

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

FINANCIAL STATEMENTS

31 DECEMBER 2007

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

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	<i>Notes</i>	2007 KD	2006 KD
Net investment income	3	129,578	192,801
Shareholders' share of insurance surplus	10	403,155	26,350
Islamic financing income	4	150,954	67,975
Allowances and other benefits		(78,000)	(78,000)
General and administrative expenses		(9,959)	(7,058)
PROFIT BEFORE ZAKAT, DIRECTORS' FEES, CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS) AND NATIONAL LABOUR SUPPORT TAX		595,728	202,068
Zakat		(292)	-
Directors' fees	5	(7,000)	(10,000)
Contribution to KFAS		(5,362)	(1,819)
National Labour Support tax (NLST)		(11,960)	(5,052)
PROFIT FOR THE YEAR		571,114	185,197
Attributable to:			
Equity holders of the parent company		571,114	185,197
BASIC AND DILUTED EARNINGS PER SHARE		5.18 fils	1.68 fils

The attached notes 1 to 17 form part of these consolidated financial statements.

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

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	2007 KD	2006 KD
ASSETS			
Bank balances and cash		1,502,533	14,953
Investments carried at fair value through income statement	7	2,838,941	3,067,110
Islamic financing receivables	8	1,719,090	1,577,879
Amounts due from policyholders	10	-	6,635
Available for sale investments	9	15,033,737	15,177,560
Investment properties		389,340	389,340
Other assets		501,509	3,711
TOTAL ASSETS		21,985,150	20,237,188
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company			
Share capital	11	11,025,000	11,025,000
Share premium	11	7,340,937	7,340,937
Statutory reserve	12	388,139	328,566
Voluntary reserve	13	388,139	328,566
Cumulative changes in fair values		660,646	565,912
Retained earnings		975,314	523,346
Total equity attributable to equity holders of the parent company		20,778,175	20,112,327
Minority interest		595,032	-
Total equity		21,373,207	20,112,327
Liabilities			
Amounts due to policyholders	10	501,873	-
Other liabilities		110,070	124,861
Total liabilities		611,943	124,861
TOTAL EQUITY AND LIABILITIES		21,985,150	20,237,188

Abdulla Yusef Al-Saif
Chairman and Managing Director

Nabil Ahmed Amin
Vice Chairman

The attached notes 1 to 17 form part of these consolidated financial statements.

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

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	2007 KD	2006 KD
OPERATING ACTIVITIES		
Profit for the year	571,114	185,197
Adjustments for:		
Net investment income	(129,578)	(192,801)
Islamic financing income	(150,954)	(67,975)
Shareholders' share of insurance surplus	(403,155)	(26,350)
	(112,573)	(101,929)
Changes in operating assets and liabilities:		
Other assets	(207,411)	(1,563)
Other liabilities	(14,791)	(54,329)
Net cash used in operating activities	(334,775)	(157,821)
INVESTING ACTIVITIES		
Net movements in Islamic financing receivables	-	(1,043,861)
Investments carried at fair value through income statement	(88,144)	(1,115,512)
Purchase of available for sale investments	-	(11,514,876)
Proceeds from sale of available for sale investments	312,661	1,797,108
Purchase of investment properties	-	(389,340)
Net movement in minority interest	595,032	-
Islamic financing income received	9,743	67,975
Dividends received	81,400	54,725
Net cash from (used in) investing activities	910,692	(12,143,781)
FINANCING ACTIVITIES		
Issuance of share capital	-	11,714,062
Net movement in policyholders' account	911,663	599,582
Dividends paid	-	(53,470)
Net cash from financing activities	911,663	12,260,174
INCREASE (DECREASE) IN BANK BALANCES AND CASH	1,487,580	(41,428)
Bank balances and cash at the beginning of the year	14,953	56,381
BANK BALANCES AND CASH AT THE END OF THE YEAR	1,502,533	14,953

The attached notes 1 to 17 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 2007

	Attributable to equity holders of the parent company							Minority interest KD	Total equity KD
	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Cumulative changes in fair values KD	Retained earnings KD	Sub total KD		
At 1 January 2006	5,512,500	312,500	308,359	308,359	1,471,586	1,205,438	9,118,742	-	9,118,742
Available for sale investments:									
Net movement in fair value (Note 9)	-	-	-	-	(251,565)	-	(251,565)	-	(251,565)
Transferred to consolidated income statement (Note 9)	-	-	-	-	(654,109)	-	(654,109)	-	(654,109)
Net expense for the year recognised directly in equity	-	-	-	-	(905,674)	-	(905,674)	-	(905,674)
Profit for the year	-	-	-	-	-	185,197	185,197	-	185,197
Total income and expense for the year	-	-	-	-	(905,674)	185,197	(720,477)	-	(720,477)
Issuance of bonus shares (Note 11)	826,875	-	-	-	-	(826,875)	-	-	-
Increase in share capital (Note 11)	4,685,625	7,028,437	-	-	-	-	11,714,062	-	11,714,062
Transfer to reserves	-	-	20,207	20,207	-	(40,414)	-	-	-
At 31 December 2006	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
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 for the year	-	-	-	-	94,734	571,114	665,848	-	665,848
Transfer to reserves	-	-	59,573	59,573	-	(119,146)	-	-	-
Net movement in minority interest	-	-	-	-	-	-	-	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

The attached notes 1 to 17 form part of these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

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 2007 were authorised for issue in accordance with a resolution of the Board of Directors on 5 February 2008 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.

The group has adopted IFRS 7 ‘Financial Instruments: Disclosures’ and amendments to IAS 1 ‘Presentation of Financial Statements’ effective for the year ended 31 December 2007. This has resulted in amended and additional disclosures relating to financial instruments and associated risks, capital and capital management. In accordance with transitional requirements of the standards, the group has provided full comparative information.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

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

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Interest in equity %</i>		<i>Principal activities</i>
		<i>2007</i>	<i>2006</i>	
Wethaq Takaful Insurance Company	Egypt	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.

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.

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.

New standards and interpretations issued but not yet effective

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

IAS 1: Presentation of Financial Statements - Revised

IFRS 8: Operating Segments

The application of these standards will be made in the financial statements when these standards and interpretations become effective and are not expected to have a material impact on the financial statements of the group.

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.

Investments

These are classified as follows:

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

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.

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.

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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 payables

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgement (continued)

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 INCOME

	<i>2007</i> <i>KD</i>	<i>2006</i> <i>KD</i>
Dividend income	371,787	54,725
Realised and unrealised loss on investments carried at fair value through income statement	(358,560)	(380,167)
Realised gain on available for sale investments	74,104	519,740
Others	42,247	(1,497)
	<u>129,578</u>	<u>192,801</u>

4 ISLAMIC FINANCING INCOME

	<i>2007</i> <i>KD</i>	<i>2006</i> <i>KD</i>
Murabaha	21,598	67,975
Wakala	129,356	-
	<u>150,954</u>	<u>67,975</u>

5 DIRECTORS' FEES

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

6 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year as follows:

	<i>2007</i>	<i>2006</i>
Profit for the year attributable to equity holders of the parent (KD)	<u>571,114</u>	<u>185,197</u>
Weighted average number of ordinary shares (shares)	<u>110,250,000</u>	<u>110,250,000</u>
Basic and diluted earnings per share	<u>5.18 fils</u>	<u>1.68 fils</u>

There are no dilutive potential ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

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% (2006: 7.5%) per annum.

9 AVAILABLE FOR SALE INVESTMENTS

	<i>2007</i> <i>KD</i>	<i>2006</i> <i>KD</i>
Quoted securities	498,659	609,027
Unquoted securities	1,756,250	1,994,807
Managed funds	1,688,712	1,556,780
Managed portfolios	11,090,116	11,016,946
	<u>15,033,737</u>	<u>15,177,560</u>

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:

	<i>2007</i> <i>KD</i>	<i>2006</i> <i>KD</i>
Net unrealised gains (losses)	94,734	(251,565)
Net realised gains reclassified to the consolidated income statement on disposal	-	(654,109)
	<u>94,734</u>	<u>(905,674)</u>

10 DUE (TO) FROM POLICYHOLDERS

	<i>2007</i> <i>KD</i>	<i>2006</i> <i>KD</i>
At 1 January	6,635	579,867
Shareholders' share of insurance surplus (Note 14)	403,155	26,350
Other movement in funds advanced from policyholders	(911,663)	(599,582)
At 31 December	<u>(501,873)</u>	<u>6,635</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

10 DUE FROM (TO) POLICYHOLDERS (continued)

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%.

Shareholders' share of insurance surplus for the current year, which is subject to the approval of the Annual General Meeting of the shareholders, comprises the following:

	<i>Percentage applied</i>	<i>KD</i>
Management fees	5.64%	242,780
Share of investment income	20%	160,376
		<u>403,155</u>

Shareholder' share of insurance surplus for the year ended 2006 amounting to KD 26,350 was approved by the Annual General Meeting held on 25 March 2007.

11 SHARE CAPITAL AND SHARE PREMIUM

	<i>Authorised, issued and fully paid 2007 KD</i>	<i>2006 KD</i>
Shares of 100 fils each	<u>11,025,000</u>	<u>11,025,000</u>

In 2006, the parent company increased its share capital from KD 5,512,500 to KD 11,025,000 through the following:

- 1) Issuance of 8,268,750 bonus shares of 100 fils each equivalent to 15% of paid-up share capital as at 31 December 2005.

Bonus share and issuance of shares described above were approved by the Annual General Assembly held on 8 April 2006.

- 2) Issuance of 85% rights issued to existing share holders on register at the date of Annual General Assembly on 8 April 2006.

Issuance of 46,856,250 shares for KD 0.250 per share representing par value of KD 0.100 per share and share premium of KD 0.150 per share.

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 is transferred to statutory reserve. The parent company may resolve to discontinue such transfers when the reserve equals 50% of paid up share capital.

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 has been transferred to the voluntary reserve. The reserve is freely distributable.

14 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

14 POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND (continued)
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 uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The management generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

Reinsurance

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

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

Year ended 31 December 2007

	<i>Marine and aviation KD</i>	<i>General accident KD</i>	<i>Fire KD</i>	<i>Life KD</i>	<i>Total KD</i>
Premium written	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)
	<u>18,571</u>	<u>1,896,881</u>	<u>49,538</u>	<u>109,582</u>	<u>2,074,572</u>
Movement in unearned premiums	(8,081)	268,222	(36,626)	-	223,515
	<u>10,490</u>	<u>2,165,103</u>	<u>12,912</u>	<u>109,582</u>	<u>2,298,087</u>
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
	<u>132,240</u>	<u>2,631,448</u>	<u>117,263</u>	<u>141,314</u>	<u>3,022,265</u>
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
	<u>43,453</u>	<u>2,104,665</u>	<u>41,476</u>	<u>30,216</u>	<u>2,219,810</u>
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)
	<u>(39,158)</u>	<u>(159,416)</u>	<u>(149,822)</u>	<u>(9,959)</u>	<u>(358,355)</u>
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
	<u>49,225</u>	<u>314,605</u>	<u>6,027</u>	<u>73,667</u>	<u>443,524</u>
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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

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

Year ended 31 December 2006

	<i>Marine and aviation KD</i>	<i>General accident KD</i>	<i>Fire KD</i>	<i>Life KD</i>	<i>Total KD</i>
Premium written	407,890	3,234,080	786,009	939,933	5,367,912
Reinsurance premiums ceded	(386,909)	(645,042)	(761,747)	(615,133)	(2,408,831)
	<u>20,981</u>	<u>2,589,038</u>	<u>24,262</u>	<u>324,800</u>	<u>2,959,081</u>
Movement in unearned premiums	(16,597)	1,141,303	(614)	-	1,124,092
	<u>4,384</u>	<u>3,730,341</u>	<u>23,648</u>	<u>324,800</u>	<u>4,083,173</u>
Net premiums earned	4,384	3,730,341	23,648	324,800	4,083,173
Policy issuance fees and others	6,352	135,023	1,130	11,582	154,087
Reinsurance commission	71,248	100,551	49,125	112,538	333,462
	<u>81,984</u>	<u>3,965,915</u>	<u>73,903</u>	<u>448,920</u>	<u>4,570,722</u>
Total revenues	81,984	3,965,915	73,903	448,920	4,570,722
	<u>(6,483)</u>	<u>4,481,981</u>	<u>2,336</u>	<u>39,224</u>	<u>4,517,058</u>
Claims incurred	(6,483)	4,481,981	2,336	39,224	4,517,058
(Decrease) increase in provision for claims incurred but not reported	(2,013)	(1,180,625)	328	-	(1,182,310)
Life mathematical reserve	-	-	-	145,910	145,910
Policy acquisition costs	11,539	301,174	24,446	113,241	450,400
Other insurance expenses	5,394	107,045	32,206	90	144,735
	<u>8,437</u>	<u>3,709,575</u>	<u>59,316</u>	<u>298,465</u>	<u>4,075,793</u>
Total expenses	8,437	3,709,575	59,316	298,465	4,075,793
	<u>73,547</u>	<u>256,340</u>	<u>14,587</u>	<u>150,455</u>	<u>494,929</u>
Surplus from insurance operations	73,547	256,340	14,587	150,455	494,929
Allocation of general and administrative expenses	(80,255)	(636,328)	(154,653)	(184,938)	(1,056,174)
	<u>(6,708)</u>	<u>(379,988)</u>	<u>(140,066)</u>	<u>(34,483)</u>	<u>(561,245)</u>
Net deficit from insurance operations	(6,708)	(379,988)	(140,066)	(34,483)	(561,245)
Investment income	46,652	369,892	89,898	107,503	613,945
	<u>39,944</u>	<u>(10,096)</u>	<u>(50,168)</u>	<u>73,020</u>	<u>52,700</u>
Net surplus (deficit) from insurance operations	39,944	(10,096)	(50,168)	73,020	52,700
Shareholders' share of insurance surplus (Note 10)					(26,350)
Insurance surplus transferred to policyholders' fund					26,350

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

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

POLICYHOLDERS' ASSETS AND LIABILITIES

	<i>2007</i> <i>Marine and</i> <i>aviation, general</i> <i>accident, fire and</i> <i>life</i> <i>KD</i>	<i>2006</i> <i>Marine and</i> <i>aviation, general</i> <i>accident, fire and</i> <i>life</i> <i>KD</i>
Assets		
Bank balances and cash	491,971	799,915
Investment deposits	2,046,000	2,046,000
Investments carried at fair value through income statement	2,117,828	1,463,761
Islamic financing receivables	1,059,452	710,874
Accounts receivable and prepayments	717,705	1,707,212
Premiums receivable	880,586	1,383,544
Available for sale investments	970,157	970,157
Reinsurance recoverable on outstanding claims	1,009,417	544,675
Amounts due from shareholders	501,873	-
Leasehold land	277,750	277,750
Furniture and equipment	228,517	185,089
	<u>10,301,256</u>	<u>10,088,977</u>
Liabilities		
Reinsurance balances payable	946,881	1,439,426
Unearned premiums	1,079,199	1,304,274
Outstanding claims reserve	5,566,317	4,408,194
Reserve for claims incurred but not reported	705,337	656,753
Reserve retained on reinsurance business	164,643	123,746
Premiums received in advance	582,011	775,840
Amounts due to shareholders	-	6,635
Accounts payable and accruals	747,019	866,086
	<u>9,791,407</u>	<u>9,580,954</u>
Policyholders' fund		
Net surplus from insurance operations	509,849	508,023
	<u>10,301,256</u>	<u>10,088,977</u>

CHANGES IN POLICYHOLDERS' FUND

	<i>2007</i> <i>KD</i>	<i>2006</i> <i>KD</i>
At 1 January	508,023	589,720
Distribution to policyholders	(38,543)	(108,047)
Net surplus from insurance operations	40,369	26,350
At 31 December	<u>509,849</u>	<u>508,023</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

14 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.

15 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:

	<i>2007</i> <i>KD</i>	<i>2006</i> <i>KD</i>
Shareholders		
<i>Consolidated income statement</i>		
Islamic financing income	141,277	67,975
Allowances and other benefits	78,000	60,000
Dividend income	254,445	50,000
<i>Key management personnel compensation</i>		
Short-term employee benefits	60,000	53,000
Termination benefits	46,594	25,000
<i>Consolidated balance sheet</i>		
Investments carried at fair value through income statement	2,189,599	2,580,388
Islamic financing receivables	1,719,090	1,577,879
Available for sale investments	11,092,855	11,016,946
Policyholders		
<i>Consolidated income statement</i>		
Premium written	236,128	104,341
Investment loss	243,470	(79,484)
<i>Consolidated balance sheet</i>		
Investments carried at fair value through income statement	1,645,684	1,152,214
Available for sale investments	787,500	787,500
Premiums receivable	5,903	5,903
<i>Key management personnel compensation</i>		
Short-term employee benefits	145,668	165,180
Termination benefits	57,694	45,726

16 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.

16 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 policies 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.

16 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 2007 (2006: 55%).

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

16 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 27% of shareholders' equity on a gross basis and 6% 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.

	<i>31 December 2007</i>			<i>31 December 2006</i>		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>
	<i>liabilities</i>	<i>share of</i>	<i>liabilities</i>	<i>liabilities</i>	<i>share of</i>	<i>liabilities</i>
	<i>KD</i>	<i>liabilities</i>	<i>KD</i>	<i>KD</i>	<i>liabilities</i>	<i>KD</i>
		<i>KD</i>	<i>KD</i>		<i>KD</i>	<i>KD</i>
Marine and aviation	246,057	155,129	90,928	80,258	85,672	(5,414)
Fire	231,230	112,247	118,983	104,977	73,641	31,336
General accident	7,292,638	725,311	6,567,327	6,959,826	385,362	6,574,464
Life	162,939	16,730	146,209			
Total	<u>7,932,864</u>	<u>1,009,417</u>	<u>6,923,447</u>	<u>7,145,061</u>	<u>544,675</u>	<u>6,600,386</u>

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

	<i>31 December 2007</i>			<i>31 December 2006</i>		
	<i>Gross</i>	<i>Reinsurers</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers</i>	<i>Net</i>
	<i>liabilities</i>	<i>' share of</i>	<i>liabilities</i>	<i>liabilities</i>	<i>' share of</i>	<i>Liabilities</i>
	<i>KD</i>	<i>liabilities</i>	<i>KD</i>	<i>KD</i>	<i>liabilities</i>	<i>KD</i>
		<i>KD</i>	<i>KD</i>		<i>KD</i>	<i>KD</i>
Kuwait	<u>7,932,864</u>	<u>1,009,417</u>	<u>6,923,447</u>	<u>7,145,061</u>	<u>544,675</u>	<u>6,600,386</u>

Key assumptions

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

16 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 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 claim	+10%	700	63	39,550
Average claim settlement paid	Reduce from 18 months to 12 months	1,438,720	693,381	N/A
31 December 2006	Change in assumption	Impact on gross liabilities KD	Impact on net liabilities KD	Impact on Profit KD
Average claim cost	+10%	133	119	140,760
Average number of claim	+10%	87	72	52,452
Average claim settlement paid	Reduce from 18 months to 12 months	3,147,279	1,734,949	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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

16 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 2007, the group had the right to set off financial liabilities amounting to KD 106,092 (2006: KD 177,896) against financial assets with a fair value of KD 402,644 (2006: KD 471,120) 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 2007	2007 KD	2006 KD
Shareholders		
Bank balances and cash	1,502,533	14,953
Islamic financing receivables	1,719,090	1,577,879
Amounts due from policyholders	-	6,635
Other assets	501,509	3,711
Total credit risk exposure	3,723,132	1,603,178
Policyholders		
Bank balances and cash	491,971	799,915
Investment deposits	2,046,000	2,046,000
Islamic financing receivables	1,059,452	710,874
Accounts receivable and prepayments	717,705	1,707,212
Premiums receivable	880,586	1,383,544
Reinsurance recoverable on outstanding claims	1,009,417	544,675
Amounts due from shareholders	501,873	-
Total credit risk exposure	6,707,004	7,192,220

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.

	<u>Neither past due nor impaired</u>			
	High grade KD	Standard grade KD	Past due or impaired KD	Total KD
31 December 2007				
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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

16 RISK MANAGEMENT (continued)

Financial risks (continued)

(1) Credit risk (continued)

	<i>Neither past due nor impaired</i>		<i>Past-due or</i>	
	<i>High grade</i>	<i>Standard</i>	<i>impaired</i>	<i>Total</i>
	<i>KD</i>	<i>grade</i>	<i>KD</i>	<i>KD</i>
<i>Policyholders</i>				
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
	<u>3,105,452</u>	<u>3,401,043</u>	<u>200,509</u>	<u>6,707,004</u>

	<i>Neither past due nor impaired</i>		<i>Past-due or</i>	
	<i>High grade</i>	<i>Standard</i>	<i>impaired</i>	<i>Total</i>
	<i>KD</i>	<i>grade</i>	<i>KD</i>	<i>KD</i>
31 December 2006				
<i>Shareholders</i>				
Bank balances and cash	-	14,953	-	14,953
Islamic financing receivables	1,577,879	-	-	1,577,879
Amounts due from policyholders	6,635	-	-	6,635
Other assets	-	3,711	-	3,711
	<u>1,584,514</u>	<u>18,664</u>	<u>-</u>	<u>1,603,178</u>
<i>Policyholders</i>				
Bank balances and cash	-	799,915	-	799,915
Investment deposits	2,046,000	-	-	2,046,000
Islamic financing receivables	710,874	-	-	710,874
Accounts receivable and prepayments	-	1,707,212	-	1,707,212
Premiums receivable	-	730,311	653,233	1,383,544
Reinsurance recoverable on outstanding claims	-	544,675	-	544,675
	<u>2,756,874</u>	<u>3,782,113</u>	<u>653,233</u>	<u>7,192,220</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

16 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.

	<i>AA</i> <i>KD</i>	<i>A</i> <i>KD</i>	<i>BB</i> <i>KD</i>	<i>Not rated</i> <i>KD</i>	<i>Total</i> <i>KD</i>
31 December 2007					
<i>Shareholders</i>					
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
<i>Policyholders</i>					
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
31 December 2006					
<i>Shareholders</i>					
Bank balances and cash	-	14,953	-	-	14,953
Islamic financing receivables	-	-	-	1,577,879	1,577,879
Amounts due from policyholders	-	-	-	6,635	6,635
Others assets	-	-	-	3,711	3,711
Total Shareholders	-	14,953	-	1,588,225	1,603,178
<i>Policyholders</i>					
Bank balances and cash	-	790,930	-	8,985	799,915
Investment deposits	-	2,046,000	-	-	2,046,000
Islamic financing receivables	-	-	-	710,874	710,874
Accounts receivable and prepayments	-	-	-	1,707,212	1,707,212
Premiums receivable	-	-	-	1,383,544	1,383,544
Reinsurance recoverable on outstanding claims	125,275	201,530	217,870	-	544,675
Total	125,275	3,038,460	217,870	3,810,615	7,192,220

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

16 RISK MANAGEMENT (continued)

Financial risks (continued)

(1) Credit risk (continued)

The following table represents the aging analyses of financial assets:

	<i>Less than 30 days KD</i>	<i>31 to 90 days KD</i>	<i>91 to 180 days KD</i>	<i>Past due or impaired KD</i>	<i>Total KD</i>
31 December 2007					
<i>Shareholders</i>					
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
Total	1,502,533	2,220,599	-	-	3,723,132

31 December 2006

Bank balances and cash	14,953	-	-	-	14,953
Islamic financing receivables	-	1,577,879	-	-	1,577,879
Amounts due from policyholders	6,635	-	-	-	6,635
Other assets	-	3,711	-	-	3,711
Total	21,588	1,581,590	-	-	1,603,178

	<i>Less than 30 days KD</i>	<i>31 to 90 days KD</i>	<i>91 to 180 days KD</i>	<i>Past due or impaired KD</i>	<i>Total KD</i>
31 December 2007					
<i>Policyholders</i>					
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

	<i>Less than 30 days KD</i>	<i>31 to 90 days KD</i>	<i>91 to 180 days KD</i>	<i>Past due or impaired KD</i>	<i>Total KD</i>
31 December 2006					
Bank balances and cash	799,915	-	-	-	799,915
Investment deposits	-	-	2,046,000	-	2,046,000
Islamic financing receivables	-	-	710,874	-	710,874
Accounts receivable and prepayments	1,707,212	-	-	-	1,707,212
Premiums receivable	211,367	247,711	271,233	653,233	1,383,544
Reinsurance recoverable on outstanding claims	-	-	544,675	-	544,675
Total	2,718,494	247,711	3,572,782	653,233	7,192,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

16 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.

	Up to 1 year KD	1-3 years KD	Total KD
31 December 2007			
<i>Shareholders</i>			
Amounts due to policyholders	501,873	-	501,873
Other liabilities	110,070	-	110,070
Total	611,943	-	611,943
<i>Policyholders</i>			
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
	Up to 1 year KD	1-3 years KD	Total KD
31 December 2006			
<i>Shareholders</i>			
Other liabilities	124,861	-	124,861
<i>Policyholders</i>			
Reinsurance balances payable	1,439,426	-	1,439,426
Unearned premiums	1,108,632	195,642	1,304,274
Outstanding claims reserve	4,408,194	-	4,408,194
Reserve for claims incurred but not reported	656,753	-	656,753
Reserve retained on reinsurance business	123,746	-	123,746
Premiums received in advance	93,101	682,739	775,840
Amounts due to shareholders	6,635	-	6,635
Accounts payable and accruals	866,086	-	866,086
	8,702,573	878,381	9,580,954

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

16 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 2007	<i>US Dollar</i> <i>KD</i>	<i>EGP</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Bank balances and cash	-	892,548	892,548
Other assets	295,208	-	295,208
	<u>295,208</u>	<u>892,548</u>	<u>1,187,756</u>
Minority interest	-	595,032	595,032
	<u>-</u>	<u>595,032</u>	<u>595,032</u>
SHAREHOLDERS 31 DECEMBER 2006	<i>US Dollar</i> <i>KD</i>	<i>Total</i> <i>KD</i>	
Investments carried at fair value through income statement	238,556	238,556	
	<u>238,556</u>	<u>238,556</u>	
POLICYHOLDERS 31 DECEMBER 2007	<i>US Dollar</i> <i>KD</i>	<i>Total</i> <i>KD</i>	
Bank balances and cash	42,034	42,034	
Premiums receivable	108,636	108,636	
	<u>150,670</u>	<u>150,670</u>	

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

16 RISK MANAGEMENT (continued)

Financial risks (continued)

(3) Market risk (continued)

(a) Currency risk (continued)

POLICYHOLDERS 31 DECEMBER 2006	US Dollar KD	Total KD
Bank balances and cash	10,235	10,235
Premiums receivable	61,980	61,980
	<u>72,215</u>	<u>72,215</u>

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).

	Change in variables	2007		2006	
		Impact on profit KD	Impact on equity KD	Impact on profit KD	Impact on profit KD
USD	+5%	14,760	-	15,571	-
EGP	+5%	-	44,627	-	-
USD	-5%	(14,760)	-	(15,571)	-
EGP	-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 through diversification of investments which is done in accordance with the limits set by the group's management.

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:

Shareholders	Increase in equity price in %	2007		2006	
		Effect on profit KD	Effect on equity KD	Effect on profit KD	Effect on equity KD
Quoted investments	5%	-	24,932	-	30,451
Unquoted investments	5%	-	87,812	-	99,740
Managed fund	5%	-	84,436	-	77,839
Managed portfolios	5%	141,947	554,506	153,355	550,847

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

16 RISK MANAGEMENT (continued)

Financial risks (continued)

(3) Market risk (continued)

(c) Equity price risk (continued)

	<i>Increase in equity price in %</i>	<i>2007</i>		<i>2006</i>	
		<i>Effect on profit KD</i>	<i>Effect on equity KD</i>	<i>Effect on profit KD</i>	<i>Effect on equity KD</i>
Policyholders					
Unquoted investments	5%	-	48,508	-	48,508
Managed fund	5%	42,192	-	31,693	-
Managed portfolios	5%	63,699	-	41,496	-

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

17 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.