Wethaq Takaful Insurance Company K.S.C. (Closed)
and subsidiaries
State of Kuwait

Consolidated Financial Statements and Independent Auditors' Report for the year ended 31 December 2012

Index	**Page**

بوبيان لتدقيق الحسابات
BOUBYAN Auditing Office
محاسبون قانونيون – مستشارون ماليون

KPMG Safi Al-Mutawa & Partners
Rakan Tower, 18th Floor
Fahad Al-Salem Street
P.O.Box 24, Safat 13001
Kuwait
Telephone : + 965 2247 5090
Fax : + 965 2249 2704

Boubyan Auditing Office
P.O.Box 17445, Khaldiya 72455
Kuwait
Telephone : + 965 2249 4040
Fax : + 965 2249 6565

Independent auditors' report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Wethaq Takaful Insurance Company K.S.C. (Closed) ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2011 were audited by other auditors who expressed a qualified audit opinion dated 5 March 2012 on those consolidated financial statements due to the lack of sufficient appropriate audit evidence in respect of Wethaq Takaful Insurance Company Egypt ("WITC") as they were unable to obtain access to the working papers of WITC's auditors or to discuss the financial statements with the management of WITC. Consequently, they were unable to determine whether any adjustments to these amounts were necessary.

Report on Other Legal and Regulatory Requirements

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

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

Yahia Abdullah Al-Foudri
License No 83 "A"
of Boubyan Auditing Office

Kuwait: 24 March 2013

Consolidated statement of financial position
as at 31 December 2012

	Note	2012 KD	2011 KD
Assets			
Bank balances and cash		1,857,034	1,999,804
Investments at fair value through profit and loss	*5*	1,296,267	1,059,926
Other assets		299,064	221,084
Available for sale investments	*6*	4,576,085	5,619,943
Qard Hassan to policyholders	*7*	1,668,168	1,751,761
Investment deposits	*8*	980,399	501,436
Investment properties	*9*	2,645,797	2,634,296
Total assets		13,322,814	13,788,250
Liabilities			
Other liabilities		430,151	489,722
Amounts due to policyholders	*7*	939,073	1,149,293
Total liabilities		1,369,224	1,639,015
Equity	*10*		
Equity attributable to shareholders of the Company			
Share capital		11,025,000	11,025,000
Share premium		7,340,937	7,340,937
Treasury shares		(50,489)	(50,489)
Treasury shares reserve		3,508	3,508
Statutory reserve		388,139	388,139
Voluntary reserve		388,139	388,139
Cumulative changes in fair value		(29,034)	58,272
Translation reserve		(386,974)	(85,695)
Employee share purchase plan reserve		65,964	65,964
Accumulated losses		(7,944,077)	(7,998,352)
Total equity attributable to shareholders of the Company		10,801,113	11,135,423
Non controlling interest		1,152,477	1,013,812
Total equity		11,953,590	12,149,235
Total liabilities and equity		13,322,814	13,788,250

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

Abdullah Yousef Al-Saif
Chairman

Abdullah Mishari Al Humaidi
Vice Chairman

Wethaq Takaful Insurance Company K.S.C. (Closed) and subsidiaries
State of Kuwait

Consolidated statement of income
for the year ended 31 December 2012

	Note	2012 KD	2011 KD
Net investment loss	*11*	(395,325)	(533,006)
Shareholders' share of takaful surplus	*17*	523,960	361,100
Management fees from policyholders	*17*	655,463	557,331
Other income		95,987	28,038
General and administrative expenses		(510,267)	(166,407)
Profit before Directors' remuneration, Zakat and taxes		369,818	247,056
National Labour Support Tax ("NLST")		-	-
Taxation	*12*	(158,931)	(121,882)
Directors' remuneration		(5,000)	(7,000)
Net profit for the year		205,887	118,174
Attributable to:			
Shareholders of the Company		54,275	69
Non controlling interest		151,612	118,105
		205,887	118,174
Basic and diluted earnings per share attributable to shareholders of the Company (fils)	*13*	0.49	-

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

Consolidated statement of comprehensive income
for the year ended 31 December 2012

	Note	2012 KD	2011 KD
Profit for the year		205,887	118,174
Other comprehensive loss			
Changes in fair value reserve		(87,306)	(426,390)
Transfer to consolidated statement of income on impairment	*11*	-	434,091
Translation reserve		(414,825)	(76,693)
Total other comprehensive loss		(502,131)	(68,992)
Total comprehensive (loss)/ income for the year		(296,244)	49,182
Attributable to:			
Shareholders of the Company		(334,310)	(38,245)
Non-controlling interest		38,066	87,427
		(296,244)	49,182

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

Wethaq Takaful Insurance Company K.S.C. (Closed) and subsidiaries
State of Kuwait

Consolidated statement of changes in equity
for the year ended 31 December 2012

	Attributable to shareholders of the 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 KD**	**Translation reserve KD**	**Employee share purchase plan reserve KD**	**Accumulated losses KD**	**Total KD**	**Non controlling interest KD**	**Total equity KD**
Balance at 1 January 2012	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
Total comprehensive income for the period													
Profit for the period	-	-	-	-	-	-	-	-	-	54,275	54,275	151,612	205,887
Other comprehensive loss	-	-	-	-	-	-	(87,306)	(301,279)	-	-	(388,585)	(113,546)	(502,131)
Total comprehensive loss for the year	-	-	-	-	-	-	(87,306)	(301,279)	-	54,275	(334,310)	38,066	(296,244)
Dividends paid by subsidiary	-	-	-	-	-	-	-	-	-	-	-	(83,021)	(83,021)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	183,620	183,620
Balance at 31 December 2012	11,025,000	7,340,937	(50,489)	3,508	388,139	388,139	(29,034)	(386,974)	65,964	(7,944,077)	10,801,113	1,152,477	11,953,590

Wethaq Takaful Insurance Company K.S.C. (Closed) and subsidiaries
State of Kuwait

Consolidated statement of changes in equity
for the year ended 31 December 2012

	Attributable to shareholders of the 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 KD**	**Translation reserve KD**	**Employee share purchase plan reserve KD**	**Accumulated losses KD**	**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
Total comprehensive income for the period													
Profit for the period	-	-	-	-	-	-	-	-	-	69	69	118,105	118,174
Other comprehensive loss	-	-	-	-	-	-	7,701	(46,015)	-	-	(38,314)	(30,678)	(68,992)
Total comprehensive income for the year	-	-	-	-	-	-	7,701	(46,015)	-	69	(38,245)	87,427	49,182
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	91,620	91,620
Advance for share capital of subsidiary	-	-	-	-	-	-	-	-	-	-	-	111,213	111,213
Dividends paid by the subsidiary	-	-	-	-	-	-	-	-	-	-	-	(115,498)	(115,498)
Balance 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

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

Consolidated statement of cash flows
for the year ended 31 December 2012

	2012 KD	2011 KD
Cash flows from operating activities:		
Profit for the year	205,887	118,174
Adjustments for:		
Net investment loss	378,201	533,006
Changes in fair value of investment properties	(11,501)	-
Shareholders' share of takaful surplus	(523,960)	(361,100)
Management fees from policyholders	(655,463)	(557,331)
	(606,836)	(267,251)
Changes in:		
Other assets	(77,980)	274,979
Other liabilities	(59,571)	(40,696)
Net cash used in operating activities	(744,387)	(32,968)
Cash flows from investing activities:		
Net movement in investment deposits	(478,963)	941,640
Proceeds from sale of available for sale investments	231,850	-
Proceeds from investments at fair value through profit or loss	71,256	-
Purchase of furniture and equipment	-	(71,940)
Dividend income received	-	8,499
Profit from investment deposit received	-	168,414
Net cash (used in)/ generated from investing activities	(175,857)	1,046,613
Cash flows from financing activities:		
Net movement in non-controlling interest	(138,665)	128,597
Net movement in amounts due to policyholders	1,052,796	414,789
Net cash generated from financing activities	914,131	543,386
Foreign currency translation differences	(136,657)	(117,955)
(Decrease) / increase in bank balances and cash	(142,770)	1,439,076
Bank balances and cash at 1 January	1,999,804	560,728
Bank balances and cash at 31 December	1,857,034	1,999,804

The accompanying notes form an integral part of this condensed consolidated interim financial information.

1. Reporting entity

Wethaq Takaful Insurance Company K.S.C. (Closed) ("the Company") is a Kuwaiti shareholding company incorporated in the State of Kuwait on 2 October 2000. The Company's shares are listed on the Kuwait Stock Exchange.

Purposes for which the Company was incorporated:

1. Carry out all Takaful & Cooperative insurance works and reinsurance in all its forms, in compliance with principles of Islamic Sharia and regulating laws.

2. In order to achieve the above mentioned objectives and as per its Articles of Association, the company has the authority to undertake the following works and actions at discretion of the Board of Directors:

   a) Own and have the right to dispose of everything it deems necessary such as movable and immovable funds or any part thereof or any privileges the company believes to be necessary and appropriate to the nature of their work and necessary for the development of its own funds,
   b) Conduct all transactions and conclude all contracts with all legal actions it deems necessary and appropriate to achieve and facilitate the objectives under the conditions it deems appropriate.
   c) Purchase, sell, pledge, lease, exchange, acquire or offer by any way, any land, real estate, securities Sukouk, shares or any other movable funds or property and sell, lease, pledge or act in all kinds of actions in all or some of the company's funds or movable real estate or property,
   d) Provide consulting and technical studies in the field of insurance or reinsurance to companies or others that are directly concerned with the work in the field of Takaful insurance or re-insurance,
   e) Work as evaluator or valuer in insurance field and agent for the insurance or reinsurance companies to perform all acts that do not conflict with Islamic Shariaa after obtaining the necessary licenses,
   f) Invest some or all of the company's movable funds or property in different areas as it deems appropriate and does not contradict with the regulating laws and resolutions,
   g) Merge, incorporate or participate in establishment of companies and subscribe to its shares and the purchase and sale of shares of companies and support in any way consistent with the objectives of the Company and in accordance with the laws,
   h) Use the surplus funds with the company by investing in portfolios managed by specialized companies and institutions.

The company may carry out the above mentioned business in Kuwait and abroad in principle or as an agent and the company may have an interest or participate in any way with the entities that engage in similar work that help to achieve its objectives in Kuwait or abroad and it may establish, participate, purchase, merge with such entities.

The Company is a subsidiary of The Investment Dar Company K.S.C. which is a Kuwaiti shareholding company ("the Ultimate Parent Company").

The Company's registered head office is at City Tower, Khaled Bin Waleed Street, Sharq, State of Kuwait.

The consolidated financial statements as at and for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as "the Group" and individually "the Group entities"). A list of significant directly owned subsidiaries is as follows:

Subsidiary	Country of incorporation	Percentage of ownership		Principal activities
		2012	2011	
Wethaq Takaful Insurance Company	Egypt	60%	60%	Takaful and retakaful activities in Egypt
Warid Lease and Finance Company K.S.C. (Closed)	Kuwait	100 %	4.5%	Car leasing, trading cars and spare parts in Kuwait

On 2 October 2012, the Company acquired additional 600,000 shares of Warid Lease and Finance Company K.S.C. (Closed) for a consideration of KD 700,000 in order to obtain a controlling interest in the company (note 4). The underlying shares are owned by the shareholders on behalf of the policyholders. The Company had an existing shareholding of 4.5% in Warid which is accounted for in the shareholder books of accounts.

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

The Group conducts business on behalf of the policyholders and advances funds to the policyholders' operations as and when required. The Group is responsible for liabilities incurred by policyholders in the event the policyholders' fund is in deficit and the operations are liquidated. The Group 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 is disclosed in notes 16 and 17.

The Group maintains separate books of accounts 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. All takaful and investment activities are conducted in accordance with Islamic Shari'a, as approved by Fatwa and Shari'a Supervisory Board.

The consolidated financial statements were authorized for issue by the Board of Directors on 24 March 2013 and are subject to the approval of shareholders at the next annual general meeting.

2. Basis of preparation

a) <u>Statement of compliance</u>

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

On 29 November 2012, through a decree, Kuwait Companies Law No. 25 of 2012 ("the Law") was issued. The 2012 Law came into effect from the date it was published in Kuwait's Official Gazette. The Company is currently in the process of ensuring compliance with the provisions of the Law and has six months from its effective date until 29 May 2013, in accordance with the executive regulations. The Company's management is of the view that application of the provisions of the Law has no material impact on the Company's activities or its financial position.

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Following are the estimates and judgments that have the most significant effect on the consolidated financial statements:

Classification of financial assets and liabilities

Management decides on acquisition of financial assets whether they should be classified as investments at fair value through profit or loss or available for sale.
The Group classifies financial assets as at fair value through profit or loss if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets as at fair value through profit or loss 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 the consolidated statement of income in the management accounts, they are classified as at fair value through profit or loss. 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 available for sale investments 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. Significant accounting policies

Except as described below, the accounting policies applied by the Group in these financial statements are consistent with those applied by the Group in its financial statements as at and for the year ended 31 December 2011.

IFRS 8 Operating Segments – An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Information relating to operating segments is set out in note 21.

a) Basis of consolidation

i. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

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

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

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

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

ii. Non-controlling interests

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in the consolidated statement of income.

iii. Subsidiaries

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

iv. Loss of control

On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated statement of income.

If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date the control is lost. Subsequently, that retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

v. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective profit and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Foreign currency differences arising on retranslation are recognised in the consolidated statement of income.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the consolidated statement of income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to the consolidated statement of income.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income and presented in the translation reserve in equity.

c) Financial instruments

i. Non-derivative financial assets

The Group classifies non-derivative financial assets into loans and receivables, available for sale investments and investments at fair value through profit or loss.

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective profit method, less any impairment losses. At the reporting date, non-derivative financial assets classified into loans and receivables category comprise of Qard Hassan to policyholders, investment deposits, other assets and accounts receivables and prepayments.

Cash and bank balances comprise cash balances and current accounts with the banks that are subject to an insignificant risk of changes in their fair value.

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Available for sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available for sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to the consolidated statement of income. Available for sale financial assets comprise of equity securities and debt securities.

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy.

Attributable transaction costs are recognized in the consolidated statement of income as incurred. Investments at fair value through profit or loss are measured at fair value and changes therein, which takes in to account any dividend income, are recognized in the consolidated statement of income.

Investments designated as at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

ii. Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective profit method.

At the reporting date, non-derivative financial liabilities classified into other financial liabilities category comprise of other liabilities, amounts due to policyholders, accounts payables, bank overdraft and Qard Hassan from shareholders.

d) <u>Furniture and equipment</u>

Furniture and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (refer note 3 (f)).

Cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in the consolidated statement of income as incurred.

Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in the consolidated statement of income on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

	Years
Computers and printers	5
Fixtures	3
Furniture and office equipment	10

Depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate, to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of property and equipment.

Leasehold land

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Leasehold land is depreciated over the period of lease term or their estimated useful lives whichever is lower, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

e) 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 statement of income in the period in which they arise.

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 statement of income in the year of retirement or disposal.

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

f) Impairment

i. Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortised cost at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.
An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective profit rate. Losses are recognised in the consolidated statement of income and reflected in an allowance account against loans and receivables. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of income.

Available-for-sale investments

Impairment losses on available-for-sale investments are recognised by reclassifying the losses accumulated in the fair value reserve in equity to the consolidated statement of income. The cumulative loss that is reclassified from equity to consolidated statement of income is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in the consolidated statement of income. Changes in cumulative impairment losses attributable to application of the effective profit method are reflected as a component of the consolidated statement of income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in the consolidated statement of income. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

ii. Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

g) Treasury shares

The 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.

h) 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.

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 statement of income 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.

i) <u>Post employment benefits</u>

Kuwaiti employees

Pensions and other social benefits for Kuwaiti employees are covered by the Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Company's share of contributions to this scheme, which is a defined contribution scheme, is charged to the consolidated statement of income in the year to which they relate.

Expatriate employees

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

j) <u>Provisions</u>

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

k) <u>Revenue recognition</u>

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.

l) <u>Zakat</u>

Zakat is computed in accordance with the requirements of Law No. 46 of 2006 and charged to the consolidated statement of income.

m) <u>Kuwait Foundation for the Advancement of Sciences ("KFAS")</u>

Contribution towards KFAS is computed at 1% of profit of the Company after deducting transfers made to statutory reserve.

n) <u>National Labour Support Tax ("NLST")</u>

National Labour Support Tax is computed in accordance with Law No. 19 of 2000 and the Ministry of Finance resolutions and charged to the consolidated statement of income.

o) Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

p) Standards and interpretations not yet adopted

Following standards and interpretations have been issued but are not yet effective and have not yet been adopted by the Group:

IFRS 9 Financial Instruments

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of IFRS 9 is expected to have an impact on the Group's financial assets, but not any impact on the Group's financial liabilities.

IFRS *10 Consolidated Financial Statements*

The new standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. It introduces a single consolidation model that identifies control as the basis for consolidation for all types of entities, where control is based on whether an investor has power over the investee, exposure/rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns. This standard is effective for annual periods beginning on or after 1 January 2013.

IFRS *12 Disclosure of Interests in Other Entities (issued in May 2011)*

The new standard combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. IFRS 12 is effective for annual periods beginning on or after 1 January 2013.

IFRS *13 Fair Value Measurement (issued in May 2011)*

The new standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January 2013.

The management anticipate that the adoption of these standards and interpretations once they become effective in future periods will have no significant financial impact on the financial statements of the Group in the period of initial application except for the adoption of IFRS 9 and IFRS 12.

Management of the Group are in the process of assessing the impact of the adoption of IFRS 9 and IFRS 12 on the Group's consolidated financial statements.

4. Acquisition of subsidiary

During the year, the Group acquired an additional 95.4% ownership in Warid Lease and Finance Company K.S.C. (Closed) ("Warid").

The fair values of the identifiable assets and liabilities and resulting goodwill are determined as below:

	KD
Property and equipment	235,760
Other assets	5,500
Investments at fair value through profit or loss	39,134
Trade and other receivables	139,835
Cash and bank balances	22,617
Post employment benefits	(14,116)
Trade and other payables	(29,847)
Due to related parties	(108,649)
Net identifiable assets and liabilities	290,234
Goodwill on acquisition	409,766
Purchase consideration	700,000
Cash acquired	(22,617)
Net consideration	677,383

An amount of KD 700,000 was paid in cash and through a settlement of Islamic financing receivables (note 14) from the Ultimate Parent Company. In the three months to 31 December 2012, Warid contributed revenue of KD 56,262 and loss of KD 26,788 to the Policyholders' consolidated results of operations. Had the acquisition of Warid taken place at the beginning of the year, contribution in revenue would have been higher by KD 168,788 and the net loss from non-takaful operations would have increased by KD 79,464.

The additional investment is owned by the shareholders on behalf of the policyholders.

5. Investments at fair value through profit and loss

	2012 KD	2011 KD
Quoted securities		
Equities	953,600	320,588
Managed portfolios of quoted securities	342,667	739,338
	1,296,267	1,059,926

Unrealised loss is analysed as follows:

	2012 KD	2011 KD
Quoted securities		
Equities	(69,086)	(57,523)
Managed portfolios of quoted securities	(20,471)	(218,305)
	(89,557)	(275,828)

6. Available for sale investments

	2012 KD	2011 KD
Quoted securities		
Equities	266,786	248,785
Unquoted securities		
Equities	553,728	564,403
Managed equity funds	1,441,603	1,396,139
Managed portfolios	2,313,968	3,410,616
	4,309,299	5,371,158
	4,576,085	5,619,943

At 31 December 2012, available for sale investments were assessed for impairment which resulted in the recognition of impairment loss amounting to KD 688,798 (2011: KD 434,091) in the consolidated statement of income to account for significant or prolonged decline in the fair value of certain financial assets below their cost (note 11).

The unquoted equity investments amounting to KD 482,850 (2011: KD 475,150) are carried at cost due to the non availability of reliable measures of their fair values. In the opinion of the management, no impairment is required to be recognised for the year ended 31 December 2012 (2011: nil) in respect of these investments.

7. Qard Hassan to policyholders

	2012 KD	2011 KD
At 1 January	1,751,761	1,234,234
Policyholders' deficit absorbed by Qard Hassan	-	517,527
Settlement of Qard Hassan	(83,593)	-
At 31 December	1,668,168	1,751,761

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

	2012 KD	2011 KD
At 1 January	1,149,293	1,135,408
Management fees from policyholders (note 17)	(655,463)	(557,331)
Policyholders' (suplus) transferred / deficit absorbed by Qard Hassan	(83,593)	517,527
Other movement in funds advanced by policyholders	528,836	53,689
At 31 December	939,073	1,149,293

In accordance with the 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 2012, cumulative Qard Hassan due from the policyholders amounted to KD 1,668,168 (2011: KD 1,751,761). The management of the Company believes that the takaful business will be able to generate sufficient profits in future to repay the Qard Hassan.

8. Investment deposits

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

9. Investment properties

	2012 KD	2011 KD
At 1 January	2,634,296	2,634,296
Change in fair value of investment properties	11,501	-
At 31 December	2,645,797	2,634,296

Investment property includes a real estate which is located in Egypt. The property is owned to earn rentals and capital appreciation. The fair value of the investment property is based on the independent valuation carried out by a third party.

10. Equity

10.1 Share capital

The authorized, issued and fully paid up in cash share capital of the Company is KD 11,025,000 comprised of 110,250,000 shares of 100 fils each (31 December 2011: KD 11,025,000 comprised of 110,250,000 shares of 100 fils each).

10.2 Statutory reserve

In accordance with the Kuwait Companies Law and the Company's Articles of Association, 10% of the profit for the year is transferred to a statutory reserve until the reserve totals 50% of the paid up share capital. Distribution of this 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 retained earnings are not sufficient for the payment of a dividend of that amount.

No transfer has been made to statutory reserve during the current and previous year on account of the accumulated losses incurred by the Company.

10.3 Voluntary reserve

In accordance with the Company's Articles of Association, 10% of the profit for the year is transferred to a voluntary reserve. Such annual transfers can be discontinued by a resolution of shareholders in the Annual General Assembly meeting upon recommendation by the board of directors. There are no restrictions on the distribution of this reserve.

No transfer has been made to statutory reserve during the current and previous year on account of the accumulated losses incurred by the Company.

10.4 Share options scheme

The 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 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 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 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:

a) 40% after two years from the grant date;
b) 40% after four years from the grant date; and
c) 20% after six years from the grant date.

No options were exercised during the year (2011: nil).

Options totalling 5,211,750 shares were outstanding at 31 December 2012 (2011: 5,211,750 shares) and had a weighted average exercise price of 24 fils (2011: 24 fils).

11. Net investment loss

	2012 KD	2011 KD
Unrealized loss on investments at fair value through profit and loss	(89,557)	(275,828)
Impairment loss on available for sale investments (note 6)	(688,798)	(434,091)
Others	383,030	176,913
	(395,325)	(533,006)

12. Taxation

	2012 KD	2011 KD
Taxation on profits of Wethaq Takaful Insurance Company Egypt	(158,931)	(121,882)

13. Basic and diluted earnings per share

Earnings per share attributable to shareholders of the Company is calculated by dividing the net profit for the period attributable to the shareholders of the Company by the weighted average number of shares outstanding during the period.

	2012	2011
Net profit for the period attributable to shareholders of the Company (KD)	54,275	69
Weighted average number of ordinary shares (net of treasury shares), outstanding for the period	109,804,500	109,804,500
Basic and diluted earnings per share (fils)	0.49	-

14. Related party transactions

Parties are considered to be related if one party, directly or indirectly through one or more intermediaries, has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Related parties include significant shareholders, Directors and executive officers of the Group, close members of their families and companies of which they are the principal owners or over which they are able to exercise significant influence.

Significant related party balances and transactions are as follows:

	Type of related parties	2012 KD	2011 KD
Shareholders			
Consolidated statement of financial position			
Investments at fair value through profit or loss	Ultimate Parent Company	130,506	130,506
Investments available for sale	Other related parties	2,313,968	3,410,357
Accounts payable	Ultimate Parent Company	-	338,534
Consolidated statement of income			
Allowances and other benefits	Key management personnel	38,000	44,000
Impairment loss on available for sale investments	Other related parties	683,798	396,876
Policyholders			
Policyholders' assets, liabilities and fund			
Investments at fair value through profit or loss	Other related parties	214,655	505,520
Investments available for sale	Ultimate Parent Company	787,500	787,500
Islamic financing receivables	Ultimate Parent Company	-	338,534
Policy holder's consolidated results of operation			
Contributions written	Other related parties	73,077	71,116
Unrealized loss on investments at fair value through profit or loss	Other related parties	(18,056)	(153,206)
Key management compensation			
Short-term benefits	Key management personnel	173,064	168,696
Termination benefits	Key management personnel	15,490	14,002

During the current year, the Ultimate Parent Company settled the Islamic financing receivables balance with the Company by transferring shares of Warid (note 4)

15. Policyholders' takaful operations

a) The significant accounting policies used in accounting for the takaful business are set out below. Policies used in accounting for non takaful operations are consistent with those adopted by the Group. The accounting policies are consistent with those used in the previous year.

i) Contributions written

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

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

Unearned contributions are reported under liabilities under takaful reserves.

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

ii) Net claims incurred

Claims incurred in the period are charged to policyholders' consolidated statement of operations.

iii) Retakaful ceded

Retakaful ceded are the contracts entered into by the Group with retakaful operators under which the Group is compensated for losses on policies issued.

The benefits to which the Group is entitled under its retakaful contracts held are recognised as retakaful assets and included in policyholders' consolidated statement of assets and liabilities. These assets consist of retakaful operator's share of outstanding claims that are dependent on the expected claims and benefits arising under the related retakaful policies. Amounts recoverable from or due to retakaful operators are recognised consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each retakaful contract. The retakaful liabilities are primarily contributions payable for retakaful contracts and are recognised as an expense when due in the policyholders' consolidated statement of assets and liabilities.

Retakaful assets are assessed for impairment on a periodic basis. If there is objective evidence that the retakaful asset is impaired, the carrying amount of the retakaful asset is reduced to its recoverable amount and an impairment loss is recognized in the policyholders' consolidated statement of operations.

Objective evidence for impairment is assessed as a result of an event that occurred after initial recognition of the retakaful asset that the Group may not be able to receive all the amounts due under the terms of the policy and that the event has a reliably measurable impact on the amounts that the Group will receive from the retakaful operator.

iv) Contributions receivable

Contributions receivable represent contributions under collection on account of policies underwritten and are carried at its nominal value less impairment losses, if any.

v) Outstanding claims reserve

Estimates have to be made for both the expected cost of claims at the reporting date and for the expected cost of claims incurred but not reported at the reporting date. Outstanding claims reserve is based on estimates of the loss which will eventually be payable on each unpaid claim, established by management based on available information and on past experience and modified for changes in current conditions, increased exposure, rising claims cost and the severity and frequency of recent claims as appropriate.

Incurred But Not Reported ("IBNR") claims are provided based on statistical information related to past experience.

Outstanding claims from prior years are reviewed periodically and adjusted based on current circumstances.

vi) Liability adequacy test

At each reporting date, liability adequacy test is performed to ensure the adequacy of the takaful liabilities using current estimates of future cash flows under takaful contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to the policyholders' consolidated statement of operations by establishing a provision for losses.

b) Use of estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation and uncertainty

i) The ultimate liability arising from claims made under takaful policies

The estimation of the ultimate liability arising from the claims made under takaful contract is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that will ultimately pay for such claims.

Estimation of the ultimate cost of certain claims is a complex process and cannot be done using conventional techniques and therefore it is estimated based on management assessment.

The management believes that the liability for takaful claims carried at the reporting date is adequate.

ii) Allowance for contributions receivable

The recoverable amount of contributions receivable is calculated as the present value of the expected future cash flows, discounted at the original effective profit rate. Short-term balances are not discounted.

Specific provision for impairment is established if there is objective evidence that all the amounts due will not be collected. The amount of specific provision is determined as the difference between the carrying amount and the recoverable amount of the receivable.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the policyholders' consolidated statement of operations.

16. Policyholders' consolidated statement of assets and liabilities

	2012 KD	2011 KD
Assets		
Bank balances and cash	222,922	311,298
Investment deposits	8,505,984	8,307,482
Investments at fair value through profit or loss	804,528	787,990
Islamic financing receivables	-	338,534
Accounts receivable and prepayments	1,063,897	1,164,186
Contributions receivable	1,755,010	1,688,906
Available for sale investments	970,157	970,157
Goodwill	409,766	-
Retakaful share of outstanding claims	4,543,540	3,264,209
Retakaful receivables	337,024	155,017
Amounts due from shareholders	939,073	1,149,293
Leasehold land	277,750	277,750
Furniture and equipment	1,013,125	413,694
Total assets	20,842,776	18,828,516
Liabilities		
Takaful reserves		
Outstanding claims	11,430,877	10,659,136
Unearned contributions	3,568,498	3,615,266
Incurred but not reported reserve	286,703	277,387
	15,286,078	14,551,789
Other reserves	821,953	-
Reserve retained on retakaful business	216,948	314,558
Provisions and other reserves	-	650,478
Accounts payable and accruals	2,318,246	1,596,866
Bank overdraft	1,664,751	1,373,411
Qard Hassan from shareholders	1,668,168	1,751,761
Net deficit from policy holder's operations	(1,133,368)	(1,410,347)
Total reserves and liabilities	20,842,776	18,828,516

Movement in policyholders' fund:

	2012 KD	2011 KD
At 1 January	(1,410,347)	(979,010)
Net surplus / (deficit) from policyholders' operations	168,925	(422,775)
Foreign currency translation difference	108,054	(8,562)
Closing balance	(1,133,368)	(1,410,347)

17. Policyholders' consolidated statement of operations

2012	Marine and aviation KD	General accident KD	Fire KD	Life KD	Total KD
Contributions written	374,156	5,751,573	556,855	228,511	6,911,095
Retakaful ceded	(331,024)	(1,927,149)	(511,238)	(156,315)	(2,925,726)
Net contributions written	43,132	3,824,424	45,617	72,196	3,985,369
Movement in unearned contributions	(1,459)	16,476	(25,195)	(36,590)	(46,768)
Net contributions earned	41,673	3,840,900	20,422	35,606	3,938,601
Policy issuance fees and others	21,649	657,719	4,392	473	684,233
Retakaful commission	109,638	417,818	122,585	49,133	699,174
Total revenues	172,960	4,916,437	147,399	85,212	5,322,008
Claims incurred	(6,599)	(2,307,570)	(16,858)	(109,950)	(2,440,977)
Movement in provision for claims incurred but not reported	14,965	132,584	4,402	-	151,951
Life mathematical reserve	-	-	-	29,127	29,127
Policy acquisition costs	(24,588)	(1,039,908)	(50,628)	(6,790)	(1,121,914)
Other takaful expenses	(20,350)	(283,644)	(29,666)	-	(333,660)
Total expenses	(36,572)	(3,498,538)	(92,750)	(87,613)	(3,715,473)
Surplus / (deficit) from takaful operations	136,388	1,417,899	54,649	(2,401)	1,606,535
Allocation of general and administrative expenses	(87,827)	(1,171,077)	(137,822)	(62,418)	(1,459,144)
Net surplus / (deficit) from takaful operations	48,561	246,822	(83,173)	(64,819)	147,391
Investment income	11,664	694,080	18,131	3,870	727,745
Net surplus / (deficit) from takaful operations	60,225	940,902	(65,042)	(60,949)	875,136
Income from leasing activities					56,262
Expenses in connection with leasing activities					(83,050)
Reversal of non-takaful provisions					500,000
Shareholders' share of takaful surplus from subsidiary					(523,960)
Management fees to shareholders of the Company					(655,463)
Surplus transferred to policyholders' fund					168,925

2011	**Marine and aviation KD**	**General accident KD**	**Fire KD**	**Life KD**	**Total KD**
Contributions written	236,824	5,639,149	463,251	244,255	6,583,479
Retakaful ceded	(197,129)	(1,931,649)	(433,201)	(100,059)	(2,662,038)
Net contributions written	39,695	3,707,500	30,050	144,196	3,921,441
Movement in unearned contributions	(22,473)	(253,155)	37,094	-	(238,534)
Net contributions 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
Retakaful 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 takaful 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 takaful 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 takaful operations	1,089	51,189	(525)	114,494	166,247
Investment income	(8,102)	364,534	(13,261)	(13,762)	329,409
Net surplus / (deficit) from takaful operations	(7,013)	415,723	(13,786)	100,732	495,656
Shareholders' share of takaful surplus from subsidiary					(361,100)
Management fees to shareholders of the Company					(557,331)
Deficit transferred to policyholders' fund					(422,775)

The policyholders of the subsidiary transferred a surplus of KD 523,960 (31 December 2011: 361,100) to shareholders of subsidiary from total takaful surplus of KD 1,179,423 (31 December 2011: KD 918,431).

As per the Company's Articles of Association, the shareholders of the Company are entitled to management fees from policyholders of the Company up to 20% of the gross contribution written and investment income.

18. Financial risk management

a) *Governance framework*

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

The Group is establishing a risk management function with clear terms of reference from the Board of Directors and the associated executive management committees. This will supplement with a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to executive management committees and senior managers.

b) *Regulatory framework*

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

The following are the key regulations governing the operations of the Company:

- For the life and capital takaful contracts issued in Kuwait, the full mathematical reserves are to be retained in Kuwait.
- For marine takaful contracts, at least 15% of the contributions collected in the previous year are to be retained in Kuwait.
- For all other types of takaful, at least 30% of the contributions 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 management is responsible for monitoring compliance with the above regulations and has delegated authorities and responsibilities from the Board of Directors to ensure compliance.

c) Takaful risk

The risk under any one takaful contract is the possibility that the insured events occurs and the uncertainty of the amount of resulting claim. By the very nature of a takaful contract, this risk is random and therefore unpredictable.

Takaful risk is the risk that actual claims payable to policyholders in respect of insured events exceed the carrying amount of takaful 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 marine and aviation, fire and general accident, motor and life risks. These are regarded as short-term takaful contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate takaful risk. The Group also manages these risks through its underwriting strategy, adequate retakaful arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk.

Non-life takaful contracts
The Group principally issues the following types of general takaful 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 takaful policies usually cover twelve months duration.

For general takaful 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 takaful 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 retakaful 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 takaful contract liabilities by type of contract:

	31 December 2012			31 December 2011		
	Gross liabilities KD	Retakaful share of liabilities KD	Net liabilities KD	Gross liabilities KD	Retakaful share of liabilities KD	Net liabilities KD
Marine and aviation	274,149	44,375	229,774	228,924	41,209	187,715
Fire	716,645	128,863	587,782	702,248	126,412	575,836
General accident	13,733,513	3,915,267	9,818,246	13,029,718	2,625,577	10,404,141
	14,724,307	4,088,505	10,635,802	13,960,890	2,793,198	11,167,692

The geographical concentration of the Group's non-life takaful 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 2012			31 December 2011		
	Gross liabilities KD	Retakaful share of liabilities KD	Net Liabilities KD	Gross liabilities KD	Retakaful share of liabilities KD	Net liabilities KD
Kuwait	8,234,606	2,328,154	5,906,452	6,936,062	1,871,131	5,064,931
Egypt	6,489,701	1,760,351	4,729,350	7,024,828	922,067	6,102,761
	14,724,307	4,088,505	10,635,802	13,960,890	2,793,198	11,167,692

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.

Marine

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Company has automatic retakaful 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.

Fire

For property takaful contracts the main risks are fire and business interruption. 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 Company has treaty retakaful 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 Company has retakaful 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.

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

Life takaful contracts

For life takaful 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 takaful liabilities:

	31 December 2012			31 December 2011		
	Gross liabilities KD	Retakaful share of liabilities KD	Net liabilities KD	Gross liabilities KD	Retakaful share of liabilities KD	Net liabilities KD
Life	561,771	455,035	106,736	590,899	471,011	119,888

The geographical concentration of the Group's life takaful 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 2012			31 December 2011		
	Gross liabilities KD	Retakaful share of liabilities KD	Net liabilities KD	Gross liabilities KD	Retakaful share of liabilities KD	Net liabilities KD
Kuwait	344,372	244,662	99,710	323,468	238,281	85,187
Egypt	217,399	210,373	7,026	267,431	232,730	34,701
	561,771	455,035	106,736	590,899	471,011	119,888

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 takaful 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.

Retakaful 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 retakaful purposes. Such retakaful arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth.

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.

Retakaful 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 retakaful agreements.

The policyholders' five largest reinsurers account for 72% of the credit exposure at 31 December 2012 (2011: 70%).

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

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

The majority of takaful 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 retakaful contracts. Although the Group has retakaful arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded takaful, to the extent that any reinsurer is unable to meet its obligations assumed under such retakaful agreements. The Group's placement of retakaful is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single retakaful contract. There is no single counterparty exposure that exceeds 5% of total retakaful assets at the reporting date.

A 5% change in takaful loss ratio will have the following impact on the takaful surplus/ deficit for the year:

	2012 Takaful surplus / (deficit) KD	**2011 Takaful surplus / (deficit) KD**
5% fluctuation in takaful loss – General	116,551	117,023
5% fluctuation in takaful loss – Life and medical	5,498	(1,071)

A 5% negative fluctuation in the takaful loss would have the same, but opposite, effect on the takaful surplus / deficit for the year.

d) Financial risks

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

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

- Credit risk policy setting out the assessment and determination of what constitutes credit risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Board of Directors. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Retakaful is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparty limits that are set on a yearly basis by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of retakaful operators and updates the retakaful purchase strategy, ascertaining suitable allowance for impairment.
- Maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.
- The credit risk in respect of customer balances, incurred on non-payment of 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.

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

	2012 KD	2011 KD
Shareholders		
Bank balances	1,849,169	1,746,037
Investment deposits	980,399	501,436
Other assets	299,064	221,084
Qard Hassan to policyholders	1,668,168	1,751,761
	4,796,800	4,220,318
Policyholders		
Bank balances	222,922	311,298
Investment deposits	8,505,984	8,307,482
Islamic financing receivables	-	338,534
Accounts receivable and prepayments	1,063,897	1,164,186
Contributions receivable	1,755,010	1,688,906
Retakaful recoverable on outstanding claims	4,543,540	3,264,209
Retakaful contributions receivable	337,024	155,017
Amounts due from shareholders	939,073	1,149,293
	17,367,450	16,378,925
	22,164,250	20,599,243

Credit quality per class of financial assets

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 KD	Standard grade KD	Past due but not impaired KD	Total KD
2012				
Shareholders				
Bank balances	1,849,169	-	-	1,849,169
Investment deposits	980,399	-	-	980,399
Other assets	-	56,822	242,242	299,064
	2,829,568	56,822	242,242	3,128,632

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

	Neither past due nor impaired			
	High grade KD	**Standard grade KD**	**Past due but not impaired KD**	**Total KD**
Policyholders				
Bank balances	222,922	-	-	222,922
Investment deposits	8,505,984	-	-	8,505,984
Accounts receivable and prepayments	-	-	1,063,897	1,063,897
Contributions receivable	-	120,913	1,634,097	1,755,010
Retakaful recoverable on outstanding claims	-	-	4,543,540	4,543,540
Retakaful contributions receivable	-	-	337,024	337,024
Amounts due from shareholders	-	-	939,073	939,073
	8,728,906	120,913	8,517,631	17,367,450

	Neither past due nor impaired			
	High grade KD	**Standard grade KD**	**Past due but not impaired KD**	**Total KD**
2011				
Shareholders				
Bank balances	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

	Neither past due nor impaired			
	High grade KD	**Standard grade KD**	**Past due but not impaired KD**	**Total KD**
Policyholders				
Bank balances	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
Contributions receivable	-	176,557	1,512,349	1,688,906
Retakaful recoverable on outstanding claims	-	-	3,264,209	3,264,209
Retakaful contributions 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

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

	Less than 90 days KD	**91 to 180 days KD**	**Above 180 days KD**	**Total past due but not impaired KD**
2012				
Shareholders				
Other assets	-	-	242,242	242,242
Total	-	-	242,242	242,242
Policyholders				
Accounts receivable and prepayments	454,009	536,689	73,199	1,063,897
Contributions receivable	370,879	338,862	1,045,269	1,755,010
Retakaful recoverable on outstanding claims	-	4,543,540	-	4,543,540
Retakaful contributions receivable	-	337,024	-	337,024
Amounts due from shareholders	939,073	-	-	939,073
Total	1,763,961	5,756,115	1,118,468	8,638,544

	Less than 90 days KD	91 to 180 days KD	Above 180 days KD	Total past due but not impaired KD
2011				
Shareholders				
Other assets	-	-	183,750	183,750
Total	-	-	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
Contributions receivable	384,524	192,312	1,112,070	1,688,906
Retakaful recoverable on outstanding claims	-	3,264,209	-	3,264,209
Retakaful contributions receivable	-	155,017	-	155,017
Amounts due from shareholders	1,149,293	-	-	1,149,293
Total	2,147,043	4,082,701	1,530,401	7,760,145

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 investment at fair value through profit or loss, investment properties and in available for sale investments is based on management's estimate of liquidation of those investments.

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

2012	**Up to 1 year KD**	**Above 1 year KD**	**Total KD**
Shareholders			
Assets			
Bank balances and cash	1,849,169	-	1,849,169
Investments at fair value through profit or loss	1,296,267	-	1,296,267
Other assets	299,064	-	299,064
Available for sale investments	-	4,576,085	4,576,085
Qard Hassan to policyholders	-	1,668,168	1,668,168
Investment deposit	980,399	-	980,399
Investment properties	-	2,645,797	2,645,797
Total assets	4,424,899	8,890,050	13,314,949
Liabilities			
Other liabilities	430,151	-	430,151
Amounts due to policyholders	939,073	-	939,073
Total liabilities	1,369,224	-	1,369,224
Net liquidity	3,055,675	8,890,050	11,945,725
Policyholders			
Assets			
Bank balances	222,922	-	222,922
Investment deposits	-	8,505,984	8,505,984
Investments at fair value through profit or loss	804,528	-	804,528
Accounts receivable and prepayments	1,063,897	-	1,063,897
Goodwill	-	409,766	409,766
Contributions receivable	1,755,010	-	1,755,010
Available for sale investments	-	970,157	970,157
Retakaful recoverable on outstanding claims	4,543,540	-	4,543,540
Retakaful receivables	337,024	-	337,024
Amounts due from shareholders	939,073	-	939,073
Leasehold land	-	277,750	277,750
Furniture and equipment	-	1,013,125	1,013,125
Total assets	9,665,994	11,176,782	20,842,776
Liabilities			
Unearned contributions	3,568,498	-	3,568,498
Outstanding claims reserve	9,873,224	1,557,653	11,430,877
Reserve for claims incurred but not reported	286,703	-	286,703
Reserve retained on retakaful business		216,948	216,948
Contributions received in advance	821,953	-	821,953
Accounts payable and accruals	2,318,246	-	2,318,246
Bank overdraft of subsidiary	1,664,751	-	1,664,751
Qard Hassan	1,668,168	-	1,668,168
Total liabilities	20,201,543	1,774,601	21,976,144
Net liquidity	(10,535,549)	9,402,181	(1,133,368)

2011	**Up to 1 year KD**	**Above 1 year KD**	**Total KD**
Shareholders			
Assets			
Bank balances	1,746,037	-	1,746,037
Investments at fair value through profit or loss	1,059,926	-	1,059,926
Other assets	221,084	-	221,084
Available for sale investments	-	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
Total assets	3,528,483	10,006,000	13,534,483
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	10,006,000	11,895,468
Policyholders			
Assets			
Bank balances	311,298	-	311,298
Investment deposits	-	8,307,482	8,307,482
Investments at fair value through profit or loss	787,990	-	787,990
Islamic financing receivables	338,534	-	338,534
Accounts receivable and prepayments	1,164,186	-	1,164,186
Contributions receivable	1,688,906	-	1,688,906
Available for sale investments	-	970,157	970,157
Retakaful recoverable on outstanding claims	3,264,209	-	3,264,209
Retakaful contributions receivable	155,017	-	155,017
Amounts due from shareholders	1,149,293	-	1,149,293
Leasehold land	-	277,750	277,750
Furniture and equipment	-	413,696	413,696
Total assets	8,859,433	9,969,085	18,828,518
Liabilities			
Unearned contributions	3,615,266	-	3,615,266
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 retakaful business	168,603	145,955	314,558
Contributions received in advance	461,289	-	461,289
Other takaful 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	16,205,856	1,950,238	18,156,094
Net liquidity	(7,346,423)	8,018,847	672,424

Market risk

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

The Group's exposure to market risk arises from:

- Currency risk
- Profit rate risk
- Equity price risk

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.

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.

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:

	Increase in equity price in %	2012 Effect on profit KD	2012 Effect on OCI KD	2011 Effect on profit KD	2011 Effect on OCI KD
Shareholders					
Quoted investments	5%	47,680	13,339	16,029	12,439
Managed portfolios	5%	17,133	115,698	36,967	12,998

	Increase in equity price in %	2012		2011	
		Effect on profit KD	Effect on OCI KD	Effect on profit KD	Effect on OCI KD
Shareholders					
Managed portfolios	5%	40,226	-	18,042	-

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

19. 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 2012 and 31 December 2011. Capital comprises equity attributable to shareholders of the Company excluding cumulative change in fair values reserve.

20. Fair value

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 6) are not significantly different from their carrying values at the reporting date.

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.

As at 31 December 2012, the Group held the following financial instruments measured at fair value:

	Level 1 KD	Level 2 KD	Total KD
2012			
Shareholders			
Investments at fair value through income statement	1,296,267	-	1,296,267
Available for sale investments	266,786	3,826,449	4,093,235
	1,563,053	3,826,449	5,389,502

	Level 1 KD	Level 2 KD	Total KD
2012			
Policyholders			
Investments at fair value through income statement	214,656	589,872	804,528
	214,656	589,872	804,528

	Level 1 KD	Level 2 KD	Total KD
2011			
Shareholders			
Investments at fair value through income statement	1,059,926	-	1,059,926
Available for sale investments	248,785	4,896,008	5,144,793
	1,308,711	4,896,008	6,204,719

	Level 1 KD	Level 2 KD	Total KD
2011			
Policyholders			
Investments at fair value through income statement	360,848	427,142	787,990
	360,848	427,142	787,990

The fair value of investments under level 2 is determined by a related party investment manager.

21. Segment information

The Group has 2 reportable segments, Kuwait and Egypt, based on geography which are the Group's operating entities. The 2 entities carry out takaful activities in their respective jurisdictions and are managed separately because they require different marketing strategies and operate in separate regulatory environments. For each of the entities, the Board of Directors review internal management reports on at least a quarterly basis.

Shareholders		**2012**			**2011**	
	Kuwait	**Egypt**	**Total**	**Kuwait**	**Egypt**	**Total**
Net investment (loss)/ income	(252,294)	(143,031)	(395,325)	(701,420)	168,414	(533,006)
Taxation	-	(158,931)	(158,931)	-	(121,882)	(121,882)
Total expenses	(313,482)	(196,785)	(510,267)	(16,393)	(150,014)	(166,407)
Net (loss) / profit	(173,143)	379,030	205,887	(39,633)	157,807	118,174
Other information:						
Total assets	10,410,285	2,912,529	13,322,814	11,289,497	2,498,753	13,788,250
Total liabilities	1,265,704	103,520	1,369,224	1,520,687	118,328	1,639,015

Policyholders		**2012**			**2011**	
	Kuwait	**Egypt**	**Total**	**Kuwait**	**Egypt**	**Total**
Gross contributions earned	3,277,117	3,633,978	6,911,095	2,786,656	3,796,823	6,583,479
Total revenue	2,882,307	2,439,701	5,322,008	2,550,950	2,318,606	4,869,556
Net surplus from takaful operations	239,056	636,080	875,136	39,804	455,852	495,656
Surplus / (deficit) transferred to policyholders' fund	56,805	112,120	168,925	(517,527)	94,752	(422,775)
Other information:						
Total assets	11,227,710	9,615,066	20,842,776	9,696,896	9,131,620	18,828,516
Total liabilities	11,227,710	9,615,066	20,842,776	9,696,896	9,131,620	18,828,516

22. Earnings prohibited under Shari'a

There were no earnings retained during the year (31 December 2011: nil) from transactions which are not permitted under Shari'a.

23. Contingencies and commitments

The Group is a defendant in a number of cases brought by takaful contract holders in respect of claims which the Group disputes. While it is not possible to predict the eventual outcome of such legal actions, management has made provisions which, in their opinion, are adequate to cover any resultant liabilities.

24. General assembly

The annual general meeting held on 12 April 2012 approved the following:

- Financial statements for the year ended 31 December 2011; and
- Board of Directors' recommendation not to distribute dividends for the year ended 31 December 2011.