الأولى للتأمين التكافلي ش.م.ك.م

1st Takaful Insurance Co. K.S.C.C

ANNUAL REPORT 2012

الأولى للتأمين التكافلي ش.م.ك

1st TAKAFUL INSURANCE CO. KSCC

First Takaful Insurance Company

Capital KD. 10,000,000

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.

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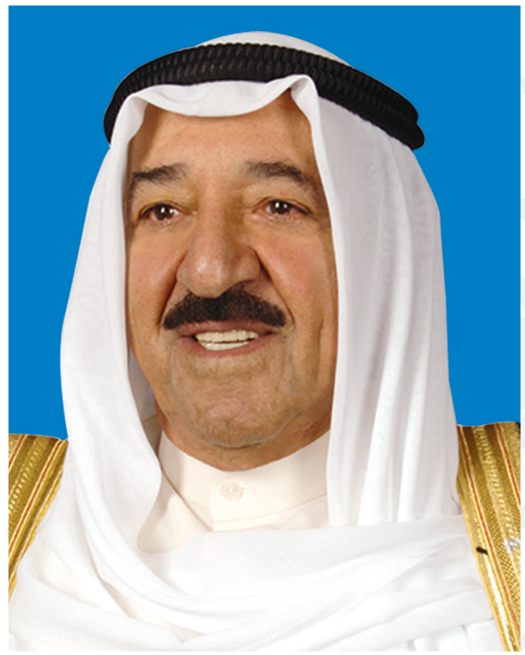
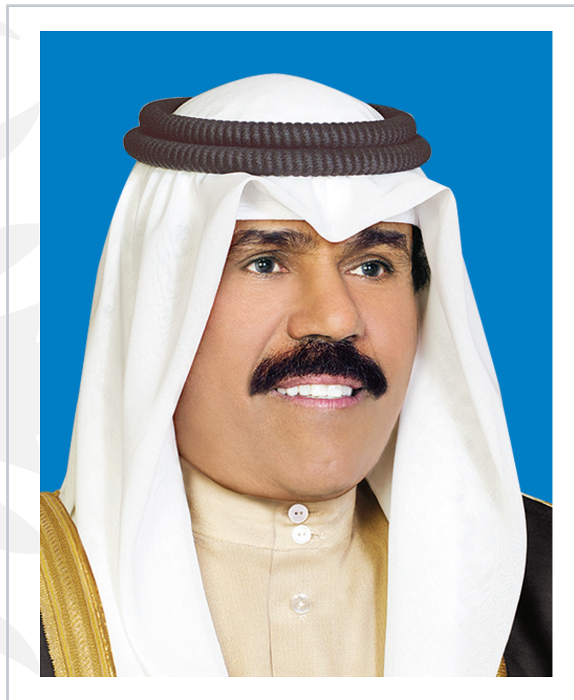


H.H. Sheikh
Sabah Al-Ahmed-Al-Jaber Al Sabah
Amir of State of Kuwait



H.H. Sheikh
Nawaf Al-Ahmed-Al-Jaber Al Sabah
Crown Prince

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Hawally	Ebn-Khaldon Str. - Al Danaa Complex	22640202	
Kefan	Kefan Co-op Society	24929708	

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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

Hussain Ali Mohammed Al -Attal
Chairman & Managing director

Saleh Saleh Al-Silmiy
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

Saud Suleiman Al Maali
Board Member

Report of the Board of Directors

Dear Shareholders

It is our pleasure to welcome you; this is the annual report of 1st Takaful Insurance Company (K.S.C.C) for the fiscal year ended on 31/12/2012 including the report of the auditor and the report of Legal Fatwa & Central Panel of the company. It is also our pleasure to high light the accomplishments that are achieved during the last year and our look forwarded objectives and aims.

Nevertheless, the company started practicing its business in 2001, the year 2012 was critical for the company. We found that it is very necessary to evaluate the performance of the company, re-structure it and place whatever needed of strategies, planes, schedules and polices to reduce the costs, enhance the efficiency effectiveness, improve the performance and increase the competitiveness of the company. It was also important to re-study marketing, sales and customer service strategies with more focus on governance principles, internal controls enhancement and the creation of specialized department that would promote the performance of the company.

The year 2012 is deemed the preparation and getting ready for marvelous launch of the company in the year 2013. Large efforts have been exerted to re-organize the administrative structure upon entering contracts with firms specialized in re-structuring, place polices, planes, matrix of authorizations, internal auditing, etc… to enhance the administrative and technical efficiency. On other hand, a lot of efforts have been made to evaluate our investment activities and take the final allocations of all investments of the company so that the results of such investments shall not affect the financial results of the company in the next years. The management of the company has taken the decisions needed to limit the high losses by focusing on insurance products attaining insurance surplus for the subscribers and shareholders with more concentration on customer service, all in compliance with the highest professional principles and the provisions of Islamic law in insurance and re-insurance deals.

The company promoted the standards of insurance industry through appropriate rates and distinguished services further to the executive management of the company that helped in enhancing the market share of the company in 2012. Such steps shall helpfully mitigate the crisis and Kuwait economy would retrieve its growth and fruitfulness. Insurance in Kuwait market is not regulated like many Arabic markets. The way of granting the licenses for practicing insurance business resulted in companies become interested only to acquire the premiums regardless what are the appropriate prices or the provided insurance services. Therefore, insurance companies incur big losses, some of them are declared bankruptcy and others ceased the business because the absence of an independent body responsible for supervising and controlling the insurance business in Kuwait.

The continuation of the economic crises and the political circumstances in the countries of this region confirms the wise policy placed in the past years by the company regarding the regional extension. However, we look for wary to the future improvement in economic and political circumstance to re-activate the extension policy that would be accompanied with big returns for the company, its subscribers and shareholders.

In the year 2012, the company enhanced its insurance and investment portfolios by allocating the provisions needed for investments and technical allocations supporting the financial position of the company. The company was able to contain the losses of liability against other party policy and maintain the positive technical results. The company was able also to keep the loyalty of new and old clients.

The subscribed subscriptions in Takaful insurance for the fiscal year 2012, reached an amount of KD 5,935,404 against what was achieved in the fiscal year 2011 where it was KD 6,212,665, i.e. with a decrease amount KD 277,261 (490). The net incurred amount of compensations for the fiscal year 2012, reached KD 2,742,377 against what was incurred in the fiscal year 2011 where it was KD 2,669,725 with an increase amounting KD 72,652 (3%). The technical reserves of the company for the fiscal year 2012 reached an amount of KD 9,265,505.

Financial Results

As for the financial results related to the shareholders, the company in the fiscal year 2012, has achieved profits amounting KD 998,554 against the losses amounting KD 1,295,076 that were incurred in the fiscal year 2011. That is 9,99 fils profit per share in the year 2012 against 12,95 fils losses per share in the year 2011. The equities of the shareholders in the current year are KD 9,453,812 against KD 8,493,141 in the previous year, i.e. an increase of 11%. The total assets of the shareholders this year is amounting KD 13,426,995 against KD 13,620,969 in the previous year, i.e. a decrease of 1%.

As for the results related to the holders of the policies, the year 2012 has been witnessed a huge leap since the net insurance surplus generated by insurance operations in the year 2012 has reach an amount of KD 3,373,603 against Net insurance deficit amounting KD 1,867,079 in the year 2011 as a result of selling to share of the subscribers in as associated company.

Our aspiration and aims

After completing the restructuring and development of all the departments of the company and the enhancement of customer services department, marketing and sales department and the extension of the branches of the company in the year 2013, the executive management of the company aims to implement its strategies based on strengthening the profits, achieving the targeted subscriptions and exceeding the expectations that would generate technical profits during the year 2013 and the next years. The company aims also to develop some of the policies related to the financial and subscription aspects. We hope insurance market in the State of Kuwait shall correct it path during the next year, the matter that shall positively affect the performance of the company on the level of the achieved technical profits and the increase of the market value of our investments. We look forward to the launch of development plan projects of the State of Kuwait that shall help in activating the role of the private sector to engage and participate in the growth and fruitfulness of the economy of the State of Kuwait. We hope also, that the associated companies in KSA and Turkey shall enhance the financial situation of our company and play the prospected role in its profitability in the year 2013 and the next years by opening new markets. We do our best seeking to achieve the best returns for both the shareholders and subscribers. The executive management of the company aims to get a better credit classification in the year 2013 and create an added value to the insurance sector in the State of Kuwait.

The company works hard to maintain the high professional practices in the field of Takaful insurance and keep its position in the local market by exceeding the expectations through competent professional customer services.

The board of directors with the employees of the company aim to maintain the reputation of the company as a leader in the field of Takaful insurance in compliance with Islamic law and teachings. The important of the competent performance and the increase of the financial capabilities of the company in the next years shall support its development and enhance its distinguish in the field of Takaful insurance.

Dear Brothers,

The success of the company depends mainly on the development of its human resources who shall be responsible for the implementation of its strategy after restructuring. Therefore, the company is interested to improve its financial, administrative and technical staff and create the appropriate environment full of trust, respect and cooperation. The company is interested in improving the competent national employees through local and international specialized technical courses. The company is interested also in developing and updating its IT systems.

Finally, all thanks to Allah for the gifts of safety and security in our beloved country under the wise leadership of His Highness Prince of Kuwait Shaikh Sabah Al Ahmad Al Jaber Al Sabah, the crown to prince Sheikh Nawaf Al Ahmad Al Jaber Al Sabah and the Prince Minister Sheikh Jaber Mubarak Al Hamad Al Sabah, God bless them all. I would like to extend my thanks to the members of legitimate Control Panel of the company, Insurance Department at Ministry of Commerce & Industry, the shareholders, the directors, client, all the employees of the company, re-insurers, local and international insurance brokers and all other stakeholders.

Best regards,

Hussien Ali Al Atal

Chairman & Managing Director

First Takaful Insurance Company – KSC (Closed) - Kuwait
Financial statements and independent auditors' report
31 December 2012

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Independent auditors' report

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 2012, 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.

Grant Thornton
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UHY Fawzia Mubarak Al-Hassawi
Auditors & Consultant

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 2012, and 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 Companies Law No. 25 of 2012 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 Companies Law No. 25 of 2012 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.

(CPA) Abdullatif M. Al-Aiban
(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
28 March 2013

Statement of income

	Note	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
Revenue			
Net investment income	7	11,383	85,819
Gain on sale of land under development	9	1,040,250	-
Share of results of associates	13	174,321	(467,867)
Other income		4,000	12,000
		1,229,954	(370,048)
Expenses and other charges			
General and administrative expenses		78,456	68,308
Impairment of available for sale investments	12	117,366	856,720
		195,822	925,028
Profit/(loss) before National Labour Support Tax (NLST) and Zakat		1,034,132	(1,295,076)
NLST		(25,538)	-
Zakat		(10,040)	-
Profit /(loss) for the year		998,554	(1,295,076)
Basic and diluted earnings/ (loss) per share	10	9.99 Fils	(12.95) Fils

The notes set out on pages 19 to 35 form an integral part of these consolidated financial statements.

Statement of comprehensive income

	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
Profit/(loss) for the year	998,554	(1,295,076)
Other comprehensive income/(loss):		
Exchange differences arising on translation of foreign operations	20,433	78,841
Available for sale investments:		
- Net change in fair value arising during the year	(230,816)	(990,920)
-Transferred to statement of income on sale	42,376	(51,763)
-Transferred to statement of income on impairment	117,366	856,720
Share of other comprehensive income/(loss) of associates	12,758	(34,246)
Total other comprehensive loss	(37,883)	(141,368)
Total comprehensive income/(loss) for the year	960,671	(1,436,444)

The notes set out on pages 19 to 35 form an integral part of these consolidated financial statements.

Statement of financial position

	Note	31 Dec. 2012 KD	31 Dec. 2011 KD
Assets			
Bank balances		1,623,147	1,448
Investment deposit	11	135,000	135,000
Available for sale investments	12	2,220,233	3,801,085
Investment in associates	13	7,813,238	1,338,032
Other assets		8,047	8,040
Land under development	9	-	1,959,750
Amount due from policyholders	14	-	1,376,681
Qard Hassan to policyholders' fund	15	1,627,330	5,000,933
Total assets		13,426,995	13,620,969
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	(76,955)	(39,072)
Accumulated losses		(1,312,069)	(2,310,623)
Total equity		9,453,812	8,493,141
Liabilities			
Policyholders' deficit reserve	15	1,627,330	5,000,933
Amount due to policyholders	14	2,250,257	-
Other liabilities		95,596	126,895
Total liabilities		3,973,183	5,127,828
Total equity and liabilities		13,426,995	13,620,969

Hussain Ali Al-Attal
Chairman and Managing Director

The notes set out on pages 19 to 35 form an integral part of these consolidated financial statements.

Statement of Changes in equity

	Share capital KD	Legal reserve KD	Other components of equity (Note 18) KD	Accumulated losses KD	Total KD
Balance at 1 January 2012	10,000,000	842,836	(39,072)	(2,310,623)	8,493,141
Profit for the year	-	-	-	998,554	998,554
Total other comprehensive loss	-	-	(37,883)	-	(37,883)
Total comprehensive (loss)/income for the year	-	-	(37,883)	998,554	960,671
Balance at 31 December 2012	10,000,000	842,836	(76,955)	(1,312,069)	9,453,812

	Share capital KD	Legal reserve KD	Other components of equity (Note 18) KD	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

The notes set out on pages 19 to 35 form an integral part of these consolidated financial statements.

Statement of cash flows

	Note	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
OPERATING ACTIVITIES			
Profit/ (loss) for the year		998,554	(1,295,076)
Adjustments for:			
Net investment income		(11,383)	(85,819)
Gain on sale of land under development		(1,040,250)	-
Impairment of available for sale investments		117,366	856,720
Share of results of associates		(174,321)	467,867
		(110,034)	(56,308)
Changes in operating assets and liabilities:			
Movement in policyholders' account		(2,519,782)	(68,274)
Other liabilities		20,961	(120)
Net cash used in operating activities		(2,608,855)	(124,702)
INVESTING ACTIVITIES			
Proceeds from sale of available for sale investments		1,369,865	242,680
Proceeds from sale of land under development		3,000,000	-
Increase in investment in associates		(120,974)	(153,606)
Dividend income received		30,108	32,417
Profit on investment deposit received		2,332	3,211
Profit on bank balance received		1,483	-
Net cash from investing activities		4,282,814	124,702
FINANCING ACTIVITIES			
Dividends paid		(52,260)	-
Net cash used in financing activities		(52,260)	-
Increase in cash and cash equivalents		1,621,699	-
Cash and cash equivalents at the beginning of the year		1,448	1,448
Cash and cash equivalents at the end of the year		1,623,147	1,448
Non-cash transaction			
Investment in associate	13	(6,146,720)	-
Due to policyholders	13	6,146,720	-

The notes set out on pages 19 to 35 form an integral part of these consolidated financial statements.

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.

On 29 November 2012 the Companies Law No. (25) of 2012 was issued by an Amiri Decree. This law is to be implemented and was effective on the date of its publication in the Official Gazette. Companies already established at the time this law became effective are required to adjust their circumstances in accordance with the provisions of the law within six months of it coming into force and as specified in the executive regulations.

The board of directors approved these financial statements for issue on 28 March 2013 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.

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).

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:

4.1 Adoption of new IASB Standards and amendments

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 allows 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 required additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The adoption of this amendment did not have any significant impact on the financial position or performance of the company.

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.

Standard or Interpretation	Effective for annual periods beginning
IAS 1 Presentation of Financial Statements – amendment	1 July 2012
IAS 28 Investments in Associates - Revised as IAS 28 Investments in Associates and Joint Venture	1 January 2013
IAS 32 Financial Instruments: Presentation – amendments	1 January 2014
IFRS 7 Financial Instruments: Disclosures – amendments	1 January 2013
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2015
IFRS 12 Disclosure of Interest in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
Annual Improvements 2009-2011	1 January 2013

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IAS 1 Presentation of Financial Statements- amendment

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

a) Potentially reclassifiable to statement of income in a subsequent period, and

b) 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.

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.

IAS 32 Financial Instruments: Presentation – amendments

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- that some gross settlement systems may be considered equivalent to net settlement.

The Amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. Management does not anticipate a material impact on the company's financial statements from these Amendments.

IFRS 7 Financial Instruments: Disclosures – amendments

Qualitative and quantitative disclosures have been added to IFRS 7 'Financial Instruments: Disclosures' (IFRS 7) relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The Amendments are effective for annual reporting periods beginning on or after 1 January 2013 and interim periods within those annual periods.

The required disclosures should be provided retrospectively. Management does not anticipate a material impact on the company's financial statements from these Amendments.

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 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.

4 Changes in accounting policies (continued)

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is designed to complement the other new standards. It sets out consistent disclosure requirements for subsidiaries, joint ventures and associates, as well as unconsolidated structured entities. The disclosure requirements are extensive and will result in significant amounts of new disclosures for some companies. Structured entities were previously referred to in SIC 12 as special purpose entities. The disclosures required by IFRS 12 aims to provide transparency about the risks a company is exposed to through its interests in structured entities.

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.

Annual Improvements 2009-2011

The Annual Improvements 2009-2011 made several minor amendments to a number of IFRSs. The amendments relevant to the company are summarised below:

Clarification of the requirements for opening statement of financial position:

- clarifies that the appropriate date for the opening statement of financial position is the beginning of the preceding period (related notes are no longer required to be presented).
- addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

Clarification of the requirements for comparative information provided beyond minimum requirements:

- clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements
- requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.

The Annual Improvements noted above are effective for annual periods beginning on or after 1 January 2013. Management does not anticipate a material impact on the company's financial statements from these Improvements.

5 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 and bank balance

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

5 Significant accounting policies (continued)

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 2012 and 31 December 2011, the company has no liabilities towards KFAS due to accumulated losses. Under the NLST and Zakat regulations no carry forward of losses to the future years nor any carry back to prior year is permitted.

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.

5 Significant accounting policies (continued)

5.4 Financial instruments (continued)

5.4.1 Recognition, initial measurement and derecognition (continued)

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 group 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 group 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:

5 Significant accounting policies (continued)

5.4 Financial instruments (continued)

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 balances 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.

Other assets
Receivables are stated at original invoice amount less allowance for any uncollectable amounts. An estimate for doubtful debt is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

- 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.

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 group 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 and amount due to policyholders.

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.

Amount due to policyholders
Amount due as a result of transactions with policyholders and cash advances from policyholders are included under amount due to policyholders.

5 Significant accounting policies (continued)

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 Goodwill

Goodwill represents the excess of the cost of an acquisition over the company share of the fair value of the net identifiable assets of the acquired associate as at the date of the acquisition. Goodwill arising on the acquisition of an associate is included within the carrying amount of the investment. Any excess, at the date of acquisition, of the company's share in the fair value of the net identifiable assets acquired over the cost of the acquisition is recognised as negative goodwill.

Goodwill is stated at cost less impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the statement of income.

5.7 Land under development

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

5.8 Qard Hassan from shareholders

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

5 Significant accounting policies (continued)

5.9 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.

5.10 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.

5.11 Fair value of financial instruments

The fair value of financial instr uments 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.

5.12 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 Significant accounting policies (continued)

5.13 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 associates into Kuwait Dinars.
- Fair value reserve – comprises gains and losses relating to available for sale financial assets.

Accumulated losses 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.

5.14 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.

5.15 Foreign currency translation

5.15.1 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.

5.15.2 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 Significant accounting policies (continued)

5.13 Equity, reserves and dividend payments

5.15.3 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 foreign entities 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.

5.16 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.

6 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:

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 Significant management judgements and estimation uncertainty (continued)

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. 2012 KD	Year ended 31 Dec. 2011 KD
Profit on investment deposit	2,339	1,789
Profit on bank balance	1,483	-
Dividend income	30,108	32,417
(Loss)/gain on sale of available for sale investments	(22,547)	51,613
	11,383	85,819

8 Net loss on financial assets

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

	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
Investment deposit	2,339	1,789
Bank balance	1,483	-
Available for sale investments	(109,805)	(772,690)
Net realised loss	(105,983)	(770,901)
Net unrealised loss recognised in equity	(230,816)	(990,920)
	(336,799)	(1,761,821)

9 Gain on sale of land under development

During the year, the company sold the land under development for a total consideration of KD3,000,000 resulting into a profit of KD1,040,250.

10 Basic and diluted earnings/(loss) per share

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

	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
Profit/(loss) for the year (KD)	998,554	(1,295,076)
Weighted average number of shares outstanding during the year (number)	100,000,000	100,000,000
Basic and diluted earnings/(loss) per share	9.99 Fils	(12.95) Fils

11 Investment deposit

In accordance with Kuwaiti law (Business operations licence), an amount of KD135,000 (2011: KD135,000) has been deposited with a Kuwaiti financial institution as security to underwrite general insurance business and life insurance (also refer note 22). The average rate of profit earned on the deposit during the year was 1.932% (2011: 1.728%).

12 Available for sale investments

	31 Dec. 2012 KD	31 Dec. 2011 KD
Investments in unquoted managed funds	-	568,416
Quoted securities	4	1,012,440
Unquoted securities	2,220,229	2,220,229
	2,220,233	3,801,085

Available for sale investments include an investment with carrying value of KD857,443 (2011: KD667,500) 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.
The company recognised impairment loss of KD117,366 (2011: KD856,720) in respect of certain available for sale investments.

13 Investment in associates

	Country of incorporation	Percentage of ownership		Purpose
		31 Dec. 2012 %	31 Dec. 2011 %	
Weqaya Takaful Insurance and Reinsurance Company - SSC (Quoted)	Saudi Arabia	20	10	Insurance
Neova Sigorta Insurance Company (Unquoted)	Turkey	10	10	Insurance

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

	31 Dec. 2012 KD	31 Dec. 2011 KD
Carrying amount at the beginning of the year	1,338,032	1,607,698
Additions	6,267,694	153,606
Share of results	174,321	(467,867)
Share of other comprehensive income/(loss) of associates	12,758	(34,246)
Foreign exchange translation	20,433	78,841
Carrying amount at the end of year	7,813,238	1,338,032

	31 Dec. 2012 KD	31 Dec. 2011 KD
Aggregate associates' asset and liabilities:		
Assets	46,681,680	31,573,177
Liabilities	32,339,536	20,520,923
Aggregate associates' result:		
Revenue	14,581,191	8,287,783
Profit/loss	1,742,917	(4,677,891)

13 Investment in associates (continued)

During the year, the shareholders acquired an additional 10% equity interest in Weqaya Takaful Insurance and Reinsurance Company – SSC from policyholders for a total consideration of KD6,146,720. This consideration was based on the acquisition date quoted market price of the investee.

The details of additional acquisition of Weqaya Takaful Insurance and Reinsurance Company – SSC at the date of the acquisition was as follows:

Name of associate	Interest acquired	Total fair value of net assets KD	Fair value of net assets acquired KD	Purchase consideration KD	Total KD
Weqaya Takaful Insurance and Reinsurance Company – SSC	10%	12,417,350	1,241,735	6,146,720	4,904,985

Further, during the year the company paid capital call for Neova Sigorta amounting to KD120,974.

At 31 December 2012, an associate having a carrying value of KD7,388,455 (2011: KD1,098,042) had a market value of KD12,293,440 (2011: KD4,742,400).

14 Amount (due to)/due from policyholders

	31 Dec. 2012 KD	31 Dec. 2011 KD
Opening balance	1,376,681	1,308,407
Net movements during the year	(3,626,938)	68,274
Closing balance	(2,250,257)	1,376,681

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 and acquisition of an associate (Note 13).

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. 2012 KD	31 Dec. 2011 KD
Opening balance	5,000,933	3,133,854
(Decrease)/increase in Qard Hassan to policyholders	(3,373,603)	1,867,079
Closing balance	1,627,330	5,000,933

16 Share capital

	31 Dec. 2012 KD	31 Dec. 2011 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

The Companies Law and the company's articles of association require that 10% of the profit of the year before directors' fee, 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 2012	105,295	(144,367)	(39,072)
Exchange differences arising on translation of foreign operations	-	20,433	20,433
AFS financial assets:			
- Net change in fair value arising during the year	(230,816)	-	(230,816)
- Transferred to statement of income on sale	42,376	-	42,376
- Transferred to statement of income on impairment	117,366	-	117,366
Share of other comprehensive income of associates	12,758	-	12,758
Total other comprehensive (loss)/income for the year	(58,316)	20,433	(37,883)
Balance at 31 December 2012	46,979	(123,934)	(76,955)
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 change in fair value 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)

19 Annual general assembly

The directors did not propose dividends for the year ended 31 December 2012. The financial statements of the company for the year ended 31 December 2011 were approved by the general assembly held on 8 May 2012 without dividend.