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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	***2009 KD***	*2008 KD*
Net investment loss	3	**(5,304,083)**	(2,446,984)
Change in fair value of investment properties	9	**34,393**	-
Shareholders’ share of insurance surplus	7	**60,136**	-
Islamic financing income		**-**	13,719
Other income		**1,143**	1,181
Allowances and other benefits		**(66,000)**	(79,250)
General and administrative expenses		**(116,963)**	(119,226)
LOSS BEFORE DIRECTORS’ FEES		**(5,391,374)**	(2,630,560)
Directors’ fees		**(7,000)**	(7,000)
LOSS FOR THE YEAR	4	**(5,398,374)**	(2,637,560)
Attributable to:			
Equity holders of the parent company		**(5,469,718)**	(2,637,560)
Non-controlling interest		**71,344**	-
		(5,398,374)	(2,637,560)
BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	5	**(49.72) fils**	(23.98) fils

The attached notes 1 to 18 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	2009	*2008*
	KD	*KD*
Loss for the year	**(5,398,374)**	(2,637,560)
Available for sale investments:		
- Fair valuation loss	**(4,147,485)**	(1,149,363)
- Transfer to consolidated income statement	**(576,539)**	236,250
- Transfer to consolidated income statement on impairment	**5,241,827**	152,118
Exchange differences on translation of foreign operations	**66,402**	10,484
Other comprehensive income (loss) for the year	**584,205**	(750,511)
Total comprehensive loss for the year	**(4,814,169)**	(3,388,071)
Attributable to:		
Equity holders of the parent company	**(4,912,074)**	(3,385,704)
Non-controlling interest	**97,905**	(2,367)
Total comprehensive loss for the year	**(4,814,169)**	(3,388,071)

The attached notes 1 to 18 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	***2009 KD***	*2008 KD*
ASSETS			
Bank balances and cash		**1,034,783**	1,656,066
Investments at fair value through income statement	6	**1,397,484**	2,248,813
Amount due from policyholders	7	**-**	31,694
Other assets		**183,750**	353,220
Available for sale investments	8	**8,220,603**	13,700,624
Qard Hassan to policyholders	7	**787,281**	-
Investment deposit		**681,018**	150,285
Investment properties	9	**2,247,304**	389,340
Furniture and equipment		**87,765**	30,197
TOTAL ASSETS		**14,639,988**	18,560,239
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY			
Share capital	10	**11,025,000**	11,025,000
Share premium		**7,340,937**	7,340,937
Treasury shares	11	**(43,637)**	(39,030)
Treasury shares reserve		**3,508**	3,508
Statutory reserve	12	**388,139**	388,139
Voluntary reserve	13	**388,139**	388,139
Cumulative changes in fair value		**417,454**	(100,349)
Foreign currency translation adjustment		**52,692**	12,851
Employee share purchase plan reserve	14	**65,964**	46,455
Accumulated losses		**(7,131,964)**	(1,662,246)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		**12,506,232**	17,403,404
Non controlling interest		**690,570**	592,665
TOTAL EQUITY		**13,196,802**	17,996,069
LIABILITIES			
Other liabilities		**461,006**	564,170
Amounts due to policyholders	7	**982,180**	-
TOTAL LIABILITIES		**1,443,186**	564,170
TOTAL EQUITY AND LIABILITIES		**14,639,988**	18,560,239

Abdulla Yousef Al-Saif
Chairman

Nabil Ahmed Amin
Vice Chairman

The attached notes 1 to 18 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2009

	Notes	***2009*** ***KD***	*2008* *KD*
OPERATING ACTIVITIES			
Loss for the year		**(5,398,374)**	(2,637,560)
Adjustments for:			
Net investment loss	3	**5,304,083**	2,446,984
Change in fair value of investment properties	9	**(34,393)**	-
Shareholders' share of insurance surplus	7	**(60,136)**	-
Islamic financing income		**-**	(13,719)
Employees' share purchase plan expense		**19,509**	96,999
Depreciation		**16,854**	1,179
Change in operating assets and liabilities::			
Investments carried at fair value through income statement		**-**	(1,689,749)
Other assets		**169,470**	177,544
Other liabilities		**(541,698)**	357,101
Net cash used in operating activities		**(524,685)**	(1,261,221)
INVESTING ACTIVITIES			
Purchase of furniture and equipment		**(74,422)**	(31,376)
Net movements in investment deposit		**(530,733)**	(150,285)
Purchase of investments available for sale		**(52,501)**	-
Proceeds from sale of investments available for sale		**-**	183,750
Net movement in non-controlling interest		**26,561**	(2,367)
Islamic financing income received		**-**	1,732,809
Profit from investment deposit received		**212,534**	90,200
Dividends income received		**-**	101,806
Net cash (used in) from investing activities		**(418,561)**	1,924,537
FINANCING ACTIVITIES			
Purchase of treasury shares		**(4,607)**	-
Net movement in policyholders' account		**286,729**	(533,567)
Net cash from (used in) financing activities		**282,122**	(533,567)
Foreign currency translation differences		**39,841**	23,784
(DECREASE) INCREASE IN BANK BALANCES AND CASH		**(621,283)**	153,533
Bank balances and cash at the beginning of the year		**1,656,066**	1,502,533
BANK BALANCES AND CASH AT THE END OF THE YEAR		**1,034,783**	1,656,066

The attached notes 1 to 18 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 2009

	Attributable to equity holders of the parent company												
	Share capital KD	*Share premium KD*	*Treasury shares KD*	*Treasury shares reserve KD*	*Statutory reserve KD*	*Voluntary reserve KD*	*Cumulative changes in fair value KD*	*Foreign currency translation adjustment KD*	*Employee share purchase plan reserve KD*	*(Accumulated deficit)/ retained earnings KD*	*Sub total KD*	*Non controlling interests KD*	*Total equity KD*
Balance 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 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 (Note 14)	-	-	-	-	-	-	-	-	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**
At 1 January 2008	11,025,000	7,340,937	-	-	388,139	388,139	660,646	-	-	975,314	20,778,175	595,032	21,373,207
Loss for the year	-	-	-	-	-	-	-	-	-	(2,637,560)	(2,637,560)	-	(2,637,560)
Other comprehensive (loss) income	-	-	-	-	-	-	(760,995)	12,851	-	-	(748,144)	(2,367)	(750,511)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(760,995)	12,851	-	(2,637,560)	(3,385,704)	(2,367)	(3,388,071)
Share based payment expense (Note 14)	-	-	-	-	-	-	-	-	96,999	-	96,999	-	96,999
Purchase of treasury shares	-	-	(156,620)	-	-	-	-	-	-	-	(156,620)	-	(156,620)
Treasury shares issued to employees under employee share purchase plan	-	-	117,590	3,508	-	-	-	-	(50,544)	-	70,554	-	70,554
At 31 December 2008	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

The attached notes 1 to 18 form part of these consolidated financial statements.

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 2009 were authorised for issue in accordance with a resolution of the Board of Directors on _________ 2010 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 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.

2.1 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, which is the functional currency of the parent company.

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.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the parent company and its subsidiary which is listed below:

Name of company	*Country of incorporation*	*Interest in equity %*		*Principal activities*
		2009	*2008*	
Wethaq Takaful Insurance Company	Egypt	**60%**	60%	Insurance and reinsurance activities

The financial statements of the subsidiary 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.

2.1 BASIS OF PREPARATION (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.

Non-controlling interest represents the portion of profit or loss and net assets not held by the group and is presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Acquisitions of non-controlling 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.

2.2 CHANGES IN ACCOUNTING POLICIY AND DISCLOSUERS

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended standards issued by International Accounting Standards Board ("IASB"):

- IFRS 7 *Financial Instruments: Disclosures effective 1 January 2009.*
- IAS 1 *Presentation of Financial Statements effective 1 January 2009.*
- IAS 23 *Borrowing Costs (Revised) effective 1 January 2009.*

IFRS 7 Financial Instruments: Disclosures
The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 18.

IAS 1 'Presentation of Financial Statements' (Revised):
The revised standard separates owner and non owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The group has elected to present two statements.

IAS 23 'Borrowing Costs' (Revised):
This standard requires an entity to capitalise borrowing costs attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset and removes the option of expensing these borrowing costs in the consolidated income statement. The application of the revised IAS 23 will not impact the group's consolidated financial statements as the group currently capitalises borrowing costs.

Improvements to IFRSs
In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of these amendments did not have any impact on the financial position or performance of the group.

2.2 CHANGES IN ACCOUNTING POLICIY AND DISCLOSUERS (Continued)

STANDARD ISSUED BUT NOT YET EFFECTIVE

The following relevant IASB Standard has been issued but not yet early adopted by the group:

- *IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements*
- *IFRS 9: Financial Instruments: Classification and Measurement*
- *IAS 24: Related Party Disclosures (Amended)*

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements
The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after the effective date. The changes will 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 27 (Amended) 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.

IFRS 9 Financial Instruments: Classification and Measurement (effective 1 January 2013)
IFRS 9 will replace IAS 32 and IAS 39 upon its effective date. The application of IFRS 9 will result in amendments to the classification and measurement of financial assets and liabilities of the consolidated financial statements of the group. The amendments will be made in the consolidated financial statements when the standard becomes effective.

IAS 24 Related Party Disclosures (Amended)
The revised Standard was issued in November 2009. An entity shall apply this Standard retrospectively for annual periods beginning on or after 1 January 2011. The revised Standard simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities.

The application of these standards will be made in the consolidated financial statement when these standards and interpretations become effective. The application of IFRS 9 will result in amendments and additional disclosures relating to financial instrument and associated risk. The application of IFRS 3, IAS 27 and IAS 24 is not expected to have a material impact on the consolidated financial statements of the group.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition
Revenue is recognized 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 recognized:

- 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities
The group classifies its financial assets and liabilities as "investments at fair value through income statement", "available for sale investments" or "accounts payable". 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 profit or loss 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 profit or loss, directly attributable transaction costs. Transaction costs on financial assets at fair value through profit or loss are expensed immediately, while on other debt instruments they are amortised.

Investments 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.

Available for sale investments
Available for sale investments 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.

Available for sale investments 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 the case the fair value cannot be reliably measured are carried at cost less impairment losses, if any.

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values (continued)

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.

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.

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.

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.

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.

Impairment and uncollectibility of financial assets (continued)
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.

Qard Hassan from shareholders
Qard Hassan represents non-profit Islamic financing provided by the shareholders to the policyholders in respect 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 bases referred to above.

Investment properties are derecognised when either they have been disposed of 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

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 are accounted for as treasury shares and are 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.

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 are 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 are 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 subsidiaries and associates are translated at the exchange rates prevailing at the reporting date. Operating results of such entities are translated at average rates of exchange for the period of operations. The resulting exchange differences are accumulated in a separate section of the 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 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.

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.

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 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.

2.3 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

	2009	*2008*

	KD	KD
Dividend income	**-**	101,806
Realised and unrealised loss on investments carried at fair value through income statement	**(851,329)**	(2,279,877)
Realised gain (loss) on available for sale investments	**576,539**	(236,250)
Impairment loss on available for sale investments	**(5,241,827)**	(152,118)
Profit income	**199,124**	90,200
Others	**13,410**	29,255
	(5,304,083)	(2,446,984)

4 LOSS FOR THE YEAR

Loss for the year is stated after charging:	***2009*** ***KD***	*2008* *KD*
Staff costs	**19,509**	9,700
Depreciation	**16,854**	1,130

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).

5 BASIC AND DILUTED LOSS PER SHARE (continued)

	2009	*2008*
Loss for the year attributable to equity holders of the parent company (KD)	**(5,469,718)**	(2,637,560)
Weighted average number of ordinary shares for basic earnings per share (excluding treasury shares)	**109,984,336**	110,074,861
Effect of dilution from weighted average number of share options outstanding	1,864,471	1,254,955
Adjusted weighted average number of ordinary shares for diluted earnings per share	111,848,807	111,329,816
Basic and diluted loss per share attributable to equity holders of the parent company	**(49.72)**	(23.98) fils

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.

6 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.

7 QARD HASSAN AND AMOUNTS DUE FROM (TO) POLICYHOLDERS

	2009	*2008*
	KD	*KD*
At 1 January	**31,694**	(501,873)
Shareholders' share of insurance surplus (Note 15)	**60,136**	-
Policyholders' deficit absorbed by Qard Hassan (Note 15)	**(787,281)**	-
Other movement in funds advanced by policyholders	**(286,729)**	533,567
At 31 December	**(982,180)**	31,694

8 AVAILABLE FOR SALE INVESTMENTS

	2009	*2008*
	KD	*KD*
Quoted securities		
Equities	**138,850**	194,053
Unquoted securities		
Equities	**972,656**	1,228,656
Managed equity funds	**1,330,861**	1,621,078
Managed portfolios	**5,778,236**	10,656,837
	8,081,753	13,506,571
	8,220,603	13,700,624

8 AVAILABLE FOR SALE INVESTMENTS (continued)

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

During the year, certain available for sale investments with carrying value of KD 808,478 were transferred to a related party for a consideration of KD 1,385,037 realising a gain of KD 576,539 in an exchange transaction to acquire an investment property for KD 1,823,571. The balance of consideration payable amounting to KD 438,534 is included in 'Other liabilities' in the consolidated statement of financial position (Note 9 and 16).

At year end, available for sale financial assets were assessed for impairment which resulted in the recognition of impairment loss amounting to KD 5,241,827 (2008: KD 152,118) in the consolidated income statement to account for significant or prolonged decline in the fair value of certain financial assets below its cost.

The unquoted equity investments amounting to KD 223,750 (2008: KD 171,250) 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 2009 in respect of these investments.

9 INVESTMENTS PROPERTIES

	2009	*2008*
	KD	*KD*
Balance at 1 January	**389,340**	389,340
Additions (Note 8 and 16)	**1,823,571**	-
Change in fair value of investment properties	**34,393**	-
Ending balance	**2,247,304**	389,340

During the current year, the parent company acquired a property which is located in Egypt and consists of a land and building (Note 8 and 16).

10 SHARE CAPITAL

	Authorised, issued and fully paid	
	2009	*2008*
	KD	*KD*
Shares of 100 fils each	**11,025,000**	11,025,000

11 TREASURY SHARES

	2009	*2008*
Number of shares (share)	**325,500**	245,500
Percentage of issued shares (%)	**0.30%**	0.22%
Market value (KD)	**18,879**	27,460

12 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 transfer made since the parent company incurred losses for the year.

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.

13 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 transfer made since the parent company incurred losses for the year.

14 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 granted (2008: 2,205,000 options at an exercise price of 132 fils) or exercised (2008:543,500 options) during the year.

Options totalling 3,006,750 shares were outstanding at 31 December 2009 (2008: 3,006,750 shares) and had a weighted average exercise price of 35 fils (2008: 132 fils).

The average fair value of share options granted until 31 December 2009 is KD 174,391 (2008: KD 681,217).

15 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.

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

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.

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.

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

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.

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 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.

15 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 2009

	Marine and aviation KD	*General accident KD*	*Fire KD*	*Life KD*	***Total KD***
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)**
	25,882	7,399,903	102,580	181,829	**7,710,194**
Movement in unearned premiums	6,039	(2,603,616)	(13,234)	-	**(2,610,811)**
Net premiums earned	31,921	4,796,287	89,346	181,829	**5,099,383**
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	121,801	5,474,756	217,261	185,149	**5,998,967**
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	17,582	4,082,319	137,836	236,103	**4,473,840**
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	(32,609)	(24,166)	(256,751)	(205,034)	**(518,560)**
Investment loss	(16,017)	(11,837)	(37,746)	(18,754)	**(84,354)**
Net deficit from insurance operations	**(48,626)**	**(36,003)**	**(294,497)**	**(223,788)**	**(602,914)**
Shareholders' share of insurance surplus from subsidiary (Note 7)					**(60,136)**
Insurance deficit transferred to policyholders' fund					**(663,050)**

The attached notes 1 to 18 form part of these consolidated financial statements.

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

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)	(138,037)
Investment loss	(37,015)	(308,372)	(82,530)	(59,168)	(487,085)
Net surplus (deficit) from insurance operations	40,313	(311,602)	(259,639)	(94,194)	(625,122)

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

POLICYHOLDERS' ASSETS AND LIABILITIES

	2009	*2008*
	Marine and aviation, general accident, fire and life	*Marine and aviation, general accident, fire and life*
	KD	*KD*
Assets		
Bank balances and cash	**1,279,993**	605,014
Investment deposits	**5,258,603**	2,046,000
Investments carried at fair value through income statement	**925,894**	1,213,763
Islamic financing receivables	**546,124**	1,054,994
Accounts receivable and prepayments	**1,226,039**	1,034,935
Premiums receivable	**1,598,077**	1,275,248
Available for sale investments	**970,157**	970,157
Reinsurance recoverable on outstanding claims	**1,405,745**	1,229,431
Reinsurance premiums receivable	**184,633**	-
Amounts due from shareholders (Note 7)	**982,180**	-
Leasehold land	**277,750**	277,750
Furniture and equipment	**190,372**	219,269
	14,845,567	9,926,561
Liabilities		
Reinsurance balances payable	**788,534**	536,124
Unearned premiums	**3,598,898**	1,042,446
Outstanding claims reserve	**7,874,394**	6,548,092
Reserve for claims incurred but not reported	**424,107**	536,831
Reserve retained on reinsurance business	**320,021**	172,446
Premiums received in advance	**394,557**	514,325
Amounts due to shareholders (Note 7)	**-**	31,694
Other insurance reserves	**273,312**	-
Accounts payable and accruals	**1,131,133**	628,223
	14,804,956	10,010,181
Policyholders' fund		
Net deficit from insurance operations	**(746,670)**	(83,620)
Qard Hassan from shareholders (Note 7)	**787,281**	-
Total policyholders' fund	**40,611**	(83,620)
Total liabilities and policyholders' fund	**14,845,567**	9,926,561

CHANGES IN POLICYHOLDERS' FUND

	2009	*2008*
	KD	*KD*
At 1 January	**(83,620)**	508,849
Distribution to policyholders	**-**	(592,469)
Net deficit from insurance operations	**(663,050)**	-
At 31 December	**(746,670)**	(83,620)

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

15 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 reporting date.

Islamic financing receivables are carried at cost less impairment provision amounting to KD 546,124 (2008: Nil).

16 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:

	2009	*2008*
	KD	*KD*
Shareholders		
Consolidated income statement		
Realised gain on sale of available for sale investments	**576,539**	-
Impairment loss on available for sale investments	**5,241,827**	-
Islamic financing income	**-**	13,720
Allowances and other benefits	**73,000**	78,750
Dividend income	**-**	101,806
Key management personnel compensation		
Short-term employee benefits	**-**	52,500
Termination benefits	**-**	19,109
Consolidated statement of financial position		
Investments carried at fair value through income statement	**430,869**	988,739
Available for sale investments	**5,778,262**	10,656,836
Accounts payable	**338,534**	-
Policyholders		
Consolidated income statement		
Premium written	**13,964**	91,284
Investment (loss) income	**(88,663)**	16,090
Consolidated statement of financial position		
Investments carried at fair value through income statement	**675,453**	946,500
Available for sale investments	**787,500**	787,500
Premiums receivable	**11,250**	85,785
Key management personnel compensation		
Short-term employee benefits	**137,196**	145,127
Termination benefits	**10,596**	13,562

17 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 a delegated authorities and responsibilities from the board of directors to insure compliance.

17.1 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.

17 RISK MANAGEMENT (continued)

17.1 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 group has 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.

17 RISK MANAGEMENT (continued)

17.1 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 69% of the credit exposure at 31 December 2009 (2008: 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. 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, 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. 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).

17 RISK MANAGEMENT (continued)

17.1 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.

	31 December 2009			*31 December 2008*		
	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	**206,330**	**86,691**	**119,639**	155,824	86,596	69,228
Fire	**513,836**	**220,963**	**292,873**	522,252	397,586	124,666
General accident	**12,165,123**	**1,282,724**	**10,882,399**	8,136,064	745,249	7,390,815
Total	**12,885,289**	**1,590,378**	**11,294,911**	8,814,140	1,229,431	7,584,709

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 2009			*31 December 2008*		
	Gross liabilities KD	***Reinsurers' share of liabilities KD***	***Net liabilities KD***	*Gross liabilities KD*	*Reinsurers' share of liabilities KD*	*Net Liabilities KD*
Kuwait	**8,645,713**	**1,261,421**	**7,384,292**	8,814,140	1,229,431	7,584,709
Egypt	**4,239,576**	**328,957**	**3,910,619**	-	-	-
Total	**12,885,289**	**1,590,378**	**11,294,911**	8,814,140	1,229,431	7,584,709

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.

17 RISK MANAGEMENT (continued)

17.2 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 financial position:

31 December 2009	***2009*** ***KD***	*2008* *KD*
Shareholders		
Bank balances and cash	**1,034,783**	1,656,066
Investment deposits	**681,018**	150,285
Other assets	**183,750**	353,220
Total credit risk exposure	**1,899,551**	2,159,571
Policyholders		
Bank balances and cash	**1,279,993**	605,014
Investment deposits	**5,258,603**	2,046,000
Islamic financing receivables	**546,124**	1,054,994
Accounts receivable and prepayments	**1,226,039**	1,034,935
Premiums receivable	**1,598,077**	1,275,248
Reinsurance recoverable on outstanding claims	**1,405,745**	1,229,431
Reinsurance premiums receivable	**184,633**	-
Amounts due from shareholders	**982,180**	-
Total credit risk exposure	**12,481,394**	7,245,622

17 RISK MANAGEMENT (continued)

17.2 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:

	Neither past due nor impaired			
31 December 2009	***High grade KD***	***Standard grade KD***	***Past due but not impaired KD***	***Total KD***
Shareholders				
Bank balances and cash	**1,034,783**	**-**	**-**	**1,034,783**
Other assets	**-**	**-**	**183,750**	**183,750**
Investment deposits	**681,018**	**-**		**681,018**
	1,715,801	-	**183,750**	**1,899,551**
Policyholders				
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**
	6,538,596	-	**5,942,798**	**12,481,394**

	Neither past due nor impaired			
31 December 2008	*High grade KD*	*Standard grade KD*	*Past due but not impaired KD*	*Total KD*
Shareholders				
Bank balances and cash	1,656,066	-	-	1,656,066
Other assets	-	353,220	-	353,220
Investment deposits	150,285	-	-	150,285
	1,806,351	353,220	-	2,159,571
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
	2,651,014	1,054,994	3,539,614	7,245,622

17 RISK MANAGEMENT (continued)

17.2 FINANCIAL RISK (continued)

(1) Credit risk (continued)

The following table represents the aging analyses of financial assets past due but not impaired.

31 December 2009	*Less than 90 days KD*	*91 to 180 Days KD*	*Above 180 days KD*	*Total past due but not impaired KD*
Shareholders				
Other assets	**-**	**-**	**183,750**	**183,750**
Total	**-**	**-**	**183,750**	**183,750**
Policyholders				
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**

31 December 2008	*Less than 90 days KD*	*91 to 100 days KD*	*Above 180 days KD*	*Total past due or impaired KD*
Shareholders				
Other assets	-	-	-	-
Total	-	-	-	-
Policyholders				
Accounts receivable and prepayments	424,324	341,528	269,083	1,034,935
Premiums receivable	300,690	499,574	474,984	1,275,248
Reinsurance recoverable on outstanding claims	-	-	1,229,431	1,229,431
Total	725,014	841,102	1,973,498	3,539,614

17 RISK MANAGEMENT (continued)

17.2 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 carried at fair value through profit or loss, 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:

31 December 2009	***Up to 1 year KD***	***Above 1 year KD***	***Total KD***
Shareholders			
ASSETS			
Bank balances and cash	**1,034,783**	**-**	**1,034,783**
Investments at fair value through income statement	**1,397,484**	**-**	**1,397,484**
Other assets	**183,750**	**-**	**183,750**
Available for sale investments	**-**	**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**
Policyholders			
ASSETS		**-**	
Bank balances and cash	**1,279,993**	**-**	**1,279,993**
Investment deposits	**-**	**5,258,603**	**5,258,603**
Investments carried 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**
Available for sale investments	**-**	**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**

17 RISK MANAGEMENT (continued)

17.2 FINANCIAL RISK (continued)

(2) Liquidity risk (continued)

31 December 2009	**Up to 1 year KD**	***Above 1 year*** **KD**	**Total KD**
Policyholders			

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**

31 December 2008	*Up to 1 year* *KD*	*Above 1 year* *KD*	*Total* *KD*
Shareholders			
ASSETS			
Bank balances and cash	1,656,066	-	1,656,066
Investments at fair value through income statement	2,248,813	-	2,248,813
Amount due from policyholders	31,694	-	31,694
Other assets	353,220	-	353,220
Available for sale investments	-	13,700,624	13,700,624
Investment deposit	150,285	-	150,285
Investment properties	-	389,340	389,340
Furniture and equipment	-	30,197	30,197
TOTAL ASSETS	4,440,078	14,120,161	18,560,239
LIABILITIES			
Other liabilities	564,170	-	564,170
TOTAL LIABILITIES	564,170	-	564,170
NET LIQUIDITY	3,875,908	14,120,161	17,996,069
Policyholders			
ASSETS			
Bank balances and cash	605,014	-	605,014
Investment deposits	-	2,046,000	2,046,000
Investments carried at fair value through income statement	1,213,763	-	1,213,763
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
Available for sale investments	-	970,157	970,157
Reinsurance recoverable on outstanding claims	1,229,431	-	1,229,431
Leasehold land	-	277,750	277,750
Furniture and equipment	-	219,269	219,269
TOTAL ASSETS	6,413,385	3,513,176	9,926,561

17 RISK MANAGEMENT (continued)

17.2 FINANCIAL RISK (continued)

(2) Liquidity risk (continued)

31 December 2008	*Up to 1 year* *KD*	*Above 1 year* *KD*	*Total* *KD*
Policyholders			
LIABILITIES			
Reinsurance balances payable	536,124	-	536,124

Unearned premiums	1,042,446	-	1,042,446
Outstanding claims reserve	3,928,855	2,619,237	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
Amount due from policyholders	31,694	-	31,694
Accounts payable and accruals	628,223	-	628,223
TOTAL LIABILITIES	6,417,669	3,592,512	10,010,181
NET LIQUIDITY	(4,284)	(79,336)	(83,620)

(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's principal transactions are carried out in Kuwaiti Dinar and its exposure to foreign exchange risk arises 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 analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on loss before Directors' fees (due to changes in fair value of currency sensitive monetary assets and liabilities).

	2009		*2008*	
	Change in variables	***Effect on loss KD***	*Change in variables*	*Effect on loss KD*
USD	± 5%	**2,097**	± 5%	7,533
EGP	± 5%	**2,029**	± 5%	-

17.2 FINANCIAL RISK (continued)

(3) Market risk (continued)

(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 profit 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.

The effects on loss 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:

		2009		*2008*	
Shareholders	*Increase in equity price in %*	***Effect on Loss KD***	***Effect on equity KD***	*Effect on loss KD*	*Effect on equity KD*
Quoted investments	5%	**1,654**	**6,943**	2,572	9702
Unquoted investments	5%	**-**	**48,633**	-	61,432
Managed fund	5%	**-**	**66,543**	-	81,053
Managed portfolios	5%	**68,220**	**288,913**	109,868	532,841

		2009		*2008*	
Policyholders	*Increase in equity price in %*	***Effect on Loss KD***	***Effect on equity KD***	*Effect on loss KD*	*Effect on equity KD*
Unquoted investments	5%	**-**	**48,507**	-	48,507
Managed fund	5%	**12,519**	**-**	24,701	-
Managed portfolios	5%	**33,773**	**-**	35,986	-

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

17.3 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 maximize 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 2009 and 31 December 2008. Capital comprises equity attributable to shareholders of the parent company excluding cumulative change in fair values reserve, and is measured at KD 12,095,778 as at 31 December 2009 (2008: KD 17,503,753).

18 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 2009, 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.

Financial assets measured at fair value:

At 31 December 2009 **Shareholders**	*Total* *KD*	*Level 1* *KD*	*Level 3* *KD*
Financial assets at fair value through income statement	1,397,484	1,397,484	-
Financial assets available for sale	7,996,853	138,850	7,858,003
	9,394,337	**1,536,334**	**7,858,003**

At 31 December 2009 **Policyholders**	*Total* *KD*	*Level 1* *KD*	*Level 3* *KD*
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 2009, there were no transfers between level 1 and level 3 fair value measurements.