders have the power to amend these consolidated financial statements at the annual general assembly meeting.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), the relevant provisions of the Companies Law No. 25 of 2012, as amended, the Company's Articles and Memorandum of Association and Ministerial Order No. 18 of 1990.

On 29 November 2012, through a decree, Companies Law No. 25 of 2012 ("the Law") was issued and later amended by Law No. 97 of 2013 dated 27 March 2013 ("the Decree"). The Law came into effect from the date it was published in Kuwait's Official Gazette. The Executive Regulations have been issued by the Ministry of Commerce and Industry on 29 September 2013 and was published in the Kuwait's Official Gazette on 6 October 2013.

According to Article 3 of the resolution, companies have one year from date of publishing the Executive Regulations to comply with the new amended Law. The Company's management is of the view that application of the provisions of the Law has no material impact on the Company's activities or on its consolidated financial position.

b) Basis of measurement

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

c) Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars, which is the functional currency for the Group.

d) Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

In particular, information about estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in note 4.

e) Revised and newly issued IFRS adopted by the Group

The Group has adopted the following revised and newly issued IFRS effective for annual periods beginning on or after 1 January 2013:

IFRS 10 Consolidated Financial Statements

The new standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. It introduces a single consolidation model that identifies control as the basis for consolidation for all types of entities, where control is based on whether an investor has power over the investee, exposure/rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns. The adoption of this standard has no financial impact on the consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities

The new standard combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.

IFRS 13 Fair Value Measurement

The new standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The change had no impact on the measurements of the Group's assets and liabilities.

The Group has included new disclosures in the consolidated financial statements which are required under IFRS 13 in note 21.

IAS 1 Presentation of Financial Statements – Amendments

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. These amendments became effective for annual periods beginning on or after 1 July 2012. The adoption of this amendment has no financial impact on the consolidated financial statements.

f) Standards and interpretations not yet effective or adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments are effective for annual periods beginning on or after 1 January 2014.

The management anticipates that the adoption of this standard will have no significant financial impact on the consolidated financial statements of the Group in the period of initial application.

IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities.

The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalized. However, early application of IFRS is permitted. The adoption of these standards is expected to have an impact on the Group's financial assets, but no impact on the Group's financial liabilities.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements.

a) Basis of consolidation

The consolidated financial statements for the year ended 31 December 2013 include the Company and its subsidiary referred to in note 1.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries are consistent with the accounting policies adopted by the Group.

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group assessed the control conclusion for its investees at 1 January 2013 and it did not change its control conclusion in respect of the investments in existing subsidiary.

Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in consolidated statement of profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted or as an available for sale financial asset depending on the level of influence retained.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its powers over the entity.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition dates. The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated statement of profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in the consolidated statement of profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in the consolidated statement of profit or loss or in the consolidated statement of comprehensive income.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions of non-controlling interests

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

b) Foreign currencies

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies which are stated at historical cost are translated into the functional currency and recorded at the exchange rates ruling at the date of the transaction. Non-monetary items denominated in foreign currencies which are stated at fair value are translated to the functional currency at the exchange rates ruling at the date of determining the fair value. Foreign currency differences arising on retranslation are recognised in the consolidated statement of profit or loss except for differences resulting from retranslating available-for-sale equity instruments.

c) Investments

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value.

The amounts of each class of investments that has been designated at fair value through profit or loss are described in note 7.

Financial instruments at fair value through profit or loss are measured initially at fair value. Transaction costs on financial instruments through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments measured at fair value through profit or loss are measured at fair value with changes in their fair value recognized in the consolidated statement of profit or loss.

Investments which are not held-to-maturity or financial assets at fair value through profit or loss, are classified as being available-for-sale investments. Available-for-sale investments are recognized at fair value, with any resultant gain or loss being recognised in the consolidated statement of other comprehensive income and presented within equity in the fair value reserve, except for impairment losses and, in the case of monetary items, foreign exchange gains and losses.

Unquoted equity securities classified as available-for-sale investments whose fair value cannot be reliably determined are carried at cost less impairment losses (note 3 (h)).

When these investments are derecognised, the cumulative gain or loss in other comprehensive income is transferred to the consolidated statement of profit or loss.

The fair value of financial instruments classified as financial assets at fair value through profit or loss and available-for-sale-investments is their quoted market price at the reporting date. If the quoted market price is not available, the fair value of the investment is estimated using generally accepted valuation methods such as discounted cash flow techniques or net asset value or market price of similar investments.

Financial assets at fair value through profit or loss and available-for-sale investments are recognised or derecognised on the trade date i.e., on the date the Group commits to purchase or sell the investments.

d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks and highly liquid financial assets with original maturities of less than three months.

e) Loans and receivables

Loans and receivables are stated at cost less impairment losses (note 3(h)). The Group's loans and receivables include cash and cash equivalents, investment deposits, Qard Hassan to participants and accounts receivable.

f) Property and equipment

Property and equipment is measured at cost less accumulated depreciation and impairment losses (note 3(h)). Depreciation is calculated to write off the cost of property and equipment by equal installments over their estimated useful lives, ranging from 5 to 7 years.

The useful life, depreciation method and residual value of property and equipment at the end of their useful lives are reviewed annually to ensure that the method and period of depreciation is in line with the expected pattern of economic benefits from items of property and equipment. A change in the estimated useful life of property and equipment is applied at the beginning of the financial year of change with no retroactive effect.

g) Intangible assets

The Group's intangible assets include the value of computer software. Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortisation is recognised in the consolidated statement of profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

h) **Impairment**

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. All impairment losses are recognised in the consolidated statement of profit or loss.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective rate of return.

An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to the consolidated statement of profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the consolidated statement of profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated statement of profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

i) Payables

Payables are stated at amortised cost. The Group's payables are classified as other financial liabilities and include accounts payable and due to related parties.

j) Provisions

Provisions are recognized in the consolidated financial statements when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

k) Provision for employees' end of service indemnity

Kuwaiti employees

Pensions and other social benefits for Kuwaiti employees are covered by the Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under International Accounting Standard (IAS) 19 – Employee Benefits are charged to the consolidated statement of profit or loss in the year to which they relate.

Expatriate employees

Expatriate employees are entitled to an end of service indemnity payable under the Kuwait Labor Law and the Group's by-laws based on the employees' accumulated periods of service and latest entitlements of salaries and allowances.

l) Revenue recognition

- Income from Islamic finance contracts and deposits is recognized on a time proportion basis to achieve fixed rate of return on outstanding balances for these transactions.
- Dividend income is recognized when the right to receive dividend is established.
- Rental income from operating leases is recognised on a straight-line basis over the lease term.
- Other revenues and expenses are recognized on an accrual basis.

4. Use of estimates and judgments

Key sources of estimation uncertainty

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

Impairment of receivables

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

Impairment on available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration or extent to which the fair value of an investment is less than its cost.

Determining fair values

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgments in applying the Group's accounting policies

Critical accounting judgments made in applying the Group's accounting policies include:

Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances. In designating financial assets or liabilities at fair value through profit or loss, the Group has determined that it has met the criteria for this designation (note 3(c)).

5. Cash and cash equivalents

	2013 KD	2012 KD
Cash at banks	925,683	921,629

6. Investment deposits

6.1 Investment deposits are placed with Islamic financial institutions. The average effective rate of return on the time deposits was 2.4 % per annum as at 31 December 2013 (2012: 2.41% per annum).

6.2 Letters of guarantee issued in favor of government entities in Kuwait are secured by investment deposits to the value of KD 953,499 as at 31 December 2013 (2012: KD 1,292,260) (see note 16).

7. Investments at fair value through profit or loss

	2013 KD	2012 KD
Investments in local shares – unquoted	496,942	492,900
Investments in foreign shares – unquoted	320,056	397,506
Investments in foreign funds – unquoted	1,087,810	663,888
	1,904,808	1,554,294

The valuation of unquoted investments has been determined based on the report obtained from investment portfolio manager (a related party).

8. Available-for-sale investments

	2013 KD	2012 KD
Investments in local shares – unquoted	1,920,552	1,797,683
Investments in local funds – unquoted	1,076,647	997,855
Investments in foreign shares – unquoted	252,887	252,380
Investments in foreign funds – unquoted	60,557	74,318
	3,310,643	3,122,236

The Company identified an impairment of KD Nil on available-for-sale investment – unquoted local shares (2012:668,567), an impairment of KD Nil on available-for-sale investment – unquoted foreign funds (2012: KD 123,788) and an impairment of KD Nil on available-for-sale investment – unquoted foreign shares (2012:80,614), all of which are recognized within the consolidated statement of profit or loss.

Fair value of unquoted available-for-sale investment with a carrying value of KD 169,223 cannot be reliably determined. Therefore this investment is carried at cost less any impairment losses. There is no active market for this investment and there have not been any recent transactions that provide evidence of the current fair value.

The valuation of some unquoted investments has been determined based on the report obtained from investment portfolio manager (a related parent).

9. Qard Hassan to participants

In accordance with the Company's memorandum of association, participants' net deficit from each line of business of the takaful operations has been covered by Qard Hassan (free of finance charges with no repayment terms) from shareholders. The Qard Hassan given by the shareholders for each line of business will be settled through surplus arising from such line of business in future years.

The movement on Qard Hassan during the year is as follows:

	2013 KD	2012 KD
Balance at the beginning of the year	3,120,269	2,799,643
Net finance paid to the participants	303,395	320,626
Balance at the end of the year	3,423,664	3,120,269

Following is the amount of losses not covered by the shareholders:

	2013 KD	2012 KD
Accumulated deficit of takaful activities	(5,035,028)	(5,008,682)
Amount paid by shareholders till 31 December	3,423,664	3,120,269
	(1,611,364)	(1,888,413)

10. Accounts receivable

	2013 KD	2012 KD
Accrued income	13,696	15,100
Refundable deposit	10,757	10,757
Prepaid expenses	14,780	12,542
Staff receivables	71,154	42,644
Other receivables	3,350	8,074
	113,737	89,117

11. Accounts payable

	2013 KD	2012 KD
Trade payables	9,471	11,029
Accrued leave pay	97,347	100,751
Other payables	5,607	6,877
	112,425	118,657

12. Share capital

The Company's authorized, issued and paid up share capital amounted to KD 14,032,412 consisting of 140,324,120 shares of 100 fils each (31 December 2012: KD 14,032,412 consisting of 140,334,120 shares).

The Company's general assembly meeting held on 6 June 2012 approved write-off of accumulated losses of KD 1,759,280 in the Company's equity as at 31 December 2011 against voluntary reserve of KD 342,596, statutory reserve of KD 342,596 and share capital of KD 1,074,088.

13. Statutory reserve

In accordance with the Companies Law No. 25 of 2012, as amended and the Company's Articles of Association, 10% of the profit for the year is required to be transferred to statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the paid up share capital. The reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when profit is not sufficient for the payment of such dividend.

No transfers made to the statutory reserve during the current and previous year on account of accumulated losses.

14. Voluntary reserve

In accordance with the Company's Articles of Association, 10% of the profit for the year is required to be transferred to the voluntary reserve. This transfer may be discontinued, upon recommendation of board of directors, by a resolution of the shareholders in their annual meeting. There are no restrictions on the distribution of this reserve.

No transfers made to the voluntary reserve during the current and previous year on account of accumulated losses.

15. Provision for employees' end of service indemnity

	2013 KD	2012 KD
At 1 January	361,917	315,820
Provision made during the year	65,895	70,958
Payments during the year	(4,731)	(24,861)
At 31 December	423,081	361,917

16. Contingent liabilities

At 31 December 2013, the Group had contingent liabilities in respect of letters of guarantee issued in favor of Government entities in Kuwait, amounting to KD 135,000 (2012: KD 135,000).These guarantees are secured on investment deposits to the value of KD 953,499 (2012: KD 1,292,260) (see note 6).

17. Related party transactions

Related parties comprise the Group's shareholders who have representation in the Board of Directors, Directors, key management personnel and their close family members. In the normal course of business and upon management approval, transactions have been carried out during the year ended 31 December 2013.

Transactions with key management personnel

Key management personnel receive compensation in the form of short-term employee benefits and post-employment benefits amounting to KD 141, 000 for the year ended 31 December 2013 (2012: KD 105,000).

Related party transactions:

	Transaction value for the year ended 31 December		Balance outstanding as at 31 December	
	2013 KD	2012 KD	2013 KD	2012 KD
Shareholders				
Investments at fair value through profit or loss	-	-	1,904,808	1,554,294
Available-for-sale investments	-	-	3,310,643	3,122,236
Losses from investments at fair value through profit or loss	(141,912)	(823,996)	-	-
Impairment loss on available-for-sale investments	(13,759)	(872,969)	-	-
Dividends	58,236	5,991	-	-
General and administrative	121,450	132,650	-	-
Key management compensation	141,000	105,000	-	42,000

18. Participants' result by line of business and fund

The significant accounting policies used in accounting for the insurance business are set out below. Policies used in accounting for none insurance operations are the same as those adopted by the Group. The accounting policies are consistent with those used in the previous year.

Accounting policies used in insurance operation

Revenue recognition

Takaful contributions earned

Gross contributions are credited to income at the inception of the policy and over the period of the takaful coverage, which represent the total contribution written in the year, including contributions on annual policies covering part or all of the following year.

Unearned contributions represent the portion of contributions written related to the unexpired period of coverage. A minimum of 25% of the contributions collected are deferred for marine takaful contracts and minimum of 40% of the contributions collected are deferred for all other types of takaful contracts except for life takaful as per the insurance law.

Unearned contributions are reported under liabilities under policyholders' liabilities.

Contributions ceded to retakaful operations are deducted from gross contributions to arrive at net contribution.

Takaful contributions acquisition costs

Commissions paid to intermediaries and other (incremental) direct costs incurred in relation to the acquisition and renewal of takaful contracts are amortised over the terms of the takaful contracts to which they relate as takaful contributions are earned, when the related contracts are settled or disposed of.

Claims

Claims, comprising amounts paid during the year and payable to insurance companies and third parties at the end of the year, incurred but not reported claims and related loss adjustment expenses, net of salvage and other recoveries, are charged to participants' results of operations as incurred.

Takaful receivables

Takaful receivables are carried at their nominal value less impairment losses.

Retakaful

Retakaful ceded contracts do not relieve the Group from its obligations to participants and as a result the group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the retakaful agreements.

Reserve for unexpired risks

General takaful

Calculated at 40 % of net contributions retained for property and 25 % of net contributions retained for the marine and aviation.

Takaful insurance

Provision of obligation of life takaful is calculated at the discretion of an independent actuary.

Outstanding claims reserve

A provision is calculated against claims presented and not settled up to the reporting date.

Family takaful insurance reserve

A provision for family takaful liabilities is recognized at the discretion of an independent actuary.

Incurred but not reported reserve (IBNR)

A provision for incurred claims not yet reported up to the reporting date is calculated based on prior experience of loss ratio.

Participants' assets, liabilities and fund:

	2013 KD	2012 KD
Assets		
Cash and cash equivalents	417,256	349,213
Takaful receivables	957,933	1,171,180
Due from retakaful companies	562,214	596,375
Other receivables	337,058	673,038
Retakaful share of gross outstanding claims	461,771	393,165
	2,736,232	3,182,971
Liabilities		
Due to retakaful companies	474,522	438,456
Unexpired risks reserve	1,456,873	1,545,398
Outstanding claims reserve	1,393,256	1,183,197
Incurred but not reported reserve	60,000	119,400
Takaful insurance reserve	21,784	20,118
Amounts retained for retakaful companies	95,059	78,623
Unearned contributions	505,870	553,437
Due to shareholders (note 9)	3,423,664	3,120,269
Other liabilities	340,232	1,132,755
	7,771,260	8,191,653
Participants' fund		
Net accumulated deficit from takaful operations (note 9)	(5,035,028)	(5,008,682)
Total liabilities and participants' fund	2,736,232	3,182,971

Participants' results of operations

	Marine & aviation KD	General accidents KD	Medical KD	Motors KD	Total general takaful KD	Family takaful KD	Total KD
Year ended 31 December 2013							
Contributions							
Gross contributions written	15,319	778,006	1,425,827	2,242,341	4,461,493	616,975	5,078,468
Less: contributions ceded	(9,742)	(578,190)	(143,105)	(160,742)	(891,779)	(415,974)	(1,307,753)
Net contributions written	5,577	199,816	1,282,722	2,081,599	3,569,714	201,001	3,770,715
Unexpired risks reserve	735	(11,319)	(20,045)	107,085	76,456	12,069	88,525
Net contributions earned	6,312	188,497	1,262,677	2,188,684	3,646,170	213,070	3,859,240
Issuance fees	726	1,674	1,204	187,086	190,690	1,242	191,932
Other expenses	(1,621)	(45,500)	(77,162)	(60,298)	(184,581)	(22,147)	(206,728)
Net commissions	2,749	31,582	(41,388)	(746,170)	(753,227)	(61,250)	(814,477)
Total revenues	8,166	176,253	1,145,331	1,569,302	2,899,052	130,915	3,029,967
Expenses							
Claims incurred	(1,957)	(110,854)	(1,313,094)	(689,510)	(2,115,415)	(242,484)	(2,357,899)
Less: retakaful share of claims incurred	1,846	46,503	34,637	-	82,986	212,426	295,412
Net claims	(111)	(64,351)	(1,278,457)	(689,510)	(2,032,429)	(30,058)	(2,062,487)
Provision for takaful insurance	-	-	-	-	-	(1,664)	(1,664)
Provision for outstanding claims and claims incurred but not reported	-	13,307	68,400	(156,173)	(74,466)	(7,588)	(82,054)
Total claims	(111)	(51,044)	(1,210,057)	(845,683)	(2,106,895)	(39,310)	(2,146,205)
Investment revenues	4	148	953	1,546	2,651	149	2,800
Surplus by business segments	8,059	125,357	(63,773)	725,165	794,808	91,754	886,562
Allocation of general and administrative expenses	(1,350)	(48,376)	(310,554)	(503,965)	(864,245)	(48,663)	(912,908)
Net surplus/ (deficit) from takaful operations	6,709	76,981	(374,327)	221,200	(69,437)	43,091	(26,346)
Beginning balance of deficit of participants' fund							(5,008,682)
Ending balance of deficit of participants' fund							(5,035,028)

	Marine& aviation KD	General accidents KD	Medical KD	Motors KD	Total general takaful KD	Family takaful KD	Total KD
Year ended 31 December 2012							
Contributions							
Gross contributions written	31,078	710,396	1,232,609	2,547,298	4,521,381	595,153	5,116,534
Less: contributions ceded	(22,368)	(514,925)	-	(200,571)	(737,864)	(412,757)	(1,150,621)
Net contributions written	8,710	195,471	1,232,609	2,346,727	3,783,517	182,396	3,965,913
Unexpired risks reserve	1,062	1,184	(27,458)	(131,983)	(157,195)	(4,792)	(161,987)
Net contributions earned	9,772	196,655	1,205,151	2,214,744	3,626,322	177,604	3,803,926
Issuance fees	93	924	1,276	124,087	126,380	1,125	127,505
Other expenses	(1,610)	(70,245)	(9,367)	(92,008)	(173,230)	(32,701)	(205,931)
Net commissions	3,636	44,687	(6,382)	(933,546)	(891,605)	(40,426)	(932,031)
Total revenues	11,891	172,021	1,190,678	1,313,277	2,687,867	105,602	2,793,469
Expenses							
Claims incurred	(647,676)	(102,943)	(1,518,459)	(948,009)	(3,217,087)	(399,459)	(3,616,546)
Less: retakaful share of claims incurred	645,943	39,792	-	-	685,735	364,667	1,050,402
Net claims	(1,733)	(63,151)	(1,518,459)	(948,009)	(2,531,352)	(34,792)	(2,566,144)
Provision for takaful insurance	-	-	-	-	-	(1,706)	(1,706)
Provision for outstanding claims and claims incurred but not reported	84	18,533	44,188	(80,116)	(17,311)	2,963	(14,348)
Total claims	(1,649)	(44,618)	(1,474,271)	(1,028,125)	(2,548,663)	(33,535)	(2,582,198)
Investment revenues	7	137	861	1,640	2,645	127	2,772
Surplus by business segments	10,249	127,540	(282,732)	286,792	141,849	72,194	214,043
Allocation of general and administrative expenses	(2,039)	(45,759)	(288,547)	(549,355)	(885,700)	(42,692)	(928,392)
Net surplus/ (deficit) from takaful operations	8,210	81,781	(571,279)	(262,563)	(743,851)	29,502	(714,349)
Beginning balance of deficit of participants' fund							(4,294,333)
Ending balance of deficit of participants' fund							(5,008,682)

19. Takaful risk management

The principal risk the Group faces under takaful 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.

Takaful risk is basically concentrated in the motor class of business. However, the variability of risks is improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of retakaful arrangements.

Frequency and amounts of claims

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

Motor

Motor takaful is designed to compensate contract holders for damage suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for the fire or theft of their vehicles.

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Group has retakaful cover for such claims to limit losses for any individual claim to KD 26, 000 (2012: KD 25,000).

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

Property

Property takaful is designed to compensate contract holders for damage suffered to properties or for the value of property lost. Contract holders could also receive compensation for the actual loss caused by the inability to use the insured properties.

For property takaful contracts the main risks are fire and business interruption. The Group's policies aim for careful selection and implementation of underwriting strategy guidelines, as well as the use of retakaful arrangements.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Group has retakaful cover for such damage to limit losses for any individual claim to KD 114,252 (2012: KD 63,151).

Marine

Marine takaful is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes.

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Group has retakaful to limit losses for any individual claim to KD 1,733 (2012: KD 1,733).

Family takaful

Underwriting is managed at each business unit through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks.

Health selection is part of the Group's underwriting procedures, whereby contributions are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts including specific risks and guarantees are tested for profitability according to predefined procedures before approval.

The table below sets out the concentration of contract liabilities by type of contract excluding the balance due to shareholders amounting to KD 3,423,664 (2012: KD 3,120,269):

31 December 2013	**Gross liabilities KD**	**Retakaful share of liabilities KD**	**Net liabilities KD**
Motor	2,880,650	312,817	2,567,833
Property	201,451	167,450	34,001
Marine	39,389	14,198	25,191
Family takaful	201,908	142,200	59,708
Medical	1,024,198	143,105	881,093
	4,347,596	779,770	3,567,826
31 December 2012			
Motor	3,295,160	412,350	2,882,810
Property	330,212	201,500	128,712
Marine	60,618	48,196	12,422
Family takaful	235,957	189,021	46,936
Medical	1,149,437	-	1,149,437
	5,071,384	851,067	4,220,317

Geographical concentration of risks

The takaful risk arising from takaful contracts is concentrated mainly in the State of Kuwait.

Retakaful risk

In common with other takaful companies, in order to minimise financial exposure arising from large claims, the Group, in the normal course of business, enters into arrangements with other parties for retakaful purposes. Such retakaful arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the retakaful is effected under treaty, facultative and excess of loss retakaful contracts.

To minimise its exposure to significant losses from retakaful insolvencies, the Group evaluates the financial condition of retakaful companies. The Group deals with retakaful companies approved by the Board of Directors and hires external experts and brokers to select retakaful companies.

20. Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables and investments.

Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. The Group deals only with recognised, creditworthy third parties. It is the Group's policy that all participants and reinsurers are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 21. There are no significant concentrations of credit risk within the Group.

Investments

With respect to credit risk arising from the Group's investments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these investments. Management does not expect any counterparty to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At present the Group does expect to pay all liabilities at their contractual maturity. In order to meet such cash commitments the Group expects the operating activity to generate sufficient cash inflows. In addition, the Group holds financial assets for which there is a liquid market and that are readily available to meet liquidity needs. All shareholder liabilities are matured within one year.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of Group entities, primarily the U.S. Dollars (USD), and Emirates Dirham (AED).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level.

The Group currently does not use financial derivatives to manage its exposure to currency risk.

Other market price risk

Equity price risk arises from equity securities. Available-for-sale investments are held for strategic rather than trading purposes and the Group does not actively trade these investments. The primary goal of the Group's investment strategy is to maximise investment returns. In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis. To manage its price risk arising from investments in equity securities which are carried at fair value through profit or loss, the Group diversifies its portfolio. The Group's investments in equity of other entities are based primarily in the State of Kuwait.

Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Executive Management.

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity.

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capital requirements.

21. Financial instruments

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2013 KD	2012 KD
Shareholders		
Cash and cash equivalents	925,683	921,629
Investment deposits	3,253,499	4,072,260
Qard Hassan to participants	3,423,664	3,120,269
Accounts receivable	113,737	89,117
	7,716,583	8,203,275
Participants		
Cash and cash equivalents	417,256	349,213
Takaful receivables	957,933	1,171,180
Due from retakaful companies	562,214	596,375
Other receivables	337,058	673,038
Retakaful share of gross outstanding claims	461,771	393,165
	2,736,232	3,182,971

The exposure to credit risk arising from takaful and other receivables at the reporting date is concentrated in the State of Kuwait.

The table below shows the credit quality of takaful and other receivables at the reporting date:

31 December 2013	Total KD	Neither past due nor impaired KD	Past due but not impaired KD	Individually impaired KD
Shareholders				
Investment deposits	3,253,499	3,253,499	-	-
Qard Hassan to participants	3,423,664	3,423,664	-	-
Accounts receivable	113,737	113,737	-	-
	6,790,900	6,790,900	-	-
Participants				
Takaful receivables	957,933	862,874	95,059	-
Due from retakaful companies	562,214	562,214	-	-
Other receivables	337,058	337,058	-	-
Retakaful share of gross outstanding claims	461,771	461,771	-	-
	2,318,976	2,223,917	95,059	-

31 December 2012	Total KD	Neither past due nor impaired KD	Past due but not impaired KD	Individually impaired KD
Shareholders				
Murabaha and investment deposits	4,072,260	4,072,260	-	-
Qard Hassan to participants	3,120,269	3,120,269	-	-
Accounts receivable	89,117	89,117	-	-
	7,281,646	7,281,646	-	-
Participants				
Takaful receivables	1,171,180	1,081,862	89,318	-
Due from retakaful companies	596,375	596,375	-	-
Other receivables	673,038	673,038	-	-
Retakaful share of gross outstanding claims	393,165	393,165	-	-
	2,833,758	2,744,440	89,318	-

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Liquidity risk

The following are the expected maturities of financial liabilities at the reporting date.

31 December 2013

	Carrying amount KD	One year or less KD
Shareholders		
Accounts payable	112,425	112,425
Due to related parties	4,477	4,477
	116,902	116,902
Participants		
Participants' financial liabilities	7,771,260	7,771,260
	7,771,260	7,771,260

31 December 2012

Shareholders		
Accounts payable	118,657	118,657
Due to related parties	42,979	42,979
	161,636	161,636
Participants		
Participants' financial liabilities	8,191,653	8,191,653
	8,353,289	8,353,289

Currency risk

Exposure to currency risk

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

The Group had the following significant net exposures denominated in foreign currencies as at 31 December:

	2013 Equivalent Long Position	2012 Equivalent Long Position
US Dollar	1,552,087	1,218,401
Emirates Dirham	169,223	168,718

Sensitivity analysis

A 5 percent strengthening of the KD against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

Effect in Kuwaiti Dinars	Equity	Profit or loss
31 December 2013		
US Dollar	77,604	70,393
Emirates Dirham	8,461	-
31 December 2012		
US Dollar	60,920	53,070
Emirates Dirham	8,436	-

A 5 percent weakening of the KD against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Equity price risk

For such investments classified as available-for-sale, a three percent increase or decrease in stock prices at the reporting date would have increased or decreased equity by KD 99,319 (2012: an increase or decrease of KD 93,667). For such investments classified as at fair value through profit or loss, the impact on profit or loss would have been an increase or decrease of KD 57,144 (2012: KD 46,629). The analysis is performed on the same basis for 2012.

Fair values

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The estimated fair value of financial assets and financial liabilities at the reporting date are not materially different from their carrying values.

Fair value hierarchy

The next table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

	Level 2 KD	Level 3 KD	Total KD
31 December 2013			
Financial assets at fair value through profit or loss	1,584,752	320,056	1,904,808
Available-for-sale financial assets	3,310,643	-	3,310,643
	4,895,395	320,056	5,215,451
31 December 2012			
Financial assets at fair value through profit or loss	1,156,789	397,505	1,554,294
Available-for-sale financial assets	2,953,518	-	2,953,518
	4,110,307	397,505	4,507,812

The above table does not include KD 169,223 of available-for-sale investment securities that are measured at cost, less any impairment losses, and for which disclosure of fair value is not provided because their fair value cannot be reliably measured (note 8).

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy.

	2013 KD	2012 KD
Balance at 1 January	397,505	786,880
Total losses recognized in:		
Statement of income- Net	(77,449)	(389,375)
Balance at 31 December	320,056	397,505