



الأول للتأمين التكافلي
1 TAKAFUL INSURANCE CO. S.A.

Annual Report 2011



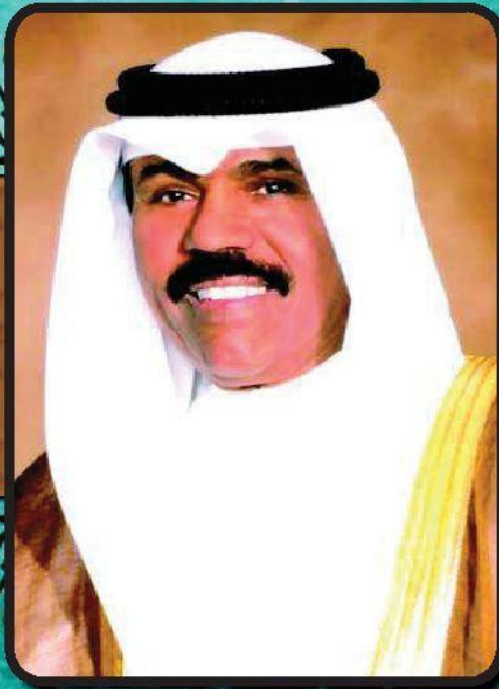


الأولى للتأمين التكافلي
1st TAKAFUL INSURANCE CO. K.S.C.

Annual Report 2011



His Highness Sheikh
Sabah Al-Ahmad Al-Jaber Al-Sabah
Amir of The State of Kuwait



His Highness Sheikh
Nawwaf Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of The State of Kuwait



Tel.

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Al- Faihaa	AlFaihaa Co-op. Society	1861000 (273)	
Al- Rawda	AlRawda & Hawally Co-op. Society Central Market	22555538/141	
Hawally	Ebn- Khaldon Str. - Al Danaa Complex	22640202	
Kefan	Kefan Co-op. Society	24929708	





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الشركة للتأمين التكافل
TAKAFUL INSURANCE CO. LTD.



Shareea`a Supervisory Board

Dr. Anwar Shuaib Abdulsalam	Chairman
Dr. Mohammad Abdul Razaq Al Tabtabae	Shareea`a Board Member
Dr. Adnan Ali Al - Mulla	Shareea`a Board Member

Board of Directors

Khalil Ibrahim Mohammed Al-Shami	Chairman & Managing Director
Hussain Ali Mohammed Al-Attal	Deputy Chairman
Ahmed Mohammed Ahmed Al-Khalid	Board Member
Osama Abdullateef Al-Abdul Jaleel	Board Member
Rami Khalid Abdullah Ali	Board Member
Saad Abdulaziz Al-Wazzan	Board Member
Saleh Saleh Al-Silmiy	Board Member





1st TAKAFUL INSURANCE CO.

Al-Murgab - Abdullah Mubarak St. - Al Enma'a Tower
P.O. Box 5713 Safat - 13058 Kuwait
Tel.: 880055 - Fax: 2444599
Website: www.firsttakaful.com



الأولى للتأمين التكافلي ش.م.ك

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ص.ب. 5713 صفاة - الرمز البريدي: 13058 الكويت
تلفون: 880055 - فاكس: 2444599
E-mail: info@firsttakaful.com

رأس المال 10.000.000 د.ك. - Capital KD. 10.000.000
شركة خاضعة لأحكام قانون شركات وكلاء التأمين رقم (24) لسنة 1961 رقم الأجازة (24)

Board of Directors Report

Praise be to Allah, and peace and blessings be upon the Prophet, and upon his family and companions

Dear Shareholders.

We are pleased to welcome you and present to you the annual report of Takaful Insurance Company KSC (Closed) for the fiscal year ended on 31/12/2011, comprising the report of Fatwa and Sharia Control Board, as well as the auditor's report. Further, we are pleased to present to you the achievements of this year and the hopes we look forward to fulfill.

Dear Shareholders:

The year 2011 was a turning point as we exerted great efforts to evaluate our businesses from the investment viewpoint and take the final provisions of all the company investments, whereby such investments do not affect in the future the financial results of the company. We added to this the results of public liability insurance of cars (third parties) for the previous years, whereby the automotive insurance portfolio was assessed. Indeed, it was found that it is one of the main reasons leading to the increase of losses and decrease of cash flow. Therefore, the company management has taken decisions to lit the high losses rates and concentrate on the types of insurance which achieve good results such as health insurance and group insurance. Further, we at Takaful Insurance Company are committed with high professional principles and are committed to the principles of Islamic Shariah in our dealings in insurance and re-insurance.

In light of the economic crisis, the company maintained the national staff and competent personnel, perhaps this crisis will end and the Kuwaiti economy will return to its former state of growth and prosperity.

The Kuwaiti insurance market is considered as one of the unregulated markets and is undergoing the chaos of incorporating companies, as well as the lack of supervision and control by the concerned authorities. This led to insurance losses by many companies and may lead to the bankruptcy of a number of them and their inability to continue, if the law is not amended and there is an independent authority for supervision and control over the insurance activity in Kuwait.

The current economic crisis and the resulting losses, as well as the political conditions in the in the countries of the region has compelled the company to reconsider the regional expansion policy which has been laid down in the previous years and wait for the economic and political conditions in the future in order to re-activate the expansion policy, as it has extensive returns on the company and its shareholders.



In 2011, the company developed insurance and investment portfolios. Additional provisions have been deducted which are necessary and required for investments, as well as technical provisions to reinforce the financial position of the company. Spending was rationalized and third party policy losses accommodated until an insurance surplus is achieved for the subscribers in the next years and maintain the value of the company assets. The company has also developed its insurance portfolios and maintained its clients. The personal health insurance and group insurance programs were developed. A service was introduced whereby insurance policies are issued through the internet. Further, the company developed policies, procedures and internal control systems, as well as developed risk efficiency and management to enhance the level of efficiency.

Investment activity:

With the help of the Almighty God, the company achieved the targets laid down in connection with the insurance activity, whereby the targeted production for underwritten subscriptions was realized this year, despite the decrease in third party automotive policy underwriting. Further, the number of the company clients was increased despite the severe competition by insurance companies operating in the local market. The underwritten subscriptions in Takaful insurance for the fiscal year 2011 amounted to the sum of KD 6,212,665 compared with the figure realized by the company in the fiscal year 2010 which amounted to KD 5,752,431, i.e. an increase by KD 460,234 and 8%. Further, the compensation incurred for the fiscal year 2011 amounted to KD 2,669,725 compared with the fiscal year 2010, which amounted to KD 2,217,412, i.e. an increase by KD 452,313 and 20%. Further, the technical reserves of the company for the fiscal year 2011 amounted to KD 7,982,175.

Financial results:

On the level of financial results for the shareholders, the company recorded losses for the fiscal year 2011 by KD 1,295,076 compared with a loss of KD 1,418,341 for the year 2010, i.e. a drop by KD 123,265 and a loss per share by 12.95 fils in 2011 compared with a loss per share of 14.18 fils in 2010. further, the shareholders' equities for the current year amounted to KD 8,493,141 compared with KD 9,929,585 in the past year, i.e. a drop by 14%. The total assets for shareholders during the current year amounted to KD 13,620,969 compared with KD 13,190,454 in the past year, i.e. an increase by 3%. The increase is attributed basically to recording a loan with low interests for the rights of policyholders. Further, the net profits and shareholders' equities dropped in the current year due to setting aside additional provisions for investments, as a result of the drop in the value of investment assets.

On the level of the results of policyholders, the net deficit of the insurance operations for the fiscal year 2011 amounted to KD 1,867,079 against a net insurance deficit of KD 2,016,802 for 2010 as a result of the company's setting aside additional provisions for the devaluation of investments available for sale and the subscribers' share in the results of an affiliate company, as well as the continuation of payment of third party automotive compensations which have not been met by revenues of subscriptions for the same policy.

Goals and Hopes

The executive management of the company hopes and endeavors with outmost efforts to restore the company to profitability during the next years, with the will of God. Great efforts were exerted over the past years to control the losses of the company as a result of the investment and insurance market conditions, as well as





developing a number of policies which required consideration and assessment. In fact, many of them have been amended and developed. We also look forward that the local and regional markets witness a correction in their path during the next period, which will have a positive reflection on the performance of the company in 2012 on the level of profits and market value of investments. We also hope that the company is able to acquire a share of Kuwait development plan projects, and that our affiliate companies in Saudi Arabia and Turkey strengthen the financial position of our company and form one of the profit channels for 2012 and act as outlets for new regional and international markets.

The First Takaful Insurance Company aims at practicing work in Takaful insurance field with high professionalism and to maintain its leadership among its peers in the local market, as well as maintain the value of the company assets and comply with customer service with high professionalism.

The company board of directors and staff look forward to maintain its image as a leading company in Takaful insurance field and comply with the directions of the Islamic Shariah. Further, it is hoped that performance efficiency is enhanced and the financial ability and worth of the company is increased in the next years to support its development, progress and distinction in Takaful insurance field.

Dear brothers:

In view of the great significance of the technical and administrative staff, Takaful Insurance Company is constantly developing national staff through training and enrolling them in specialized courses in order to upgrade the efficiency of performance for a better service of the company customers. We do not save efforts to develop and upgrade the information technology system.

Finally, praise be to Almighty God for the blessing of safety and security of our beloved nation under the leadership of His Highness the Amir of Kuwait, Sheikh Sabah Al Ahmad Al Jaber Al Sabah, may God protect him, and the Crown Prince Sheikh Nawaf Al Ahmad Al Jaber Al Sabah and Sheikh Jaber Mubarak Al Hamad Al Sabah, the prime minister. Further, I would like to extend my gratitude to members of Shariah Supervision Board of the company, the insurance department at the Ministry of Commerce and Industry, the shareholders and members of the board of directors, the company clients and all the company staff. I would also like to express my appreciation to the local and international re-insurers and insurance brokers and all the other concerned authorities.

Chairman and Managing Director

Khalil Ibrahim Mohamed Al Shami



Financial statements and independent auditors' report
First Takaful Insurance Company – KSC (Closed)
Kuwait
31 December 2011



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Independent auditors' report

To the shareholders of
First Takaful Insurance Company – KSC (Closed)
Kuwait

Report on the Financial Statements

We have audited the accompanying financial statements of First Takaful Insurance Company – Kuwaiti Shareholding Company (Closed), which comprise the statement of financial position as at 31 December 2011, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of First Takaful Insurance Company as at 31 December 2011, and the results of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.





Report on Other Legal and Regulatory Matters

In our opinion, proper books of account have been kept by the Company and the financial statements, together with the contents of the report of the Company's board of directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Commercial Companies Law of 1960 and by the Company's articles of association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law nor of the Company's articles of association, as amended, have occurred during the year that might have had a material effect on the business or financial position of the Company.

Abdullatif M. Al-Aiban (CPA)
(Licence No. 94-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Fawzia Mubarak Al-Hassawi
(Licence No. 80-A)
of UHY-Fawzia Mubarak Al-Hassawi

Kuwait
26 March 2012





First Takaful Insurance Company – KSC (Closed) Kuwait

Statement of income

	Notes	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Revenue			
Net investment income	7	85,819	17,949
Share of results of associates	12	(467,867)	(611,770)
Other income		12,000	-
		(370,048)	(593,821)
Expenses and other charges			
General and administrative expenses		(68,308)	(77,013)
Impairment of available for sale investments	11	(856,720)	(747,507)
		(925,028)	(824,520)
Loss for the year		(1,295,076)	(1,418,341)
Basic and diluted loss per share	9	(12.95) Fils	(14.18) Fils

The notes set out on pages 22 to 52 form an integral part of these financial statements.



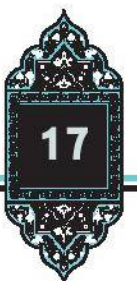


First Takaful Insurance Company – KSC (Closed) Kuwait

Statement of comprehensive income

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Loss for the year	(1,295,076)	(1,418,341)
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	78,841	(145,344)
Available for sale investments:		
- Net loss arising during the year	(990,920)	(388,333)
- Transferred to statement of income on sale	(51,763)	(32,639)
- Transferred to statement of income on impairment	856,720	747,507
Share of other comprehensive loss of associates	(34,246)	(18,704)
Total other comprehensive (loss)/income	(141,368)	162,487
Total comprehensive loss for the year	(1,436,444)	(1,255,854)

The notes set out on pages 22 to 52 form an integral part of these financial statements.





First Takaful Insurance Company – KSC (Closed) Kuwait

Statement of financial position

	Notes	31 Dec. 2011 KD	31 Dec. 2010 KD
Assets			
Bank balance		1,448	1,448
Investment deposit	10	135,000	135,000
Available for sale investments	11	3,801,085	5,034,836
Investment in associates	12	1,338,032	1,607,698
Other assets		8,040	9,461
Land under development	13	1,959,750	1,959,750
Amount due from policyholders	14	1,376,681	1,308,407
Qard Hassan to policyholders' fund	15	5,000,933	3,133,854
Total assets		13,620,969	13,190,454
Equity and liabilities			
Equity			
Share capital	16	10,000,000	10,000,000
Legal reserve	17	842,836	842,836
Other components of equity	18	(39,072)	102,296
Accumulated losses		(2,310,623)	(1,015,547)
Total equity		8,493,141	9,929,585
Liabilities			
Policyholders' deficit reserve	15	5,000,933	3,133,854
Other liabilities		126,895	127,015
Total liabilities		5,127,828	3,260,869
Total equity and liabilities		13,620,969	13,190,454

Khalil Ibrahim M. Al-Shami
Chairman and Managing Director

The notes set out on pages 22 to 52 form an integral part of these financial statements.

**First Takaful Insurance Company – KSC (Closed)
Kuwait**

Statement of changes in equity

	Share capital KD	Legal reserve KD	Other components of equity KD	Retained earnings/ (accumulated losses) KD	Total KD
Balance at 1 January 2011	10,000,000	842,836	102,296	(1,015,547)	9,929,585
Loss for the year	-	-	-	(1,295,076)	(1,295,076)
Total other comprehensive loss	-	-	(141,368)	-	(141,368)
Total comprehensive loss for the year	-	-	(141,368)	(1,295,076)	(1,436,444)
Balance at 31 December 2011	10,000,000	842,836	(39,072)	(2,310,623)	8,493,141



First Takaful Insurance Company – KSC (Closed) Kuwait

Statement of changes in equity

	Share capital KD	Legal reserve KD	Other components of equity KD	Retained earnings/ (accumulated losses) KD	Total KD
Balance at 1 January 2010		10,000,000	842,836	402,794	11,185,439
Loss for the year	-	-	-	(1,418,341)	(1,418,341)
Total other comprehensive income	-	-	162,487	-	162,487
Total comprehensive income/(loss) for the year	-	-	162,487	(1,418,341)	(1,255,854)
Balance at 31 December 2010		10,000,000	842,836	(1,015,547)	9,929,585

The notes set out on pages 22 to 52 form an integral part of these financial statements.



First Takaful Insurance Company – KSC (Closed) Kuwait

Statement of cash flows

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
OPERATING ACTIVITIES		
Loss for the year	(1,295,076)	(1,418,341)
Adjustments for:		
Net investment income	(85,819)	(17,949)
Impairment of available for sale investments	856,720	747,507
Share of results of associates	467,867	611,770
	(56,308)	(77,013)
Changes in operating assets and liabilities:		
Movement in due from policyholders	(68,274)	(287,080)
Other liabilities	(120)	(3,778)
Net cash used in operating activities	(124,702)	(367,871)
INVESTING ACTIVITIES		
Proceeds from sale of available for sale investments	242,680	323,649
Increase in investment in associate	(153,606)	(1,449)
Dividend income received	32,417	41,918
Profit on investment deposit received	3,211	3,753
Net cash from investing activities	124,702	367,871
Increase in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the year	1,448	1,448
Cash and cash equivalents at the end of the year	1,448	1,448

The notes set out on pages 22 to 52 form an integral part of these financial statements.





First Takaful Insurance Company – KSC (Closed) Kuwait

Notes to the financial statements

31 December 2011

1- Incorporation and activities

First Takaful Insurance Company ("the company") is a closed Kuwaiti Shareholding Company incorporated on 25 July 2000 and is registered under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments. Its shares are listed on the Kuwait Stock Exchange.

The address of the company's registered office is PO Box 5713, Safat 13058, State of Kuwait.

The company is engaged in:

- Carrying out all types of insurance takaful activities (co-operative insurance) and related activities, including insurance and reinsurance.
- Investing the funds available to the company in various activities that are commensurate with the company's objectives and not in conflict with the provisions of the Islamic Sharee'a and the established rules and regulations.
- Providing insurance and reinsurance consultancy and technical studies to companies involved in similar activities.
- Investing the contributed funds from policyholders and returns thereon.

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

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

The company 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 insurance and investment activities are conducted in accordance with Islamic Sharee'a, as approved by Fatwa and Sharee'a Supervisory Board.

The board of directors approved these financial statements for issue on 26 March 2012 and are subject to the approval of the general assembly of the shareholders.

2- Basis of preparation

The financial statements of the company have been prepared under historical cost convention except for financial assets available for sale that have been measured at fair value.

The financial statements have been presented in Kuwaiti Dinars ("KD"), which is the functional and presentation currency of the company.

The company has elected to present the "statement of comprehensive income" in two statements: the "statement of income" and a "statement of comprehensive income".

3- Statement of compliance

The financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) and applicable requirements of Ministerial Order No. 18 of 1990.

4 Changes in accounting policies

The accounting policies adopted in the preparation of the financial statements are consistent with those used in previous year except as discussed below.

The company has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations during the year:





First Takaful Insurance Company – KSC (Closed) Kuwait

4.1 Adoption of Improvements to IFRSs 2010

The Improvements to IFRSs 2010 made several minor amendments to a number of IFRSs. The only amendment relevant to the company relates to IAS 1 Presentation of Financial Statements. The company previously presented the reconciliations of each component of other comprehensive income in the statement of changes in equity. The company now presents these reconciliations in the notes to the financial statements, as permitted by the amendment (see note 18). This reduces duplicated disclosures and presents more clearly the overall changes in equity. Prior period comparatives have been restated accordingly.

4.2 IASB Standards issued but not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the company.

Management anticipates that all of the relevant pronouncements will be adopted in the company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the company's financial statements.

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IAS 1 Presentation of Financial Statements – amendment	1 July 2012
IAS 28 Investments in Associates - Revised as IAS 28 Investments – Associates and Joint Venture	1 January 2013
IFRS 7 Financial Instruments: Disclosures – amendment	1 July 2011
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2015
IFRS 13 Fair Value Measurement	1 January 2013

4.2.1 IAS 1 Presentation of Financial Statements - amendment

The amendment to IAS 1 requires entities to company other comprehensive income items presented in the statement of comprehensive income based on those:

- Potentially reclassifiable to statement of income in a subsequent period, and
- That will not be reclassified to statement of income subsequently.

The company will change the current presentation of the statement of comprehensive income when the amendment becomes effective.

4.2.2 IAS 28 Investments in Associates – Revised as IAS 28 Investments in Associates and Joint Ventures
As a result of the consequential amendments, IAS 28 brings investments in joint ventures into its scope. However, the equity accounting methodology under IAS 28 remains unchanged.

4.2.3 IFRS 7 Financial Instruments: Disclosures - amendment

The amendments to IFRS 7 Financial Instruments: Disclosures resulted as a part of comprehensive review of off financial position activities. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The adoption of this amendment is not expected to have any significant impact on the financial position or performance of the company.

4.2.4 IFRS 9 Financial Instruments: Classification and Measurement

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety with the replacement standard to be effective for annual periods beginning 1 January 2015. IFRS 9 is being used in





First Takaful Insurance Company – KSC (Closed) Kuwait

phases and to date phase 1 has been issued. The main phases are:

- Phase 1: Classification and Measurement
- Phase 2: Impairment methodology
- Phase 3: Hedge accounting

In addition, a separate project is dealing with derecognition.

Although earlier application of this standard is permitted, the Technical Committee of the Ministry of Commerce and Industry of Kuwait decided on 30 December 2009, to postpone this early application till further notice, due to the non-completion of the remaining stages of the standard.

4.2.5 IFRS 13 Fair Value Measurement

IFRS 13 does not affect which items to be fair valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. The adoption of this standard is not expected to have a significant impact on the financial position and performance of the company.

Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are set out below.

5.1 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured, regardless of when payment is made.

The company applies the revenue recognition criteria set out below to each separately identifiable component of revenue.

5.1.1 Income from investment deposit

Income from investment deposit is recognised on a time proportion basis taking account of the principal outstanding and rate applicable.

5.1.2 Dividend income

Dividend income other than those from investment in associates, are recognised at the time the right to receive payment is established.

5.2 Operating expenses

Operating expenses are recognised in the statement of income upon utilisation of the service or at the date of their origin.

5.3 Taxation

5.3.1 Kuwait Foundation for the Advancement of Sciences (KFAS)

The contribution to KFAS is calculated at 1% of taxable profit of the company in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

5.3.2 National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the company after deducting directors' fees for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

5.3.3 Zakat

Contribution to Zakat is calculated at 1% of the profit of the company in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

For the year ended 31 December 2011 and 31 December 2010, the company has no liability towards KFAS, NLST and Zakat due to losses incurred. Under the KFAS, NLST and Zakat regulations no carry forward of losses to the future years nor any carry back to prior years is permitted.





First Takaful Insurance Company – KSC (Closed) Kuwait

5.4 Financial instruments

5.4.1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through statement of income which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

A financial asset (or, where applicable a part of financial asset or part of company of similar financial assets) is derecognised when:

- rights to receive cash flows from the assets have expired;
- the company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either:
 - a) the company has transferred substantially all the risks and rewards of the asset or
 - b) the company has neither transferred nor retained substantially all risks and rewards of the asset but has transferred control of the asset.

Where the company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the company's continuing involvement in the asset.

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

5.4.2 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables
- available-for-sale (AFS) financial assets.

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a company of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

• **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

The company categorises loans and receivables into following categories:

Due from policyholders

Due from policyholders is financial assets originated by the company by providing money directly to the policyholders that have fixed or determinable payment and are not quoted in an active market.

Cash and cash equivalents and investment deposit

Cash and cash equivalents comprise bank balance and investment deposit which are assets that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

• **AFS financial assets**

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.





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5 Significant accounting policies (continued)

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in statement of income. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in statement of income. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to statement of income and presented as a reclassification adjustment within other comprehensive income.

The company assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a company of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in the statement of income.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in statement of income only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

5.4.3 Classification and subsequent measurement of financial liabilities

The company's financial liabilities include other liabilities.

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

Other liabilities

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

5.5 Investment in associates

Associates are those entities over which the company is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the company's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognise the company's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the company.

Unrealised gains and losses on transactions between the company and its associates and joint ventures are eliminated to the extent of the company's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

The difference in reporting dates of the associates and the company is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the company's financial statements. The associate's accounting policies conform to those used by the company for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the company measures and recognises any retaining investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in the statement of income.

5.6 Land under development

Properties in the course of construction for production or administrative purpose are carried at cost, less any recognised impairment loss.





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5.7 Qard Hassan from shareholders

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

5.8 Trade and settlement date accounting

All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

5.9 Offsetting of financial instruments

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

5.10 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 25.

5.11 Impairment testing of non financial assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the company's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

5.12 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued and paid up.

Legal reserve comprises appropriations of current and prior period profits in accordance with the requirements of the commercial companies' law and the company's articles of association.

Other components of equity include the following:

- foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the company's foreign entities into Kuwait Dinars.
- Fair value reserve – comprises gains and losses relating to available for sale financial assets.

Retained earnings include all current and prior period profits and losses. All transactions with owners of the company are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting.





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5.13 Related party transactions

Related parties consist of directors, executive officers, their close family members and companies which they are principal owners. All related party transactions are approved by management.

5.14 Foreign currency translation

5.14.1 Functional and presentation currency

The financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the company. Each entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

5.14.2 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective company entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in statement of income. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

5.14.3 Foreign operations

In the company's financial statements, all assets, liabilities and transactions of foreign entities with a functional currency other than the KD are translated into KD. The functional currency of the entities foreign has remained unchanged during the reporting period.

Assets and liabilities have been translated into KD at the closing rate at the reporting date. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to statement of income and are recognised as part of the gain or loss on disposal.

5.15 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Contingent assets are not recognised in the financial statements, but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Significant management judgements and estimation uncertainty

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

6.1 Significant management judgments

In the process of applying the company's accounting policies, management has made the following significant judgments, which have the most significant effect on the amounts recognised in the financial statements:



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6.1.1 Classification of financial instruments

Judgements are made in the classification of financial instruments based on management's intention at acquisition.

The company classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets as fair value through statement of income depends on how management monitors the performance of these financial assets. 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 statement of income in the management accounts, they are classified as fair value through statement of income.

Classification of assets as loans and receivables depends on the nature of the asset. If the company is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

All other financial assets are classified as available for sale.

6.2 Estimates uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

6.2.1 Impairment of available for sale equity investments

The company treats available for sale equity 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 judgment.

6.2.2 Impairment of associates

After application of the equity method, the company determines whether it is necessary to recognise any impairment loss on the company's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the statement of income.

6.2.3 Fair value of financial instruments

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 25).

7 Net investment income

	Year ended 31 Dec. 2011 KD	Year ended 31 Dec. 2010 KD
Profit on investment deposit	1,789	3,753
Dividend income	32,417	41,918
Gain/(loss) on sale of available for sale investments	51,613	(27,722)
	85,819	17,949





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8 Net loss on financial assets

Net gain/(loss) on financial assets, analysed by category, is as follows:

	Year ended 31 Dec. 2011	Year ended 31 Dec. 2010
	KD	KD
Investment deposit	1,789	3,753
Available for sale investments	(772,690)	(733,311)
Net realised loss	(770,901)	(729,558)
Net unrealised (loss)/gain recognised in equity	(185,963)	391,813
	(956,864)	(337,745)

9 Basic and diluted loss per share

Basic and diluted loss per share is computed by dividing the loss for the year by the weighted average number of shares outstanding during the year as follows:

	Year ended 31 Dec. 2011	Year ended 31 Dec. 2010
Loss for the year (KD)	(1,295,076)	(1,418,341)
Weighted average number of shares outstanding during the year (number)	100,000,000	100,000,000
Basic and diluted loss per share	(12.95) Fils	(14.18) Fils

10 Investment deposit

In accordance with Kuwaiti law (Business operations licence), an amount of KD135,000 (2010: KD135,000) has been deposited with a Kuwaiti financial institution as security to underwrite general insurance business and life insurance. The average rate of profit earned on the deposit during 2011 was 1.728% (2010: 2.378%).

11 Available for sale investments

	31 Dec. 2011	31 Dec. 2010
	KD	KD
Investments in unquoted managed funds	568,416	629,049
Quoted equity securities	1,012,440	1,390,067
Unquoted equity securities	2,220,229	3,015,720
	3,801,085	5,034,836

Quoted equity securities include an investment with carrying value of KD667,500 (2010: KD870,000) which is held in Kuwait as security for the order of the Minister of Commerce and Industry in accordance with the Ministerial Order No. 27 of 1966 and its amendments.

Unquoted investments include investments in managed funds amounting to KD568,416 (2010: KD629,049). These investments are carried at net asset values as reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

The company recognised impairment loss of KD856,720 (2010: KD747,507) in respect of certain available for sale investments.





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12 Investment in associates

	Country of incorporation	Percentage of ownership		Purpose
		31 Dec. 2011	31 Dec. 2010	
		%	%	
Weqaya Takaful Insurance Company - SSC (Quoted)	Saudi Arabia	10	10	Insurance
Neova Sigorta Insurance Company (Unquoted)	Turkey	10	10	Insurance

Investment in Weqaya Takaful Insurance Company – SSC has been accounted for as an associate since the shareholders and policyholders own 10% each in the investee and therefore able to exercise significant influence over the investee.

Investment in Neova Sigorta Insurance Company has been accounted for as an associated because, the company is able to exercise significant influence over the operations of the associates since it has two representatives on the board of directors of the associate.

Movement in the carrying amount of investment in associates is as follows:

	31 Dec. 2011 KD	31 Dec. 2010 KD
Carrying amount at the beginning of the year	1,607,698	2,382,067
Additions	153,606	1,449
Share of results	(467,867)	(611,770)
Foreign exchange translation	78,841	(145,344)
Share of other comprehensive loss of associates	(34,246)	(18,704)
Carrying amount at the end of year	1,338,032	1,607,698

Additions represent final capital call of Neova Sigorta.

At 31 December 2011, an associate having a carrying value of KD 1,098,042 (2010: KD 1,412,363) had a fair value of KD4,742,400 (2010: KD3,207,800).

13 Land under development

Land under development represents a property acquired with the intention to construct the new head office building. Various formalities to obtain approval of the regulatory authorities are currently in progress. At 31 December 2011, the current market value of the land as assessed by an independent valuer is KD3,000,000.

14 Amount due from policyholders

	31 Dec. 2011 KD	31 Dec. 2010 KD
Opening balance	1,308,407	1,021,327
net movements during the year	68,274	287,080
Closing balance	1,376,681	1,308,407

Net movements in policyholders' account represent the net fund transfers from and to their account including buying and selling shares on their behalf during the year.





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15 Qard Hassan to policyholders and deficit reserve

In accordance with the articles of association, policyholders net deficit from insurance operations has been covered by "Qard Hassan" from the shareholders. The Qard Hassan given by shareholders will be settled through surplus arising from the insurance operations in future years.

	31 Dec. 2011 KD	31 Dec. 2010 KD
Opening balance	3,133,854	-
Increase in Qard Hassan to policyholders	1,867,079	3,133,854
Closing balance	5,000,933	3,133,854

16 Share capital

	31 Dec. 2011 KD	31 Dec. 2010 KD
Authorised: shares of 100 Kuwaiti Fils each	10,000,000	10,000,000
Issued and fully paid: shares of 100 Kuwaiti Fils each	10,000,000	10,000,000

17 Legal reserve

In accordance with the Commercial Companies Law and the company's articles of association, 10% of the profit of the year before KFAS, NLST and Zakat is transferred to the legal reserve. The shareholders of company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. Distribution of legal 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 is required in a year when losses are incurred or where cumulative losses exist.

18 Other components of equity

	Fair value reserve KD	Foreign currency translation reserve KD	Total KD
Balance at 1 January 2011	277,771	(175,475)	102,296
Exchange differences arising on translation of foreign operations	-	78,841	78,841
AFS financial assets:			
- Net loss arising during the year	(990,920)	-	(990,920)
- Transferred to statement of income on sale	(51,763)	-	(51,763)
- Transferred to statement of income on impairment	856,720	-	856,720
Share of other comprehensive income/(loss) of associates	13,487	(47,733)	(34,246)
Total other comprehensive (loss)/income for the year	(172,476)	31,108	(141,368)
Balance at 31 December 2011	105,295	(144,367)	(39,072)



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	Fair value reserve KD	Foreign currency translation reserve KD	Total KD
Balance at 1 January 2010	(60,191)	-	(60,191)
Exchange differences arising on translation of foreign operations	-	(145,344)	(145,344)
AFS financial assets			
- Net loss arising during the year	(388,333)	-	(388,333)
- Transferred to statement of income on sale	(32,639)	-	(32,639)
- Transferred to statement of income on impairment	747,507	-	747,507
Share of other comprehensive income/(loss) of associates	11,427	(30,131)	(18,704)
Total other comprehensive income/(loss) for the year	337,962	(175,475)	162,487
Balance at 31 December 2010	277,771	(175,475)	102,296

19 Annual general assembly

The directors did not propose dividends for the year ended 31 December 2011. The financial statements of the company for the year ended 31 December 2010 were approved by the general assembly held on 10 May 2011.

