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AL-AHLEIA INSURANCE COMPANY S.A.K.

FINANCIAL STATEMENTS

31 DECEMBER 2011

AL-AHLEIA INSURANCE COMPANY S.A.K.

FINANCIAL STATEMENTS

31 DECEMBER 2011



Ernst & Young
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL-AHLEIA INSURANCE COMPANY S.A.K.

Report on the Financial Statements

We have audited the accompanying financial statements of Al-Ahleia Insurance Company S.A.K. (the "Company"), which comprise the statement of financial position as at 31 December 2011, and the income statement, 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for 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 the 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 the Company as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL-AHLEIA INSURANCE COMPANY S.A.K. (continued)**

Report on Other Legal and Regulatory Requirements

Furthermore, 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, as amended, 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 of 1960, as amended, or of the Company's Articles of Association, as amended, have occurred during the year ended 31 December 2011 that might have had a material effect on the business of the Company or on its financial position.



WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG



ABDULATIF A. H. AL-MAJID
LICENCE NO. 70 A
OF ALLIED ACCOUNTANTS

18 March 2012

Kuwait

Al-Ahleia Insurance Company S.A.K.

INCOME STATEMENT

Year ended 31 December 2011

| | <i>Notes</i> | 2011 KD | 2010 KD |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|---------------------|---------------------|
| Revenue: | | | |
| Gross premiums | | 32,332,209 | 31,148,709 |
| Premiums ceded to reinsurers | | (19,194,073) | (19,961,796) |
| Net premiums | | 13,138,136 | 11,186,913 |
| Movement in unearned premiums | | (435,670) | (521,873) |
| Net premiums earned | | 12,702,466 | 10,665,040 |
| Commission received on ceded reinsurance | | 4,640,672 | 5,096,503 |
| Policy issuance fees | | 556,866 | 526,932 |
| Net investment income | 3 | 2,682,089 | 4,173,435 |
| Other income | | 460,333 | 158,127 |
| Total Revenue | | 21,042,426 | 20,620,037 |
| Expenses: | | | |
| Claims incurred | 9 | (6,685,345) | (5,120,761) |
| Commissions | | (2,146,500) | (2,131,103) |
| Movement in life mathematical reserve | | 197,600 | (323,500) |
| Maturity and cancellations of life insurance policies | | (298,964) | (178,144) |
| General and administrative expenses | | (4,030,114) | (4,114,447) |
| Total Expenses | | (12,963,323) | (11,867,955) |
| PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT AND DIRECTORS' FEES | | 8,079,103 | 8,752,082 |
| Contribution to KFAS | | (79,356) | (87,521) |
| NLST | | (181,557) | (181,516) |
| Zakat | | (72,674) | (72,606) |
| Directors' fees | | (172,500) | (135,000) |
| PROFIT FOR THE YEAR | | 7,573,016 | 8,275,439 |
| BASIC AND DILUTED EARNINGS PER SHARE | 4 | 42.93 fils | 46.99 fils |

The attached notes 1 to 23 form part of these financial statements.

Al-Ahleia Insurance Company S.A.K.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

| | <i>Notes</i> | 2011 KD | 2010 KD |
|----------------------------------------------------------------------------------------|--------------|--------------------------|--------------------------|
| Profit for the year | | <u>7,573,016</u> | <u>8,275,439</u> |
| Other comprehensive (loss) income | | | |
| Net unrealised (gain) loss on financial assets available for sale | | (2,334,877) | 1,405,073 |
| Net realised gain on disposal of financial assets available for sale | | (1,272,600) | (1,298,801) |
| Impairment loss on financial assets available for sale transferred to income statement | 3 | 2,122,907 | 1,706,676 |
| Share of other comprehensive income of associates | 6 | (107,855) | (52,053) |
| Foreign currency translation adjustment | 6 | (25,297) | (15,220) |
| Other comprehensive (loss) income for the year | | <u>(1,617,722)</u> | <u>1,745,675</u> |
| Total comprehensive income | | <u><u>5,955,294</u></u> | <u><u>10,021,114</u></u> |

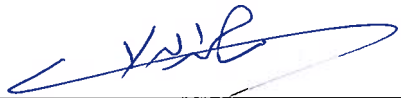
The attached notes 1 to 23 form part of these financial statements.


Al-Ahleia Insurance Company S.A.K.

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

| | Notes | 2011 KD | 2010 KD |
|-----------------------------------------------------------|-------|--------------------|--------------------|
| ASSETS | | | |
| Property and equipment | 5 | 3,011,871 | 3,136,279 |
| Investments in associates | 6 | 13,379,884 | 13,765,141 |
| Financial assets available for sale | 7 | 74,973,317 | 69,397,716 |
| Loans secured by life insurance policyholders | | 193,532 | 95,842 |
| Premiums and insurance balances receivable | 8 | 10,597,015 | 12,878,837 |
| Reinsurance recoverable on outstanding claims | 9 | 25,150,734 | 25,654,761 |
| Other debit balances | 10 | 2,199,206 | 2,156,683 |
| Fixed deposits | 11 | 15,431,394 | 15,008,048 |
| Bank balances and cash | | 186,569 | 1,018,971 |
| TOTAL ASSETS | | 145,123,522 | 143,112,278 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 12 | 18,050,713 | 17,191,155 |
| Statutory reserve | 13 | 16,258,490 | 15,450,580 |
| General reserve | 13 | 16,018,965 | 15,211,055 |
| Special voluntary reserve | 13 | 10,000,000 | 9,500,000 |
| Treasury shares | 14 | (1,642,331) | (1,715,677) |
| Treasury shares reserve | | 1,369,420 | 1,370,511 |
| Cumulative changes in fair values | | 6,105,861 | 7,698,286 |
| Foreign currency translation reserve | | 73,982 | 99,279 |
| Retained earnings | | 14,217,231 | 13,818,486 |
| Total equity | | 80,452,331 | 78,623,675 |
| LIABILITIES | | | |
| Liabilities arising from insurance contracts: | | | |
| Outstanding claims reserve | 9 | 33,738,713 | 33,639,723 |
| Unearned premiums reserve | 9 | 3,471,895 | 3,036,225 |
| Life mathematical reserve | 9 | 3,440,900 | 3,638,500 |
| Incurred but not reported reserve | 9 | 6,700,000 | 6,700,000 |
| Total liabilities arising from insurance contracts | | 47,351,508 | 47,014,448 |
| Insurance payables | 15 | 6,032,535 | 6,427,229 |
| Other credit balances | 16 | 9,658,443 | 8,943,238 |
| Premiums received in advance | | 1,628,705 | 2,103,688 |
| Total liabilities | | 64,671,191 | 64,488,603 |
| TOTAL EQUITY AND LIABILITIES | | 145,123,522 | 143,112,278 |


 Sulaiman Hamad Al-Dafali
 Chairman and Managing Director


 Ayman Abdullatif Al-Shayea
 Vice Chairman

The attached notes 1 to 23 form part of these financial statements.

Al-Ahleia Insurance Company S.A.K.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

| | Share capital KD | Statutory reserve KD | General reserve KD | Special voluntary reserve KD | Treasury shares KD | Treasury shares reserve KD | Cumulative changes in fair values KD | Foreign currency translation reserve KD | Retained earnings KD | Total equity KD |
|------------------------------------------------|---------------------|-------------------------|-----------------------|---------------------------------|-----------------------|-------------------------------|-----------------------------------------|--------------------------------------------|-------------------------|--------------------|
| Balance at 1 January 2011 | 17,191,155 | 15,450,580 | 15,211,055 | 9,500,000 | (1,715,677) | 1,370,511 | 7,698,286 | 99,279 | 13,818,486 | 78,623,675 |
| Profit for the year | - | - | - | - | - | - | - | - | 7,573,016 | 7,573,016 |
| Other comprehensive loss | - | - | - | - | - | - | (1,592,425) | (25,297) | - | (1,617,722) |
| Total comprehensive (loss) income for the year | - | - | - | - | - | - | (1,592,425) | (25,297) | 7,573,016 | 5,955,294 |
| Issue of bonus shares (Note 12) | 859,558 | - | - | - | - | - | - | - | (859,558) | - |
| Cash dividends (Note 12) | - | - | - | - | - | - | - | - | (4,198,893) | (4,198,893) |
| Sale of treasury shares | - | - | - | - | 73,346 | (1,091) | - | - | - | 72,255 |
| Transfer to reserves | - | 807,910 | 807,910 | 500,000 | - | - | - | - | (2,115,820) | - |
| At 31 December 2011 | 18,050,713 | 16,258,490 | 16,018,965 | 10,000,000 | (1,642,331) | 1,369,420 | 6,105,861 | 73,982 | 14,217,231 | 80,452,331 |
| Balance at 1 January 2010 | 15,628,323 | 14,575,372 | 14,335,847 | 9,000,000 | (2,043,712) | 1,333,534 | 5,937,391 | 114,499 | 12,396,944 | 71,278,198 |
| Profit for the year | - | - | - | - | - | - | - | - | 8,275,439 | 8,275,439 |
| Other comprehensive income (loss) | - | - | - | - | - | - | 1,760,895 | (15,220) | - | 1,745,675 |
| Total comprehensive income (loss) for the year | - | - | - | - | - | - | 1,760,895 | (15,220) | 8,275,439 | 10,021,114 |
| Issue of bonus shares (Note 12) | 1,562,832 | - | - | - | - | - | - | - | (1,562,832) | - |
| Cash dividends (Note 12) | - | - | - | - | - | - | - | - | (3,040,649) | (3,040,649) |
| Purchase of treasury shares | - | - | - | - | (159,865) | - | - | - | - | (159,865) |
| Sale of treasury shares | - | - | - | - | 487,900 | 36,977 | - | - | - | 524,877 |
| Transfer to reserves | - | 875,208 | 875,208 | 500,000 | - | - | - | - | (2,250,416) | - |
| At 31 December 2010 | 17,191,155 | 15,450,580 | 15,211,055 | 9,500,000 | (1,715,677) | 1,370,511 | 7,698,286 | 99,279 | 13,818,486 | 78,623,675 |

The attached notes 1 to 23 form part of these financial statements.

Al-Ahleia Insurance Company S.A.K.

STATEMENT OF CASH FLOWS

Year ended 31 December 2011

| | <i>Notes</i> | 2011 KD | 2010 KD |
|---------------------------------------------------------------------|--------------|--------------------|--------------------|
| OPERATING ACTIVITIES | | | |
| Profit before contribution to KFAS, NLST, Zakat and Directors' fees | | 8,079,103 | 8,752,082 |
| Adjustments for: | | | |
| Share of results of associates | 3 | 11,165 | (211,690) |
| Loss on sale of investment in associates | 3 | - | 8,670 |
| Gain on sale of financial assets available for sale | 3 | (2,287,501) | (3,848,994) |
| Impairment loss on financial assets available for sale | 3 | 2,122,907 | 1,706,676 |
| Interest income | | (439,832) | (411,762) |
| Dividend income | 3 | (1,924,144) | (1,239,593) |
| Interest expenses | | 51,874 | 85,171 |
| Provision for employees' end of service benefits | | 110,090 | 113,481 |
| Depreciation of property and equipment | 5 | 159,266 | 164,896 |
| | | 5,882,928 | 5,118,937 |
| Changes in operating assets and liabilities: | | | |
| Premiums and insurance balances receivable | | 2,281,822 | (4,348,649) |
| Reinsurance recoverable on outstanding claims | | 504,027 | (3,663,777) |
| Other debit balances | | 243,650 | (14,930) |
| Liabilities arising from insurance contracts | | 337,060 | 4,135,689 |
| Insurance payables | | (394,694) | 641,569 |
| Other credit balances | | 492,074 | 355,810 |
| Premiums received in advance | | (474,983) | 426,665 |
| Cash from operations | | 8,871,884 | 2,651,314 |
| Employees' end of service benefits paid | | (74,087) | (107,400) |
| Paid to KFAS | | (87,521) | (83,849) |
| Paid to NLST | | (181,516) | (174,122) |
| Paid to Zakat | | (72,606) | (69,649) |
| Paid to directors | | (135,000) | (135,000) |
| Net cash from operating activities | | 8,321,154 | 2,081,294 |
| INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | 5 | (34,858) | (14,458) |
| Purchase of investment in associates | 6 | - | (907,498) |
| Proceeds from sale of investment in associates | | - | 21,999 |
| Redemption of bonds | | - | 500,000 |
| Purchase of financial assets available for sale | | (16,910,338) | (7,009,582) |
| Proceeds from sale of financial assets available for sale | | 10,014,761 | 16,287,453 |
| Movement in loans secured by life insurance policyholders | | (97,690) | (39,615) |
| Movement in fixed deposits | | (423,346) | (3,951,143) |
| Interest income received | | 245,772 | 210,092 |
| Dividend received from associates | 6 | 240,940 | 137,666 |
| Dividend income received | | 1,832,031 | 1,239,593 |
| Net cash (used in) from investing activities | | (5,132,728) | 6,474,507 |
| FINANCING ACTIVITIES | | | |
| Dividends paid | | (4,093,083) | (2,925,143) |
| Purchase of treasury shares | | - | (159,865) |
| Sale of treasury shares | | 72,255 | 524,877 |
| Term loan repaid | | - | (2,500,000) |
| Net cash used in financing activities | | (4,020,828) | (5,060,131) |
| (DECREASE) INCREASE IN BANK BALANCES AND CASH | | (832,402) | 3,495,670 |
| Bank balances and cash at the beginning of the year | | 1,018,971 | (2,476,699) |
| BANK BALANCES AND CASH AT THE END OF THE YEAR | | 186,569 | 1,018,971 |

The attached notes 1 to 23 form part of these financial statements.

Al-Ahleia Insurance Company S.A.K.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

1 CORPORATE INFORMATION

The financial statements of Al-Ahleia Insurance Company S.A.K. (the "Company") for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 18 March 2012. The Shareholders' General Assembly has the power to amend these financial statements after issuance.

The Company is a Kuwaiti Shareholding Company registered in 1962 under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments. It is engaged in various insurance activities, including reinsurance. Its registered head office address is at P. O. Box 1602, Safat 13017, Kuwait.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

The financial statements have been prepared on the historical cost convention as modified to include the measurement at fair value of financial assets available for sale. The financial statements have been presented in Kuwaiti Dinars (KD) which is the functional currency of the Company.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable 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 liability simultaneously. Income and expense will not be offset in the income statement unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Product classification

Insurance contracts

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

Investment contracts

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or the other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception if insurance risk becomes significant.

Revenue recognition

Premiums earned

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premiums is taken to the income statement in order that revenue is recognised over the period of risk.

Commissions earned and paid

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

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Policy issuance fees

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods.

Interest income

Interest income is recognised using the effective interest rate method.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Realised gains and losses

Realised gains and losses include gain and loss on financial assets and are calculated as the difference between net sales proceeds and the carrying value, and are recorded on occurrence of the sale transactions.

Finance costs

Finance costs are calculated and recognised on a time proportionate basis taking into account the outstanding balance payable and applicable interest rate.

Claims

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

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

Policy acquisition costs

Commissions paid to intermediaries and other (incremental) direct costs incurred in relation to the acquisition and renewal of insurance contracts are capitalised as an intangible asset. The deferred policy acquisition costs (DAC) are subsequently amortised over the term of the insurance contracts to which they relate as premiums are earned.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amounts is less than the carrying value an impairment loss is recognised in the income statement. DAC is also considered in the liability adequacy test for each reporting period.

DAC are derecognised when the related contracts are settled or disposed of.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Liability adequacy test

At each reporting date the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred policy acquisition costs) is inadequate in light of estimated future cash flows, the entire deficiency is immediately recognised in the income statement and an unexpired risk provision is created.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Liability adequacy test (continued)

The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

Reinsurance contracts held

In order to minimise financial exposure from large claims the Company enters into agreements with other parties for reinsurance purposes. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. These amounts are shown as "reinsurance recoverable on outstanding claims" in the statement of financial position until the claim is paid by the Company. Once the claim is paid the amount due from the reinsurers in connection with the paid claim is transferred to "receivables arising from insurance contracts".

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

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

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

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

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

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

Taxation

Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat represent levies/taxes imposed on the entity at the flat percentage of net profits less permitted deductions under the prevalent respective fiscal regulations of the State of Kuwait. Under prevalent taxation/levy regulations no carry forward of losses is permitted and there are no significant differences between the tax /levy bases of assets and liabilities and their carrying amount for financial reporting purposes.

| Tax/statutory levy | Rate |
|---------------------------|----------------------------------------------|
| Contribution to KFAS | 1.0% of net profit less permitted deductions |
| NLST | 2.5% of net profit less permitted deductions |
| Zakat | 1.0% of net profit less permitted deductions |

Property and equipment

Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Depreciation is provided on a straight line basis over the useful lives of the following classes of assets:

- Buildings on freehold land 25 years
- Leasehold properties 20 to 25 years
- Furniture, fixtures, equipment and motor vehicles 3 to 5 years

The assets' residual values, and useful lives and method of depreciation are reviewed and adjusted if appropriate at each financial year end and adjusted prospectively, if appropriate.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognised in the income statement as an expense.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Investments in associates

The Company's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Company's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in other comprehensive income of the associate, the Company recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits or losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The share of profit of the associate is shown on the face of the income statement. This is profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring its accounting policies in line with the Company.

After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in associates. The Company determines at each reporting date, whether there is 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 'share of results of associates' in the income statement.

Upon loss of significant influence over the associate, the Company measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognised in profit or loss.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, financial asset available for sale, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent measurement

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

Investments held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the intention and ability to hold until maturity. After initial measurement, held to maturity financial assets are measured at amortised cost, using the effective interest rate, less impairment. The effective interest rate, amortisation is included in 'net investment income' in the income statement. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the effective interest rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in 'net investment income' in the income statement. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Investments available for sale

Investments available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as "loans and receivables". After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in other comprehensive income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement. Financial assets available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Receivables

Accounts receivable are stated at their face value less impairment losses or provision for doubtful accounts.

De-recognition of financial assets

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

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial re-organisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Investments available for sale

For investments available for sale, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. '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 - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

Fair values

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 23.

Financial liabilities

Financial liabilities consist of insurance payable and certain items under other payables are derecognised when the obligation under the liability is discharged, cancelled or expired.

Initial recognition and measurement

Financial liabilities are initially recognised at fair value.

Subsequent measurement

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

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

De-recognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract 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 the income statement.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position 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. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Outstanding claims reserve

Outstanding claims comprise the estimated cost of claims incurred and reported but not settled at the financial position date. Provisions for reported claims not paid as at the financial position date is made on the basis of individual case estimates.

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

Unearned premiums reserve

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

Life mathematical reserve

The reserve for the life business at the financial position date represents the mathematical liability of policies in force at that date as determined by the Company's actuaries.

Incurred but not reported reserve

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

End of service indemnity

Provision is made for employees' end of service indemnity in accordance with the Kuwait Labour Law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the amount payable to employees as a result of involuntary termination of employment as of the financial position date.

Treasury shares

Treasury shares consist of the Company's own shares that have been issued, subsequently reacquired by the Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (treasury shares reserve) which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Foreign currencies

Foreign currency transactions are recorded in Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the financial position date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Exchange differences are reported as part of the results for the year.

The Company's investment in foreign associates is retranslated using the year end rates of exchange and the resulting exchange differences are accumulated in a separate component of other comprehensive income. Any goodwill or fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign entity are recorded using the exchange rate at the effective date of the transaction.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Estimation uncertainty

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

Valuation of unquoted financial assets

Valuation of unquoted financial assets is normally based on one of the following:

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

Non-life insurance contract liabilities

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the financial position date, reserve for outstanding claims (OCR) and for the expected ultimate cost of claims incurred but not yet reported at the financial position date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or maker factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

Life insurance contract liabilities (Life mathematical reserve)

The main assumptions used relate to mortality and morbidity rates, longevity, investment return, expenses, lapse and surrender rates and discount rates. The Company base mortality and morbidity tables on standard industry and national tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

Reinsurance

The Company is exposed to disputes with, and possibility of defaults by, its reinsurers. The Company monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgement

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Classification of financial assets

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

Impairment of financial assets

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

2.3 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES

New and amended standards and interpretations

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

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- IFRIC 19 Extinguishing Financial Liabilities with Equity instruments effective 1 July 2010
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)

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

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro-rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Company.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The amendment of the interpretation has no effect on the financial position nor performance of the Company.

2 ACCOUNTING POLICIES (continued)

2.3 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)

IFRIC 19 Extinguishing financial liabilities with equity instruments

The IFRIC clarified that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instrument issued. If the fair value of the equity instrument issued is not reliably determinable, the equity instrument should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. Any difference between the carrying amount of the financial liability extinguished and the fair value of the equity issued is recognised in profit or loss. This interpretation is effective prospectively for financial years beginning on or after 1 July 2010. The adoption of this interpretation has no effect on profit or loss nor equity of the Company as the Company has not entered into such debt for equity swap.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Company.

- IFRS 7 Financial Instruments - Disclosures: The amendment was to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

The Company however, expects no impact from the adoption of the amendments on its financial position or performance.

Standards issued but not yet effective

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

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

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company had made a voluntary change in accounting policy to recognise actuarial gains and losses in OCI in the current period. The Company is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

Al-Ahleia Insurance Company S.A.K.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

2 ACCOUNTING POLICIES (continued)

2.3 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3 NET INVESTMENT INCOME

| | 2011 KD | 2010 KD |
|--------------------------------------------------------|------------------|------------------|
| Share of results of associates (Note 6) | (11,165) | 211,690 |
| Loss on sale of investment in associates | - | (8,670) |
| Gain on sale of financial assets available for sale | 2,287,501 | 3,848,994 |
| Interest on bonds | 623 | 24,260 |
| Interest on fixed deposits | 439,209 | 387,502 |
| Dividend income | 1,924,144 | 1,239,593 |
| Other investment income | 164,684 | 176,742 |
| Impairment loss on financial assets available for sale | (2,122,907) | (1,706,676) |
| | <u>2,682,089</u> | <u>4,173,435</u> |

4 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares).

There are no dilutive potential ordinary shares. The information necessary to calculate basic earnings per share based on weighted average number of shares outstanding during the year is as follows:

| | 2011 KD | 2010 KD |
|----------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| Profit for the year | <u>7,573,016</u> | <u>8,275,439</u> |
| | <u>Shares</u> | <u>Shares</u> |
| Weighted average number of ordinary shares outstanding during the year (excluding treasury shares) | <u>176,411,056</u> | <u>176,125,915</u> |
| Basic and diluted earnings per share | <u><u>42.93 fils</u></u> | <u><u>46.99 fils</u></u> |

The comparative basic and diluted earnings per share have been restated due to the issuance of bonus shares (see Note 12).

Al-Ahleia Insurance Company S.A.K.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

5 PROPERTY AND EQUIPMENT

| | <i>Freehold land KD</i> | <i>Buildings on freehold land KD</i> | <i>Leasehold properties KD</i> | <i>Furniture, fixtures equipment and motor vehicles KD</i> | <i>Total KD</i> |
|----------------------|---------------------------------|--------------------------------------------------|----------------------------------------|--------------------------------------------------------------------------------|---------------------|
| Cost: | | | | | |
| At 1 January 2010 | 1,725,500 | 2,910,884 | 248,242 | 1,785,937 | 6,670,563 |
| Additions | - | - | - | 14,458 | 14,458 |
| At 31 December 2010 | 1,725,500 | 2,910,884 | 248,242 | 1,800,395 | 6,685,021 |
| Additions | - | - | - | 34,858 | 34,858 |
| At 31 December 2011 | 1,725,500 | 2,910,884 | 248,242 | 1,835,253 | 6,719,879 |
| Depreciation: | | | | | |
| At 1 January 2010 | - | 1,500,584 | 161,517 | 1,721,745 | 3,383,846 |
| Charge for the year | - | 116,435 | 3,871 | 44,590 | 164,896 |
| At 31 December 2010 | - | 1,617,019 | 165,388 | 1,766,335 | 3,548,742 |
| Charge for the year | - | 116,435 | 3,871 | 38,960 | 159,266 |
| At 31 December 2011 | - | 1,733,454 | 169,259 | 1,805,295 | 3,708,008 |
| Net carrying amount: | | | | | |
| At 31 December 2011 | 1,725,500 | 1,177,430 | 78,983 | 29,958 | 3,011,871 |
| At 31 December 2010 | 1,725,500 | 1,293,865 | 82,854 | 34,060 | 3,136,279 |

6 INVESTMENTS IN ASSOCIATES

The Company has the following investment in associates:

| | <i>Ownership percentage</i> | | <i>Country of incorporation</i> | <i>2011 KD</i> | <i>2010 KD</i> |
|------------------------------------------------------------------------------------------|-----------------------------|-------------|-------------------------------------|--------------------|--------------------|
| | <i>2011</i> | <i>2010</i> | | | |
| Burgan Insurance Company S.A.L. (formerly Arab Life Insurance Company S.A.L.) | 49.37% | 49.37% | Lebanon | 390,762 | 374,927 |
| Trade Union Insurance Company E.C. Arab Life and Accident Insurance Company P.S.C. | 20.95% | 20.95% | Bahrain | 1,581,947 | 1,591,356 |
| Kuwait Reinsurance Company K.S.C. (Closed) | 27.70% | 27.70% | Jordan | 952,475 | 1,092,111 |
| | 30.00% | 30.00% | Kuwait | 10,454,700 | 10,706,747 |
| | | | | 13,379,884 | 13,765,141 |

Al-Ahleia Insurance Company S.A.K.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

6 INVESTMENTS IN ASSOCIATES (continued)

| | 2011 KD | 2010 KD |
|-----------------------------------------------------------------------------|-------------------|-------------------|
| The movement of the investment in associates during the year is as follows: | | |
| Carrying value at 1 January | 13,765,141 | 12,881,561 |
| Additions | - | 907,498 |
| Disposals | - | (30,669) |
| Share of results of associates (Note 3) | (11,165) | 211,690 |
| Dividends received | (240,940) | (137,666) |
| Share of other comprehensive income | (107,855) | (52,053) |
| Foreign currency translation adjustment | (25,297) | (15,220) |
| Carrying value at 31 December | <u>13,379,884</u> | <u>13,765,141</u> |
| | 2011 KD | 2010 KD |
| Share of associates' financial position: | | |
| Assets | 30,777,176 | 26,942,516 |
| Liabilities | (17,397,292) | (13,177,375) |
| Net assets | <u>13,379,884</u> | <u>13,765,141</u> |
| Share of associates' revenues and (loss) profit: | | |
| Revenues | 418,959 | 2,082,122 |
| (Loss) profit | (11,165) | 211,690 |

Investments in associates include quoted associate with a carrying value of KD 10,454,700 (2010: KD 10,706,747) having a market value of KD 7,695,149 (2010: KD 6,929,594).

7 FINANCIAL ASSETS AVAILABLE FOR SALE

| | 2011 KD | 2010 KD |
|--------------------|-------------------|-------------------|
| Equity securities: | | |
| Quoted | 29,479,755 | 23,562,635 |
| Unquoted | 45,143,561 | 45,835,080 |
| | <u>74,623,316</u> | <u>69,397,715</u> |
| Debt securities: | | |
| Bonds | 350,001 | 1 |
| | <u>74,973,317</u> | <u>69,397,716</u> |

Included in financial assets available for sale are unquoted securities and managed funds with a value of KD 27,605,815 (31 December 2010: KD 29,474,564) which are carried at cost less impairment due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at a reliable measure of fair value. Management has performed a review of its unquoted financial assets to assess whether impairment has occurred in the value of the investments due to the impact of the global financial crisis, based on information available in respect of these investments. Accordingly, an impairment loss of KD 1,563,657 (31 December 2010: KD 908,176) has been recognised in the income statement.

Impairment loss of KD 559,250 (31 December 2010: KD 798,500) has been made against quoted securities on which there has been a significant or prolonged decline in fair value below cost.

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At 31 December 2011

8 PREMIUMS AND INSURANCE BALANCES RECEIVABLE

| | <i>2011</i> <i>KD</i> | <i>2010</i> <i>KD</i> |
|--------------------------------------------------------|--------------------------|--------------------------|
| Policyholders' accounts receivable | | |
| Premiums receivable | 7,900,000 | 9,068,449 |
| Provision for doubtful debts | (702,673) | (1,005,183) |
| Net policyholders' accounts receivable | <u>7,197,327</u> | <u>8,063,266</u> |
| Insurance and reinsures accounts receivable | | |
| Reinsures receivable | 3,538,804 | 4,954,687 |
| Provision for doubtful debts | (139,116) | (139,116) |
| Net insurance and reinsures accounts receivable | <u>3,399,688</u> | <u>4,815,571</u> |
| Total premium and insurance receivable balances | <u><u>10,597,015</u></u> | <u><u>12,878,837</u></u> |

The Company's terms of business require amounts to be paid within the underwriting year and as such these receivables are remeasured at cost. Arrangements with the reinsurance companies normally require settlement on a quarterly basis.

Movements in the allowance for impairment of policyholder's accounts receivable were as follows:

| | <i>2011</i> <i>KD</i> | <i>2010</i> <i>KD</i> |
|---------------------|--------------------------|--------------------------|
| At 1 January | 1,005,183 | 1,100,040 |
| Amounts written off | (302,510) | (94,857) |
| At 31 December | <u><u>702,673</u></u> | <u><u>1,005,183</u></u> |

No movements took place in the allowance for impairment of insurance and reinsurers receivables during the year ended 31 December 2011 and 31 December 2010.

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NOTES TO THE FINANCIAL STATEMENTS

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9 LIABILITIES ARISING FROM INSURANCE CONTRACTS

| 31 December 2011 | <i>Marine and aviation KD</i> | <i>Accident KD</i> | <i>Fire KD</i> | <i>Life and health KD</i> | <i>Total KD</i> |
|-----------------------------------------------|---------------------------------------|------------------------|--------------------|-----------------------------------|---------------------|
| OUTSTANDING CLAIMS RESERVE: | | | | | |
| Gross balance at the beginning of the year | 2,536,586 | 8,172,076 | 10,872,427 | 12,058,634 | 33,639,723 |
| Reinsurance recoverable on outstanding claims | (2,120,029) | (3,645,166) | (10,553,296) | (9,336,270) | (25,654,761) |
| Net balance at the beginning of the year | 416,557 | 4,526,910 | 319,131 | 2,722,364 | 7,984,962 |
| Gross claims incurred during the year | 2,179,548 | 3,408,569 | 696,693 | 7,012,752 | 13,297,562 |
| Reinsurance recoverable | (1,881,630) | (229,354) | (491,080) | (4,010,153) | (6,612,217) |
| Claims incurred | 297,918 | 3,179,215 | 205,613 | 3,002,599 | 6,685,345 |
| Gross claims paid during the year | (1,713,403) | (3,524,770) | (1,100,486) | (6,859,914) | (13,198,573) |
| Reinsurance recoverable | 1,314,262 | 423,595 | 898,430 | 4,479,958 | 7,116,245 |
| Paid during the year | (399,141) | (3,101,175) | (202,056) | (2,379,956) | (6,082,328) |
| NET BALANCE AT THE END OF THE YEAR | 315,334 | 4,604,950 | 322,688 | 3,345,007 | 8,587,979 |
| Represented in: | | | | | |
| Gross balance at the end of the year | 3,002,731 | 8,055,875 | 10,468,634 | 12,211,473 | 33,738,713 |
| Reinsurance recoverable on outstanding claims | (2,687,397) | (3,450,925) | (10,145,946) | (8,866,466) | (25,150,734) |
| NET BALANCE AT THE END OF THE YEAR | 315,334 | 4,604,950 | 322,688 | 3,345,007 | 8,587,979 |
| Unearned premiums reserve | 492,691 | 2,691,667 | 287,537 | - | 3,471,895 |
| Life mathematical reserve | - | - | - | 3,440,900 | 3,440,900 |
| Incurred but not reported reserve | 1,250,000 | 3,350,000 | 1,000,000 | 1,100,000 | 6,700,000 |

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9 LIABILITIES ARISING FROM INSURANCE CONTRACTS (continued)

| 31 December 2010 | <i>Marine and aviation KD</i> | <i>Accident KD</i> | <i>Fire KD</i> | <i>Life and health KD</i> | <i>Total KD</i> |
|-----------------------------------------------|---------------------------------------|------------------------|--------------------|-----------------------------------|---------------------|
| OUTSTANDING CLAIMS RESERVE: | | | | | |
| Gross balance at the beginning of the year | 3,146,917 | 7,290,148 | 8,179,337 | 11,733,005 | 30,349,407 |
| Reinsurance recoverable on outstanding claims | (2,717,988) | (2,765,318) | (7,827,223) | (8,680,455) | (21,990,984) |
| Net balance at the beginning of the year | 428,929 | 4,524,830 | 352,114 | 3,052,550 | 8,358,423 |
| Gross claims incurred during the year | 1,163,533 | 3,551,110 | 14,914,714 | 6,874,649 | 26,504,006 |
| Reinsurance recoverable | (821,115) | (1,150,997) | (14,738,595) | (4,672,538) | (21,383,245) |
| Claims incurred | 342,418 | 2,400,113 | 176,119 | 2,202,111 | 5,120,761 |
| Gross claims paid during the year | (1,773,864) | (2,669,182) | (12,221,624) | (6,549,020) | (23,213,690) |
| Reinsurance recoverable | 1,419,074 | 271,149 | 12,012,522 | 4,016,723 | 17,719,468 |
| Paid during the year | (354,790) | (2,398,033) | (209,102) | (2,532,297) | (5,494,222) |
| NET BALANCE AT THE END OF THE YEAR | 416,557 | 4,526,910 | 319,131 | 2,722,364 | 7,984,962 |
| Represented in: | | | | | |
| Gross balance at the end of the year | 2,536,586 | 8,172,076 | 10,872,427 | 12,058,634 | 33,639,723 |
| Reinsurance recoverable on outstanding claims | (2,120,029) | (3,645,166) | (10,553,296) | (9,336,270) | (25,654,761) |
| NET BALANCE AT THE END OF THE YEAR | 416,557 | 4,526,910 | 319,131 | 2,722,364 | 7,984,962 |
| Unearned premiums reserve | 260,382 | 2,530,149 | 245,694 | - | 3,036,225 |
| Life mathematical reserve | - | - | - | 3,638,500 | 3,638,500 |
| Incurred but not reported reserve | 1,250,000 | 3,350,000 | 1,000,000 | 1,100,000 | 6,700,000 |

10 OTHER DEBIT BALANCES

| | <i>2011 KD</i> | <i>2010 KD</i> |
|-----------------------------------------------------|--------------------|--------------------|
| Accrued income | 290,343 | 208,683 |
| Reserve retained by reinsurers | 382,058 | 307,881 |
| Reserve for Arab war risk insurance syndicate fund* | 1,037,080 | 1,027,319 |
| Other debit balances | 251,211 | 348,918 |
| Amounts due from Kuwait Clearing Company | 238,514 | 263,882 |
| | <u>2,199,206</u> | <u>2,156,683</u> |

*This item represents the Company's share of accumulated fund and emergency reserves at 31 December 2010 in accordance with the fund's advice No. 43/501/2011 dated 22/05/2011 and is estimated to be USD 3,719,132 which is equivalent to KD 1,037,080 (2009: USD 3,658,542 which is equivalent to KD 1,027,319).

11 FIXED DEPOSITS

Fixed deposits represent short notice bank deposits with local financial institutions. These deposits are denominated in Kuwaiti dinars and carry an average effective interest rate of 2.46% (2010: 3.21%) per annum. These deposits mature within a year from the placement date.

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12 SHARE CAPITAL, CASH DIVIDENDS AND BONUS SHARES

The authorised, issued and fully paid up share capital consists of 180,507,130 shares of 100 fils each (31 December 2010: 171,911,550) which is fully paid in cash.

Cash dividends and bonus shares

The Ordinary Annual General Assembly of the Company's shareholders held on 20 April 2011 approved the payment of cash dividends amounting to KD 4,198,893 for the year ended 31 December 2010 (2009: KD 3,040,649).

The Extraordinary General Assembly of the Company's shareholders, held on the same date, approved the increase of authorised, issued and paid up share capital from KD 17,191,155 to KD 18,050,713 through issuance of 8,595,580 bonus shares of 100 fils each for the year ended 31 December 2010 (2009: 15,628,320 shares).

The Board of Directors of the Company have proposed cash dividend of 25 fils per share (2010: 25 fils) and 5% bonus shares of paid up share capital (2010: 5%) in respect of the year ended 31 December 2011. This proposal is subject to the approval by annual general meeting of the shareholders of the Company.

13 RESERVES

Statutory reserve

As required by the Law of Commercial Companies and the Company's articles of association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees has been transferred to statutory reserve. The Company may resolve to discontinue such annual transfers since the reserve exceeds 50% of paid up share capital.

Only the part of the reserve in excess of 50% of paid up capital is freely distributable. Distribution of the balance is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

General reserve

In accordance with the Company's articles of association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees is has been transferred to general reserve.

Special voluntary reserve

In accordance with the Company's articles of association, the board of directors can resolve to transfer certain amount of the profit for the year to the special voluntary reserve. This transfer can be suspended at the discretion of the general assembly. Special voluntary reserve is available for distribution.

14 TREASURY SHARES

| | <i>2011</i> | <i>2010</i> |
|---------------------------------|------------------|------------------|
| Number of shares | <u>4,003,634</u> | <u>3,955,842</u> |
| Percentage of issued shares (%) | <u>2.22</u> | <u>2.30</u> |
| Market value (KD) | <u>2,081,890</u> | <u>2,057,038</u> |

Al-Ahleia Insurance Company S.A.K.

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15 INSURANCE PAYABLES

| | 2011 KD | 2010 KD |
|------------------------------------|------------------|------------------|
| Policyholders and agencies payable | 545,845 | 556,450 |
| Insurance and reinsurance payables | 5,486,690 | 5,870,779 |
| | <u>6,032,535</u> | <u>6,427,229</u> |

16 OTHER CREDIT BALANCES

| | 2011 KD | 2010 KD |
|--------------------------------------------------------------|------------------|------------------|
| Claims payable | 2,512,007 | 2,122,786 |
| Reserve retained on reinsurance business | 1,013,214 | 1,089,817 |
| Reserve for Arab war risk insurance syndicate fund (Note 10) | 1,037,080 | 1,027,319 |
| Other payables | 5,096,142 | 4,703,316 |
| | <u>9,658,443</u> | <u>8,943,238</u> |

17 SEGMENT INFORMATION

The Company operates in two segments, general risk insurance and life and health insurance. There are no inter-segment transactions. The Company's assets and operation are located in Kuwait. Following are the details of those two primary segments:

A) Segment information – Income statement

| Year ended 31 December 2011: | <i>Marine and aviation KD</i> | <i>Accident KD</i> | <i>Fire KD</i> | <i>Total general risk insurance KD</i> | <i>Life and health KD</i> | <i>Total KD</i> |
|----------------------------------------------------------------------------|---------------------------------------|------------------------|--------------------|----------------------------------------------------|-----------------------------------|---------------------|
| Revenue: | | | | | | |
| Gross premiums | 8,325,967 | 9,553,760 | 3,037,114 | 20,916,841 | 11,415,368 | 32,332,209 |
| Premiums ceded to reinsurers | (6,284,393) | (3,448,194) | (2,429,441) | (12,162,028) | (7,032,045) | (19,194,073) |
| Net premiums | 2,041,574 | 6,105,566 | 607,673 | 8,754,813 | 4,383,323 | 13,138,136 |
| Movement in unearned premiums | (232,309) | (161,518) | (41,843) | (435,670) | - | (435,670) |
| Net premiums earned | 1,809,265 | 5,944,048 | 565,830 | 8,319,143 | 4,383,323 | 12,702,466 |
| Commission received on ceded Reinsurance | 1,898,620 | 1,036,437 | 598,902 | 3,533,959 | 1,106,713 | 4,640,672 |
| Policy issuance fees | - | 556,866 | - | 556,866 | - | 556,866 |
| Total revenue | <u>3,707,885</u> | <u>7,537,351</u> | <u>1,164,732</u> | <u>12,409,968</u> | <u>5,490,036</u> | <u>17,900,004</u> |
| Expenses: | | | | | | |
| Claims incurred | (297,918) | (3,179,215) | (205,613) | (3,682,746) | (3,002,599) | (6,685,345) |
| Commissions and discounts | (404,047) | (1,294,018) | (161,380) | (1,859,445) | (287,055) | (2,146,500) |
| Movement in life mathematical reserve | - | - | - | - | 197,600 | 197,600 |
| Maturity and cancellations of life insurance policies | - | - | - | - | (298,964) | (298,964) |
| General and administrative expenses for insurance business | (816,457) | (1,090,964) | (268,510) | (2,175,931) | (847,414) | (3,023,345) |
| Total expenses | <u>(1,518,422)</u> | <u>(5,564,197)</u> | <u>(635,503)</u> | <u>(7,718,122)</u> | <u>(4,238,432)</u> | <u>(11,956,554)</u> |
| Net underwriting result | <u>2,189,463</u> | <u>1,973,154</u> | <u>529,229</u> | <u>4,691,846</u> | <u>1,251,604</u> | <u>5,943,450</u> |
| Net investment income | | | | 2,432,393 | 249,696 | 2,682,089 |
| Other income | | | | 451,054 | 9,279 | 460,333 |
| Other general and administrative expenses | | | | (434,043) | - | (434,043) |
| Unallocated expenses | | | | (572,726) | - | (572,726) |
| Profit before contribution to KFAS, NLST, Zakat and Directors' Fees | | | | | | <u>8,079,103</u> |

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17 SEGMENT INFORMATION (continued)

A) Segment information – Income statement (continued)

| Year ended 31 December 2010: | Marine and aviation KD | Accident KD | Fire KD | Total general risk insurance KD | Life and health KD | Total KD |
|---------------------------------------------------------------------|------------------------------|----------------|-------------|------------------------------------------|--------------------------|--------------|
| Revenue: | | | | | | |
| Gross premiums | 7,034,524 | 9,844,527 | 4,144,239 | 21,023,290 | 10,125,419 | 31,148,709 |
| Premiums ceded to reinsurers | (5,570,329) | (4,429,467) | (3,627,188) | (13,626,984) | (6,334,812) | (19,961,796) |
| Net premiums | 1,464,195 | 5,415,060 | 517,051 | 7,396,306 | 3,790,607 | 11,186,913 |
| Movement in unearned premiums | 73,117 | (642,791) | 47,801 | (521,873) | - | (521,873) |
| Net premiums earned | 1,537,312 | 4,772,269 | 564,852 | 6,874,433 | 3,790,607 | 10,665,040 |
| Commission received on ceded Reinsurance | 1,863,626 | 1,625,086 | 627,505 | 4,116,217 | 980,286 | 5,096,503 |
| Policy issuance fees | - | 526,932 | - | 526,932 | - | 526,932 |
| Total revenue | 3,400,938 | 6,924,287 | 1,192,357 | 11,517,582 | 4,770,893 | 16,288,475 |
| Expenses: | | | | | | |
| Claims incurred | (342,418) | (2,400,113) | (176,119) | (2,918,650) | (2,202,111) | (5,120,761) |
| Commissions and discounts | (347,285) | (1,439,595) | (157,276) | (1,944,156) | (186,947) | (2,131,103) |
| Increase in life mathematical reserve | - | - | - | - | (323,500) | (323,500) |
| Maturity and cancellations of life insurance policies | - | - | - | - | (178,144) | (178,144) |
| General and administrative expenses for insurance business | (763,443) | (1,146,081) | (325,908) | (2,235,432) | (819,332) | (3,054,764) |
| Total expenses | (1,453,146) | (4,985,789) | (659,303) | (7,098,238) | (3,710,034) | (10,808,272) |
| Net underwriting result | 1,947,792 | 1,938,498 | 533,054 | 4,419,344 | 1,060,859 | 5,480,203 |
| Net investment income | | | | 3,825,004 | 348,431 | 4,173,435 |
| Other income | | | | 66,434 | 91,693 | 158,127 |
| Other general and administrative expenses | | | | (507,217) | - | (507,217) |
| Unallocated expenses | | | | (552,466) | - | (552,466) |
| Profit before contribution to KFAS, NLST, Zakat and Directors' Fees | | | | | | 8,752,082 |

B) Segment information – Statement of financial position

| | General risk insurance KD | Life and health insurance KD | Total KD |
|-------------------------|---------------------------------|------------------------------------|-------------|
| 31 December 2011 | | | |
| Assets | 123,457,241 | 21,666,281 | 145,123,522 |
| Liabilities | 42,849,269 | 21,821,922 | 64,671,191 |
| 31 December 2010 | | | |
| Assets | 120,723,580 | 22,388,698 | 143,112,278 |
| Liabilities | 42,148,552 | 22,340,051 | 64,488,603 |

Takaful Insurance Department

The Company has established a new insurance unit named Takaful Insurance for life and non-life insurance which will be specialised in issuing Islamic insurance products. The newly established unit commenced its operations during October 2009. The impact of the related premiums written and net profit on the Company's financial statements is immaterial to be disclosed separately.

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18 RELATED PARTY TRANSACTIONS

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

Transactions with related parties included in the income statement are as follows:

| | <i>Associates</i> <i>KD</i> | <i>Major</i> <i>shareholders</i> <i>KD</i> | <i>2011</i> <i>KD</i> | <i>2010</i> <i>KD</i> |
|-----------------|--------------------------------|--------------------------------------------------|--------------------------|--------------------------|
| Gross premiums | 615,212 | 2,439,612 | 3,054,824 | 3,795,493 |
| Claims incurred | 212,640 | 894,926 | 1,107,566 | 1,509,347 |

Balances with related parties included in the statement of financial position are as follows:

| | <i>Associates</i> <i>KD</i> | <i>Major</i> <i>shareholders</i> <i>KD</i> | <i>2011</i> <i>KD</i> | <i>2010</i> <i>KD</i> |
|-----------------------------------------------|--------------------------------|--------------------------------------------------|--------------------------|--------------------------|
| Premiums and insurance balances receivable | 510,004 | 2,445,339 | 2,955,343 | 3,207,443 |
| Other credit balances | 60,100 | 8,873 | 68,973 | 210,186 |

Compensation of key management personnel:

| | <i>2011</i> <i>KD</i> | <i>2010</i> <i>KD</i> |
|----------------------------------------|--------------------------|--------------------------|
| Salaries and other short term benefits | 280,671 | 250,054 |
| Employees' end of service benefits | 106,106 | 96,106 |
| | <u>386,777</u> | <u>346,160</u> |

19 CONTINGENCIES

At the financial position date, the Company had future capital commitments with respect to purchase of financial assets available for sale amounting to KD 5,297,020 (31 December 2010: KD 6,490,463).

20 STATUTORY GUARANTEES

In accordance with the Kuwaiti Law:

- Investments of KD 90,000 (2010: KD 90,000) have been deposited with a Kuwaiti bank as security to underwrite general insurance business;
- Investments of KD 45,000 (2010: KD 45,000) have been deposited with a Kuwaiti bank in respect of the Company's right to transact life assurance business;
- Other investments, in the form of deposits and bonds amounting to KD 5,390,000 (2010: KD 5,850,000) are held in Kuwait.
- The Company's premises with net carrying amount of KD 1,177,430 (2010: KD 1,293,865) have been mortgaged with the Ministry of Commerce and Industry.

21 RISK MANAGEMENT

(a) Governance framework

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

The Company is establishing a risk management function with clear terms of reference from the Company's board of directors, its committees and the associated executive management committees. This will be supplemented with a clear organisational structure that document delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Also, a Company policy framework including risk profiles for the Company, risk management, control and business conduct standards for the Company's operations.

(b) Regulatory framework

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

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

For the life and capital insurance contracts issued in Kuwait, the full mathematical reserves are to be retained in Kuwait

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

(c) Insurance risk

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

The Company's internal audit is responsible for monitoring compliance with the above regulations and has delegated authorities and responsibilities from the board of directors to ensure compliance.

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

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

The majority of insurance business ceded is placed on a quota share basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 5% of total reinsurance assets at the financial position date.

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

Insurance risk is divided into risk of life insurance and investment contracts and risk of non life insurance contracts as follows:

(1) Life insurance contracts

Life insurance contracts offered by the Company include term insurance, Group life and disability, Group medical including third party administration (TPA), endowment, investment and pension (individual policies).

Term assurance are conventional regular premium products when lump sum benefits are payable on death or permanent disability.

Pension plans are contracts when retirement benefits are expressed in the form of an annuity payable at retirement age. If death occurs before retirement, contracts generally return the value of the fund accumulated or sum assured whichever is greater. Some contracts give the policyholder the option at retirement to take a cash sum or pension annuity allowing the policyholders the option of taking the more valuable of the two. Provision of additional death benefits may be provided by cancellation of units or through supplementary term assurance contracts. Certain personal pension plans also include contribution protection benefits that provide for payment of contributions on behalf of policyholders in periods of total disability. For contracts with discretionary participation features (DPF), changes in the level of pensions are based on the rate of return declared annually by the insurer which is not guaranteed.

Guaranteed annuities are single premium products which pay a specified payment to the policyholder whilst they and/or their spouse are still alive. Payments are generally either fixed or increased each year at a specified rate or in line with the rate of inflation. Most contracts guarantee an income for a minimum period usually of five years, irrespective of death.

Death benefits of endowment products are subject to a guaranteed minimum amount. The maturity value usually depends on the investment performance of the underlying assets. For contracts with DPF the guaranteed minimum may be increased by the addition of bonuses. These are set at a level that takes account of expected market fluctuations, such that the cost of the guarantee is generally met by the investment performance of the assets backing the liability. However in circumstances when there has been a significant fall in investment markets, the guaranteed maturity benefits may exceed investment performance and these guarantees become valuable to the policyholder. Certain pure endowment pensions contain the option to apply the proceeds towards the purchase of an annuity earlier than the date shown on the contract or to convert the contract to 'paid up' on guaranteed terms. The majority of the mortgage endowment contracts offered by the Company have minimum maturity values subject to certain conditions being satisfied.

For healthcare contracts the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

The main risks that the Company is exposed to are as follows.

- Mortality risk - risk of loss arising due to policyholder death experience being different than expected.
- Morbidity risk - risk of loss arising due to policyholder health experience being different than expected.
- Longevity risk - risk of loss arising due to the annuitant living longer than expected.
- Investment return risk - risk of loss arising from actual returns being different than expected.
- Expense risk - risk of loss arising from expense experience being different than expected.
- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the location of the risk insured by the Company as life business mainly written in Gulf countries.

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21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs. The Company further enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

For contracts where death or disability are the insured risks the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected.

For annuity contracts, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

The insurance risks described above are also affected by the contract holders' right to pay reduced or no future premiums, to terminate the contract completely or to exercise guaranteed annuity options. As a result, the amount of insurance risk is also subject to contract holder behaviour.

The table below sets out the concentration of life insurance and investment contracts by type of contract:

| 31 December 2011 | <i>Gross liabilities</i> | <i>Reinsurers' share of liabilities</i> | <i>Net liabilities</i> |
|-------------------------------------------------------------|--------------------------|-----------------------------------------|------------------------|
| Type of contract | KD | KD | KD |
| Term insurance | 19,712 | (19,612) | 100 |
| Group life and disability | 1,493,397 | (1,485,868) | 7,529 |
| Group medical including TPA (through external institution) | 521,877 | (519,246) | 2,631 |
| Endowment individual policies | 898,536 | (894,006) | 4,530 |
| Pensions (individual policies) | 218,440 | - | 218,440 |
| Total life insurance contract | 3,151,962 | (2,918,732) | 233,230 |
| Total investment contracts and participation feature | 3,207,670 | - | 3,207,670 |
| Other life insurance contract liabilities | 13,311,473 | (8,866,466) | 4,445,007 |
| | | | |
| 31 December 2010 | <i>Gross liabilities</i> | <i>Reinsurers' share of liabilities</i> | <i>Net Liabilities</i> |
| Type of contract | KD | KD | KD |
| Term insurance | 16,874 | (15,631) | 1,243 |
| Group life and disability | 1,842,614 | (1,706,847) | 135,767 |
| Group medical including TPA (through external institution) | 495,803 | (459,271) | 36,532 |
| Endowment individual policies | 667,396 | (618,221) | 49,175 |
| Pensions (individual policies) | 223,390 | - | 223,390 |
| Total life insurance contract | 3,246,077 | (2,799,970) | 446,107 |
| Total investment contracts and participation feature | 3,192,393 | - | 3,192,393 |
| Other life insurance contract liabilities | 13,158,634 | (9,336,270) | 3,822,364 |

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions

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

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

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

• *Mortality and morbidity rates*

Assumptions are based on standard industry and national tables, according to the type of contract written and the territory in which the insured person resides, reflecting recent historical experience and are adjusted when appropriate to reflect the Company's own experiences. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by occupation, underwriting class and contract type.

An increase in the actual mortality rates will lead to a larger number of claims and claims could occur sooner than anticipated, which will increase the expenditure and reduce profits for the shareholders.

• *Longevity*

Assumptions are based on standard rates, adjusted when appropriate to reflect the Company's own risk experience. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by occupation, underwriting class and contract type.

An increase in longevity rates will lead to an increase in the number of annuity payments made, which will increase the expenditure and reduce profits for the shareholders.

• *Investment return*

The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments.

An increase in investment return would lead to a reduction in expenditure and an increase in profits for the shareholders.

• *Expenses*

Operating expenses assumptions reflect the projected costs of maintaining and servicing in-force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate.

An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

• *Lapse and surrender rates*

Lapses relate to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Company's experience and vary by product type, policy duration and sales trends.

An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions (continued)

• Discount rate

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on Central Bank of Kuwait rate, adjusted for the Company's own risk exposure.

A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

Sensitivities

The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist they are the main reason for the asymmetry of sensitivities.

(2) Non-life insurance contracts

The Company principally issues the following types of general insurance contracts: marine and aviation, accident and fire. Risks under non-life insurance policies usually cover twelve month duration.

For general insurance contracts the most significant risks arise from climate changes, natural disasters and terrorist activities which are only covered in fire line of business.

Insurance contracts at times also cover risk for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risk that may involve significant litigation.

These risks do not vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry.

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

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (i.e. fire line of business). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a pre-determined maximum amount based on the Company's risk appetite as decided by management.

Al-Ahleia Insurance Company S.A.K.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

21 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(3) General risk insurance contracts

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

| <i>31 December 2011</i> | <i>Gross liabilities KD</i> | <i>Reinsurers' share of liabilities KD</i> | <i>Net liabilities KD</i> |
|-------------------------|---------------------------------|------------------------------------------------|-------------------------------|
| Marine and Aviation | 4,745,422 | (2,687,397) | 2,058,025 |
| Accident | 14,097,542 | (3,450,925) | 10,646,617 |
| Fire | 11,756,171 | (10,145,946) | 1,610,225 |
| Total | 30,599,135 | (16,284,268) | 14,314,867 |

| <i>31 December 2010</i> | <i>Gross liabilities KD</i> | <i>Reinsurer's share of liabilities KD</i> | <i>Net liabilities KD</i> |
|-------------------------|---------------------------------|------------------------------------------------|-------------------------------|
| Marine and Aviation | 4,046,968 | (2,120,029) | 1,926,939 |
| Accident | 14,052,225 | (3,645,166) | 10,407,059 |
| Fire | 12,118,121 | (10,553,296) | 1,564,825 |
| Total | 30,217,314 | (16,318,491) | 13,898,823 |

Key assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example once-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

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

Sensitivities

The non-life insurance claims provision is sensitive to the above key assumptions. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process which is indicated in the table below:

| <i>31 December 2011</i> | <i>Change in assumption</i> | <i>Impact on gross liabilities KD</i> | <i>Impact on net liabilities KD</i> | <i>Impact on profit KD</i> |
|-------------------------------|-------------------------------------------|-------------------------------------------|-----------------------------------------|--------------------------------|
| Average claim cost | +10% | 311,560 | 154,500 | (409,181) |
| Average number of claim | +10% | 1,218 | 952 | (44,725) |
| Average claim settlement paid | Reduce from 18 months to 12 months | 618 | 303 | N/A |

| <i>31 December 2010</i> | <i>Change in assumption</i> | <i>Impact on gross liabilities KD</i> | <i>Impact on net liabilities KD</i> | <i>Impact on profit KD</i> |
|-------------------------------|-------------------------------------------|-------------------------------------------|-----------------------------------------|--------------------------------|
| Average claim cost | +10% | 309,880 | 153,102 | (402,121) |
| Average number of claim | +10% | 1,212 | 949 | (43,632) |
| Average claim settlement paid | Reduce from 18 months to 12 months | 612 | 301 | N/A |

Al-Ahleia Insurance Company S.A.K.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

21 RISK MANAGEMENT (continued)

(d) Financial risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Company is developing its policies and procedures to enhance the Company's mitigation of credit risk exposures.

- A Company credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are monitored by the management.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- The credit risk in respect of customer balances, incurred on non-payment of premiums will only persist during the grace period specified in the policy document until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

| Exposure credit risk by classifying financial assets according to type of insurance | 31 December 2011 | | |
|-------------------------------------------------------------------------------------|-------------------|---------------------------|-------------------|
| | General insurance | Life and health insurance | Total |
| | KD | KD | KD |
| Debt securities | 350,001 | - | 350,001 |
| Loans secured by life insurance policyholders | - | 193,532 | 193,532 |
| Policyholders accounts receivables (gross) | 6,239,356 | 1,660,644 | 7,900,000 |
| Insurance and reinsurers account receivable (gross) | 3,191,785 | 347,019 | 3,538,804 |
| Reinsurance recoverable on outstanding claims | 16,284,268 | 8,866,466 | 25,150,734 |
| Other debit balances | 2,176,134 | 23,072 | 2,199,206 |
| Fixed deposits | 12,397,181 | 3,034,213 | 15,431,394 |
| Bank balances | 164,056 | 758 | 164,814 |
| Total credit risk exposure | 40,802,781 | 14,125,704 | 54,928,485 |

| Exposure credit risk by classifying financial assets according to type of insurance | 31 December 2010 | | |
|-------------------------------------------------------------------------------------|-------------------|---------------------------|-------------------|
| | General insurance | Life and health insurance | Total |
| | KD | KD | KD |
| Debt securities | 1 | - | 1 |
| Loans secured by life insurance policyholders | - | 95,842 | 95,842 |
| Policyholders accounts receivables (gross) | 7,353,949 | 1,714,500 | 9,068,449 |
| Insurance and reinsurers account receivable (gross) | 4,310,771 | 643,916 | 4,954,687 |
| Reinsurance recoverable on outstanding claims | 16,318,491 | 9,336,270 | 25,654,761 |
| Other debit balances | 2,120,795 | 27,555 | 2,148,350 |
| Fixed deposits | 6,393,534 | 8,614,514 | 15,008,048 |
| Bank balances | 927,009 | 99 | 927,108 |
| Total credit risk exposure | 37,424,550 | 20,432,696 | 57,857,246 |

Al-Ahleia Insurance Company S.A.K.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

21 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(1) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the financial assets by classifying assets according to international credit ratings of the counterparties.

Exposure credit risk by classifying financial
Assets according to international credit rating
agencies

| | <i>A</i> <i>KD</i> | <i>B</i> <i>KD</i> | <i>Not rated</i> <i>KD</i> | <i>Total</i> <i>KD</i> |
|--------------------------------------------------------|-----------------------|-----------------------|-------------------------------|---------------------------|
| <i>31 December 2011</i> | | | | |
| Debt securities | - | - | 350,001 | 350,001 |
| Loans secured by life insurance policyholders | - | - | 193,532 | 193,532 |
| Policyholders accounts receivable (gross) | - | 780,000 | 7,120,000 | 7,900,000 |
| Insurance and reinsurance accounts receivables (gross) | - | 417,944 | 3,120,860 | 3,538,804 |
| Reinsurance recoverable on outstanding claims | 8,800,000 | 12,000,000 | 4,350,734 | 25,150,734 |
| Other debit balances | - | - | 2,199,206 | 2,199,206 |
| Fixed deposits | 15,431,394 | - | - | 15,431,394 |
| Bank balances | 164,814 | - | - | 164,814 |
| Total credit risk exposure | 24,396,208 | 13,197,944 | 17,334,333 | 54,928,485 |

Exposure credit risk by classifying financial
Assets according to international credit rating
agencies

| | <i>A</i> <i>KD</i> | <i>B</i> <i>KD</i> | <i>Not rated</i> <i>KD</i> | <i>Total</i> <i>KD</i> |
|--------------------------------------------------------|-----------------------|-----------------------|-------------------------------|---------------------------|
| <i>31 December 2010</i> | | | | |
| Debt securities | - | - | 1 | 1 |
| Loans secured by life insurance policyholders | - | - | 95,842 | 95,842 |
| Policyholders accounts receivable (gross) | 207,232 | 651,212 | 8,210,005 | 9,068,449 |
| Insurance and reinsurance accounts receivables (gross) | - | 1,378,556 | 3,576,131 | 4,954,687 |
| Reinsurance recoverable on outstanding claims | 8,871,005 | 12,160,000 | 4,623,756 | 25,654,761 |
| Other debit balances | - | - | 2,148,350 | 2,148,350 |
| Fixed deposits | 15,008,048 | - | - | 15,008,048 |
| Bank balances | 927,108 | - | - | 927,108 |
| Total credit risk exposure | 25,013,393 | 14,189,768 | 18,654,085 | 57,857,246 |

The Company does not have any material past due but not impaired financial assets at 31 December 2011 and 31 December 2010.

Al-Ahleia Insurance Company S.A.K.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

21 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(2) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Management monitors liquidity requirements on a daily basis and ensures that sufficient funds are available. The Company has sufficient liquidity and, therefore, does not resort to borrowings in the normal course of business.

The table below summarises the maturity profile of the Company's financial liabilities. The maturities financial liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile of financial liabilities at 31 December was as follows:

| 31 December 2011 | <i>Within 1 year</i> | <i>> than 1 year</i> | <i>Total</i> |
|------------------------------|----------------------|-------------------------|-------------------|
| | <i>KD</i> | <i>KD</i> | <i>KD</i> |
| Insurance payables | 2,000,000 | 4,032,535 | 6,032,535 |
| Other credit balances | 5,658,443 | 4,000,000 | 9,658,443 |
| Premiums received in advance | 1,628,705 | - | 1,628,705 |
| | <u>9,287,148</u> | <u>8,032,535</u> | <u>17,319,683</u> |
| | | | |
| 31 December 2010 | <i>Within 1 year</i> | <i>> than 1 year</i> | <i>Total</i> |
| | <i>KD</i> | <i>KD</i> | <i>KD</i> |
| Insurance payables | 1,500,000 | 4,927,229 | 6,427,229 |
| Other credit balances | 6,443,238 | 2,500,000 | 8,943,238 |
| Premiums received in advance | 2,103,688 | - | 2,103,688 |
| | <u>10,046,926</u> | <u>7,427,229</u> | <u>17,474,155</u> |

Al-Ahleia Insurance Company S.A.K.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

21 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises three types of risk: currency risk, interest rate risk and equity price risk.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's financial assets are primarily denominated in the same currencies as its insurance and investment contract liabilities, which mitigate the foreign currency exchange rate risk. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment contract liabilities are expected to be settled. The currency risk is effectively managed by the Company through financial instruments.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit due to changes in fair value of currency sensitive assets and liabilities.

The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear. The effect of decreases in profit and other comprehensive income is expected to be equal and opposite to the effect of the increases shown.

| | Change in variables | 2011 | | 2010 | |
|--------|---------------------|------------------------|--------------------------------------------|------------------------|--------------------------------------------|
| | | Impact on profit KD | Impact on other comprehensive income KD | Impact on profit KD | Impact on other comprehensive income KD |
| USD | ± 5% | 4,798 | 1,168,680 | 4,801 | 1,170,219 |
| JD | ± 5% | 15,710 | 51,580 | 15,915 | 52,573 |
| EGP | ± 5% | 2,411 | 79,102 | 2,432 | 81,068 |
| Euro | ± 5% | 479 | 118,165 | 482 | 122,190 |
| GBP | ± 5% | 886 | 41,202 | 943 | 43,947 |
| Others | ± 5% | - | 210,105 | - | 227,497 |

(ii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Company is exposed to interest rate risk on its interest bearing assets and liabilities.

The sensitivity of the income statement is the effect of the assumed changes in interest rates, on the Company's profit before contribution to KFAS, NLST, Zakat and directors' fees, based on floating rate financial assets and financial liabilities held at 31 December 2011 and 2010. There is no impact on equity.

The effect of change of 75 basis points in interest rates on, with all other variables held constant, profit before taxation and director's fees will be KD 4,812 (2010: KD 5,135).

Sensitivity to interest rate movements will be on a symmetric basis, as financial instruments giving rise to non-symmetric movements are not significant.

Al-Ahleia Insurance Company S.A.K.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

21 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(3) Market risk (continued)

(iii) Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Company manages this risk through diversification of investments in terms of geographical distribution and industrial concentration.

The effect on other comprehensive income as a result of a change in the fair value of financial assets available for sale at 31 December due 10% change in the following market indices with all other variables held constant is as follows:

| <i>Market indices</i> | <i>2011</i> | | <i>2010</i> | |
|-----------------------|--------------------------------|----------------------------------------------------|--------------------------------|----------------------------------------------------|
| | <i>Effect on profit KD</i> | <i>Effect on other comprehensive income KD</i> | <i>Effect on profit KD</i> | <i>Effect on other comprehensive income KD</i> |
| Kuwait | 329,015 | 5,810,982 | 331,002 | 5,628,872 |
| Other GCC countries | - | 1,152,875 | - | 1,156,969 |
| Europe | - | 331,810 | - | 332,275 |
| Others | 282,134 | 2,310,008 | 298,012 | 2,195,984 |

The effect of decreases in profit and other comprehensive income is expected to be equal and opposite to the effect of the increases shown.

22 CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issues new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's policy is to keep the gearing ratio between 35% and 60%. The Company includes within net debt, liabilities arising from insurance contracts, payables and term loans less cash and cash equivalent. Capital includes equity of the Company.

| | <i>2011 KD</i> | <i>2010 KD</i> |
|----------------------------------------------|--------------------|--------------------|
| Liabilities arising from insurance contracts | 47,351,508 | 47,014,448 |
| Payables | 17,319,683 | 17,474,155 |
| Less: Bank balances and cash | (186,569) | (1,018,971) |
| Net debt | 64,484,622 | 63,469,632 |
| Total capital | 80,452,331 | 78,623,675 |
| Capital and net debt | 144,936,953 | 142,093,307 |
| Gearing ratio | 44% | 45% |

Al-Ahleia Insurance Company S.A.K.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of debt securities, loans secured by life insurance policyholders, policyholder's accounts receivable, insurance and reinsurance accounts receivables, reinsurance recoverable on outstanding claims, other debit balances, fixed deposits and bank balances.

Financial liabilities consist of insurance payables, other credit balances and premiums received in advance.

The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost (Note 7), are not materially different from their carrying values. The Company uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| | <i>Total fair value</i> KD | <i>Level 1</i> KD | <i>Level 2</i> KD | <i>Level 3</i> KD |
|--------------------------------------|-------------------------------|----------------------|----------------------|----------------------|
| 31 December 2011 | | | | |
| Financial assets available for sale: | | | | |
| Quoted | 29,479,755 | 29,479,755 | - | - |
| Unquoted | 17,537,746 | - | - | 17,537,746 |
| Total | 47,017,501 | 29,479,755 | - | 17,537,746 |
| | | | | |
| 31 December 2010 | | | | |
| Financial assets available for sale: | | | | |
| Quoted | 23,562,635 | 23,562,635 | - | - |
| Unquoted | 16,360,516 | - | - | 16,360,516 |
| Total | 39,923,151 | 23,562,635 | - | 16,360,516 |

During the year, there have been no transfers between hierarchies.

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets which are recorded at fair value.

| | <i>At 1 January 2011</i> KD | <i>Gain / (loss) recorded in the statement of comprehensive income</i> KD | <i>Net purchases and disposals</i> KD | <i>At 31 December 2011</i> KD |
|---------------------------------------------|--------------------------------|------------------------------------------------------------------------------|------------------------------------------|----------------------------------|
| <i>Financial assets available for sale:</i> | | | | |
| Unquoted | 16,360,516 | 1,062,932 | 114,298 | 17,537,746 |

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

| | <i>At 1 January 2010 KD</i> | <i>Gain / (loss) recorded in the statement of comprehensive income KD</i> | <i>Net purchases and disposals KD</i> | <i>At 31 December 2010 KD</i> |
|---------------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
| <i>Financial assets available for sale:</i> | | | | |
| Unquoted | <u>15,475,684</u> | <u>244,219</u> | <u>640,613</u> | <u>16,360,516</u> |