# Wethaq Takaful Insurance Company K.S.C. (Closed) and Subsidiary

## CONSOLIDATED FINANCIAL STATEMENTS

## 31 DECEMBER 2011

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

| | Notes | **2011** **KD** | 2010 KD |
|---|---|---|---|
| Net investment loss | 3 | **(533,006)** | (1,743,815) |
| Change in fair value of investment properties | 10 | **-** | 386,992 |
| Shareholders' share of insurance surplus | 16 | **361,100** | 347,736 |
| Management fees from policyholders | 16 | **557,331** | 520,063 |
| Other income | | **28,038** | 33,361 |
| Allowances and other benefits | | **(37,000)** | (66,000) |
| General and administrative expenses | | **(129,407)** | (45,310) |
| **PROFIT (LOSS) BEFORE TAXATION AND DIRECTORS' REMUNERATION** | 4 | **247,056** | (566,973) |
| Taxation | 5 | **(121,882)** | (184,812) |
| Directors' remuneration | 18 | **(7,000)** | (7,000) |
| **PROFIT (LOSS) FOR THE YEAR** | | **118,174** | (758,785) |
| **Attributable to:** | | | |
| Equity holders of the Parent Company | | **69** | (866,457) |
| Non-controlling interest | | **118,105** | 107,672 |
| | | **118,174** | (758,785) |
| **BASIC AND DILUTED EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY** | 6 | **-** | (7.89) fils |

The attached notes 1 to 20 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

| | *Note* | ***2011*** ***KD*** | *2010* *KD* |
|---|---|---|---|
| Profit (loss) for the year | | **118,174** | (758,785) |
| Available for sale investments: | | | |
| - Change in fair value | | **(426,390)** | (2,174,270) |
| - Transfer to consolidated income statement on impairment | 3 | **434,091** | 1,807,387 |
| Exchange differences on translation of foreign operations | | **(76,693)** | (153,953) |
| **Other comprehensive loss for the year** | | **(68,992)** | (520,836) |
| **Total comprehensive income (loss) for the year** | | **49,182** | (1,279,621) |
| Attributable to: | | | |
| Equity holders of the Parent Company | | **(38,245)** | (1,325,712) |
| Non-controlling interest | | **87,427** | 46,091 |
| **Total comprehensive income (loss) for the year** | | **49,182** | (1,279,621) |

The attached notes 1 to 20 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

| | Notes | *2011* KD | *2010* KD |
|---|---|---|---|
| **ASSETS** | | | |
| Bank balances and cash | | **1,746,037** | 560,728 |
| Financial assets at fair value through income statement | 7 | **1,059,926** | 1,335,754 |
| Other assets | | **221,084** | 200,222 |
| Qard Hassan to policyholders | 8 | **1,751,761** | 1,234,234 |
| Financial assets available for sale | 9 | **5,619,943** | 6,046,333 |
| Investment deposit | 10 | **501,436** | 1,443,076 |
| Investment properties | 11 | **2,634,296** | 2,634,296 |
| Furniture and equipment | | **253,767** | 223,901 |
| **TOTAL ASSETS** | | **13,788,250** | 13,678,544 |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY** | | | |
| Share capital | 12 | **11,025,000** | 11,025,000 |
| Share premium | | **7,340,937** | 7,340,937 |
| Treasury shares | 13 | **(50,489)** | (50,489) |
| Treasury shares reserve | | **3,508** | 3,508 |
| Statutory reserve | 14 | **388,139** | 388,139 |
| Voluntary reserve | 15 | **388,139** | 388,139 |
| Cumulative changes in fair value reserve | | **58,272** | 50,571 |
| Foreign currency translation adjustment reserve | | **(85,695)** | (39,680) |
| Employee share purchase plan reserve | 16 | **65,964** | 65,964 |
| Accumulated losses | | **(7,998,352)** | (7,998,421) |
| **TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY** | | **11,135,423** | 11,173,668 |
| Non controlling interest | | **1,013,812** | 839,050 |
| **TOTAL EQUITY** | | **12,149,235** | 12,012,718 |
| **LIABILITIES** | | | |
| Other liabilities | | **489,722** | 530,418 |
| Amounts due to policyholders | 8 | **1,149,293** | 1,135,408 |
| **TOTAL LIABILITIES** | | **1,639,015** | 1,665,826 |
| **TOTAL EQUITY AND LIABILITIES** | | **13,788,250** | 13,678,544 |

Abdulla Yousef Al-Saif
Chairman

Abdullah Mishari Al Humaidi
Vice Chairman

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

| | *Notes* | ***2011*** ***KD*** | *2010* *KD* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit (loss) for the year | | **118,174** | (758,785) |
| Adjustments for: | | | |
| Net investment loss | 3 | **533,006** | 1,743,815 |
| Change in fair value of investment properties | 11 | **-** | (386,992) |
| Shareholders' share of insurance surplus | 17 | **(361,100)** | (347,736) |
| Management fees from policyholders | 17 | **(557,331)** | (520,063) |
| Depreciation | | **42,074** | 44,389 |
| Change in operating assets and liabilities: | | | |
| Other assets | | **(20,862)** | (16,472) |
| Other liabilities | | **(40,696)** | 69,412 |
| Net cash used in operating activities | | **(286,735)** | (172,432) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of furniture and equipment | | **(71,940)** | (180,525) |
| Net movement in investment deposits | | **941,640** | (762,058) |
| Dividend income received | | **8,499** | - |
| Profit from investment deposits received | | **168,414** | 125,302 |
| Net cash from (used in) investing activities | | **1,046,613** | (817,281) |
| **FINANCING ACTIVITIES** | | | |
| Purchase of treasury shares | | **-** | (6,852) |
| Net movement in amounts due to policyholders | | **414,789** | 574,074 |
| Net movement in non-controlling interest | | **56,657** | 40,808 |
| Net cash from financing activities | | **471,446** | 608,030 |
| **INCREASE (DECREASE) IN BANK BALANCES AND CASH** | | **1,231,324** | (381,683) |
| Foreign currency translation differences | | **(46,015)** | (92,372) |
| Bank balances and cash at the beginning of the year | | **560,728** | 1,034,783 |
| **BANK BALANCES AND CASH AT THE END OF THE YEAR** | | **1,746,037** | 560,728 |

The attached notes 1 to 20 form part of these consolidated financial statements.

Wethaq Takaful Insurance Company K.S.C. (Closed) and Subsidiary

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

| | *Attributable to equity holders of the Parent Company* | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital KD* | *Share premium KD* | *Treasury shares KD* | *Treasury shares reserve KD* | *Statutory reserve KD* | *Voluntary reserve KD* | *Cumulative changes in fair value reserve KD* | *Foreign currency translation adjustment reserve KD* | *Employee share purchase plan reserve KD* | *Accumulated losses KD* | *Sub total KD* | *Non controlling interest KD* | *Total equity KD* |
| Balance at 1 January 2011 | 11,025,000 | 7,340,937 | (50,489) | 3,508 | 388,139 | 388,139 | 50,571 | (39,680) | 65,964 | (7,998,421) | 11,173,668 | 839,050 | 12,012,718 |
| Profit for the year | - | - | - | - | - | - | - | - | - | 69 | 69 | 118,105 | 118,174 |
| Other comprehensive income (loss) | - | - | - | - | - | - | 7,701 | (46,015) | - | - | (38,314) | (30,678) | (68,992) |
| Total comprehensive income (loss) for the year | - | - | - | - | - | - | 7,701 | (46,015) | - | 69 | (38,245) | 87,427 | 49,182 |
| Capital increase by the subsidiary | - | - | - | - | - | - | - | - | - | - | - | 91,620 | 91,620 |
| Advance for share capital of subsidiary | - | - | - | - | - | - | - | - | - | - | - | 111,213 | 111,213 |
| Dividends paid by the subsidiary | - | - | - | - | - | - | - | - | - | - | - | (115,498) | (115,498) |
| **At 31 December 2011** | **11,025,000** | **7,340,937** | **(50,489)** | **3,508** | **388,139** | **388,139** | **58,272** | **(85,695)** | **65,964** | **(7,998,352)** | **11,135,423** | **1,013,812** | **12,149,235** |
| At 1 January 2010 | 11,025,000 | 7,340,937 | (43,637) | 3,508 | 388,139 | 388,139 | 417,454 | 52,692 | 65,964 | (7,131,964) | 12,506,232 | 690,570 | 13,196,802 |
| (Loss) profit for the year | - | - | - | - | - | - | - | - | - | (866,457) | (866,457) | 107,672 | (758,785) |
| Other comprehensive loss | - | - | - | - | - | - | (366,883) | (92,372) | - | - | (459,255) | (61,581) | (520,836) |
| Total comprehensive (loss) income for the year | - | - | - | - | - | - | (366,883) | (92,372) | - | (866,457) | (1,325,712) | 46,091 | (1,279,621) |
| Purchase of treasury shares | - | - | (6,852) | - | - | - | - | - | - | - | (6,852) | - | (6,852) |
| Capital increase by the subsidiary | - | - | - | - | - | - | - | - | - | - | - | 102,389 | 102,389 |
| At 31 December 2010 | 11,025,000 | 7,340,937 | (50,489) | 3,508 | 388,139 | 388,139 | 50,571 | (39,680) | 65,964 | (7,998,421) | 11,173,668 | 839,050 | 12,012,718 |

The attached notes 1 to 20 form part of these consolidated financial statements.

## 1 CORPORATE INFORMATION

The consolidated financial statements of Wethaq Takaful Insurance Company K.S.C. (Closed) (the "Parent Company") and its subsidiary (the "Group") for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 5$^{TH}$ March, 2012 and are issued subject to the approval of the Ordinary Annual General Assembly of the shareholders.

The Parent Company is a Kuwaiti Shareholding Company incorporated on 2 October 2000 and is registered under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments. It is engaged in co-operative insurance operations and all related activities, including reinsurance. In addition, the Parent Company can own, sell and purchase real estate and other financial instruments.

Takaful is an Islamic alternative to a conventional insurance and investment program, based on the mutual funds concept, where each policyholder will receive his share in the surplus arising from the insurance activities, in accordance with the company's articles of association and the approval of Fatwa and Shareea'a Supervisory Board.

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

The Parent Company maintains separate books of account for policyholders and shareholders. Income and expenses clearly attributable to either activity are recorded in the respective accounts. Management and the board of directors determine the basis of allocation of expenses from joint operations.

The Parent Company's registered head office is at P.O. Box 371, Safat 13004, Kuwait.

## 2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through income statement, financial assets available for sale and investment properties.

The consolidated financial statements are presented in Kuwaiti Dinars which is the functional currency of the Parent Company.

### 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") and applicable requirements of Ministerial Order No. 18 of 1990.

### BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary (the "Group") as at 31 December 2011 which is listed below:

| *Name of company* | *Country of incorporation* | *Interest in equity %* | | *Principal activities* |
|---|---|---|---|---|
| | | ***2011*** | *2010* | |
| Wethaq Takaful Insurance Company | Egypt | **60%** | 60% | Insurance and reinsurance activities |

## 2.1 BASIS OF PREPARATION (continued)

### BASIS OF CONSOLIDATION (continued)

Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets not attributable directly, or indirectly, to the equity holders of the Parent Company. Equity, net profit and total comprehensive income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

The results of the subsidiaries acquired or disposed off during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2011:

- IAS 24 *Related Party Disclosures (amendment)* effective 1 January 2011
- IAS 32 *Financial Instruments: Presentation (amendment)* effective 1 February 2010
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

*IAS 24 Related Party Transactions (Amendment)*
The International Accounting Standards Board (IASB) issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

*IAS 32 Financial Instruments: Presentation (Amendment)*
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

**Improvements to IFRSs**
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements

*IFRS 7 Financial Instruments — Disclosures*
The amendment to standard was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

*IAS 1 Presentation of Financial Statements*
The amendment to standard clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in consolidated statement of comprehensive income.

Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

**2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1: Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

IAS 28: Investments in Associates and Joint Ventures (as revised in 2011)

IFRS 7: Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

IFRS 9: Financial Instruments: Classification and Measurement

IFRS 10: Consolidated Financial Statements

IFRS 11: Joint Arrangements

IFRS 12: Disclosure of Involvement with Other Entities

IFRS 13: Fair Value Measurement

**2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

*IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) 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. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

*IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's consolidated financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment affects disclosure only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2011.

*IFRS 9 Financial Instruments: Classification and Measurement*
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected during the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. The standard is effective for annual periods beginning on or after 1 January 2015.

*IFRS 10 Consolidated Financial Statements*
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation -Special Purpose Entities. It establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 11 Joint Arrangements*
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The amendment is deemed to have no impact on the financial statements of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 12 Disclosure of Involvement with Other Entities*
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.



*IFRS 13 Fair Value Measurement*
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. The standard does not

change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

**Improvements**
*IFRS 3 Business Combinations*
The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The amendment to IFRS 3 is effective for annual periods beginning on or after 1 July 2011

The application of these standards will be made in the consolidated financial statements when these standards become effective. The Parent Company's management is yet to assess the impact of the application of these standards on the consolidated financial statements of the Group.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Revenue recognition**
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognised:

- Profit on investment deposits is recognised on a time apportionment basis taking into account the outstanding balance and applicable profit rate.
- Dividend income is recognised when the Group's right to receive payment is established.
- Gain on sale of investments is recognised on a trade date basis.

**Financial assets and liabilities**
The Group classifies its financial assets and liabilities as "financial assets at fair value through income statement", "financial assets available for sale" or "other liabilities". The Group determines the classification of financial assets and liabilities at initial recognition.

A regular way purchase of financial assets is recognised using the trade date accounting. Financial liabilities other than at fair value through income statement are not recognised unless one of the parties has performed or the contract is a derivative contract.

Financial assets and liabilities are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at fair value through income statement, directly attributable transaction costs. Transaction costs on financial assets at fair value through income statement are expensed immediately, while on other debt instruments they are amortised.

*Financial assets at fair value through income statement*
All investments are initially recognised at fair value. Transaction costs are expensed immediately. After initial recognition, investments are re-measured at fair value. Unrealised gains and losses are included in the consolidated income statement.



**Financial assets and liabilities (continued)**
*Financial assets available for sale*
Financial assets available for sale are acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in value, profit rates or exchange rates.

Financial assets available for sale are initially recognised at cost (including transaction costs) and subsequently measured at fair value unless this cannot be reliably measured. Unrealised gains and losses are reported as a separate component through other comprehensive income until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in other comprehensive income is included in the consolidated income statement.

An assessment is made at each reporting date to determine whether there is objective evidence that an investment may be impaired. If such evidence exists, any impairment loss (being the difference between cost and fair value, less any impairment loss previously recognised) is recognised in the consolidated income statement. In case where the fair value cannot be reliably measured, the investments are carried at cost less impairment losses, if any.

*Other liabilities*
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Derecognition of financial assets and liabilities**
*Financial assets*
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

**Fair values**
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. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definitions of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operations or to undertake a transaction on adverse terms.



**Fair values (continued)**
*Investments*
For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to recent arm's length transactions, current fair value of another instrument that is substantially the same, an earnings multiple, or an industry specific earnings multiple or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

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

*Other financial assets and liabilities*
For other financial assets and liabilities, fair value is determined based on expected future cash flows and management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

**Impairment and uncollectibility of financial assets**
An assessment for a group of financial assets is made at each reporting date to determine whether there is objective evidence that a specific group of financial asset may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated income statement.

Impairment is determined as follows:

(a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective rate of return;
(b) for assets carried at fair value, impairment is the difference between cost and fair value; and
(c) for assets carried at cost, impairment is the difference between cost and present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for equity instruments classified as available for sale, reversals of impairment losses are recognised in the consolidated income statement to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. Reversals in respect of equity instruments classified as available for sale are recognised directly in other comprehensive income.

**Offsetting of financial assets and liabilities**
Financial assets and liabilities are offset when the Group has a legal enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

**Qard Hassan from shareholders**
Qard Hassan represents non-profit Islamic financing provided by the shareholders to the policyholders in respect of the deficit arising from the takaful operations which will be settled from the surplus arising from such business in future years.

**Investment properties**
Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflect market conditions at the reporting date.

Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investment properties (continued)**
Periodically, valuations are carried out by an independent valuer who has recent experience in the location and category of the investment property being valued, on the basis referred to above.

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

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

**Furniture and equipment**
Furniture and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is computed on a straight-line basis over the estimated useful lives of furniture and equipment as follows:

| | |
|---|---|
| • Computers and printers | 5 years |
| • Fixtures | 3 years |
| • Furniture and office equipments | 10 years |

The carrying value of furniture and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

**Treasury shares**
The Parent Company's holding of its own shares is accounted for as treasury shares and is stated at purchase consideration including directly attributable costs.

When the treasury shares are sold, gains are credited to a separate account in equity (treasury share reserve) which is non 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 to 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 treasury share reserve amount. No cash dividends are distributed on these shares.

The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

**Share-based payment**
Share-based payment expense is recognised where the Group purchases goods or services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions").

*Share-based payment transaction*
Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

*Equity-settled transactions*
The cost of equity-settled transactions with employees is measured under the intrinsic value method. Under this method, the cost is determined by reference to the fair value being the bid price at the date on which they are granted. The fair value of the options is recognised as an expense over the vesting period with corresponding effect to equity.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Share-based payment (continued)**
The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees exercise their rights. The cumulative expense recognised for equity-settled transactions at each reporting date until the exercise date reflects the extent to which the exercise period has expired and the number of awards that, in the opinion of the directors at that date, based on the best available estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

**Foreign currency translation**
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates ruling at the dates that the fair values were determined. In case of non-monetary assets whose change in fair values is recognised directly in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value is recognised in the consolidated income statement, foreign exchange differences are recognised in the consolidated income statement.

Assets and liabilities, both monetary and non-monetary, of foreign subsidiary are translated at the exchange rates prevailing at the reporting date. Operating results of such entity are translated at average rates of exchange for the period of operations. The resulting exchange differences are accumulated in a separate section of the consolidated statement of changes in equity (foreign currency translation reserve) until the disposal of the entity.

**Taxation**

*National Labour Support Tax (NLST)*
The Parent Company calculates the NLST in accordance with Law No. 19 of 2000 and the Ministry of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

*Zakat*
Contribution to Zakat is calculated at 1% of the profit of the Parent Company in accordance with the Ministry of Finance resolution No. 58/2007.

*Taxation on overseas subsidiary*
Taxation on overseas subsidiary is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the country where the subsidiary operates.



**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 the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Classification of financial assets and liabilities*
Management decides on acquisition of financial assets whether they should be classified as financial assets at fair value through income statement or available for sale.

The Group classifies financial assets as at fair value through income statement if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets as at fair value through income statement depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of income statement in the management accounts, they are classified as at fair value through income statement. All other investments are classified as available for sale.

*Valuation of investment properties*
Valuation of investment properties is determined by independent, registered, real estate assessors or by reference to recent transactions in similar properties.

The determination of the fair value of investment properties requires significant estimation.

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

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

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

*Impairment of receivables*
An estimate of the collectible amount of 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.

## 3 NET INVESTMENT LOSS

| | ***2011*** ***KD*** | *2010* *KD* |
|---|---|---|
| Unrealised loss on financial assets at fair value through income statement (note 7) | **(275,828)** | (61,730) |
| Impairment loss on financial assets available for sale (note 9) | **(434,091)** | (1,807,387) |
| Profit income | **168,414** | 125,302 |
| Dividends | **8,499** | - |
| | **(533,006)** | (1,743,815) |

## 4 PROFIT (LOSS) FOR THE YEAR

| Profit (loss) for the year is stated after charging: | ***2011*** ***KD*** | *2010* *KD* |
|---|---|---|
| Depreciation | **42,074** | 44,389 |

## 5 TAXATION

| | ***2011*** ***KD*** | *2010* *KD* |
|---|---|---|
| Taxation on overseas subsidiary | **(121,882)** | (184,812) |

## 6 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

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

Diluted earnings (loss) per share is calculated by dividing the profit (loss) for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares, less treasury shares, outstanding during the year (adjusted for the effects of dilutive options).

| | ***2011*** | *2010* |
|---|---|---|
| Profit (loss) for the year attributable to equity holders of the Parent Company (KD) | **69** | (866,457) |
| Weighted average number of ordinary shares (net of treasury shares) outstanding for the year for calculating basic and diluted earnings (loss) per share | **109,804,500** | 109,852,829 |
| **Basic and diluted earnings (loss) per share attributable to equity holders of the Parent Company** | - | (7.89) |

During the year, the effect of outstanding stock options has not been considered in the computation of diluted earnings (loss) per share as the result is anti-dilutive.

## 7 FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

| | ***2011*** | *2010* |
|---|---|---|
| | ***KD*** | *KD* |
| *Quoted securities* | | |
| Equities | **320,588** | 378,117 |
| Managed portfolios of quoted securities | **739,338** | 957,637 |
| | **1,059,926** | 1,335,754 |

Unrealised loss is analysed as follows:

| | ***2011*** | *2010* |
|---|---|---|
| | ***KD*** | *KD* |
| *Quoted securities* | | |
| Equities | **(57,523)** | 25,012 |
| Managed portfolios of quoted securities | **(218,305)** | (86,742) |
| | **(275,828)** | (61,730) |

## 8 QARD HASSAN AND AMOUNTS DUE TO POLICYHOLDERS

In accordance with the Parent Company’s bylaws, policyholders’ net deficit from each line of business of the takaful operations has been covered by Qard Hassan 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. As at 31 December 2011, cumulative Qard Hassan due from the policyholders amounted to KD 1,751,761 (2010: KD 1,234,234). The management of the Parent Company believes that the takaful business will be able to generate sufficient profits in future to repay the Qard Hassan.

Qard Hassan to policyholders as at year end is analysed as follows:

| | ***2011*** | *2010* |
|---|---|---|
| | ***KD*** | *KD* |
| At 1 January | **1,234,234** | 787,281 |
| Policyholders’ deficit absorbed by Qard Hassan (Note 17) | **517,527** | 446,953 |
| At 31 December | **1,751,761** | 1,234,234 |

Amounts due to policyholders as at year end is analysed as follows:

| | ***2011*** | *2010* |
|---|---|---|
| | ***KD*** | *KD* |

| | 2011 | 2010 |
|---|---|---|
| At 1 January | **1,135,408** | 982,180 |
| Management fees from policyholders (Note 17) | **(557,331)** | (520,063) |
| Policyholders' deficit absorbed by Qard Hassan | **517,527** | 446,953 |
| Other movement in funds advanced by policyholders | **53,689** | 226,338 |
| At 31 December | **1,149,293** | 1,135,408 |

## 9 FINANCIAL ASSETS AVAILABLE FOR SALE

| | ***2011*** | *2010* |
|---|---|---|
| | ***KD*** | *KD* |
| *Quoted securities* | | |
| Equities | **248,785** | 277,315 |
| *Unquoted securities* | | |
| Equities | **564,403** | 564,400 |
| Managed equity funds | **1,396,139** | 1,351,125 |
| Managed portfolios | **3,410,616** | 3,853,493 |
| | **5,371,158** | 5,769,018 |
| | **5,619,943** | 6,046,333 |

The fair values of the unquoted securities included in managed funds and portfolios are provided by the managers of these funds and portfolios.

At year end, financial assets available for sale were assessed for impairment which resulted in the recognition of impairment loss amounting to KD 434,091 (2010: KD 1,807,387) in the consolidated income statement to account for significant or prolonged decline in the fair value of certain financial assets below their cost.

The unquoted equity investments amounting to KD 475,150 (2010: KD 475,150) are carried at cost due to the non availability of reliable measures of their fair values. Management has performed a review of its unquoted equity investments to assess whether impairment has occurred in the value of these investments due to the impact of the global financial crisis. In the opinion of the management, no impairment is required to be recognised for the year ended 31 December 2011 in respect of these investments.

## 10 INVESTMENT DEPOSIT

This relates to investment deposit maintained by the subsidiary in Egypt.

## 11 INVESTMENT PROPERTIES

| | ***2011*** | *2010* |
|---|---|---|
| | ***KD*** | *KD* |
| At 1 January | **2,634,296** | 2,247,304 |
| Change in fair value of investment properties | **-** | 386,992 |
| At 31 December | **2,634,296** | 2,634,296 |

## 12 SHARE CAPITAL

| | *Authorised, issued and paid-up capital fully paid in cash* | |
|---|---|---|
| | ***2011*** | *2010* |
| | ***KD*** | *KD* |
| Shares of 100 fils each | **11,025,000** | 11,025,000 |

## 13 TREASURY SHARES

| | *2011* | *2010* |
|---|---|---|
| Number of shares | **445,500** | 445,500 |
| Percentage of issued shares (%) | **0.41%** | 0.41% |
| Market value (KD) | **18,043** | 21,384 |

## 14 STATUTORY RESERVE

In accordance with the Law of Commercial Companies and the Parent Company's articles of association, 10% of the profit for the year attributable to equity holders of the Parent Company before zakat, directors' fees, KFAS and NLST should be transferred to statutory reserve. The Parent Company may resolve to discontinue such transfers when the reserve equals 50% of paid up share capital. No transfer has been made to statutory reserve since the accumulated losses exceed the profit for the year ended 31 December 2011.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

## 15 VOLUNTARY RESERVE

In accordance with the Parent Company's articles of association, 10% of the profit for the year attributable to equity holders of the Parent Company before Zakat, directors' fees, KFAS and NLST should be transferred to the voluntary reserve. The reserve is freely distributable. Such annual transfers have been discontinued by a resolution of the shareholders' Annual General Assembly upon a recommendation by the Board of Directors.

## 16 SHARE OPTIONS SCHEME

The Parent Company operates share options scheme to reward the performance of its employees. The scheme is in operation for a period of 10 years, with the first year being the fiscal year ended 31 December 2006. The scheme is implemented by means of either treasury shares or increase in share capital which should not exceed 10% of the Parent Company's share capital.

The scheme covers all employees who are entitled to receive a portion of their annual bonus in shares to be issued by the Parent Company. The scheme participants are granted an option to subscribe for shares allotted to the employees at the commencement of every two years through five phases exercisable as follows:

- 40% after two years from the grant date;
- 40% after four years from the grant date; and
- 20% after six years from the grant date.

No options were exercised during the year (2010: Nil).

Options totalling 5,211,750 shares were outstanding at 31 December 2011 (2010: 5,211,750 shares) and had a weighted average exercise price of 24 fils (2010: 29 fils).

The average fair value of share options granted until 31 December 2011 is KD 230,620 (2010: KD 276,223).

## 17 POLICYHOLDERS' 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 other accounts and transactions are the same as those adopted by the Group. The accounting policies are consistent with those used in the previous year.

**Revenue recognition**

*Premium earned*

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premium represents the portion of net premium written relating to the unexpired period of coverage.

*Policy issuance fees and policy acquisition cost*

Policy issuance fees and policy acquisition cost are recognised at the time of recognition of the related premium.

*Reinsurance commissions earned and paid*

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

**Reinsurance contracts held**

In order to minimise financial exposure from large claims, the Group enters into agreements with other parties for reinsurance purposes. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. These amounts are shown as “reinsurers’ share of outstanding claims” in the “assets and liabilities” until the claim is paid by the Group. Once the claim is paid the amount due from the reinsurers in connection with the paid claim is transferred to “receivables arising from insurance and reinsurance contracts”.

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

## 17 POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND (continued)

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

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

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

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

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

**Claims**
Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Group and those not reported at the reporting date.

The Group generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. In addition a provision based on management's judgement and the Parent Company's prior experience is maintained for the cost of settling claims incurred but not reported at the reporting date. Any difference between the provisions at the reporting date and settlements and provisions for the following year is included in the underwriting account for that year.

**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 the light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision 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.

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

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

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

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

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

The reserve for claims incurred but not reported includes amounts reserved for claims incurred but not reported at the reporting date in addition to other contingencies and any differences that may arise. Provision based on management's judgement and the management's prior experience is maintained for the cost of settling claims incurred but not reported at the reporting date.

**Estimation uncertainty**

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

*Provision for outstanding claims and IBNR*

Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The management generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

*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.

**17 POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND (continued)**

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

**Year ended 31 December 2011**

| | *Marine and aviation KD* | *General accident KD* | *Fire KD* | *Life KD* | ***Total KD*** |
|---|---|---|---|---|---|
| Premiums written | 236,824 | 5,639,149 | 463,251 | 244,255 | **6,583,479** |
| Reinsurance premiums ceded | (197,129) | (1,931,649) | (433,201) | (100,059) | **(2,662,038)** |
| | 39,695 | 3,707,500 | 30,050 | 144,196 | **3,921,441** |
| Movement in unearned premiums | (22,473) | (253,155) | 37,094 | - | **(238,534)** |
| Net premiums earned | 17,222 | 3,454,345 | 67,144 | 144,196 | **3,682,907** |
| Policy issuance fees and others | 27,825 | 552,937 | 17,944 | 518 | **599,224** |
| Reinsurance commission | 68,052 | 412,686 | 101,863 | 4,824 | **587,425** |
| Total revenues | 113,099 | 4,419,968 | 186,951 | 149,538 | **4,869,556** |
| Claims incurred | 23,130 | 2,289,522 | 27,801 | (21,414) | **2,319,039** |
| Movement in provision for claims incurred but not reported | 2,260 | (104,174) | (20,588) | - | **(122,502)** |
| Life mathematical reserve | - | - | - | (21,728) | **(21,728)** |
| Policy acquisition costs | 10,821 | 642,736 | 30,335 | 5,749 | **689,641** |
| Other insurance expenses | 15,274 | 411,170 | 17,782 | (90) | **444,136** |
| Total expenses | 51,485 | 3,239,254 | 55,330 | (37,483) | **3,308,586** |
| Surplus from insurance operations | 61,614 | 1,180,714 | 131,621 | 187,021 | **1,560,970** |
| Allocation of general and administrative expenses | (60,525) | (1,129,525) | (132,146) | (72,527) | **(1,394,723)** |
| Net surplus (deficit) from insurance operations | 1,089 | 51,189 | (525) | 114,494 | **166,247** |
| Investment (loss) income | (8,102) | 364,534 | (13,261) | (13,762) | **329,409** |
| **Net (deficit) surplus from insurance operations** | **(7,013)** | **415,723** | **(13,786)** | **100,732** | **495,656** |
| Shareholders' share of insurance surplus from subsidiary | | | | | **(361,100)** |
| Management fees to shareholders of the Parent Company | | | | | **(557,331)** |
| Insurance deficit transferred to policyholders' fund | | | | | **(422,775)** |

The policyholders of the subsidiary transferred KD 361,100 (2010: 347,736) to shareholders of subsidiary from total insurance surplus of KD 455,852 (2010: KD 576,359).

As per the Parent Company's articles of association, the shareholders of the Parent Company are entitled to management fees from policyholders of the Parent Company up to 20% of the gross premium written and investment income.

**17 POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND (continued)**

| Year ended 31 December 2010 | *Marine and aviation* | *General accident* | *Fire* | *Life* | *Total* |
|---|---|---|---|---|---|

| | KD | KD | KD | KD | KD |
|---|---|---|---|---|---|
| Premiums written | 163,593 | 6,754,841 | 459,039 | 345,629 | 7,723,102 |
| Reinsurance premiums ceded | (134,050) | (1,244,896) | (284,052) | (184,163) | (1,847,161) |
| | 29,543 | 5,509,945 | 174,987 | 161,466 | 5,875,941 |
| Movement in unearned premiums | 31,492 | 52,096 | (62,563) | - | 21,025 |
| Net premiums earned | 61,035 | 5,562,041 | 112,424 | 161,466 | 5,896,966 |
| Policy issuance fees and others | 23,013 | 500,173 | 1,882 | 248 | 525,316 |
| Reinsurance commission | 55,986 | 283,026 | 97,011 | 11,644 | 447,667 |
| Total revenues | 140,034 | 6,345,240 | 211,317 | 173,358 | 6,869,949 |
| Claims incurred | (9,873) | 3,439,544 | 40,822 | 71,794 | 3,542,287 |
| Movement in provision for claims incurred but not reported | (3,566) | (177,339) | 397 | - | (180,508) |
| Life mathematical reserve | - | - | - | 24,620 | 24,620 |
| Policy acquisition costs | 13,585 | 578,279 | 61,534 | 2,372 | 655,770 |
| Other insurance expenses | 20,901 | 460,885 | 47,974 | - | 529,760 |
| Total expenses | 21,047 | 4,301,369 | 150,727 | 98,786 | 4,571,929 |
| Surplus from insurance operations | 118,987 | 2,043,871 | 60,590 | 74,572 | 2,298,020 |
| Allocation of general and administrative expenses | (65,762) | (1,785,222) | (150,509) | (152,216) | (2,153,709) |
| Net surplus (deficit) from insurance operations | 53,225 | 258,649 | (89,919) | (77,644) | 144,311 |
| Investment income | 6,311 | 467,056 | 15,102 | 16,689 | 505,158 |
| Net surplus (deficit) from insurance operations | 59,536 | 725,705 | (74,817) | (60,955) | 649,469 |
| Shareholders' share of insurance surplus from subsidiary | | | | | (347,736) |
| Management fees to shareholders of the Parent Company | | | | | (520,063) |
| Insurance deficit transferred to policyholders' fund | | | | | (218,330) |

**17 POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND (continued)**

**POLICYHOLDERS' ASSETS AND LIABILITIES**

| | ***2011*** ***Marine and aviation, general accident, fire and life*** | *2010* *Marine and aviation, general accident, fire and life* |
|---|---|---|

| | KD | KD |
|---|---|---|
| **Assets** | | |
| Bank balances and cash | **311,298** | 285,263 |
| Investment deposits | **8,307,482** | 7,344,762 |
| Financial assets at fair value through income statement | **787,990** | 994,461 |
| Islamic financing receivables | **338,534** | 338,534 |
| Accounts receivable and prepayments | **1,164,186** | 1,218,175 |
| Premiums receivable | **1,688,906** | 1,762,165 |
| Financial assets available for sale | **970,157** | 970,157 |
| Reinsurance recoverable on outstanding claims | **3,264,209** | 1,469,144 |
| Reinsurance premiums receivable | **155,017** | 243,761 |
| Amounts due from shareholders (Note 8) | **1,149,293** | 1,135,408 |
| Leasehold land | **277,750** | 277,750 |
| Furniture and equipment | **159,927** | 159,265 |
| | **18,574,749** | 16,198,845 |
| **Liabilities** | | |
| Reinsurance balances payable | **538,530** | 759,877 |
| Unearned premiums | **3,153,977** | 3,378,493 |
| Outstanding claims reserve | **10,659,136** | 8,378,232 |
| Reserve for claims incurred but not reported | **277,387** | 603,817 |
| Reserve retained on reinsurance business | **314,558** | 505,481 |
| Premiums received in advance | **461,289** | 646,032 |
| Other insurance reserves | **650,478** | 585,158 |
| Accounts payable and accruals | **1,058,336** | 1,086,531 |
| Bank overdraft of subsidiary | **1,119,644** | - |
| | **18,233,335** | 15,943,621 |
| **Policyholders' fund** | | |
| Net deficit from insurance operations | **(1,410,347)** | (979,010) |
| Qard Hassan from shareholders (Note 8) | **1,751,761** | 1,234,234 |
| **Total policyholders' fund** | **341,414** | 255,224 |
| **Total liabilities and policyholders' fund** | **18,574,749** | 16,198,845 |

**CHANGES IN POLICYHOLDERS' FUND**

| | *2011* *KD* | *2010* *KD* |
|---|---|---|
| At 1 January | **(979,010)** | (746,670) |
| Net deficit from insurance operations | **(422,775)** | (218,330) |
| Exchange difference on translation of foreign operations | **(8,562)** | (14,010) |
| At 31 December | **(1,410,347)** | (979,010) |

The attached notes 1 to 20 form part of these consolidated financial statements.

## 17 POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND (continued)

Financial assets available for sale are carried at cost due to the unpredictable nature of future cash flows and lack of suitable other methods for arriving at a reliable measure of fair value. Management is not aware of any circumstances that would indicate any impairment in the value of these investments at the reporting date.

Islamic financing receivables are carried at cost less impairment provision amounting to KD 753,713 (2010: KD 753,713).

## 18 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Transactions with related parties included in the consolidated financial statements are as follows:

| | ***2011*** | *2010* |
|---|---|---|
| | ***KD*** | *KD* |
| **Shareholders** | | |
| *Consolidated income statement* | | |
| Impairment loss on financial assets available for sale | **396,876** | 1,490,792 |
| Allowances and other benefits | **37,000** | 66,000 |
| Directors' remuneration | **7,000** | 7,000 |
| *Consolidated statement of financial position* | | |
| Financial assets at fair value through income statement | **130,506** | 110,216 |
| Financial assets available for sale | **3,410,357** | 3,853,477 |
| Other liabilities | **338,534** | 338,534 |
| **Policyholders** | | |
| *Consolidated income statement* | | |
| Premiums written | **71,116** | 67,004 |
| Investment loss | **(153,206)** | (16,727) |
| *Consolidated statement of financial position* | | |
| Financial assets at fair value through income statement | **505,520** | 658,726 |
| Financial assets available for sale | **787,500** | 787,500 |
| *Key management personnel compensation* | | |
| Short-term employee benefits | **168,696** | 149,280 |
| Termination benefits | **14,002** | 3,897 |

Directors' remuneration of KD 7,000 for the year ended 31 December 2011 exceeds the amount permissible under local regulations and is subject to approval by the Ordinary Annual General Assembly of the shareholders of the Parent Company. Directors' remuneration of KD 7,000 for the year ended 31 December 2010 was approved by the Ordinary Annual General Assembly of the shareholders held on 10 April 2011.

## 19 RISK MANAGEMENT

**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.

**Regulatory framework**
Law No. 24 of 1961, Law No.13 of 1962 and Decree No. 5 of 1989, and the rules and regulations issued by the Ministry of Commerce provide the regulatory framework for the insurance industry in Kuwait. All insurance companies operating in Kuwait are required to follow these rules and regulations.

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

- For the life and capital insurance contracts issued in Kuwait, the full mathematical reserves are to be retained in Kuwait.
- For marine insurance contracts, at least 15% of the premiums collected in the previous year are to be retained in Kuwait.
- For all other types of insurance, at least 30% of the premiums collected in the previous year are to be retained in Kuwait.
- The funds retained in Kuwait should be invested as under:
    - A minimum of 40% of the funds are to be in the form of cash deposits in a bank operating in Kuwait
    - A maximum of 25% could be invested in foreign securities (foreign government bonds or foreign securities - bonds and shareholding companies)
    - A maximum of 30% should be invested in Kuwaiti companies' shares or bonds
    - A maximum of 15% should be in a current account with a bank operating in Kuwait

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

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

### 19.1 INSURANCE RISK

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims are more than expected.

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

## 19 RISK MANAGEMENT (continued)

### 19.1 INSURANCE RISK (continued)

*Fire and accident*
*Fire*
For fire insurance contracts the main risks are fire and business interruption. In recent years the Group has only underwritten policies for properties containing fire detection equipment.

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 Parent Company has treaty reinsurance cover for such damage to limit losses for any individual claim to KD 3,000,000 and any claim exceeding this limit is covered by facultative placement.

*Motor*
For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years the Group has only underwritten comprehensive polices for owner/drivers over 21 years of age. The Parent Company has reinsurance cover to limit losses for any claim (per event) exceeding KD 20,000 upto KD 600,000 and upto unlimited cover for bodily injury and third party property damage.

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

*Marine*
For marine insurance 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 Parent Company has automatic reinsurance cover to limit losses for any individual claim to KD 1,400,000 (net retention of KD 25,000) and any claim exceeding this limit is covered by facultative placement.

*Life*
For life insurance the main risks are claim for medical, death or permanent disability.

The reinsuring strategy for the life business is to ensure that policies are well diversified in terms of type of risk and level of insured benefit. This is achieved through the terms of the policies with the insurer to cover the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history.

The table below sets out the concentration of life insurance liabilities:

| | ***31 December 2011*** | | | *31 December 2010* | | |
|---|---|---|---|---|---|---|
| | ***Gross liabilities KD*** | ***Reinsurers' share of liabilities KD*** | ***Net liabilities KD*** | *Gross liabilities KD* | *Reinsurers' share of liabilities KD* | *Net liabilities KD* |
| Life | **590,899** | **471,011** | **119,888** | 531,300 | 136,082 | 395,218 |

19 RISK MANAGEMENT (continued)

## 19.1 INSURANCE RISK (continued)

The geographical concentration of the Group's life insurance contract liabilities is noted below. The disclosure is based on the countries where the business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated.

| | ***31 December 2011*** | | | *31 December 2010* | | |
|---|---|---|---|---|---|---|
| | ***Gross liabilities KD*** | ***Reinsurers' share of liabilities KD*** | ***Net liabilities KD*** | *Gross liabilities KD* | *Reinsurers' share of liabilities KD* | *Net Liabilities KD* |
| Kuwait | **323,468** | **238,281** | **85,187** | 314,118 | 130,208 | 183,910 |
| Egypt | **267,431** | **232,730** | **34,701** | 217,182 | 5,874 | 211,308 |
| Total | **590,899** | **471,011** | **119,888** | 531,300 | 136,082 | 395,218 |

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

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

*Reinsurance risk*
In order to minimise financial exposure arising from large claims, the Group, in the normal course of business, enters into agreements with other parties for reinsurance purposes. Such reinsurance 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.

To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.
Reinsurance ceded contracts do not relieve the Group from its obligations to policyholders 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 reinsurance agreements.

The policyholders' five largest reinsurers account for 70% of the credit exposure at 31 December 2011 (2010: 71%).

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, as well as the use of reinsurance arrangements.

## 19 RISK MANAGEMENT (continued)

## 19.1 INSURANCE RISK (continued)

*Reinsurance risk (continued)*

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. There is no single counterparty exposure that exceeds 5% of total reinsurance assets at the reporting date.

*Non-life insurance contracts*

The Group principally issues the following types of general insurance contracts: Marine-Cargo, Hull Comprehensive & Third Party Liability, Fire, House-holders Comprehensive, Contractors All Risks, Erection All Risks, Machinery Breakdown, Electronic Equipment, Burglary, Personal Accident, Cash in Transit, Fidelity Guarantee, Plate Glass, Workmen Compensation, Third Party Liability, Professional Indemnity, Bankers Blanket, D and O, Travel Assistance, Motor Comprehensive, and Motor Third Party Liability. Healthcare contracts provide medical expense cover to policyholders. Risks under non-life insurance policies usually cover twelve months duration.

For general insurance contracts the most significant risks arise from climate changes, natural disasters and terrorist activities. For healthcare contracts the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

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

The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g hurricanes, earthquakes and flood damages).

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

| | ***31 December 2011*** | | | *31 December 2010* | | |
|---|---|---|---|---|---|---|
| | ***Gross liabilities KD*** | ***Reinsurers' share of liabilities KD*** | ***Net liabilities KD*** | *Gross liabilities KD* | *Reinsurers' share of liabilities KD* | *Net liabilities KD* |
| Marine and aviation | **228,924** | **41,209** | **187,715** | 190,172 | 18,682 | 171,490 |
| Fire | **702,248** | **126,412** | **575,836** | 544,595 | 53,501 | 491,094 |
| General accident | **14,585,653** | **2,625,577** | **11,960,076** | 12,834,798 | 1,260,879 | 11,573,919 |
| Total | **15,516,825** | **2,793,198** | **12,723,627** | 13,569,565 | 1,333,062 | 12,236,503 |

## 19 RISK MANAGEMENT (continued)

### 19.1 INSURANCE RISK (continued)

*Non-life insurance contracts (continued)*

The geographical concentration of the Group's non-life insurance contract liabilities is noted below. The disclosure is based on the countries where the business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated.

| | ***31 December 2011*** | | | *31 December 2010* | | |
|---|---|---|---|---|---|---|
| | ***Gross liabilities KD*** | ***Reinsurers' share of liabilities KD*** | ***Net liabilities KD*** | *Gross liabilities KD* | *Reinsurers' share of liabilities KD* | *Net Liabilities KD* |
| Kuwait | **8,491,997** | **1,871,131** | **6,620,866** | 8,078,203 | 1,275,522 | 6,802,681 |
| Egypt | **7,024,828** | **922,067** | **6,102,761** | 5,491,362 | 57,540 | 5,433,822 |
| Total | **15,516,825** | **2,793,198** | **12,723,627** | 13,569,565 | 1,333,062 | 12,236,503 |

**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 profit rates, delays in settlement and changes in foreign currency rates.

**19.2 FINANCIAL RISK**

*(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.

The following policies and procedures are in place to mitigate the Group's exposure to credit risk:

• 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. The management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

• The Group sets the maximum amounts and limits that may be advanced to corporate counterparties by assessment of respective individual cases.

• The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions 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.

• Net exposure limits are set for each counterparty or group of counterparties and industry segment (i.e. limits are set for investments and cash deposits and minimum credit ratings for investments that may be held).



*(1) Credit risk*

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

| 31 December 2011 | ***2011*** | *2010* |
|---|---|---|
| | ***KD*** | *KD* |
| ***Shareholders*** | | |
| Bank balances and cash | **1,746,037** | 560,728 |
| Investment deposits | **501,436** | 1,443,076 |
| Other assets | **221,084** | 200,222 |
| **Total credit risk exposure** | **2,468,557** | 2,204,026 |
| ***Policyholders*** | | |
| Bank balances and cash | **311,298** | 285,263 |
| Investment deposits | **8,307,482** | 7,344,762 |
| Islamic financing receivables | **338,534** | 338,534 |
| Accounts receivable and prepayments | **1,164,186** | 1,218,175 |
| Premiums receivable | **1,688,906** | 1,762,165 |
| Reinsurance recoverable on outstanding claims | **3,264,209** | 1,469,144 |
| Reinsurance premiums receivable | **155,017** | 243,761 |
| Amounts due from shareholders | **1,149,293** | 1,135,408 |
| **Total credit risk exposure** | **16,378,925** | 13,797,212 |

***Credit exposure by credit rating***

The tables below provide information regarding the credit risk exposure of the Group by classifying assets according to the Group's credit ratings of counterparties:

| | ***Neither past due nor impaired*** | | | |
|---|---|---|---|---|
| | ***High grade*** | ***Standard grade*** | ***Past due but not impaired*** | ***Total*** |
| **31 December 2011** | ***KD*** | ***KD*** | ***KD*** | ***KD*** |
| ***Shareholders*** | | | | |
| Bank balances and cash | **1,746,037** | **-** | **-** | **1,746,037** |
| Investment deposits | **501,436** | **-** | **-** | **501,436** |
| Other assets | **-** | **37,334** | **183,750** | **221,084** |
| | **2,247,473** | **37,334** | **183,750** | **2,468,557** |
| ***Policyholders*** | | | | |
| Bank balances and cash | **311,298** | **-** | **-** | **311,298** |
| Investment deposits | **8,307,482** | **-** | **-** | **8,307,482** |
| Islamic financing receivables | **-** | **-** | **338,534** | **338,534** |
| Accounts receivable and prepayments | **-** | **-** | **1,164,186** | **1,164,186** |
| Premiums receivable | **-** | **176,557** | **1,512,349** | **1,688,906** |
| Reinsurance recoverable on outstanding claims | **-** | **-** | **3,264,209** | **3,264,209** |
| Reinsurance premiums receivable | **-** | **-** | **155,017** | **155,017** |
| Amounts due from shareholders | **-** | **-** | **1,149,293** | **1,149,293** |
| | **8,618,780** | **176,557** | **7,583,588** | **16,378,925** |

## 19 RISK MANAGEMENT (continued)

### 19.2 FINANCIAL RISK (continued)

*(1) Credit risk (continued)*

| | *Neither past due nor impaired* | | | |
|---|---|---|---|---|
| | *High grade* | *Standard grade* | *Past due but not impaired* | *Total* |
| 31 December 2010 | *KD* | *KD* | *KD* | *KD* |

| | | | | |
|---|---|---|---|---|
| *Shareholders* | | | | |
| Bank balances and cash | 560,728 | - | - | 560,728 |
| Investment deposits | 1,443,076 | - | - | 1,443,076 |
| Other assets | - | 16,472 | 183,750 | 200,222 |
| | 2,003,804 | 16,472 | 183,750 | 2,204,026 |
| *Policyholders* | | | | |
| Bank balances and cash | 285,263 | - | - | 285,263 |
| Investment deposits | 7,344,762 | - | - | 7,344,762 |
| Islamic financing receivables | - | - | 338,534 | 338,534 |
| Accounts receivable and prepayments | - | - | 1,218,175 | 1,218,175 |
| Premiums receivable | - | - | 1,762,165 | 1,762,165 |
| Reinsurance recoverable on outstanding claims | - | - | 1,469,144 | 1,469,144 |
| Reinsurance premiums receivable | - | - | 243,761 | 243,761 |
| Amounts due from shareholders | - | - | 1,135,408 | 1,135,408 |
| | 7,630,025 | - | 6,167,187 | 13,797,212 |

The following table represents the aging analysis of financial assets past due but not impaired:

| **31 December 2011** | *Less than 90 days KD* | *91 to 180 days KD* | *Above 180 days KD* | *Total past due but not impaired KD* |
|---|---|---|---|---|
| ***Shareholders*** | | | | |
| Other assets | **-** | **-** | **183,750** | **183,750** |
| ***Policyholders*** | | | | |
| Islamic financing receivables | **-** | **-** | **338,534** | **338,534** |
| Accounts receivable and prepayments | **613,226** | **471,163** | **79,797** | **1,164,186** |
| Premiums receivable | **207,967** | **192,312** | **1,112,070** | **1,512,349** |
| Reinsurance recoverable on outstanding claims | **-** | **3,264,209** | **-** | **3,264,209** |
| Reinsurance premiums receivable | **-** | **155,017** | **-** | **155,017** |
| Amounts due from shareholders | **1,149,293** | **-** | **-** | **1,149,293** |
| **Total** | **1,970,486** | **4,082,701** | **1,530,401** | **7,583,588** |



| 31 December 2010 | *Less than 90 days KD* | *91 to 180 days KD* | *Above 180 days KD* | *Total past due but not impaired KD* |
|---|---|---|---|---|
| *Shareholders* | | | | |

| | | | | |
|---|---|---|---|---|
| Other assets | - | - | 183,750 | 183,750 |
| | | | | |
| *Policyholders* | | | | |
| Islamic financing receivables | - | - | 338,534 | 338,534 |
| Accounts receivable and prepayments | 641,664 | 524,404 | 52,107 | 1,218,175 |
| Premiums receivable | 698,252 | 343,707 | 720,206 | 1,762,165 |
| Reinsurance recoverable on outstanding claims | - | 1,469,144 | - | 1,469,144 |
| Reinsurance premiums receivable | - | 243,761 | - | 243,761 |
| Amounts due from shareholders | 1,135,408 | - | - | 1,135,408 |
| Total | 2,475,324 | 2,581,016 | 1,110,847 | 6,167,187 |

*(2) Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The table below summarises the maturity profile of the Group’s assets and liabilities. The maturities of assets are based on expected recovery dates and those of liabilities are based on contractual maturity dates. The maturity profile for financial assets at fair value through income statement, investment properties and financial assets available for sale is based on management's estimate of liquidation of those financial assets.



*(2) Liquidity risk*

The maturity profile of assets and liabilities at 31 December was as follows:

| **31 December 2011** | ***Up to 1 year*** ***KD*** | ***Above 1 year*** ***KD*** | ***Total*** ***KD*** |
|---|---|---|---|
| ***Shareholders*** | | | |
| **ASSETS** | | | |
| Bank balances and cash | **1,746,037** | **-** | **1,746,037** |
| Financial assets at fair value through income statement | **1,059,926** | **-** | **1,059,926** |

| | | | |
|---|---|---|---|
| Other assets | **221,084** | **-** | **221,084** |
| Financial assets available for sale | **-** | **5,619,943** | **5,619,943** |
| Qard Hassan to policyholders | **-** | **1,751,761** | **1,751,761** |
| Investment deposit | **501,436** | **-** | **501,436** |
| Investment properties | **-** | **2,634,296** | **2,634,296** |
| Furniture and equipment | **-** | **253,767** | **253,767** |
| **TOTAL ASSETS** | **3,528,483** | **10,259,767** | **13,788,250** |
| **LIABILITIES** | | | |
| Other liabilities | **489,722** | **-** | **489,722** |
| Amounts due to policyholders | **1,149,293** | **-** | **1,149,293** |
| **TOTAL LIABILITIES** | **1,639,015** | **-** | **1,639,015** |
| **NET LIQUIDITY** | **1,889,468** | **10,259,767** | **12,149,235** |
| ***Policyholders*** | | | |
| **ASSETS** | | | |
| Bank balances and cash | **311,298** | **-** | **311,298** |
| Investment deposits | **-** | **8,307,482** | **8,307,482** |
| Financial assets at fair value through income statement | **787,990** | **-** | **787,990** |
| Islamic financing receivables | **338,534** | **-** | **338,534** |
| Accounts receivable and prepayments | **1,164,186** | **-** | **1,164,186** |
| Premiums receivable | **1,688,906** | **-** | **1,688,906** |
| Financial assets available for sale | **-** | **970,157** | **970,157** |
| Reinsurance recoverable on outstanding claims | **3,264,209** | **-** | **3,264,209** |
| Reinsurance premiums receivable | **155,017** | **-** | **155,017** |
| Amounts due from shareholders | **1,149,293** | **-** | **1,149,293** |
| Leasehold land | **-** | **277,750** | **277,750** |
| Furniture and equipment | **-** | **159,927** | **159,927** |
| **TOTAL ASSETS** | **8,859,433** | **9,715,316** | **18,574,749** |

The attached notes 1 to 20 form part of these consolidated financial statements.

## 19 RISK MANAGEMENT (continued)

### 19.2 FINANCIAL RISK (continued)

*(2) Liquidity risk (continued)*

| **31 December 2011** | ***Up to 1 year*** ***KD*** | ***Above 1 year*** ***KD*** | ***Total*** ***KD*** |
|---|---|---|---|
| ***Policyholders*** | | | |
| **LIABILITIES** | | | |
| Reinsurance balances payable | **538,530** | **-** | **538,530** |
| Unearned premiums | **3,153,977** | **-** | **3,153,977** |
| Outstanding claims reserve | **8,854,853** | **1,804,283** | **10,659,136** |
| Reserve for claims incurred but not reported | **277,387** | **-** | **277,387** |
| Reserve retained on reinsurance business | **168,603** | **145,955** | **314,558** |
| Premiums received in advance | **461,289** | **-** | **461,289** |
| Other insurance reserves | **650,478** | **-** | **650,478** |
| Accounts payable and accruals | **1,058,336** | **-** | **1,058,336** |
| Bank overdraft of subsidiary | **1,119,644** | **-** | **1,119,644** |
| **TOTAL LIABILITIES** | **16,283,097** | **1,950,238** | **18,233,335** |
| **NET LIQUIDITY** | **(7,423,664)** | **7,765,078** | **341,414** |

| 31 December 2010 | *Up to 1 year* *KD* | *Above 1 year* *KD* | *Total* *KD* |
|---|---|---|---|
| *Shareholders* | | | |
| ASSETS | | | |
| Bank balances and cash | 560,728 | - | 560,728 |
| Financial assets at fair value through income statement | 1,335,754 | - | 1,335,754 |
| Other assets | 200,222 | - | 200,222 |
| Financial assets available for sale | - | 6,046,333 | 6,046,333 |
| Qard Hassan to policyholders | - | 1,234,234 | 1,234,234 |
| Investment deposit | 1,443,076 | - | 1,443,076 |
| Investment properties | - | 2,634,296 | 2,634,296 |
| Furniture and equipment | - | 223,901 | 223,901 |
| TOTAL ASSETS | 3,539,780 | 10,138,764 | 13,678,544 |
| LIABILITIES | | | |
| Other liabilities | 530,418 | - | 530,418 |
| Amounts due to policyholders | 1,135,408 | - | 1,135,408 |
| TOTAL LIABILITIES | 1,665,826 | - | 1,665,826 |
| NET LIQUIDITY | 1,873,954 | 10,138,764 | 12,012,718 |
| *Policyholders* | | | |
| ASSETS | | | |
| Bank balances and cash | 285,263 | - | 285,263 |
| Investment deposits | - | 7,344,762 | 7,344,762 |
| Financial assets at fair value through income statement | 994,461 | - | 994,461 |
| Islamic financing receivables | 338,534 | - | 338,534 |
| Accounts receivable and prepayments | 1,218,175 | - | 1,218,175 |
| Premiums receivable | 1,762,165 | - | 1,762,165 |
| Financial assets available for sale | - | 970,157 | 970,157 |
| Reinsurance recoverable on outstanding claims | 1,469,144 | - | 1,469,144 |
| Reinsurance premiums receivable | 243,761 | - | 243,761 |
| Amounts due from shareholders | 1,135,408 | - | 1,135,408 |
| Leasehold land | - | 277,750 | 277,750 |
| Furniture and equipment | - | 159,265 | 159,265 |
| TOTAL ASSETS | 7,446,911 | 8,751,934 | 16,198,845 |

## 19 RISK MANAGEMENT (continued)

**19.2 FINANCIAL RISK (continued)**

*(2) Liquidity risk (continued)*

| 31 December 2010 | *Up to 1 year* KD | *Above 1 year* KD | *Total* KD |
|---|---|---|---|
| *Policyholders* | | | |
| LIABILITIES | | | |
| Reinsurance balances payable | 759,877 | - | 759,877 |
| Unearned premiums | 3,378,493 | - | 3,378,493 |
| Outstanding claims reserve | 5,600,849 | 2,777,383 | 8,378,232 |
| Reserve for claims incurred but not reported | 603,817 | - | 603,817 |
| Reserve retained on reinsurance business | 269,977 | 235,504 | 505,481 |
| Premiums received in advance | 462,901 | 183,131 | 646,032 |
| Other insurance reserves | 585,158 | - | 585,158 |
| Accounts payable and accruals | 1,086,531 | - | 1,086,531 |
| TOTAL LIABILITIES | 12,747,603 | 3,196,018 | 15,943,621 |
| NET LIQUIDITY | (5,300,692) | 5,555,916 | 255,224 |

*(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: foreign exchange rates (currency risk), market profit rates (profit rate risk) and market prices (equity price risk).

The Group limits market risk by maintaining a diversified portfolio and by monitoring the developments in markets.

*(a) 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 is not exposed to significant currency risk, because the Group's significant transactions, assets and liabilities are dominated in its functional currency.

*(b) Profit rate risk*

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The Group is not exposed to profit rate risk as the Group does not have assets and liabilities subject to variable profit rates.

*(c) Equity price risk*

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk though diversification of investments which is done in accordance with the limits set by the Group's management.

The effects on profit (loss) before taxation and directors' remuneration and other comprehensive income ("OCI") (as a result of a change in the fair value of equity instruments carried at fair value through income statement and available for sale at 31 December) due to a reasonably possible change in equity indices of Kuwait Stock Exchange, with all other variables held constant are as follows:

| | | ***31 December 2011*** | | *31 December 2010* | |
|---|---|---|---|---|---|
| **Shareholders** | *Increase in equity price in %* | ***Effect on profit before taxation and directors' remuneration KD*** | ***Effect on OCI KD*** | *Effect on loss KD* | *Effect on OCI KD* |
| Quoted investments | 5% | **16,029** | **12,439** | 18,906 | 13,866 |
| Managed portfolios | 5% | **36,967** | **12,998** | 47,882 | 17,810 |

**19 RISK MANAGEMENT (continued)**

**19.2 FINANCIAL RISK (continued)**

*(3) Market risk (continued)*

*(c) Equity price risk*

| | | *31 December 2011* | | *31 December 2010* | |
|---|---|---|---|---|---|
| **Policyholders** | *Increase in equity price in %* | ***Effect on profit before taxation and directors' remuneration KD*** | ***Effect on OCI KD*** | *Effect on loss KD* | *Effect on OCI KD* |
| Managed portfolios | 5% | **18,042** | **-** | 24,656 | - |

The decrease in equity price percentage will have the opposite effect on profit (loss) before taxation and directors' remuneration and OCI.

## 19.3 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 business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010. Capital comprises equity attributable to shareholders of the Parent Company excluding cumulative change in fair values reserve, and is measured at KD 11,077,151 as at 31 December 2011 (2010: KD 11,123,097).

## 20 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank balances, receivables and investments. Financial liabilities consist of payables. The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of financial instruments with the exception of certain available for sale investments carried at cost (Note 9) are not significantly different from their carrying values at the reporting date.

As at 31 December 2011, the Group held the following financial instruments measured at fair value:

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or 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: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

## 20 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Financial assets measured at fair value:

| **At 31 December 2011** | *Level 1* | *Level 3* | *Total* |
|---|---|---|---|

| **Shareholders** | *KD* | *KD* | *KD* |
|---|---|---|---|
| Financial assets at fair value through income statement | **1,059,926** | **-** | **1,059,926** |
| Financial assets available for sale | **248,785** | **4,896,008** | **5,144,793** |
| | **1,308,711** | **4,896,008** | **6,204,719** |

| **At 31 December 2011** | *Level 1* | *Level 3* | *Total* |
|---|---|---|---|
| **Policyholders** | *KD* | *KD* | *KD* |
| Financial assets at fair value through income statement | **360,848** | **427,142** | **787,990** |

| At 31 December 2010 | *Level 1* | *Level 3* | *Total* |
|---|---|---|---|
| Shareholders | *KD* | *KD* | *KD* |
| Financial assets at fair value through income statement | 1,335,754 | - | 1,335,754 |
| Financial assets available for sale | 277,315 | 5,293,868 | 5,571,183 |
| | 1,613,069 | 5,293,868 | 6,906,937 |

| At 31 December 2010 | *Level 1* | *Level 3* | *Total* |
|---|---|---|---|
| Policyholders | *KD* | *KD* | *KD* |
| Financial assets at fair value through income statement | 493,120 | 501,341 | 994,461 |

The fair value of investments under level 3 is determined by related investment manager.

During the year ended 31 December 2011, there were no transfers between level 1 and level 3 fair value measurements. The decrease in Level 3 financial assets available for sale of shareholders is on account of impairment amounting to KD 408,619 and unrealised gain recognised in the other comprehensive income amounting to KD 10,759. The decrease in Level 3 financial assets at fair value through income statement of policyholders is on account of unrealised loss amounting to KD 74,199. The calculation of fair value of level 3 financial instruments is not materially sensitive to changes in assumptions.