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

FINANCIAL STATEMENTS

31 DECEMBER 2008

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	***2008*** ***KD***	*2007* *KD*
Net investment (loss) income	3	**(2,446,984)**	129,578
Shareholders' share of insurance surplus	10	**-**	403,155
Loss from insurance operation	11	**(94,830)**	-
Islamic financing income	4	**13,719**	150,954
Other income	11	**1,181**	-
Allowances and other benefits		**(79,250)**	(78,000)
General and administrative expenses		**(24,396)**	(9,959)
(LOSS) PROFIT BEFORE ZAKAT, DIRECTORS' FEES, CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS) AND NATIONAL LABOUR SUPPORT TAX		**(2,630,560)**	595,728
Zakat		**-**	(292)
Directors' fees	5	**(7,000)**	(7,000)
Contribution to KFAS		**-**	(5,362)
National Labour Support Tax (NLST)		**-**	(11,960)
(LOSS) PROFIT FOR THE YEAR		**(2,637,560)**	571,114
Attributable to:			
Equity holders of the parent company		**(2,639,392)**	571,114
Minority interest		**1,832**	-
		(2,637,560)	571,114
BASIC (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	6	**(23.98) fils**	5.18 fils
DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	6	**(23.98) fils**	5.18 fils

The attached notes 1 to 20 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
At 31 December 2008

	Notes	***2008 KD***	*2007 KD*
ASSETS			
Bank balances and cash		**1,656,066**	1,502,533
Investments carried at fair value through income statement	7	**2,248,813**	2,838,941
Islamic financing receivables	8	**-**	1,719,090
Available for sale investments	9	**13,700,624**	15,033,737
Amounts due from policyholders	10	**31,694**	-
Investment properties		**389,340**	389,340
Investment deposit	11	**150,285**	-
Premiums and insurance balances receivable	11	**110,092**	-
Other assets		**243,128**	501,509
Furniture and equipment	11	**30,197**	-
TOTAL ASSETS		**18,560,239**	21,985,150
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company			
Share capital	12	**11,025,000**	11,025,000
Share premium		**7,340,937**	7,340,937
Statutory reserve	13	**388,139**	388,139
Voluntary reserve	14	**388,139**	388,139
Cumulative changes in fair values		**(100,349)**	660,646
Foreign currency translation reserve		**12,851**	-
Retained earnings		**(1,662,246)**	975,314
Treasury shares	15	**(39,030)**	-
Treasury shares reserve		**3,508**	-
Share options reserve	16	**46,455**	-
Total equity attributable to equity holders of the parent company		**17,403,404**	20,778,175
Minority interest		**592,665**	595,032
Total equity		**17,996,069**	21,373,207
Liabilities			
Reinsurance balances payable	11	**24,654**	-
Liabilities arising from insurance contracts	11	**375,390**	-
Amounts due to policyholders	10	**-**	501,873
Other liabilities		**164,126**	110,070
Total liabilities		**564,170**	611,943
TOTAL EQUITY AND LIABILITIES		**18,560,239**	21,985,150

Abdulla Yousef Al-Saif
Chairman

Nabil Ahmed Amin
Vice Chairman

The attached notes 1 to 20 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	2008	*2007*
	KD	*KD*
OPERATING ACTIVITIES		
(Loss) profit for the year	**(2,637,560)**	571,114
Adjustments for:		
Net investment (loss) income	**2,446,984**	(129,578)
Islamic financing income	**(13,719)**	(150,954)
Shareholders' share of insurance surplus	**-**	(403,155)
Depreciation charge	**1,179**	-
	(203,116)	(112,573)
Changes in operating assets and liabilities:		
Premiums and insurance balances receivable	**(110,092)**	
Investments carried at fair value through income statement	**(1,689,749)**	(88,144)
Other assets	**287,636**	(207,411)
Liabilities arising from insurance contracts	**375,390**	-
Reinsurance balances payable	**24,654**	-
Other liabilities	**54,056**	(14,791)
Net cash used in operating activities	**(1,261,221)**	(334,775)
INVESTING ACTIVITIES		
Purchase of property and equipment	**(31,376)**	-
Net movements in investment deposit	**(150,285)**	-
Proceeds from sale of available for sale investments	**183,750**	312,661
Net movement in minority interest	**(2,367)**	595,032
Islamic financing income received	**1,732,809**	9,743
Profit from investment deposit received	**90,200**	-
Dividends income received	**101,806**	81,400
Net cash from investing activities	**1,924,537**	910,692
FINANCING ACTIVITIES		
Net movement in policyholders' account	**(533,567)**	911,663
Net cash (used in) from financing activities	**(533,567)**	911,663
Foreign currency translation differences	**23,784**	-
INCREASE IN BANK BALANCES AND CASH	**153,533**	1,487,580
Bank balances and cash at the beginning of the year	**1,502,533**	14,953
BANK BALANCES AND CASH AT THE END OF THE YEAR	**1,656,066**	1,502,533

The attached notes 1 to 20 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Attributable to equity holders of the parent company												
	Share capital KD	*Share premium KD*	*Statutory reserve KD*	*Voluntary reserve KD*	*Cumulative changes in fair values KD*	*Foreign currency translation reserve KD*	*Retained earnings KD*	*Treasury share KD*	*Treasury shares reserve KD*	*Share options reserve KD*	*Sub total KD*	*Minority interest KD*	*Total equity KD*
At 1 January 2007	11,025,000	7,340,937	328,566	328,566	565,912	-	523,346	-	-	-	20,112,327	-	20,112,327
Available for sale investments:													
Net movement in fair value (Note 9)	-	-	-	-	94,734	-	-	-	-	-	94,734	-	94,734
Transferred to consolidated income statement (Note 9)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the year recognised directly in equity	-	-	-	-	94,734	-	-	-	-	-	94,734	-	94,734
Profit for the year	-	-	-	-	-	-	571,114	-	-	-	571,114	-	571,114
Total income and expense for the year	-	-	-	-	94,734	-	571,114	-	-	-	665,848	-	665,848
Issuance of bonus shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase in share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to reserves	-	-	59,573	59,573	-	-	(119,146)	-	-	-	595,032	595,032	595,032
At 31 December 2007	11,025,000	7,340,937	388,139	388,139	660,646	-	975,314	-	-	-	20,778,175	595,032	21,373,207
Available for sale investments:													
Net movement in fair value (Note 9)	-	-	-	-	(913,113)	-	-	-	-	-	(913,113)	-	(913,113)
Impairment of investments available for sale changes to income statement	-	-	-	-	152,118	-	-	-	-	-	152,118	-	152,118
Foreign currency translation differences	-	-	-	-	-	12,851	-	-	-	-	12,851	-	12,851
Net (expense) income for the year recognised directly in equity	-	-	-	-	(760,995)	12,851	-	-	-	-	(748,144)	-	(748,144)
Profit for the year	-	-	-	-	-	-	(2,637,560)	-	-	-	(2,637,560)	-	(2,637,560)
Total income and expense for the year	-	-	-	-	(760,995)	12,851	(2,637,560)	-	-	-	(3,385,704)	-	(3,385,704)
Purchase of treasury shares	-	-		-	-	-	-	(156,620)			(156,620)	-	(156,620)
Share based payment expense	-	-	-	-	-	-	-	-	-	96,999	96,999	-	96,999
Sale of treasury shares in connection with share options exercised	-	-	-	-	-	-	-	117,590	3,508	(50,544)	70,554	-	70,554
Net movement in minority interest	-	-	-	-	-	-	-	-	-	-	-	(2,367)	(2,367)
At 31 December 2008	**11,025,000**	**7,340,937**	**388,139**	**388,139**	**(100,349)**	**12,851**	**(1,662,246)**	**(39,030)**	**3,508**	**46,455**	**17,403,404**	**592,665**	**17,996,069**

The attached notes 1 to 20 form part of these consolidated financial statements.

1 ACTIVITIES

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 2008 were authorised for issue in accordance with a resolution of the Board of Directors on 28 March 2009 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 transacting 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 accounts for policyholders and shareholders. Income and expenses clearly attributable to either activity are recorded in the respective accounts. Management and the board of directors determine the basis of allocation of expenses from joint operations.

The parent company's registered head office is at P.O. Box 371, Safat 13004, Kuwait.

Details of the subsidiary company are stated in note 2.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investments carried at fair value through income statement, available for sale investments and investment properties.

The consolidated financial statements are presented in Kuwaiti Dinars.

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Ministerial Order No. 18 of 1990.

Change in accounting policies
The accounting polices adopted are consistent with those used in the previous year, except as discussed in the following paragraphs:

International Accounting Standard Amended and Issued
Amendments to IAS 39: Financial Instruments: Recognition and Measurement
On 13 October 2008, the International Accounting Standards Board (IASB) approved and published amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures to allow reclassifications of certain financial instruments held for trading to either the held maturity, loans and receivables or available for sale categories with effect from 1 July 2008. The group did not use these amendments to IAS 39.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretations Committee Interpretation (IFRIC) Interpretations issued but not adopted
The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the group:

IFRS 8: Operating segments
This supersedes IAS 14 Segment Reporting. The IFRS is required to be applied for accounting period beginning from 1 January 2009 and will result in additional disclosure requirements in the group's consolidated financial statements in the future.

IAS 1 (Revised 2007): Presentation of financial statements
This supersedes IAS 1 *(Revised 2003).* The IAS is required to be applied for annual accounting period beginning from 1 January 2009 and will result in additional presentation and disclosure requirements.

IAS 23 (Revised 2007): Borrowing costs
The IFRS is required to be applied for annual accounting period beginning from 1 January 2009 and will most likely not have any impact on the accounting policies and disclosure requirements in the group's consolidated financial statements in the future.

Revised IFRS 3 – Business Combinations and consequential amendments to IAS 27 – Consolidated and Separate Financial Statements (applicable for business combinations for which the acquisition date is on or after the beginning of the reporting period be on or after 1 July 2009)

The main change to the standard that affects the group's current policies is that acquisition related costs are expensed in the consolidated income statement in the periods in which the costs are incurred and the services received, except for the cost of issue of equity (recognized directly in equity). Currently the group recognizes acquisition costs as part of the purchase consideration. Also changes in ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity and will have no impact on goodwill nor will it give rise to a gain or loss in the consolidated income statement.

IFRS 2 share based payment (Amendment)
This amendment to IFRS 2 Share-based payments was issued in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted.

The Group does not intend to apply any of the above pronouncements early.

Based on the Group's current business model and accounting policies, management does not expect material impact on the Group's consolidated financial statements in the period of initial applications of the above interpretations.

Basis of consolidation
The consolidated financial statements comprise the financial statements of Wethaq Takaful Insurance Company K.S.C. "the parent company" and its subsidiary listed below:

Name of company	*Country of incorporation*	*Interest in equity %*		*Principal activities*
		2008	*2007*	
Wethaq Takaful Insurance Company	Egypt	60	60	Insurance and reinsurance activities

The financial statements of the subsidiary company are consolidated on a line by line by adding together like items of assets, liabilities, income and expenses. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions, are eliminated on consolidation.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)
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. Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Minority interests represent the portion of profit or loss and net assets not held by the group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are 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 is recognised as goodwill.

Revenue recognition
Income from murabaha, ijara, wakala and investment deposits is recognised on a time apportionment basis. Dividend income is recognised when the right to receive payment is established.

Shareholders' share of insurance surplus is determined based on the parent company's bye-laws and Takaful practices and is recognised in the consolidated income statement upon approval by the board of directors.

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
In the normal course of business, the group cedes and assumes certain levels of risk in various areas of exposure with other insurance companies or reinsurers. Such reinsurance includes quota share, excess of loss, facultative and other forms of reinsurance on essentially all lines of business.

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

Liability adequacy test
At each balance sheet 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 balance sheet date.

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 uncertainly 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.

Investments
These are classified as follows:

- Investments carried at fair value through income statement
- Available for sale investments

All investments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instrument except for investments carried at fair value through income statement. Transaction costs in the case of investments carried at fair value through income statement are recognised in the consolidated income statement immediately.

Investments carried at fair value through income statement
Investments are classified as investments carried at fair value through income statement if the fair value of the investment can be reliably measured and the management designates them as investments carried at fair value through income statement. After initial recognition investments carried at fair value through income statement are carried at fair value with all changes in fair value recognised in the consolidated income statement.

Available for sale investments
After initial recognition available for sale investments are measured at fair value with gains and losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain and loss previously reported in equity is recognised in the consolidated income statement. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Investment properties
Investment properties are initially recorded at cost. Subsequently, investment properties are remeasured to fair value based on annual external valuation by independent, registered, real estate assessors or by reference to recent transactions in similar properties. Any gain or loss arising from a remeasurement to fair value is included in the consolidated income statement.

Islamic financing receivables
Murabaha receivables
Investments in murabaha are stated in the consolidated balance sheet at amounts due on maturity less that portion of the profit, which is attributable to the period after the balance sheet date.

Ijara receivables
Ijara is an Islamic transaction involving the group's purchase and immediate lease of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. Ijara receivables are carried at the aggregate of the minimum lease payments due, net of deferred income and provision for impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Islamic financing receivables (continued)
Wakala receivables
Wakala receivables are financial assets originated by the group. These are stated at amortised cost including provision for impairment. Wakala receivables comprise amounts invested with financial institutions for the onward deals by these institutions in various Islamic investment products.

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 other property and equipment as follows:

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

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.

Fair Value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models. For investments in managed funds and managed portfolios, fair value is based on the net asset values (NAV) provided directly by the investment fund managers. For investment properties, fair value is determined by independent, registered, real estate assessors or by reference to recent transactions in similar properties.

Impairment and uncollectibility of financial assets
An assessment is made at each consolidated balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated income statement.

Impairment is determined as follows:
a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated income statement.
b) For assets carried at cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

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. The reversal of impairment losses are recognised in the consolidated income statement except for available for sale equity investments which are recognised in the cumulative changes in fair values.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are retranslated to Kuwaiti Dinars at the rates of exchange rating at the balance sheet date. All differences are taken to consolidated income statement. Non-monetary assets denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates prevailing at the dates that values were determined. Any resultant gain or loss on non-monetary investments carried at fair value through income statement are recognised in the consolidated income statement and on non-monetary available for sale investments are recognised directly in equity.

Foreign subsidiaries
As at the reporting date, the assets and liabilities of a foreign subsidiary translated into the parent company's presentation currency (the Kuwaiti Dinars) at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to foreign exchange translation reserve under equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated income statement.

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.

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

Valuation of unquoted 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty (continued)

Valuation of investments 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.

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.

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

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

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

Classification of investments carried as fair value through income statement depends on how management monitor 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 profit or loss in the management accounts, they are classified as carried at fair value through income statement.

All other investments are classified as available for sale.

Classification of real estate property
Management decides on acquisition of a real estate property whether it should be classified as trading, property held for development or investment property.

The management classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The management classifies property as property under development if it is acquired with the intention of development.

The management classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

Impairment of investments
The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable 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.

3 NET INVESTMENT / (LOSS) INCOME

	2008	*2007*
	KD	*KD*
Dividend income	**101,806**	371,787
Realised and unrealised loss on investments carried at fair value through income statement	**(2,279,877)**	(358,560)
Realised (loss) gain on available for sale investments	**(236,250)**	74,104
Impairment loss from available for sale investment	**(152,118)**	-
Interest income	**90,200**	-
Others	**29,255**	42,247
	(2,446,984)	129,578

4 ISLAMIC FINANCING INCOME

	2008	*2007*
	KD	*KD*
Murabaha	**-**	21,598
Wakala	**13,719**	129,356
	13,719	150,954

5 DIRECTORS' FEES

Directors' fees are subject to the approval of the shareholders' General Assembly.

6 BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share is calculated by dividing the (loss) profit 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 earnings per share is calculated by dividing the (loss) profit 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).

	2008	*2007*
(Loss) profit for the year attributable to equity holders of the parent company (KD)	**2,639,392**	571,114
Weighted average number of ordinary shares for basic earnings per share (excluding treasury shares)	**110,074,861**	110,250,000
Effect of dilution from weighted average number of share options outstanding	**1,254,955**	-
Adjusted weighted average number of ordinary shares for diluted earnings per share	**111,329,816**	110,250,000
Basic (loss) earnings per share attributable to equity holders of the parent company	**(23.98) fils**	5.18 fils
Diluted (loss) earnings per share attributable to equity holders of the parent company	**(23.98) fils**	5.18 fils

As a result of losses during the year, outstanding options have no dilution effect on the earning per share.

7 INVESTMENTS CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

Investments carried at fair value through income statement consist of managed portfolios with underlying investments in quoted marketable securities.

8 ISLAMIC FINANCING RECEIVABLES

These receivables represent short-term receivables resulting from participations in murabaha and wakala deals. The maximum maturity of such participations is twelve months from date of origination of the deal.

Average profit rate attributable to deals during the year was 9% (2007: 9%) per annum.

9 AVAILABLE FOR SALE INVESTMENTS

	2008 ***KD***	*2007* *KD*
Quoted securities	**194,053**	498,659
Unquoted securities	**1,228,656**	1,756,250
Managed funds	**1,621,078**	1,688,712
Managed portfolios	**10,656,837**	11,090,116
	13,700,624	15,033,737

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

Movements in cumulative changes in fair values arising from available for sale investments are as follows:

	2008 ***KD***	*2007* *KD*
Net unrealised (losses) gains	**(760,995)**	94,734
Net realised gains reclassified to the consolidated income statement on disposal	**-**	-
	(760,995)	94,734

10 DUE FROM (TO) POLICYHOLDERS

	2008 ***KD***	*2007* *KD*
At 1 January	**(501,873)**	6,635
Shareholders' share of insurance surplus (Note 14)	**-**	403,155
Other movement in funds advanced from policyholders	**533,567**	(911,663)
At 31 December	**31,694**	(501,873)

On 25 March 2007, the Annual General Meeting of the shareholders amended the article (48) of the parent company's bye-laws as follow:

The shareholders are entitled to management fees which are calculated at a maximum of 20% of the premium written.

In addition, the shareholders are entitled to a share in investment income of the policyholders at a maximum of 20%.

11 INVESTMENTS IN SUBSIDIARIES

During the prior year, the Shareholders of the parent company acquired 3,600,000 shares being 60% of the share capital of a new Wethaq Takaful Insurance Company (Subsidiary) Egypt.

During this year, the subsidiary started operation and was consolidated at the group consolidated financial statements line by line with the parent company's financials.

12 SHARE CAPITAL

	Authorised, issued and fully paid	
	2008	*2007*
	KD	*KD*
Shares of 100 fils each	**11,025,000**	11,025,000

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. Such annual transfers have been discontinued by a resolution of the shareholders' annual General Assembly upon a recommendation by the Board of Directors. No such transfer has been made this year due to loss incurred.

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. No such transfer has been made this year due to loss incurred.

15 TREASURY SHARES

	2008	*2007*
	KD	*KD*
Number of shares (share)	**245,500**	-
Percentage of issued shares (%)	**0.22%**	-
Market value (KD)	**27,460**	-

16 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.

During the year 2,205,000 options (31 December 2007: Nil) were granted with a weighted average exercise price of 132 fils (31 December 2007: Nil) and 534,500 options (31 December 2007: Nil) were exercised against the sale of treasury shares.

Options totalling 3,006,750 shares were outstanding at 31 December 2008 and had a weighted average exercise price of 132 fils.

The average fair value of share options granted until 31 December 2008 is KD 681,217 for which an expense of KD 96,999 was allocated as follows:

	2008	*2007*
	KD	*KD*
Policyholders	**87,299**	-
Shareholders	**9,700**	-
	96,999	-

17 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
In the normal course of business, the group cedes and assumes certain levels of risk in various areas of exposure with other insurance companies or reinsurers. Such reinsurance includes quota share, excess of loss, facultative and other forms of reinsurance on essentially all lines of business.

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 balance sheet date.

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

Claims (continued)
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 balance sheet date. Any difference between the provisions at the balance sheet date and settlements and provisions for the following year is included in the underwriting account for that year.

Liability adequacy test
At each balance sheet 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 balance sheet date.

Receivables
Accounts receivable are carried at amortised cost less impairment losses, if any.

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 balance sheet 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 balance sheet date.

Life mathematical reserve
The reserve for the life business at the balance sheet date represents the mathematical liability of policies in force at that date as determined by the group's actuaries.

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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 uncertainly 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.

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

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

Year ended 31 December 2008

	Marine and aviation KD	*General accident KD*	*Fire KD*	*Life KD*	***Total KD***
Premium written	346,858	2,889,684	773,366	554,450	**4,564,358**
Reinsurance premiums ceded	(310,520)	(913,590)	(725,502)	(277,054)	**(2,226,666)**
	36,338	1,976,094	47,864	277,396	**2,337,692**
Movement in unearned premiums	2,965	91,214	7,189	-	**101,368**
Net premiums earned	39,303	2,067,308	55,053	277,396	**2,439,060**
Policy issuance fees and others	83,457	480,796	1,658	1,801	**567,712**
Reinsurance commission	69,971	54,438	55,266	21,891	**201,566**
Total revenues	192,731	2,602,542	111,977	301,088	**3,208,338**
Claims incurred	(7,164)	1,332,792	18,448	83,645	**1,427,721**
Movement in provision for claims incurred but not reported	(6,795)	(163,932)	2,221	-	**(168,506)**
Life mathematical reserve	-	-	-	64,615	**64,615**
Policy acquisition costs	16,374	429,097	34,106	10,934	**490,511**
Other insurance expenses	7,902	132,340	8	8,941	**149,191**
Total expenses	10,317	1,730,297	54,783	168,135	**1,963,532**
Surplus from insurance operations	182,414	872,245	57,194	132,953	**1,244,806**
Allocation of general and administrative expenses	(105,086)	(875,475)	(234,303)	(167,979)	**(1,382,843)**
Net surplus (deficit) from insurance operations	77,328	(3,230)	(177,109)	(35,026)	**(138,038)**
Investment income	(37,015)	(308,372)	(82,530)	(59,168)	**(487,085)**
Net surplus (deficit) from insurance operations	**40,313**	**(311,601)**	**(259,639)**	**(94,194)**	**(625,122)**
Shareholders' share of insurance surplus (Note 10)					**-**
Insurance surplus transferred to policyholders' fund					**-**

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

Year ended 31 December 2007

	Marine and aviation KD	*General accident KD*	*Fire KD*	*Life KD*	***Total KD***
Premium written	474,455	2,544,612	836,621	448,914	**4,304,602**
Reinsurance premiums ceded	(455,884)	(647,731)	(787,083)	(339,332)	**(2,230,030)**
	18,571	1,896,881	49,538	109,582	**2,074,572**
Movement in unearned premiums	(8,081)	268,222	(36,626)	-	**223,515**
Net premiums earned	10,490	2,165,103	12,912	109,582	**2,298,087**
Policy issuance fees and others	28,356	337,761	25,115	3,103	**394,335**
Reinsurance commission	93,394	128,584	79,236	28,629	**329,843**
Total revenues	132,240	2,631,448	117,263	141,314	**3,022,265**
Claims incurred	14,500	1,576,298	(4,631)	(747)	**1,585,420**
Increase in provision for claims incurred but not reported	3,880	31,134	13,571	-	**48,585**
Life mathematical reserve	-	-	-	(1,559)	**(1,559)**
Policy acquisition costs	17,265	357,503	32,219	20,305	**427,292**
Other insurance expenses	7,808	139,730	317	12,217	**160,072**
Total expenses	43,453	2,104,665	41,476	30,216	**2,219,810**
Surplus from insurance operations	88,787	526,783	75,787	111,098	**802,455**
Allocation of general and administrative expenses	(127,945)	(686,199)	(225,609)	(121,057)	**(1,160,810)**
Net deficit from insurance operations	(39,158)	(159,416)	(149,822)	(9,959)	**(358,355)**
Investment income	88,383	474,021	155,849	83,626	**801,879**
Net surplus from insurance operations	**49,225**	**314,605**	**6,027**	**73,667**	**443,524**
Shareholders' share of insurance surplus (Note 10)					**(403,155)**
Insurance surplus transferred to policyholders' fund					**40,369**

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

POLICYHOLDERS' ASSETS AND LIABILITIES

	2008 ***Marine and aviation, general accident, fire and life*** ***KD***	*2007* *Marine and aviation, general accident, fire and life* *KD*
Assets		
Bank balances and cash	**605,014**	491,971
Investment deposits	**2,046,000**	2,046,000
Investments carried at fair value through income statement	**1,213,763**	2,117,828
Islamic financing receivables	**1,054,994**	1,059,452
Accounts receivable and prepayments	**1,034,935**	717,705
Premiums receivable	**1,275,248**	880,586
Available for sale investments	**970,157**	970,157
Reinsurance recoverable on outstanding claims	**1,229,431**	1,009,417
Amounts due from shareholders	**-**	501,873
Leasehold land	**277,750**	277,750
Furniture and equipment	**219,270**	228,517
	9,926,561	10,301,256
Liabilities		
Reinsurance balances payable	**536,124**	946,881
Unearned premiums	**1,042,446**	1,079,199
Outstanding claims reserve	**6,548,092**	5,566,317
Reserve for claims incurred but not reported	**536,831**	705,337
Reserve retained on reinsurance business	**172,446**	164,643
Premiums received in advance	**514,325**	582,011
Amounts due to shareholders	**31,694**	-
Accounts payable and accruals	**628,223**	747,019
	10,010,181	9,791,407
Policyholders' fund		
Net (deficit) surplus from insurance operations	**(83,620)**	509,849
	9,926,561	10,301,256

CHANGES IN POLICYHOLDERS' FUND

	2008 ***KD***	*2007* *KD*
At 1 January	**509,849**	508,023
Distribution to policyholders	**(593,469)**	(38,543)
Net surplus from insurance operations	**-**	40,369
At 31 December	**(83,620)**	509,849

Investment deposits are held in Kuwait as security for the order of the Minister of Commerce and Industry in accordance with the Ministerial Order No. 27 of 1966 and its amendments.

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

Available for sale investments 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 balance sheet date.

Net surplus from insurance operations is available for distribution to the policyholders upon the approval of the shareholders' Annual General Assembly and the group's Fatwa and Shareea'a Supervisory Board.

Distribution to policy holders for 2006 were approved by the Annual General Meeting held on 18 February 2007.

18 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 group's management.

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

	2008	*2007*
	KD	*KD*
Shareholders		
Consolidated income statement		
Islamic financing income	**13,720**	141,277
Allowances and other benefits	**78,750**	78,000
Dividend income	**101,806**	254,445
Key management personnel compensation		
Short-term employee benefits	**52,500**	60,000
Termination benefits	**19,109**	46,594
Consolidated balance sheet		
Investments carried at fair value through income statement	**988,739**	2,189,599
Islamic financing receivables	**-**	1,719,090
Available for sale investments	**10,656,836**	11,092,855
Policyholders		
Consolidated income statement		
Premium written	**91,284**	236,128
Investment loss	**16,090**	243,470
Consolidated balance sheet		
Investments carried at fair value through income statement	**946,500**	1,645,684
Available for sale investments	**787,500**	787,500
Premiums receivable	**85,785**	5,903
Key management personnel compensation		
Short-term employee benefits	**145,127**	145,668
Termination benefits	**13,562**	57,694

19 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.

The group is establishing a risk management function with clear terms of reference from the board of directors and the associated executive management committees. This will supplement with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Also, a group policy framework is being put in place to set out the risk profiles for the group, risk management, control and business conduct standards for the group's operations will be put 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 a delegated authorities and responsibilities from the board of directors to insure compliance.

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.

19 RISK MANAGEMENT (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 group has automatic reinsurance cover for such damage to limit losses for any individual claim to KD 2,400,000 and any exceeding for this limit is covered by facultative placement.

Motor
For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years the group has only underwritten comprehensive polices for owner/drivers over 21 years of age. The group has reinsurance cover to limit losses for any claim (per event) exceeding KD 20,000 up-to KD 600,000 and up-to unlimited cover for bodily injury.

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 group has automatic reinsurance cover to limit losses for any individual claim to KD 1,100,000 and any exceeding for this limit is covered by facultative placement.

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

The reinsuring strategy for the life of 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.

19 RISK MANAGEMENT (continued)

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 five largest reinsurers account for 75 % of the credit exposure at 31 December 2008 (2007: 75%).

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 and geographical areas. 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 balance sheet 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, 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 month 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 and geographical areas. 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).

19 RISK MANAGEMENT (continued)

Insurance risk (continued)

Non-life insurance contracts (continued)
The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a pre-determined maximum amount based on the group's risk appetite as decided by management. For a single realistic catastrophic event this maximum amount is approximately 21% of shareholders' equity on a gross basis and 1% on a net basis. In the event of such a catastrophe counterparty exposure to a single reinsurer is estimated not to exceed 5% of shareholders' equity.

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

	31 December 2008			*31 December 2007*		
	Gross liabilities KD	***Reinsurers' share of liabilities KD***	***Net liabilities KD***	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net liabilities KD*
Marine and aviation	**155,824**	**86,596**	**69,228**	246,057	155,129	90,928
Fire	**522,252**	**397,586**	**124,666**	231,230	112,247	118,983
General accident	**7,575,178**	**583,661**	**6,991,517**	7,292,638	725,311	6,567,327
Life	**388,437**	**161,588**	**226,849**	162,939	16,730	146,209
Total	**8,641,691**	**1,229,431**	**7,412,260**	7,932,864	1,009,417	6,923,447

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.

	31 December 2008			*31 December 2007*		
	Gross liabilities KD	***Reinsurers' share of liabilities KD***	***Net liabilities KD***	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net Liabilities KD*
Kuwait	**8,641,691**	**1,229,431**	**7,412,260**	7,932,864	1,009,417	6,923,447

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 interest rates, delays in settlement and changes in foreign currency rates.

19 RISK MANAGEMENT (continued)

Insurance risk (continued)

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

31 December 2008	*Change in assumption*	*Impact on gross liabilities KD*	*Impact on net liabilities KD*	*Impact on profit KD*
Average claim cost	+10%	**85**	**32**	**10,293**
Average number of claims	+10%	**327**	**327**	**20,450**
Average claim settlement paid	Reduce from 18 months to 12 months	**853**	**321**	**N/A**

31 December 2007	*Change in assumption*	*Impact on gross liabilities KD*	*Impact on net liabilities KD*	*Impact on Profit KD*
Average claim cost	+10%	165	138	190,867
Average number of claims	+10%	100	63	39,550
Average claim settlement paid	Reduce from 18 months to 12 months	1,438,720	693,381	N/A

Financial risks

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

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

• A group credit risk policy setting out the assessment and determination of what constitutes credit risk for the group. Compliance with the policy is monitored and exposures and breaches are reported to the group risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

• Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

• The group sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.

• The credit risk in respect of customer balances, incurred on non-payment of 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, geographical and industry segment (i.e limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may be held).

19 RISK MANAGEMENT (continued)

Financial risks (continued)

(1) Credit risk (continued)

• The group further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it enters into significant volumes of transactions. However such arrangements do not generally result in offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis. At 31 December 2008, the group had the right to set off financial liabilities amounting to KD 109,897 (2007: KD 106,092) against financial assets with a fair value of KD 792,529 (2007: KD 402,644) under such arrangements.

• Guidelines determine when to obtain collateral and guarantees (i.e certain derivative transactions are covered by collateral and derivatives are only taken out with counterparties with a suitable credit rating). The group maintains strict control limits by amount and terms on net open derivative positions. The amounts subject to credit risk are limited to the fair value of 'in the money' financial assets against which the group either obtains collateral from counterparties or requires margin deposits. Collateral may be sold or repledged by the group and is repayable if the contract terminates or the contract's fair value falls.

The tables below show the maximum exposure to credit risk for the components of the consolidated balance sheet:

31 December 2008	***2008***	*2007*
	KD	*KD*
Shareholders		
Bank balances and cash	**1,656,066**	1,502,533
Islamic financing receivables	**-**	1,719,090
Amounts due from policyholders	**31,694**	-
Other assets	**243,128**	501,509
Total credit risk exposure	**1,930,888**	3,723,132
Policyholders		
Bank balances and cash	**605,014**	491,971
Investment deposits	**2,046,000**	2,046,000
Islamic financing receivables	**1,054,994**	1,059,452
Accounts receivable and prepayments	**1,034,935**	717,705
Premiums receivable	**1,275,248**	880,586
Reinsurance recoverable on outstanding claims	**1,229,431**	1,009,417
Amounts due from shareholders	**-**	501,873
Total credit risk exposure	**7,245,622**	6,707,004

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.

19 RISK MANAGEMENT (continued)

Financial risks (continued)

(1) Credit risk (continued)

	Neither past due nor impaired			
31 December 2008	***High grade KD***	***Standard grade KD***	***Past due or impaired KD***	***Total KD***
Shareholders				
Bank balances and cash	**-**	**1,656,066**	**-**	**1,656,066**
Other assets	**-**	**243,128**	**-**	**243,128**
	-	**1,899,194**	**-**	**1,899,194**
	KD	***KD***	***KD***	***KD***
Policyholders				
Bank balances and cash	**-**	**605,014**	**-**	**605,014**
Investment deposits	**2,046,000**	**-**	**-**	**2,046,000**
Islamic financing receivables	**-**	**1,054,994**	**-**	**1,054,994**
Accounts receivable and prepayments	**-**	**1,034,935**	**-**	**1,034,935**
Premiums receivable	**-**	**1,275,248**	**-**	**1,275,248**
Reinsurance recoverable on outstanding claims	**-**	**1,229,431**	**-**	**1,229,431**
Amounts due from shareholders	**-**	**-**	**-**	**-**
	2,046,000	**5,199,622**	**-**	**7,245,622**

	Neither past due nor impaired			
31 December 2007	*High grade KD*	*Standard grade KD*	*Past due or impaired KD*	*Total KD*
Shareholders				
Bank balances and cash	-	1,502,533	-	1,502,533
Islamic financing receivables	1,719,090	-	-	1,719,090
Other assets	-	501,509	-	501,509
	1,719,090	2,004,042	-	3,723,132
	KD	*KD*	*KD*	*KD*
Policyholders				
Bank balances and cash	-	491,971	-	491,971
Investment deposits	2,046,000	-	-	2,046,000
Islamic financing receivables	1,059,452	-	-	1,059,452
Accounts receivable and prepayments	-	717,705	-	717,705
Premiums receivable	-	680,077	200,509	880,586
Reinsurance recoverable on outstanding claims	-	1,009,417	-	1,009,417
Amounts due from shareholders	-	501,873	-	501,873
	3,105,452	3,401,043	200,509	6,707,004

19 RISK MANAGEMENT (continued)

Financial risks (continued)

(1) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the financial assets at 31 December by classifying assets according to international credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

31 December 2008	***AA*** ***KD***	***A*** ***KD***	***BB*** ***KD***	***Not rated*** ***KD***	***Total*** ***KD***
Shareholders					
Bank balances and cash	**-**	**14,951**	**-**	**1,641,115**	**1,656,066**
Islamic financing receivables	**-**	**-**	**-**	**-**	**-**
Other assets	**-**	**-**	**-**	**243,128**	**243,128**
Total Shareholders	**-**	**14,951**	**-**	**1,884,243**	**1,899,194**
Policyholders					
Bank balances and cash	**-**	**509,965**	**-**	**95,048**	**605,014**
Investment deposits	**-**	**2,046,000**	**-**	**-**	**2,046,000**
Islamic financing receivables	**-**	**-**	**-**	**1,054,994**	**1,054,994**
Accounts receivable and prepayments	**-**	**-**	**-**	**1,034,935**	**1,034,935**
Premiums receivable	**-**	**-**	**-**	**1,275,248**	**1,275,248**
Reinsurance recoverable on outstanding claims	**282,769**	**454,888**	**491,772**	**-**	**1,229,429**
Amounts due from shareholders	**-**	**-**	**-**	**-**	**-**
Total Policyholders	**282,769**	**3,010,853**	**491,772**	**3,460,225**	**7,245,619**

31 December 2007	*AA* *KD*	*A* *KD*	*BB* *KD*	*Not rated* *KD*	*Total* *KD*
Shareholders					
Bank balances and cash	-	14,953	-	1,487,580	1,502,533
Islamic financing receivables	-	-	-	1,719,090	1,719,090
Other assets	-	-	-	501,509	501,509
Total Shareholders	-	14,953	-	3,708,179	3,723,132
Policyholders					
Bank balances and cash	-	419,370	-	72,601	491,971
Investment deposits	-	2,046,000	-	-	2,046,000
Islamic financing receivables	-	-	-	1,059,452	1,059,452
Accounts receivable and prepayments	-	-	-	717,705	717,705
Premiums receivable	-	-	-	880,586	880,586
Reinsurance recoverable on outstanding claims	232,166	373,484	403,767	-	1,009,417
Amounts due from shareholders	-	-	-	501,873	501,873
Total Policyholders	232,166	2,838,854	403,767	3,232,217	6,707,004

19 RISK MANAGEMENT (continued)

Financial risks (continued)

(1) Credit risk (continued)

The following table represents the aging analyses of financial assets:

31 December 2008	*Less than 30 days KD*	*31 to 90 days KD*	*91 to 180 days KD*	*Past due or impaired KD*	*Total KD*
Shareholders					
Bank balances and cash	**1,656,066**	**-**	**-**	**-**	**1,656,066**
Islamic financing receivables	**-**	**-**	**-**	**-**	
Other assets	**21,500**	**221,628**	**-**	**-**	**243,128**
Total	**1,677,566**	**221,628**	**-**	**-**	**1,899,194**
31 December 2007					
Bank balances and cash	1,502,533	-	-	-	1,502,533
Islamic financing receivables	-	1,719,090	-	-	1,719,090
Amounts due from policyholders	-	501,509	-	-	501,509
Total	1,502,533	2,220,599	-	-	3,723,132

31 December 2008	***Less than 30 days KD***	***31 to 90 days KD***	***91 to 180 days KD***	***Past due or impaired KD***	***Total KD***
Policyholders					
Bank balances and cash	**605,014**	**-**	**-**	**-**	**605,014**
Investment deposits	**-**	**-**	**2,046,000**	**-**	**2,046,000**
Islamic financing receivables	**-**	**-**	**1,054,994**	**-**	**1,054,994**
Accounts receivable and prepayments	**424,323**	**341,528**	**269,083**	**-**	**1,034,935**
Premiums receivable	**300,690**	**499,574**	**211,484**	**263,500**	**1,275,248**
Reinsurance recoverable on outstanding claims	**-**	**-**	**1,229,431**	**-**	**1,229,431**
Amounts due from shareholders	**-**	**-**	**-**	**-**	**-**
Total	**1,330,027**	**841,102**	**4,810,992**	**263,500**	**7,245,622**

31 December 2007	*Less than 30 days KD*	*31 to 90 days KD*	*91 to 180 days KD*	*Past due or impaired KD*	*Total KD*
Policyholders					
Bank balances and cash	491,971	-	-	-	491,971
Investment deposits	-	-	2,046,000	-	2,046,000
Islamic financing receivables	-	-	1,059,452	-	1,059,452
Accounts receivable and prepayments	717,705	-	-	-	717,705
Premiums receivable	236,729	310,699	132,649	200,509	880,586
Reinsurance recoverable on outstanding claims	-	-	1,009,417	-	1,009,417
Amounts due from shareholders	501,873	-	-	-	501,873
Total	1,948,278	310,699	4,247,518	200,509	6,707,004

19 RISK MANAGEMENT (Continued)

Financial risks (continued)

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

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

Maturity profiles
The table below summarises the maturity profile of the financial liabilities of the group based on remaining undiscounted contractual obligations, except for insurance and investment contracts with DPF liabilities, when maturity profiles are determined on the discounted estimated timing of net cash outflows. Repayments which are subject to notice are treated as if notice were to be given immediately.

31 December 2008	***Up to 1 year*** ***KD***	***1-3 years*** ***KD***	***Total*** ***KD***
Shareholders			
Amounts due to policyholders	**-**	**-**	**-**
Other liabilities	**564,170**	**-**	**564,170**
Total	**564,170**	**-**	**564,170**
Policyholders			
Reinsurance balances payable	**536,124**	**-**	**536,124**
Unearned premiums	**1,042,446**	**-**	**1,042,446**
Outstanding claims reserve	**3,928,855**	**2,619,236**	**6,548,092**
Reserve for claims incurred but not reported	**-**	**536,831**	**536,831**
Reserve retained on reinsurance business	**129,335**	**43,111**	**172,446**
Premiums received in advance	**120,992**	**393,333**	**514325**
Accounts payable and accruals	**628,223**	**-**	**628,223**
Total liabilities	**6,385,975**	**3,592,511**	**9,978,487**

31 December 2007	*Up to 1 year* *KD*	*1-3 years* *KD*	*Total* *KD*
Shareholders			
Amounts due to policyholders	501,873	-	501,873
Other liabilities	110,070	-	110,070
Total	611,943	-	611,943
Policyholders			
Reinsurance balances payable	946,881	-	946,881
Unearned premiums	939,117	140,082	1,079,199
Outstanding claims reserve	5,566,317	-	5,566,317
Reserve for claims incurred but not reported	705,337	-	705,337
Reserve retained on reinsurance business	164,643	-	164,643
Premiums received in advance	59,482	522,529	582,011
Accounts payable and accruals	747,019	-	747,019
Total liabilities	9,128,796	662,611	9,791,407

19 RISK MANAGEMENT (continued)

Financial risks (continued)

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

Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest 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's principal transactions are carried out in KD and its exposure to foreign exchange risk arise primarily with respect to US dollar and Egyptian Pound.

The group's financial assets are primarily denominated in the same currencies as its insurance and investment contract liabilities, which mitigate the foreign currency exchange rate risk for the overseas operations. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment contract liabilities are expected to be settled.

The currency risk is effectively managed by the group through financial instruments.

The tables below summarise the group's exposure to foreign currency exchange rate risk at the balance sheet date:

SHAREHOLDERS **31 December 2008**	***US Dollar*** ***KD***	***EGP*** ***KD***	***Total*** ***KD***
Bank balances and cash	-	**1,641,116**	**1,641,116**
Other assets	**-**	**-**	**-**
	-	**1,641,116**	**1,641,116**
Minority interest	-	**656,446**	**656,446**

SHAREHOLDERS 31 December 2007	*US Dollar* *KD*	*EGP* *KD*	*Total* *KD*
Bank balances and cash	-	892,548	892,548
Other assets	295,208	-	295,208
	295,208	892,548	1,187,756
Minority interest	-	595,032	595,032

19 RISK MANAGEMENT (continued)

Financial risks (continued)

POLICYHOLDERS **31 December 2008**	***US Dollar*** ***KD***	***Total*** ***KD***
Bank balances and cash	**43,800**	**43,800**
Premiums receivable	**142,878**	**142,878**
	186,678	**186,678**

POLICYHOLDERS 31 December 2007	*US Dollar* *KD*	*Total* *KD*
Bank balances and cash	42,034	42,034
Premiums receivable	108,636	108,636
	150,670	150,670

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before Zakat, Directors' fees, KFAS and NLST and equity (due to changes in fair value of currency sensitive monetary assets and liabilities and changes in foreign currency translation of foreign subsidiary).

		2008			*2007*	
	Change in variables	***Effect on profit KD***	***Effect on equity KD***	*Change in variables*	*Effect on profit KD*	*Effect on profit KD*
USD	+5%	**7,533**	**-**	+5%	14,760	-
EGP	+5%	**-**	49,233	+5%	-	44,627
USD	-5%	-	-	-5%	(14,760)	-
EGP	-5%	**-**	**-**	-5%	-	(44,627)

(b) Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The group is not exposed to interest rate risk as the group does not have interest bearing assets and liabilities.

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

19 RISK MANAGEMENT (continued)

Financial risks (continued)

(3) Market risk (continued)

(c) Equity price risk (continued)

The effects on profit before Zakat, Directors' fees, KFAS and NLST and equity (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, with all other variables held constant are as follows:

		2008		*2007*	
Shareholders	*Increase in equity price in %*	***Effect on profit KD***	***Effect on equity KD***	*Effect on profit KD*	*Effect on equity KD*
Quoted investments	5%	**2,572**	**9702**	-	24,932
Unquoted investments	5%	**-**	**61,432**	-	87,812
Managed fund	5%	**-**	**81,053**	-	84,436
Managed portfolios	5%	**109,868**	**532,841**	141,947	554,506

		2008		*2007*	
Policyholders	*Increase in equity price in %*	***Effect on profit KD***	***Effect on Equity KD***	*Effect on profit KD*	*Effect on equity KD*
Unquoted investments	5%	**-**	**48,507**	-	48,508
Managed fund	5%	**24,701**	**-**	42,192	-
Managed portfolios	5%	**35,986**	**-**	63,699	-

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

20 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets include bank balances and cash, Islamic financing receivables, investments receivable.

Financial liabilities include payable and other liabilities.

The fair values of the financial assets and liabilities, with the exception of certain available for sale investments carried at cost (note 9), are not materially different from their carrying values.