

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

**CONSOLIDATED
FINANCIAL STATEMENTS**

31 DECEMBER 2010

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

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	<i>Notes</i>	2010 KD	2009 KD
Net investment loss	3	(1,743,815)	(5,304,083)
Change in fair value of investment properties	10	386,992	34,393
Shareholders' share of insurance surplus	16	347,736	60,136
Management fees from policyholders	16	520,063	-
Other income		33,361	1,143
Allowances and other benefits		(66,000)	(66,000)
General and administrative expenses		(230,122)	(116,963)
Directors' fees		(7,000)	(7,000)
LOSS FOR THE YEAR	4	<u>(758,785)</u>	<u>(5,398,374)</u>
Attributable to:			
Equity holders of the Parent Company		(866,457)	(5,469,718)
Non-controlling interest		107,672	71,344
		<u>(758,785)</u>	<u>(5,398,374)</u>
BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	5	<u>(7.89) fils</u>	<u>(49.73) fils</u>

The attached notes 1 to 19 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	<i>Note</i>	2010 KD	2009 KD
Loss for the year		(758,785)	(5,398,374)
Available for sale investments:			
- Change in fair value		(2,174,270)	(4,147,485)
- Transfer to consolidated income statement on sale	3	-	(576,539)
- Transfer to consolidated income statement on impairment	3	1,807,387	5,241,827
Exchange differences on translation of foreign operations		(153,953)	66,402
Other comprehensive (loss) income for the year		(520,836)	584,205
Total comprehensive loss for the year		(1,279,621)	(4,814,169)
Attributable to:			
Equity holders of the Parent Company		(1,325,712)	(4,912,074)
Non-controlling interest		46,091	97,905
Total comprehensive loss for the year		(1,279,621)	(4,814,169)

The attached notes 1 to 19 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	<i>Notes</i>	2010 KD	2009 KD
ASSETS			
Bank balances and cash		560,728	1,034,783
Financial assets at fair value through income statement	6	1,335,754	1,397,484
Other assets		200,222	183,750
Qard Hassan to policyholders	7	1,234,234	787,281
Financial assets available for sale	8	6,046,333	8,220,603
Investment deposit	9	1,443,076	681,018
Investment properties	10	2,634,296	2,247,304
Furniture and equipment		223,901	87,765
TOTAL ASSETS		13,678,544	14,639,988
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY			
Share capital	11	11,025,000	11,025,000
Share premium		7,340,937	7,340,937
Treasury shares	12	(50,489)	(43,637)
Treasury shares reserve		3,508	3,508
Statutory reserve	13	388,139	388,139
Voluntary reserve	14	388,139	388,139
Cumulative changes in fair value		50,571	417,454
Foreign currency translation adjustment		(39,680)	52,692
Employee share purchase plan reserve	15	65,964	65,964
Accumulated losses		(7,998,421)	(7,131,964)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		11,173,668	12,506,232
Non controlling interest		839,050	690,570
TOTAL EQUITY		12,012,718	13,196,802
LIABILITIES			
Other liabilities		530,418	461,006
Amounts due to policyholders	7	1,135,408	982,180
TOTAL LIABILITIES		1,665,826	1,443,186
TOTAL EQUITY AND LIABILITIES		13,678,544	14,639,988

Abdulla Yousef Al-Saif
Chairman

Abdullah Mishari Al Humaidi
Vice Chairman

The attached notes 1 to 19 form part of these consolidated financial statements.

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

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2010

	<i>Notes</i>	2010 <i>KD</i>	2009 <i>KD</i>
OPERATING ACTIVITIES			
Loss for the year		(758,785)	(5,398,374)
Adjustments for:			
Net investment loss	3	1,743,815	5,304,083
Change in fair value of investment properties	10	(386,992)	(34,393)
Shareholders' share of insurance surplus	16	(347,736)	(60,136)
Management fees from policyholders	16	(520,063)	-
Employees' share purchase plan expense		-	19,509
Depreciation		44,389	16,854
Change in operating assets and liabilities::			
Other assets		(16,472)	169,470
Other liabilities		69,412	(541,698)
Net cash used in operating activities		(172,432)	(524,685)
INVESTING ACTIVITIES			
Purchase of furniture and equipment		(180,525)	(74,422)
Net movements in investment deposit		(762,058)	(530,733)
Purchase of financial assets available for sale		-	(52,501)
Net movement in non-controlling interest		40,808	26,561
Profit from investment deposit received		125,302	212,534
Net cash used in investing activities		(776,473)	(418,561)
FINANCING ACTIVITIES			
Purchase of treasury shares		(6,852)	(4,607)
Net movement in policyholders' account		574,074	286,729
Net cash from financing activities		567,222	282,122
Foreign currency translation differences		(92,372)	39,841
DECREASE IN BANK BALANCES AND CASH		(474,055)	(621,283)
Bank balances and cash at the beginning of the year		1,034,783	1,656,066
BANK BALANCES AND CASH AT THE END OF THE YEAR		560,728	1,034,783

The attached notes 1 to 19 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	<i>Attributable to equity holders of the Parent Company</i>												
	<i>Share capital</i>	<i>Share premium</i>	<i>Treasury shares</i>	<i>Treasury shares reserve</i>	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Cumulative changes in fair value</i>	<i>Foreign currency translation adjustment</i>	<i>Employee share purchase plan reserve</i>	<i>Accumulated losses</i>	<i>Sub total</i>	<i>Non controlling interest</i>	<i>Total equity</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Balance at 1 January 2010	11,025,000	7,340,937	(43,637)	3,508	388,139	388,139	417,454	52,692	65,964	(7,131,964)	12,506,232	690,570	13,196,802
(Loss) profit for the year	-	-	-	-	-	-	-	-	-	(866,457)	(866,457)	107,672	(758,785)
Other comprehensive loss	-	-	-	-	-	-	(366,883)	(92,372)	-	-	(459,255)	(61,581)	(520,836)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(366,883)	(92,372)	-	(866,457)	(1,325,712)	46,091	(1,279,621)
Purchase of treasury shares	-	-	(6,852)	-	-	-	-	-	-	-	(6,852)	-	(6,852)
Capital increase by the subsidiary	-	-	-	-	-	-	-	-	-	-	-	102,389	102,389
At 31 December 2010	11,025,000	7,340,937	(50,489)	3,508	388,139	388,139	50,571	(39,680)	65,964	(7,998,421)	11,173,668	839,050	12,012,718
At 1 January 2009	11,025,000	7,340,937	(39,030)	3,508	388,139	388,139	(100,349)	12,851	46,455	(1,662,246)	17,403,404	592,665	17,996,069
(Loss) profit for the year	-	-	-	-	-	-	-	-	-	(5,469,718)	(5,469,718)	71,344	(5,398,374)
Other comprehensive income	-	-	-	-	-	-	517,803	39,841	-	-	557,644	26,561	584,205
Total comprehensive income (loss) for the year	-	-	-	-	-	-	517,803	39,841	-	(5,469,718)	(4,912,074)	97,905	(4,814,169)
Share based payment expense	-	-	-	-	-	-	-	-	19,509	-	19,509	-	19,509
Purchase of treasury shares	-	-	(4,607)	-	-	-	-	-	-	-	(4,607)	-	(4,607)
At 31 December 2009	11,025,000	7,340,937	(43,637)	3,508	388,139	388,139	417,454	52,692	65,964	(7,131,964)	12,506,232	690,570	13,196,802

The attached notes 1 to 19 form part of these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

1 CORPORATE INFORMATION

The consolidated financial statements of Wethaq Takaful Insurance Company K.S.C. (Closed) (the “Parent Company”) and its subsidiary (the “Group”) for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 9 March 2011 and are issued subject to the approval of the Ordinary Annual General Assembly of the shareholders.

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

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

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

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

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

2.1 BASIS OF PREPARATION

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

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

STATEMENT OF COMPLIANCE

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

BASIS OF CONSOLIDATION

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary (the “Group”) as at 31 December 2010 which is listed below:

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Interest in equity %</i>		<i>Principal activities</i>
		<i>2010</i>	<i>2009</i>	
Wethaq Takaful Insurance Company	Egypt	60%	60%	Insurance and reinsurance activities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

2.1 BASIS OF PREPARATION (continued)

BASIS OF CONSOLIDATION (continued)

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

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

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

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

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

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

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

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the shareholders of the Company, unless the non controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non controlling interest and the shareholders of the Company.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying values of such investments at 1 January 2010 have not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except for the newly adopted IFRSs effective for the annual periods beginning on or after 1 January 2010.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The Group has adopted the following new applicable and amended IFRSs during the year:

- IFRS 3R Business Combinations (effective from the period beginning on or after 1 July 2009)
- IAS 27R Consolidated and Separate Financial Statements (effective from the period beginning on or after 1 July 2009)

IFRS 3R Business Combinations

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after effective date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27R Consolidated and Separate Financial Statements

IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following IASB Standards and IFRIC interpretation applicable to the Group have been issued but are not yet mandatory, and have not yet been adopted by the Group:

IFRS 7: Financial Instruments: Disclosures - amendments (effective 1 January 2011)

IFRS 9: Financial Instruments: Classification and Measurement (effective 1 January 2013)

IAS 1: Presentation of Financial Statements - amendments (effective 1 January 2011)

IAS 24: Related Party Disclosures (effective 1 January 2011)

IFRS 7 (amendments) - effective for annual periods beginning on or after 1 January 2011, clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.

IFRS 9 Financial Instruments - 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 as defined in IAS 39. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IAS 1 (amendments) - effective for annual periods beginning on or after 1 January 2011, clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the consolidated financial statements.

Revised IAS 24 'Related party disclosures', issued in November 2009. The amendment clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government related entities or for the entire standard.

Annual improvements to IFRSs

The IASB has issued in May 2010 "Improvements to IFRSs", an annual publication to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of a major project. Unless otherwise specified, the amendments are effective for annual periods beginning on or after 1 January 2011, with earlier application permitted.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

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

Financial assets and liabilities

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

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

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

Financial assets at fair value through income statement

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

Financial assets available for sale

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

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

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

Other liabilities

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

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

Investments

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

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

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

Other financial assets and liabilities

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

Impairment and uncollectibility of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets (continued)

Impairment is determined as follows:

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

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

Offsetting of financial assets and liabilities

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

Qard Hassan from shareholders

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

Investment properties

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

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

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

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

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

Furniture and equipment

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Furniture and equipment (continued)

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

Treasury shares

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

When the treasury shares are sold, gains are credited to a separate account in equity (treasury share reserve) which is non distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury share reserve amount. No cash dividends are distributed on these shares.

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

Share-based payment

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

Share-based payment transaction

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

Equity-settled transactions

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

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

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

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

Key sources of estimation uncertainty

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

Classification of financial assets and liabilities

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

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

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

Valuation of investment properties

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

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

Valuation of unquoted equity investments

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

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

Impairment of investments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Key sources of estimation uncertainty (continued)

Impairment of receivables

An estimate of the collectible amount of receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

3 NET INVESTMENT LOSS

	2010 KD	2009 KD
Realised and unrealised loss on financial assets at fair value through income statement	(61,730)	(851,329)
Realised gain on financial assets available for sale	-	576,539
Impairment loss on financial assets available for sale	(1,807,387)	(5,241,827)
Profit income	125,302	199,124
Others	-	13,410
	<u>(1,743,815)</u>	<u>(5,304,083)</u>

4 LOSS FOR THE YEAR

	2010 KD	2009 KD
Loss for the year is stated after charging:		
Staff costs	-	19,509
Depreciation	<u>44,389</u>	<u>16,854</u>

5 BASIC AND DILUTED LOSS PER SHARE

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

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

	2010	2009
Loss for the year attributable to equity holders of the Parent Company (KD)	<u>(866,457)</u>	<u>(5,469,718)</u>
Weighted average number of ordinary shares for basic loss per share (excluding treasury shares)	109,852,829	109,984,336
Effect of dilution from weighted average number of share options outstanding	2,379,705	1,864,471
Adjusted weighted average number of ordinary shares for diluted loss per share	<u>112,232,534</u>	<u>111,848,807</u>
Basic and diluted loss per share attributable to equity holders of the Parent Company	<u>(7.89)</u>	<u>(49.73)</u>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	<i>2010</i>	<i>2009</i>
	<i>KD</i>	<i>KD</i>
<i>Quoted securities</i>		
Equities	378,117	33,077
Managed portfolios	957,637	1,364,407
	<u>1,335,754</u>	<u>1,397,484</u>

Unrealised loss is analysed as follows:

	<i>2010</i>	<i>2009</i>
	<i>KD</i>	<i>KD</i>
<i>Quoted securities</i>		
Equities	25,012	(18,373)
Managed portfolios	(86,742)	(832,956)
	<u>(61,730)</u>	<u>(851,329)</u>

7 QARD HASSAN AND AMOUNTS DUE TO POLICYHOLDERS

In accordance with the Parent Company's bylaws, policyholders' net deficit from each line of business of the takaful operations has been covered by Qard Hassan from shareholders. The Qard Hassan given by the shareholders for each line of business will be settled through surplus arising from such line of business in future years. As at 31 December 2010, cumulative Qard Hassan due from the policyholders amounted to KD 1,234,234 (2009: KD 787,281). The management of the Parent Company believes that the takaful business will be able to generate sufficient profits in future to repay the Qard Hassan.

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

	<i>2010</i>	<i>2009</i>
	<i>KD</i>	<i>KD</i>
At 1 January	(982,180)	31,694
Management fees from policyholders (Note 16)	520,063	-
Policyholders' deficit absorbed by Qard Hassan	(446,953)	(787,281)
Other movement in funds advanced by policyholders	(226,338)	(226,593)
At 31 December	<u>(1,135,408)</u>	<u>(982,180)</u>

8 FINANCIAL ASSETS AVAILABLE FOR SALE

	<i>2010</i>	<i>2009</i>
	<i>KD</i>	<i>KD</i>
<i>Quoted securities</i>		
Equities	277,315	138,850
<i>Unquoted securities</i>		
Equities	564,400	972,656
Managed equity funds	1,351,125	1,330,861
Managed portfolios	3,853,493	5,778,236
	<u>5,769,018</u>	<u>8,081,753</u>
	<u>6,046,333</u>	<u>8,220,603</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

8 FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

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

At year end, financial assets available for sale were assessed for impairment which resulted in the recognition of impairment loss amounting to KD 1,807,387 (2009: KD 5,241,827) in the consolidated income statement to account for significant or prolonged decline in the fair value of certain financial assets below their cost.

The unquoted equity investments amounting to KD 475,150 (2009: KD 731,130) are carried at cost due to the non availability of reliable measures of their fair values. Management has performed a review of its unquoted equity investments to assess whether impairment has occurred in the value of these investments due to the impact of the global financial crisis. In the opinion of the management, no impairment is required to be recognised for the year ended 31 December 2010 in respect of these investments.

9 INVESTMENT DEPOSIT

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

10 INVESTMENT PROPERTIES

	<i>2010</i>	<i>2009</i>
	<i>KD</i>	<i>KD</i>
At 1 January	2,247,304	389,340
Additions	-	1,823,571
Change in fair value of investment properties	386,992	34,393
At 31 December	<u>2,634,296</u>	<u>2,247,304</u>

11 SHARE CAPITAL

	<i>Authorised, issued and fully paid</i>	
	<i>2010</i>	<i>2009</i>
	<i>KD</i>	<i>KD</i>
Shares of 100 fils each	<u>11,025,000</u>	<u>11,025,000</u>

12 TREASURY SHARES

	<i>2010</i>	<i>2009</i>
Number of shares	<u>445,500</u>	<u>325,500</u>
Percentage of issued shares (%)	<u>0.41%</u>	<u>0.30%</u>
Market value (KD)	<u>21,384</u>	<u>18,879</u>

13 STATUTORY RESERVE

In accordance with the Law of Commercial Companies and the Parent Company's articles of association, 10% of the profit for the year before zakat, directors' fees, KFAS and NLST should be transferred to statutory reserve. The Parent Company may resolve to discontinue such transfers when the reserve equals 50% of paid up share capital. No transfer has been made to statutory reserve since losses have been incurred for the year ended 31 December 2010.

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

14 VOLUNTARY RESERVE

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

15 SHARE OPTIONS SCHEME

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

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

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

No options were exercised during the year (2009: Nil).

Options totalling 5,211,750 shares were outstanding at 31 December 2010 (2009: 3,006,750 shares) and had a weighted average exercise price of 29 fils (2009: 35 fils).

The average fair value of share options granted until 31 December 2010 is KD 286,646 (2009: KD 174,391).

16 POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND

The significant accounting policies used in accounting for the insurance business are set out below. Policies used in accounting for other accounts and transactions are the same as those adopted by the Group. The accounting policies are consistent with those used in the previous year.

Revenue recognition

Premium earned

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

Policy issuance fees and policy acquisition cost

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

Reinsurance commissions earned and paid

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

Reinsurance contracts held

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

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

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

Reinsurance contracts held (continued)

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

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

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

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

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

Claims

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

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

Liability adequacy test

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

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

Unearned premiums reserve

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

Life mathematical reserve

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

Outstanding claims reserve

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

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

Reserve for claims incurred but not reported (IBNR)

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

Estimation uncertainty

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

Provision for outstanding claims and IBNR

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

Reinsurance

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

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

Year ended 31 December 2010

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

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

Estimation uncertainty (continued)

Net surplus (deficit) from insurance operations	<u>59,536</u>	<u>725,705</u>	<u>(74,817)</u>	<u>(60,955)</u>	<u>649,469</u>
Shareholders' share of insurance surplus from subsidiary					(347,736)
Management fees to shareholders of the Parent Company					(520,063)
Insurance deficit transferred to policyholders' fund					<u>(218,330)</u>

The policyholders of the subsidiary transferred KD 347,736 (2009: 60,136) to shareholders of subsidiary from total insurance surplus of KD 576,359 (2009: KD 100,229).

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

Year ended 31 December 2009

	<i>Marine and aviation KD</i>	<i>General accident KD</i>	<i>Fire KD</i>	<i>Life KD</i>	<i>Total KD</i>
Premium written	220,405	7,521,276	576,806	219,059	8,537,546
Reinsurance premiums ceded	(194,523)	(121,373)	(474,226)	(37,230)	(827,352)
	<u>25,882</u>	<u>7,399,903</u>	<u>102,580</u>	<u>181,829</u>	<u>7,710,194</u>
Movement in unearned premiums	6,039	(2,603,616)	(13,234)	-	(2,610,811)
Net premiums earned	<u>31,921</u>	<u>4,796,287</u>	<u>89,346</u>	<u>181,829</u>	<u>5,099,383</u>
Policy issuance fees and others	24,610	551,049	2,699	1,820	580,178
Reinsurance commission	65,270	127,420	125,216	1,500	319,406
Total revenues	<u>121,801</u>	<u>5,474,756</u>	<u>217,261</u>	<u>185,149</u>	<u>5,998,967</u>
Claims incurred	4,164	2,399,275	50,409	326,499	2,780,347
Movement in provision for claims incurred but not reported	(6,974)	144,825	596	-	138,447
Life mathematical reserve	-	-	-	(90,849)	(90,849)
Policy acquisition costs	9,746	850,474	52,609	453	913,282
Other insurance expenses	10,646	687,745	34,222	-	732,613
Total expenses	<u>17,582</u>	<u>4,082,319</u>	<u>137,836</u>	<u>236,103</u>	<u>4,473,840</u>
Surplus from insurance operations	104,219	1,392,437	79,425	(50,954)	1,525,127
Allocation of general and administrative expenses	(136,828)	(1,416,603)	(336,176)	(154,080)	(2,043,687)
Net deficit from insurance operations	<u>(32,609)</u>	<u>(24,166)</u>	<u>(256,751)</u>	<u>(205,034)</u>	<u>(518,560)</u>
Investment loss	(16,017)	(11,837)	(37,746)	(18,754)	(84,354)
Net deficit from insurance operations	<u>(48,626)</u>	<u>(36,003)</u>	<u>(294,497)</u>	<u>(223,788)</u>	<u>(602,914)</u>
Shareholders' share of insurance surplus from subsidiary (Note 7)					(60,136)
Insurance deficit transferred to policyholders' fund					<u>(663,050)</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

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

POLICYHOLDERS' ASSETS AND LIABILITIES

	<i>2010</i>	<i>2009</i>
	<i>Marine and aviation, general accident, fire and life KD</i>	<i>Marine and aviation, general accident, fire and life KD</i>
Assets		
Bank balances and cash	285,263	1,279,993
Investment deposits	7,344,762	5,258,603
Financial assets at fair value through income statement	994,461	925,894
Islamic financing receivables	338,534	546,124
Accounts receivable and prepayments	1,218,175	1,226,039
Premiums receivable	1,762,165	1,598,077
Financial assets available for sale	970,157	970,157
Reinsurance recoverable on outstanding claims	1,469,144	1,405,745
Reinsurance premiums receivable	243,761	184,633
Amounts due from shareholders (Note 7)	1,135,408	982,180
Leasehold land	277,750	277,750
Furniture and equipment	159,265	190,372
	<u>16,198,845</u>	<u>14,845,567</u>
Liabilities		
Reinsurance balances payable	759,877	788,534
Unearned premiums	3,378,493	3,598,898
Outstanding claims reserve	8,378,232	7,874,394
Reserve for claims incurred but not reported	603,817	424,107
Reserve retained on reinsurance business	505,481	320,021
Premiums received in advance	646,032	394,557
Other insurance reserves	585,158	273,312
Accounts payable and accruals	1,086,531	1,131,133
	<u>15,943,621</u>	<u>14,804,956</u>
Policyholders' fund		
Net deficit from insurance operations	(979,010)	(746,670)
Qard Hassan from shareholders (Note 7)	1,234,234	787,281
	<u>255,224</u>	<u>40,611</u>
Total policyholders' fund	<u>255,224</u>	<u>40,611</u>
Total liabilities and policyholders' fund	<u>16,198,845</u>	<u>14,845,567</u>
CHANGES IN POLICYHOLDERS' FUND		
	<i>2010</i>	<i>2009</i>
	<i>KD</i>	<i>KD</i>
At 1 January	(746,670)	(83,620)
Net deficit from insurance operations	(218,330)	(663,050)
Exchange difference on translation of foreign operations	(14,010)	-
	<u>(979,010)</u>	<u>(746,670)</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

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

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

Islamic financing receivables are carried at cost less impairment provision amounting to KD 753,713 (2009: 546,124).

17 RELATED PARTY TRANSACTIONS

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

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

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Shareholders		
<i>Consolidated income statement</i>		
Realised gain on sale of financial assets available for sale	-	576,539
Impairment loss on financial assets available for sale	1,490,792	5,241,827
Allowances and other benefits	73,000	73,000
<i>Consolidated statement of financial position</i>		
Financial assets at fair value through income statement	110,216	430,869
Financial assets available for sale	3,853,477	5,778,262
Accounts payable	338,534	338,534
Policyholders		
<i>Consolidated income statement</i>		
Premiums written	67,004	13,964
Investment loss	(16,727)	(88,663)
<i>Consolidated statement of financial position</i>		
Financial assets at fair value through income statement	658,726	675,453
Financial assets available for sale	787,500	787,500
Premiums receivable	-	11,250
<i>Key management personnel compensation</i>		
Short-term employee benefits	149,280	137,196
Termination benefits	3,897	10,596

18 RISK MANAGEMENT

Governance framework

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

Regulatory framework

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

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

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

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

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

18.1 INSURANCE RISK

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

Frequency and amounts of claims

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

18 RISK MANAGEMENT (continued)

18.1 INSURANCE RISK (continued)

Fire and accident

Fire

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

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Parent Company has treaty reinsurance cover for such damage to limit losses for any individual claim to KD 3,000,000 and any claim exceeding this limit is covered by facultative placement.

Motor

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

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

Marine

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Parent Company has automatic reinsurance cover to limit losses for any individual claim to KD 1,400,000 (net retention of KD 25,000) and any claim exceeding this limit is covered by facultative placement.

Life

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

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

Reinsurance risk

In order to minimise financial exposure arising from large claims, the Group, in the normal course of business, enters into agreements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth.

To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

18 RISK MANAGEMENT (continued)

18.1 INSURANCE RISK (continued)

Reinsurance risk (continued)

Reinsurance ceded contracts do not relieve the Group from its obligations to policyholders and as a result the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

The policyholders' five largest reinsurers account for 71% of the credit exposure at 31 December 2010 (2009: 69%).

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

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

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

Non-life insurance contracts

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

18 RISK MANAGEMENT (continued)

18.1 INSURANCE RISK (continued)

Non-life insurance contracts (continued)

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

	<i>31 December 2010</i>			<i>31 December 2009</i>		
	<i>Gross liabilities KD</i>	<i>Reinsurers' share of liabilities KD</i>	<i>Net liabilities KD</i>	<i>Gross liabilities KD</i>	<i>Reinsurers' share of liabilities KD</i>	<i>Net liabilities KD</i>
Marine and aviation	190,172	108,016	82,156	206,330	86,691	119,639
Fire	544,594	202,096	342,498	513,836	220,963	292,873
General accident	13,362,463	1,095,618	12,266,845	12,165,123	1,282,724	10,882,399
Total	<u>14,097,230</u>	<u>1,405,730</u>	<u>12,691,500</u>	<u>12,885,289</u>	<u>1,590,378</u>	<u>11,294,911</u>

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

	<i>31 December 2010</i>			<i>31 December 2009</i>		
	<i>Gross liabilities KD</i>	<i>Reinsurers' share of liabilities KD</i>	<i>Net liabilities KD</i>	<i>Gross liabilities KD</i>	<i>Reinsurers' share of liabilities KD</i>	<i>Net Liabilities KD</i>
Kuwait	8,392,338	963,031	7,429,307	8,645,713	1,261,421	7,384,292
Egypt	5,704,892	442,699	5,262,193	4,239,576	328,957	3,910,619
Total	<u>14,097,230</u>	<u>1,405,730</u>	<u>12,691,500</u>	<u>12,885,289</u>	<u>1,590,378</u>	<u>11,294,911</u>

Key assumptions

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

18 RISK MANAGEMENT (continued)

18.2 FINANCIAL RISK

(1) Credit risk

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

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

- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits. The management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- The Group sets the maximum amounts and limits that may be advanced to corporate counterparties by assessment of respective individual cases.
- The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.
- Net exposure limits are set for each counterparty or group of counterparties and industry segment (i.e. limits are set for investments and cash deposits and minimum credit ratings for investments that may be held).

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

31 December 2010	2010	2009
	KD	KD
Shareholders		
Bank balances and cash	560,728	1,034,783
Investment deposits	1,443,076	681,018
Other assets	200,222	183,750
Total credit risk exposure	2,204,026	1,899,551
Policyholders		
Bank balances and cash	285,263	1,279,993
Investment deposits	7,344,762	5,258,603
Islamic financing receivables	338,534	546,124
Accounts receivable and prepayments	1,218,175	1,226,039
Premiums receivable	1,762,165	1,598,077
Reinsurance recoverable on outstanding claims	1,469,144	1,405,745
Reinsurance premiums receivable	243,761	184,633
Amounts due from shareholders	1,135,408	982,180
Total credit risk exposure	13,797,212	12,481,394

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

18 RISK MANAGEMENT (continued)

18.2 FINANCIAL RISK (continued)

(1) Credit risk (continued)

Credit exposure by credit rating

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

	<i>Neither past due nor impaired</i>			<i>Total</i> KD
	<i>High grade</i> KD	<i>Standard grade</i> KD	<i>Past due but not impaired</i> KD	
31 December 2010				
<i>Shareholders</i>				
Bank balances and cash	560,728	-	-	560,728
Other assets	-	16,472	183,750	200,222
Investment deposits	1,443,076	-	-	1,443,076
	<u>2,003,804</u>	<u>16,472</u>	<u>183,750</u>	<u>2,204,026</u>
<i>Policyholders</i>				
Bank balances and cash	285,263	-	-	285,263
Investment deposits	7,344,762	-	-	7,344,762
Islamic financing receivables	-	-	338,534	338,534
Accounts receivable and prepayments	-	-	1,218,175	1,218,175
Premiums receivable	-	-	1,762,165	1,762,165
Reinsurance recoverable on outstanding claims	-	-	1,469,144	1,469,144
Reinsurance premiums receivable	-	-	243,761	243,761
Amounts due from shareholders	-	-	1,135,408	1,135,408
	<u>7,630,025</u>	<u>-</u>	<u>6,167,187</u>	<u>13,797,212</u>
<i>Neither past due nor impaired</i>				
	<i>High grade</i> KD	<i>Standard grade</i> KD	<i>Past due but not impaired</i> KD	<i>Total</i> KD
31 December 2009				
<i>Shareholders</i>				
Bank balances and cash	1,034,783	-	-	1,034,783
Other assets	-	-	183,750	183,750
Investment deposits	681,018	-	-	681,018
	<u>1,715,801</u>	<u>-</u>	<u>183,750</u>	<u>1,899,551</u>
<i>Policyholders</i>				
Bank balances and cash	1,279,993	-	-	1,279,993
Investment deposits	5,258,603	-	-	5,258,603
Islamic financing receivables	-	-	546,124	546,124
Accounts receivable and prepayments	-	-	1,226,039	1,226,039
Premiums receivable	-	-	1,598,077	1,598,077
Reinsurance recoverable on outstanding claims	-	-	1,405,745	1,405,745
Reinsurance premiums receivable	-	-	184,633	184,633
Amounts due from shareholders	-	-	982,180	982,180
	<u>6,538,596</u>	<u>-</u>	<u>5,942,798</u>	<u>12,481,394</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

18 RISK MANAGEMENT (continued)

18.2 FINANCIAL RISK (continued)

(1) *Credit risk (continued)*

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

	<i>Less than 90 days KD</i>	<i>91 to 180 days KD</i>	<i>Above 180 days KD</i>	<i>Total past due but not impaired KD</i>
31 December 2010				
<i>Shareholders</i>				
Other assets	-	-	183,750	183,750
<i>Policyholders</i>				
Islamic financing receivables	-	-	338,534	338,534
Accounts receivable and prepayments	641,664	524,404	52,107	1,218,175
Premiums receivable	698,252	343,707	720,206	1,762,165
Reinsurance recoverable on outstanding claims	-	1,469,144	-	1,469,144
Reinsurance premiums receivable	-	243,761	-	243,761
Amounts due from shareholders	1,135,408	-	-	1,135,408
Total	2,475,324	2,581,016	1,110,847	6,167,187
31 December 2009				
<i>Shareholders</i>				
Other assets	-	-	183,750	183,750
<i>Policyholders</i>				
Islamic financing receivables	-	-	546,124	546,124
Accounts receivable and prepayments	514,194	129,712	582,133	1,226,039
Premiums receivable	762,745	502,370	332,962	1,598,077
Reinsurance recoverable on outstanding claims	-	1,405,745	-	1,405,745
Reinsurance premiums receivable	-	184,633	-	184,633
Amounts due from shareholders	982,180	-	-	982,180
Total	2,259,119	2,222,460	1,461,219	5,942,798

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

18 RISK MANAGEMENT (continued)

18.2 FINANCIAL RISK (continued)

(2) Liquidity risk

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

18 RISK MANAGEMENT (continued)

18.2 FINANCIAL RISK (continued)

(2) Liquidity risk (continued)

	<i>Up to 1 year KD</i>	<i>Above 1 year KD</i>	<i>Total KD</i>
31 December 2010			
<i>Policyholders</i>			
LIABILITIES			
Reinsurance balances payable	759,877	-	759,877
Unearned premiums	3,378,493	-	3,378,493
Outstanding claims reserve	5,600,849	2,777,383	8,378,232
Reserve for claims incurred but not reported	603,817	-	603,817
Reserve retained on reinsurance business	269,977	235,504	505,481
Premiums received in advance	462,901	183,131	646,032
Other insurance reserves	585,158	-	585,158
Accounts payable and accruals	1,086,531	-	1,086,531
TOTAL LIABILITIES	12,747,603	3,196,018	15,943,621
NET LIQUIDITY	(5,300,692)	5,555,916	255,224
31 December 2009			
<i>Shareholders</i>			
ASSETS			
Bank balances and cash	1,034,783	-	1,034,783
Financial assets at fair value through income statement	1,397,484	-	1,397,484
Other assets	183,750	-	183,750
Financial assets available for sale	-	8,220,603	8,220,603
Qard Hassan to policyholders	-	787,281	787,281
Investment deposit	681,018	-	681,018
Investment properties	-	2,247,304	2,247,304
Furniture and equipment	-	87,765	87,765
TOTAL ASSETS	3,297,035	11,342,953	14,639,988
LIABILITIES			
Other liabilities	461,006	-	461,006
Amounts due to policyholders	982,180	-	982,180
TOTAL LIABILITIES	1,443,186	-	1,443,186
NET LIQUIDITY	1,853,849	11,342,953	13,196,802
<i>Policyholders</i>			
ASSETS			
Bank balances and cash	1,279,993	-	1,279,993
Investment deposits	-	5,258,603	5,258,603
Financial assets at fair value through income statement	925,894	-	925,894
Islamic financing receivables	546,124	-	546,124
Accounts receivable and prepayments	1,226,039	-	1,226,039
Premiums receivable	1,598,077	-	1,598,077
Financial assets available for sale	-	970,157	970,157
Reinsurance recoverable on outstanding claims	1,405,745	-	1,405,745
Reinsurance premiums receivable	184,633	-	184,633
Amounts due from shareholders	982,180	-	982,180
Leasehold land	-	277,750	277,750
Furniture and equipment	-	190,372	190,372
TOTAL ASSETS	8,148,685	6,696,882	14,845,567

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

18 RISK MANAGEMENT (continued)

18.2 FINANCIAL RISK (continued)

(2) Liquidity risk (continued)

31 December 2009	Up to 1 year KD	Above 1 year KD	Total KD
<i>Policyholders</i>			
LIABILITIES			
Reinsurance balances payable	788,534	-	788,534
Unearned premiums	3,598,898	-	3,598,898
Outstanding claims reserve	5,264,033	2,610,361	7,874,394
Reserve for claims incurred but not reported	-	424,107	424,107
Reserve retained on reinsurance business	170,923	149,098	320,021
Premiums received in advance	478,548	189,321	667,869
Accounts payable and accruals	1,131,133	-	1,131,133
TOTAL LIABILITIES	11,432,069	3,372,887	14,804,956
NET LIQUIDITY	(3,283,384)	3,323,995	40,611

(3) Market risk

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

Market risk comprises three types of risk: foreign exchange rates (currency risk), market profit rates (profit rate risk) and market prices (equity price risk).

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

(a) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is not exposed to significant currency risk, because the Group's significant transactions, assets and liabilities are dominated in its functional currency.

(b) Profit rate risk

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

(c) Equity price risk

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

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

	Increase in equity price in %	31 December 2010		31 December 2009	
		Effect on loss KD	Effect on OCI KD	Effect on loss KD	Effect on OCI KD
Shareholders					
Quoted investments	5%	18,906	13,866	1,654	6,943
Managed portfolios	5%	47,882	17,810	68,220	30,139

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

18 RISK MANAGEMENT (continued)

18.2 FINANCIAL RISK (continued)

(3) Market risk (continued)

(c) Equity price risk

Policyholders	Increase in equity price in %	31 December 2010		31 December 2009	
		Effect on Loss KD	Effect on OCI KD	Effect on loss KD	Effect on OCI KD
Managed portfolios	5%	24,656	-	33,773	-

The decrease in equity price percentage will have the opposite effect on loss and OCI.

18.3 CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009. Capital comprises equity attributable to shareholders of the Parent Company excluding cumulative change in fair values reserve, and is measured at KD 11,123,097 as at 31 December 2010 (2009: KD 12,088,778).

19 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

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

The fair values of financial instruments with the exception of certain available for sale investments carried at cost (Note 8) are not significantly different from their carrying values at the reporting date.

As at 31 December 2010, the Group held the following financial instruments measured at fair value:

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

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

19 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Financial assets measured at fair value:

At 31 December 2010	<i>Total</i>	<i>Level 1</i>	<i>Level 3</i>
Shareholders	<i>KD</i>	<i>KD</i>	<i>KD</i>
Financial assets at fair value through income statement	1,335,754	1,335,754	-
Financial assets available for sale	5,571,183	277,315	5,293,868
	6,906,937	1,613,069	5,293,868
At 31 December 2010	<i>Total</i>	<i>Level 1</i>	<i>Level 3</i>
Policyholders	<i>KD</i>	<i>KD</i>	<i>KD</i>
Financial assets at fair value through income statement	994,461	493,120	501,341
At 31 December 2009	<i>Total</i>	<i>Level 1</i>	<i>Level 3</i>
Shareholders	<i>KD</i>	<i>KD</i>	<i>KD</i>
Financial assets at fair value through income statement	1,397,484	1,397,484	-
Financial assets available for sale	7,489,473	138,850	7,350,623
	8,886,957	1,536,334	7,350,623
At 31 December 2009	<i>Total</i>	<i>Level 1</i>	<i>Level 3</i>
Policyholders	<i>KD</i>	<i>KD</i>	<i>KD</i>
Financial assets at fair value through income statement	925,894	501,726	424,168

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

During the year ended 31 December 2010, there were no transfers between level 1 and level 3 fair value measurements. The decrease in Level 3 financial assets available for sale of shareholders is on account of impairment amounting to KD 1,727,669 and unrealised losses recognised in the other comprehensive income amounting to KD 473,086. The increase in Level 3 financial assets at fair value through income statement of policyholders is on account of unrealised gain amounting to KD 77,173. The calculation of fair value of level 3 financial instruments is not materially sensitive to changes in assumptions.

