

Gulf Takaful Insurance Company
K.S.C. (Closed)
And its subsidiary
State of Kuwait

Consolidated Financial Statements and Independent Auditor's Report
For the year ended 31 December 2008

PRICEWATERHOUSECOOPERS 

Gulf Takaful Insurance Company
K.S.C. (closed)
State of Kuwait

Consolidated Financial Statements and Independent Auditor's Report
For the year ended 31 December 2008

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**Gulf Takaful Insurance Company
K.S.C. (closed)
State of Kuwait**

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

Report on the financial statements

We have audited the accompanying consolidated financial statements of Gulf Takaful Insurance Company (K.S.C. Closed) "The Parent Company" and its subsidiary "the Group" which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Parent Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Gulf Takaful Insurance Company
K.S.C. (closed)**

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

Other matter

Without qualifying our opinion, we draw attention to Note 4.4 to the consolidated financial statements regarding a material uncertainty with respect to Murabaha receivables of KD 3,882,306 as of 31 December 2008 due from a local financial institution that did not settle its payments to the Group on the due date due to financial difficulties. Based on the debt rescheduling information provided by the counterparty in March 2009 regarding rescheduling its debts and based on the available information that the Government of Kuwait has proposed certain plans for supporting the financial institutions that may ultimately enable this institutions to meet its obligations, the Group has made a provision for impairment of 50% for the impairment in those Murabaha.

Report on legal and other regulatory requirements

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association, that an inventory count was duly carried out and that, to the best of our knowledge and belief, no violations of Commercial Companies Law of 1960, as amended, or of the Parent Company's Articles of Association have occurred during the year ended 31 December 2008 that might have had a material effect on the business of Group or on its consolidated financial position.

**Bader A. Al-Wazzan
Licence No. 62A**

Kuwait
7 April 2009

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

Consolidated Balance Sheet as at 31 December 2008
(All amounts are in Kuwaiti Dinars)

	Note	<u>2008</u>	<u>2007</u>
Assets			
Cash and cash equivalents	3	907,664	2,171,045
Murabaha and investment deposits	4	3,531,412	1,674,635
Investments at fair value through profit or loss	5	3,870,874	7,963,835
Investments available for sale	6	5,543,409	5,539,145
Investment properties	7	879,605	-
Free profit loan to the policyholders' fund	8	1,016,380	599,649
Other debit balances	9	203,581	276,089
Property, equipment and intangible assets		<u>346,405</u>	<u>513,938</u>
Total Assets		<u>16,299,330</u>	<u>18,738,336</u>
Liabilities and Equity			
Liabilities			
Payables and other credit balances	10	156,937	120,766
End of service indemnity		<u>171,428</u>	<u>102,297</u>
		<u>328,365</u>	<u>223,063</u>
Equity			
Share capital	11	15,106,500	15,106,500
Statutory reserve	12	342,596	342,596
Voluntary reserve	13	342,596	342,596
Change in fair value reserve		80,008	324,010
Accumulated(losses)/Retained earnings		<u>99,265</u>	<u>2,399,571</u>
Total equity		<u>15,970,965</u>	<u>18,515,273</u>
Total Liabilities and Equity		<u>16,299,330</u>	<u>18,738,336</u>

The accompanying notes from (1) to (23) form an integral part of these consolidated financial statements

Bader Suleiman Al-Othman
Chairman

Nasser Suleiman Al-Drbas
Vice Chairman and Managing Director

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

Consolidated Statement of Income for the year ended 31 December 2008
(All amounts are in Kuwaiti Dinars)

	Note	2008	2007
Revenues			
Murabaha and investment deposits income		326,114	232,281
Income from investments at fair value through profit or loss	14	728,504	1,230,638
Losses/(gain) from investments available for sale	15	(1,348,982)	168,807
Investment properties income	16	50,178	-
Total (losses)/ revenues		<u>(244,186)</u>	<u>1,631,726</u>
Expenses			
General and administrative expenses		(114,967)	(81,419)
Impairment in murabaha investments	4.4	(1,941,153)	-
Contribution to Kuwait Foundation for the Advancement of Science (KFAS)		-	(13,953)
Zakat		-	(958)
Total expenses		<u>(2,056,120)</u>	<u>(96,330)</u>
Net(loss)/ profit for the year		<u>(2,300,306)</u>	<u>1,535,396</u>
(Losses)/Earnings per share (fils)	17	<u>(15.23)</u>	<u>10.16</u>

The accompanying notes from (1) to (23) form an integral part of these consolidated financial statements

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

Consolidated Statement of Changes in Equity for the year ended 31 December 2008

(All amounts are in Kuwaiti Dinars)

	Share capital	Statutory reserve	Voluntary reserve	Change in fair value reserve	Accumulated (losses)/ retained earnings	Total
Balance as at 1 January 2007	15,106,500	187,565	187,565	221,463	1,174,237	16,877,330
Change in fair value of investments available for sale	-	-	-	(9,940)	-	(9,940)
Transferred to income statement resulted from sale of investments available for sale	-	-	-	112,487	-	112,487
Profit recognised directly in equity	-	-	-	102,547	-	102,547
Net profit for the year	-	-	-	-	1,535,396	1,535,396
Total profit for the year	-	-	-	102,547	1,535,396	1,637,943
Transfer to reserves	-	155,031	155,031	-	(310,062)	-
Balance as at 31 December 2007	<u>15,106,500</u>	<u>342,596</u>	<u>342,596</u>	<u>324,010</u>	<u>2,399,571</u>	<u>18,515,273</u>
Balance as at 1 January 2008	15,106,500	342,596	342,596	324,010	2,399,571	18,515,273
Change in fair value of investment available for sale	-	-	-	(2,016,669)	-	(2,016,669)
Transferred to income statement resulted from sale of investments available for sale	-	-	-	(224,910)	-	(224,910)
Impairment in available for sale investment	-	-	-	1,997,577	-	1,997,577
Losses recognised directly in equity	-	-	-	(244,002)	-	(244,002)
Net loss for the year	-	-	-	-	(2,300,306)	(2,300,306)
Total loss for the year	-	-	-	(244,002)	(2,300,306)	(2,544,308)
Balance as at 31 December 2008	<u>15,106,500</u>	<u>342,596</u>	<u>342,596</u>	<u>80,008</u>	<u>99,265</u>	<u>15,970,965</u>

The accompanying notes from (1) to (23) form an integral part of these consolidated financial statements

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

Consolidated Statement of Cash Flows for the year ended 31 December 2008

(All amounts are in Kuwaiti Dinars)

	Note	<u>2008</u>	<u>2007</u>
Cash flows from operating activities			
Net (loss)/ profit for the year		(2,300,306)	1,535,396
Adjustments:			
Murabaha and investment deposits income		(360,815)	(232,281)
Income from Investments at fair value through profit or loss	14	(728,504)	(1,230,638)
Losses from investments available for sale	15	1,348,982	(168,807)
Change in fair value of investment properties	16	26,282	-
Impairment loss in Murabaha investments		1,941,153	-
Depreciation		187,636	40,415
Operating profit (loss) before changes in operating assets and liabilities		<u>114,428</u>	<u>(55,915)</u>
Investments at fair value through profit or loss		1,019,378	1,015,636
Free profit loan to policyholders fund		(416,731)	(505,205)
Other debit balances		72,504	(68,846)
Other credit balances		36,173	(44,602)
End of service indemnity		69,135	-
Net cash generated from operating activities		<u>894,887</u>	<u>341,068</u>
Cash flows from investing activities			
Payment for property, equipment and intangible assets		(20,103)	-
(Payments)/ proceeds from Murabaha and investment deposits		(3,462,726)	1,129,115
Payment for purchase of investments available for sale		-	(1,050,000)
Proceeds from sale of investments available for sale		2,022,145	861,639
Murabaha and investment deposits income received		25,609	265,091
Payment for purchase of investment properties		(905,887)	-
Cash dividends received		<u>182,694</u>	<u>241,194</u>
Net cash (used in)/ generated from investing activities		<u>(2,158,268)</u>	<u>1,447,039</u>
Net change in cash and cash equivalents		(1,263,381)	1,788,107
Cash and cash equivalents at beginning of the year		<u>2,171,045</u>	<u>382,938</u>
Cash and cash equivalents at end of the year	3	<u>907,664</u>	<u>2,171,045</u>

The accompanying notes from (1) to (23) form an integral part of these consolidated financial statements

1. Incorporation and activities

Gulf Takaful Insurance Company K.S.C (closed) "The Parent Company" is incorporated by an incorporation contract No. 7526 file no.1 dated 6 September 2004, and registered with Ministry of Commerce in accordance with the Insurance Companies and Agent Law No. 24 of 1961.

The objects of the Parent Company are to underwrite Takaful and other insurance activities such as fire, general accidents, car, marine and aviation in accordance with Takaful insurance (Co-Operative), which includes re-insurance and investing in permitted activities. The parent Company conducts its activities in accordance with Nobel Islamic Sharia principles.

The registered office of the company is P.O. Box 29279 Safat, 13153, Kuwait.

The consolidation financial statements include the financial statements of Parent Company and its wholly owned subsidiary Gulf Real Estate Company K.S.C (Closed), referred together as "The Group".

The ultimate parent for the Group is Global Investment House K.S.C by %39.43 as of 31 December 2008 (52.72% as of 31st December 2007).

These financial statements have been approved for issue by the Board of Directors on 7 April 2009 and are subject to shareholders' approved in the General Assembly.

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB). The financial statements have been prepared in accordance with International Financial Reporting Standards under the historical cost basis of measurement as modified by the revaluation of financial assets classified as "at fair value through profit or loss", "available for sale" and investment properties". The financial statements have been presented in Kuwaiti Dinars.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect amounts reported in these financial statements, as actual results could differ from those estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note (20).

The accounting policies are consistent with these used in the previous year except as follows:

(a) Adoption of amendments to IAS (39): Financial Instruments: Recognition and Measurement

On 13 October 2008, the International Accounting Standards Board (IASB) approved and published amendments to IAS (39) Financial Instruments: Recognition and Measurement and IFRS (7) Financial Instruments: Disclosures to allow reclassification of certain financial instruments held for trading to either receivables or available for sale investments categories.

(b) The following International Financial Reporting Interpretations Committee (IFRIC) Interpretations, though issued, are effective from 1 January 2008 and have not been adopted by the Group as they are irrelevant to the Group's operation.

- IFRIC 11, 'IFRS 2 – Group and treasury share transactions',
- IFRIC 12, 'Service concession arrangements',
- IFRIC 13, 'Customer loyalty programmes' and
- IFRIC 14, 'IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding requirements and their Interaction'

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

(All amounts are in Kuwaiti Dinars unless otherwise stated)

(c) The following International Accounting Standard Board (IASB) standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations, though issued, are not yet mandatory and have not yet been adopted by the Group.

- IAS 1: Presentation of financial statements (amended –effective 2009).
- IAS 16 : Property, plant and equipment (amended- effective 2009)
- IAS 36 : Impairment of assets (amended –effective 2009)
- IFRS 8 : Operating segments (effective 2009)
- IAS 27 (Revised), ‘Consolidated and separate financial statements’, (effective 2009).
- IFRS 3 (Revised), ‘Business combinations’ (effective 2009).
- IAS 38 (Amendment), ‘Intangible assets’ (effective 2009).
- IAS 40 (Amendment), ‘Investment property’ (and consequential amendments to IAS 16) (effective 2009).

The application of IAS (1) (revised), which will be effective for annual periods beginning on or after 1 January 2009, will impact the presentation of financial statements to enhance the usefulness of the information presented.

The application of IFRS (8) which will be effective for annual periods beginning on or after 1 January 2009 will result in disclosure of information to evaluate the nature and financial effects of the business activities in which the group engages and the economic environments in which it operates.

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

2.2 Policyholders and shareholders accounts

The Parent Company maintains separate books of accounts for policyholders and shareholders. Transactions related to the insurance activities or reinsurance are recorded in the policyholders’ accounts.

Policyholders’ assets, liabilities, and results do not form part of the Parent’s Company financial statements. These assets, liabilities, and results are disclosed in the notes (18).

The Parent Company holds the physical custody and title of all assets related to the policyholders’ and shareholders’ operations. Other transactions which do not pertain to policyholders are recorded in the shareholders’ books.

Management determines the basis of allocating the expenses from joint operations between the policyholders and the shareholders’.

According to the Article No.(51) from the Parent Company’s Articles of Association the insurance surplus in policyholders account which result from insurance operation should be divided between shareholders and policyholder’s according to a decision set by the parent company Board of Directors, where policyholders share should not be less than 50% from surplus.

2.3 Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, when there is a difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries.

2.4 Financial assets

Classification

The management classifies its financial assets upon acquisition. The Group had classified its financial assets as "financial assets at fair value through profit or loss", "receivables" and "assets available for sale".

(A) Financial assets at fair value through profit or loss

The category is divided into two sub categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. Financial assets held for trading are those assets acquired principally for the purpose of selling in the short term. The financial assets designated at fair value through profit or loss at inception are classified in this category, if they are managed and their performance is evaluated and internally reported on a fair value basis in accordance with a documented and approved investment risk management policy.

(B) Receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is represented mainly in receivables, investment in Murabaha and cash and cash equivalents, Free profit loan to policy holders' fund.

(C) Available for sale investments

These are non-derivative financial assets that are either designated in this category or not included in any of the above categories and are principally, those acquired to be held for indefinite period of time which could be sold when liquidity is needed or upon changes in rates of profit.

Recognition and De-recognition

Financial assets are recognized when the Group enters into contractual agreement on those assets. Purchases and sales of financial assets are recognised on the trade date, on which the Group commits to deliver or receive the asset. Financial assets are derecognized when the right to receive cash flows from the assets has expired or has been transferred and the Group has substantially transferred all risks and rewards of ownership.

Measurement

Financial assets are initially recognised at fair value plus transaction costs for all assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Subsequently, available for sale financial assets and financial assets at fair value through profit or loss are remeasured at fair value. Receivables are carried at amortised cost using the effective yield method less any provision for impairment.

Realized and unrealized gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the income statement for the year in which they arise. Changes in fair value of financial assets classified as available for sale are recognised in equity. When available-for sale financial assets are sold or impaired, the accumulated changes in fair value recognised in equity are included in the income statement.

Available for sale investments that their market values can not be determined are recorded at cost less impairment in value.

Fair value

Fair values of quoted instruments are based on quoted closing bid prices or using the current market rate of return for that instrument. Fair values for unquoted instruments are based on net asset values provided by fund managers or are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price.

The fair value of unquoted financial instruments is determined by reference to the market value of a similar investment, or the expected discounted cash flows, brokers' quotes, or other appropriate valuation models.

Impairment in value

(i) **Impairment and uncollectibility of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of similar financial assets may be impaired as a result of one or more events that occurred after the initial recognition of those assets and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets, that can be reliably measured. If such evidence exists, any impairment loss is recognised in the statement of income.

Impairment is determined as follows:

- a) for financial assets with fixed rates of return, carried at amortised cost, impairment is the difference between the carrying value and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective profit rate; and for financial assets with variable profit rates, carried at amortised cost, discounted at the current effective rate of return;
- b) for financial assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
- c) for financial assets carried at cost, impairment is the difference between the carrying value and present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

(All amounts are in Kuwaiti Dinars unless otherwise stated)

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognized. Except for equity instrument classified as available for sale, reversal of impairment losses are recognized in the statement of income to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. For available for sale equity investments, reversals of impairment losses are recorded as increases in fair valuation reserve through equity.

2.5 Cash and cash equivalents

Cash on hand, demand and time deposits with banks whose original maturities do not exceed three months, from the date of placement are classified as cash and cash equivalents in the statement of cash flows.

2.6 Investment properties

Land and real estate held by the Group for the purpose of capital appreciation or for leasing it to others are included in investment properties. Land and real estate are initially stated on acquisition at cost and subsequently remeasured at fair value that is being determined based on market value annually by independent values. Profits and losses arising from valuation are included in the consolidated statement of income.

2.7 Property, equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost comprises of acquisition costs and all directly attributable costs of bringing the asset to working condition for its intended use. Depreciation is calculated based on the estimated useful lives of the assets using the straight line method.

2.8 Intangible assets

Computer Software

Costs of computer software, which are expected to have useful lives of more than one year, are carried out at cost and amortized on a straight-line basis over their expected useful lives of 3 years.

2.9 End of service indemnity

The Group is liable under Kuwaiti labor law, to make payments to employees for post employment benefits under a defined benefit plan. Such payment is made on a lump sum basis at the end of an employees' service. This liability is unfunded and has been computed as the amount payable as a result of involuntary termination of employees on the balance sheet date. The Group estimates that this method will give a reliable approximation of the present value of this obligation.

2.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as deduction from the proceeds

2.11 Revenue recognition

Murabaha and investment deposit income are recognised on a time proportion basis using the effective rate of return on outstanding balances for such transactions.

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

2.12 Foreign currencies

The functional currency of the Group is the Kuwaiti Dinar. Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the statement of income. Translation differences on non monetary items carried at fair value are considered part of the change in the fair value of those items.

2.13 Zakat

Since the Parent Company's Articles of Association does not state paying Zakat on behalf of the shareholders, the responsibility of paying Zakat is laying on the shareholders .

3. Cash and cash equivalents

	<u>2008</u>	<u>2007</u>
Cash at banks	167,096	1,014,638
Cash at investment portfolios	40,568	1,156,407
Time deposits	<u>700,000</u>	<u>-</u>
	<u>907,664</u>	<u>2,171,045</u>

3.1 The fair value of cash and cash equivalents equals its carrying amounts as at 31 December 2008/ 2007.

3.2 The average effective rate of return on time deposit is 4.3% as of 31 December 2008 (8.5% as of 31 December 2007).

4. Murabaha and investment deposits

4.1 Murabaha and investment deposits are deposited with some Islamic Financial Institutions. The average effective rate of return on the time deposits and Murabaha is 4.3 % as at 31 December 2008 (8.5% as at 31 December 2007).

4.2 Murabaha and investment deposits are in Kuwait Dinars as of 31 December 2008/2007.

4.3 Murabaha and investment deposits include an amount of KD 955,260 as at 31 December 2008 (KD 955,260 as at 31 December 2007) pledged against letters of guarantee for governmental institutions in State of Kuwait (Note 22).

4.4 During the year, an impairment losses of KD 1,941,154 have been recorded against the full amount of murabaha investments with one of the financial institutions. These losses have has been recorded due to the difficulties faced by this institution and the uncertainty of ability to recover the amount of murabaha based on a decision taken by the board of directors.

5. Investments at fair value through profit or loss

	<u>2008</u>	<u>2007</u>
Investments in local shares – unquoted	1,116,400	1,204,000
Investments in foreign shares – unquoted	1,131,462	1,048,544
Investments in local funds – unquoted	4,851	3,375,761
Investments in foreign funds – unquoted	<u>1,618,161</u>	<u>2,335,530</u>
	<u>3,870,874</u>	<u>7,963,835</u>

5.1 The valuation of the unquoted investments has been determined based on the report obtained from investment portfolios manager (A related party) as of 31 December 2008 and as of 31st December 2007.

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

(All amounts are in Kuwaiti Dinars unless otherwise stated)

The Group has adopted the amendments to IAS (39) with effect from 1 July 2008. As a result, the Group has reclassified certain trading investments with a carrying value of KD 2,538,109 from fair value through profit or loss category to available for sale category as those investments are no longer held for the purpose of selling or repurchasing in the near term due to the impact of the global financial crisis on the local and regional equity markets. Decrease in fair value for those investments for the six months ended 31 December 2008 amounted to KD 1,997,577 has been recorded as losses through income statement.

5.2 The transferred amount to investments available for sale has been eliminated from operating and investing activities in the statement of cash flows as it is a non-cash transaction.

5.3 Investments fair value distributed over the following currencies:

	<u>2008</u>	<u>2007</u>
Kuwaiti Dinars	1,121,251	4,579,761
US Dollar	<u>2,749,623</u>	<u>3,384,074</u>
	<u>3,870,874</u>	<u>7,963,835</u>

6. **Investments available for sale**

	<u>2008</u>	<u>2007</u>
Investments in local shares – quoted	-	1,724,310
Investments in local shares – unquoted	2,881,250	2,710,000
Investments in foreign funds – unquoted	748,967	929,560
Investments in foreign share – unquoted	165,525	175,275
Investments in local funds – unquoted	<u>1,747,667</u>	<u>-</u>
	<u>5,543,409</u>	<u>5,539,145</u>

6.1 The valuation of the unquoted investments has been determined based on the report obtained from investment portfolios manager (A related parent) as of 31st December 2008 and as of 31st December 2007.

6.2 Available for sale investments distributed over the following currencies:

	<u>2008</u>	<u>2007</u>
Kuwaiti Dinars	4,628,916	4,259,039
US Dollar	748,968	1,104,835
UAED	<u>165,525</u>	<u>175,275</u>
	<u>5,543,409</u>	<u>5,539,145</u>

7. **Investments properties**

Investment properties are represented in a property in the State of Kuwait recorded at its fair value. This fair value has been determined by real estate valuers as at 31 December 2008.

8. **Free profit loan to the policyholders' fund**

According to the Parent Company's Articles of Association, the net deficit in each insurance activity is covered by the Parent Company's shareholders in the form of free profit loan. Free profit loan offered by the shareholders is settled from the surplus that is expected to the recognized in the future years.

Following is the movement of free profit loan:

	<u>2008</u>	<u>2007</u>
Balance at the beginning of the year	599,649	94,444
Other movements in amounts transferred to the policyholders	<u>416,731</u>	<u>505,205</u>
Balance at the end of the year	<u>1,016,380</u>	<u>599,649</u>

Notes to the Consolidated Financial Statements for the year ended 31 December 2008
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Following is the amount of losses not covered by the shareholders.

	<u>2008</u>	<u>2007</u>	<u>Total</u>
The deficit of insurance activities	(1,835,649)	(950,744)	(2,786,393)
Amount paid by shareholders	416,731	599,649	1,016,380
	<u>(1,418,918)</u>	<u>(351,095)</u>	<u>(1,770,013)</u>

9. Other debit balances

	<u>2008</u>	<u>2007</u>
Accrued income	80,540	176,282
Refundable insurance	31,365	13,655
Prepaid expenses	13,655	12,367
Staff receivables	78,021	73,785
	<u>203,581</u>	<u>276,089</u>

10. Payables and other credit balance

	<u>2008</u>	<u>2007</u>
Trade payable	42,232	24,690
Accrued staff leave	102,730	70,996
Kuwait Foundation for Advancement of Science (KFAS)	-	13,953
Zakat	-	958
Other credit balance	11,975	10,169
	<u>156,937</u>	<u>120,766</u>

11. Share capital

The issued and paid up share capital is KD 15,106,500 distributed over 151,065,000 with par value 100 fils per share as at 31 December 2008/2007.

12. Statutory reserve

In accordance with the Commercial Companies Law and the Parent Company's Articles of Association, 10% of net profit is transferred before contribution to Kuwait Foundation for the Advancement of science and Board of Directors Remuneration and Zakat expense to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the share capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association.

13. Voluntary reserve

In accordance with the Parent Company's Articles of Association, a specific percentage - proposed by the Board of Directors and approved by the ordinary general assembly meeting - from net profit for the year is transferred to voluntary reserve and such transfers may be discontinued by a resolution at the ordinary general assembly meeting based on the board of direct proposal.

Notes to the Consolidated Financial Statements for the year ended 31 December 2008
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14. Income from investments at fair value through profit or loss	2008	2007
Gain from sale	305,541	288,253
Change in fair value	366,119	784,129
Cash dividends	56,844	158,256
	<u>728,504</u>	<u>1,230,638</u>

Change in fair value gains represents the appreciation in the fair value of the unquoted investments, which their fair value has been determined by the investment manager of the portfolios (A related party).

15. Losses from investments available for sale	2008	2007
Gain from sale	522,745	85,869
Cash dividends	125,850	82,938
Impairment	(1,997,577)	-
	<u>(1,348,982)</u>	<u>168,807</u>

During the year, the management decided to record impairment in certain investments as the fair value has declined significantly from its original cost.

16. Investment properties income	2008	2007
Change in fair value	(26,282)	-
Rental income	76,460	-
	<u>50,178</u>	<u>-</u>

17. (Losses)/ earnings per share

(Losses)/ earnings per share is calculated by dividing net (losses)/ profit of the year by the weighted average number of common shares outstanding during the year as follows:

	2008	2007
Net(losses)/ profit for the year	(2,300,306)	1,535,396
Weighted average number of issued shares (share)	151,065,000	151,065,000
(Losses)/Earnings per share (Fils)	<u>(15.23)</u>	<u>10.16</u>

18. Policyholders' operation

The significant accounting policies used in accounting for the insurance business are set out below. The accounting policies were consistently applied during the financial year presented in these financial statement.

Accounting policies used in insurance operation

Revenue recognition

Premiums are recognised as revenue over the period of the insurance coverage charge. Unearned premiums are reported as unearned premiums in the liabilities in the balance sheet.

Commissions earned are recognised at the time of recognition of its related premium.

Premiums under collection

Premiums under collection are carried at its nominal value less impairment losses or provision for doubtful debts.

Reinsurance

Inward and outward of insurance business are conducted with other insurance and reinsurance companies. Reinsurance business includes quota share, excess of loss, facultative and other forms of reinsurance for all lines of business.

Reinsurance ceded contracts do not relieve the policyholders from their obligations. Since the failure of the reinsure's to meet their obligations may lead to losses, accordingly a provision for expected uncollectible amounts is formed. Reinsurers' share in the claims reserve is stated in a method that consistency is consistent with policyholders' obligation for each claim.

Reserve for claims under settlement

A provision is calculated against claims presented and not settled up to balance sheet date.

Reserve for family takaful insurance

A provision for family takaful insurance liabilities are recognised based on independent actuarial valuation.

Reserve for claims incurred but not reported

A provision for incurred claims but not reported up to balance sheet date is calculated based on prior experience of loss ratio.

Business segments

The parent company is operating in four major business segments:

- Marine aviation

Provides insurance against risk of transferring good and on sea and air carrier's hull in their various forms.

- Motors

Includes insurance coverage against all motor accidents kinds.

- General accidents

Includes insurance against contracts risk and machinery breakdowns and physical damage to computers and business interruption and funds insurance, dishonesty and occupational hazards and work injuries, civil liability and cars.

- Family takaful insurance

Provides various family takaful insurance programs for family insurance.

None of the above activities are considered a sector itself nor is the allocation of assets and liabilities on the basis of sectors of activity except for the family takaful insurance sector this follow for assets and liabilities of policy's shareholders as of 31 December:

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2008
 (All amounts are in Kuwaiti Dinars unless otherwise stated)

Policyholders' assets and liabilities:

	<u>2008</u>	<u>2007</u>
Assets		
Cash and bank balances	546,701	520,727
Investments deposits	-	559,272
Premiums under collection	2,115,791	1,561,074
Due from reinsurance	408,642	-
Other debit balances	22,809	63,331
Claims under settlement recoverable from reinsurers	541,329	682,959
	<u>3,635,272</u>	<u>3,387,363</u>
Liabilities		
Due to reinsurance	876,741	349,712
Unearned premiums	1,703,338	1,173,614
Reserve of claims under settlement	1,209,236	1,458,316
Reserve for claims incurred but not reported	130,000	140,000
Reserve for takaful insurance	15,931	11,419
Amounts retained for reinsurers	318,818	151,764
Premium received in advance	200,833	241,403
Due to shareholders	1,016,380	599,649
Other liabilities	950,388	212,230
	<u>6,421,665</u>	<u>4,338,107</u>
Policyholders' fund		
Net (deficit) from insurance operations	<u>(2,786,393)</u>	<u>(950,744)</u>
Total Liabilities less Policyholders' fund	<u>3,635,272</u>	<u>3,387,363</u>

The company carries out its activities in the state of Kuwait, accordingly no geographical distribution has been presented.

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

(All amounts are in Kuwaiti Dinars unless otherwise stated)

Policyholders' result of operation by business segments (Continued)

	Marine & aviation	General accidents	Medical	Motors	Total general risk insurance	Takaful insurance	Total
Year ended 31 December 2008							
Premiums:							
Gross premium written	67,778	1,154,727	646,969	2,943,645	4,813,119	1,003,794	5,816,913
Less: Premium ceded to reinsures	(46,858)	(683,343)	-	(102,507)	(832,708)	(634,856)	(1,467,564)
Net premiums written	20,920	471,384	646,969	2,841,138	3,980,411	368,938	4,349,349
Unearned premium	(2,512)	(70,328)	(39,247)	(353,732)	(465,819)	(63,905)	(529,724)
Net premium earned	18,408	401,056	607,722	2,487,406	3,514,592	305,033	3,819,625
Issue fees and other income	318	(75,253)	(314,622)	158,979	(230,578)	(31,169)	(261,747)
Net commissions	6,489	29,172	(44,501)	(1,044,019)	(1,052,859)	(49,798)	(1,102,657)
Total revenues	25,215	354,975	248,599	1,602,366	2,231,155	224,066	2,455,221
Claims paid	(13,022)	(579,080)	(633,589)	(1,660,768)	(2,886,459)	(536,675)	(3,423,134)
Less: reinsurance share from claims paid	6,687	310,097	-	-	316,784	470,993	787,777
Net claims	(6,335)	(268,983)	(633,589)	(1,660,768)	(2,569,675)	(65,682)	(2,635,357)
Provision for takaful insurance	-	-	-	-	-	(4,512)	(4,512)
Provision for claims under settlement and claims incurred but not reported	(458)	(32,470)	(25,330)	226,514	168,256	(50,807)	117,449
Total claims	(6,793)	(301,453)	(658,919)	(1,434,254)	(2,401,419)	(121,001)	(2,522,420)
Investment revenues	200	4,499	6,175	27,120	37,994	3,522	41,516
Surplus by business segments	18,622	58,021	(404,145)	195,232	(132,270)	106,587	(25,683)
Allocation of general and administrative expenses	(8,706)	(196,165)	(269,234)	(1,182,332)	(1,656,437)	(153,529)	(1,809,966)
Net surplus/ (deficit) from insurance operations	9,916	(138,144)	(673,379)	(987,100)	(1,788,707)	(46,942)	(1,835,649)
Beginning balance of surplus of policy holders' Fund							(950,744)
Ending balance of surplus of policy holders' Fund							(2,786,393)

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

(All amounts are in Kuwaiti Dinars unless otherwise stated)

Policyholders' result of operation by business segments

	<u>Marine & aviation</u>	<u>General accidents</u>	<u>Medical</u>	<u>Motors</u>	<u>Total general risk insurance</u>	<u>Takaful insurance</u>	<u>Total</u>
Year ended 31 December 2007							
Premiums:							
Gross premium written	101,869	954,757	731,803	2,677,176	4,465,605	931,641	5,397,246
Less: Premium ceded to reinsures	(83,904)	(571,385)	-	(73,105)	(728,394)	(569,760)	(1,298,154)
Net premiums written	17,965	383,372	731,803	2,604,071	3,737,211	361,881	4,099,092
Unearned premium	(764)	(88,733)	41,465	13,613	(34,419)	(38,971)	(73,390)
Net premium earned	17,201	294,639	773,268	2,617,684	3,702,792	322,910	4,025,702
Issue fees and other income	1,333	4,124	4,959	511,596	522,012	1,174	523,186
Net commissions	6,155	(41,367)	(71,704)	(751,411)	(858,327)	18,411	(839,916)
Total revenues	24,689	257,396	706,523	2,377,869	3,366,477	342,495	3,708,972
Claims paid	(6,926)	(714,367)	(809,202)	(1,596,032)	(3,126,527)	(381,930)	(3,508,457)
Less: reinsurance share from claims incurred	4,155	574,203	-	-	578,358	266,668	845,026
Net claims	(2,771)	(140,164)	(809,202)	(1,596,032)	(2,548,169)	(115,262)	(2,663,431)
Provision for takaful insurance	-	-	-	-	-	5,431	5,431
Provision for claims under settlement and claims incurred but not reported	1,285	(91,027)	(249,075)	(163,037)	(501,854)	(6,082)	(507,936)
Total claims	(1,486)	(231,191)	(1,058,277)	(1,759,069)	(3,050,023)	(115,913)	(3,165,936)
Investment revenues	137	2,927	5,585	19,877	28,526	2,762	31,288
Surplus/ (deficit) by business segments	23,203	26,205	(351,754)	618,800	316,454	226,582	543,036
Allocation of general and administrative expenses	(6,780)	(144,682)	(276,178)	(982,760)	(1,410,400)	(136,572)	(1,546,972)
Net (surplus)/ deficit from insurance operations	16,560	(115,550)	(622,347)	(344,083)	(1,065,420)	92,772	(972,648)
Beginning balance of surplus of share holders' Fund							21,904
Ending balance of surplus deficit of policy holders' Fund							(950,744)

19. Insurance Risk Management

The Company issues contracts that transfer insurance risk. This section summarises these risks and the way the Company manages them.

Insurance risk

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

Sources of uncertainty in the estimation of future claim payments

Non family takaful

Claims are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and an element of the claims provision relates to incurred but not reported claims (IBNR). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for (IBNR), a provision for reported claims not yet paid and a provision for unexpired risks at the balance sheet date.

In estimating the liability for the cost of reported claims not yet paid the Company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately.

Family takaful

Uncertainty in the estimation of future benefit payments and premium receipts for takaful insurance contracts arises from the unpredictability of overall levels of mortality, health and the variability in contract holder behaviors.

The Company uses an actuarial valuation for takaful insurance contracts. For health and disability insurance covers there is no need to estimate mortality rates or morbidity rates for future years because these contracts have short duration and the claims are payable on a claims-occurrence basis. These insurance contracts are exposed to similar risks of uncertainty in the estimation of future claim payments as non takaful insurance contracts and are managed in a similar manner

20. Financial risk management

The Group is exposed to a variety of financial risks, through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The most important components of this financial risk are credit risk, market risk (including foreign currency risk, profit rate risk, and equity price risk) and liquidity risk. The Group's risk management is conducted by its senior management in accordance with policies approved by the Board of Directors. The various risks that the Group is exposed to and the processes in place to manage those risks are described below.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The financial assets, other than investments in equities are exposed to credit risk. The assets value presented in the balance sheet represent the maximum level exposed to those risks. The Group seeks to mitigate this risk by dealing with credit worthy parties including banks, financial institutions, insurance and reinsurance companies and non-concentration of its assets with one counter party.

The credit risk concentration within the Group's assets which are subject to credit risk is given below.

Assets	2008	2007
Shareholders accounts		
Cash and cash equivalents	907,664	2,171,045
Murabaha and investment deposits	1,590,260	1,674,635
Free profit loan to the policyholders' fund	1,016,380	599,649
Subscribers accounts		
Cash and cash equivalents	546,701	520,727
Subscriptions under collection	2,115,791	1,561,074
Refundable claims under settlement from reinsurers	541,329	682,959
Investment deposits	-	559,272

Due from insurance and reinsurance companies represent amounts receivable from reinsurance claims net of policies ceded.

Subscriptions under collection primarily represent amounts due against premiums for policies underwritten by the Parent Company. These are generally due for payment within a period of one month from the date of issue of the policy. The Parent Company is selective in extending credit facilities to its customers and has a good track record of collecting its debts. Furthermore, credit risk with respect to receivables is limited due to dispersion across large number of customers.

Deposits with banks are placed with banks which are reputed international rating agencies.

Market Risk

(a) Foreign Currency Risk

Foreign currency risk is represented in the exposure to changing currency exchange rates that may adversely affect the Parent Company's cash flows or the value of assets and liabilities in foreign currencies. The Parent Company is exposed to foreign currency risk primarily from its foreign currency denominated investments and its dues from re insurance counterparties. The Parent Company seeks to mitigate this risk by dealing in stable currencies and monitoring its currency position on a regular basis.

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The following are the Parent Company's significant net exposures denominated in foreign currency represented in equivalent Kuwaiti Dinar.

	Surplus/ (deficit)	
	2008	2007
US Dollar	3,498,591	4,313,634
UAED	165,524	175,275

The net impact on profit/ (loss) and equity if, as of 31 December, Kuwait Dinars had strengthened against foreign currencies by 5%, is shown below:

	2008		2007	
	Impact on Profit	Impact on Equity	Impact on Profit	Impact on Equity
US Dollar	(42)	8,500	214,651	263,132
Euro	-	(488)	(8,691)	-

(b) Profit rate risk

The Group is exposed to the risk of changes in the cash flows as a result from the change in the profit rates on its Murabaha investments. The Group manages this risk dynamically through preparing several scenarios for changes in profit rates and its effect on the net profit. The Group is not exposed to the risk of fluctuations in the cash out flows as a result from the change in the profit return as it does not have bearing profit liabilities.

The fair value of the investments in Murabaha has been disclosed in Note (4).

(c) Equity Price risk

This is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, caused by factors specific to the instrument or its issuer or factors affecting all instruments traded in the market. The Group is exposed to equity price risk from investments held and classified as "available for sale" and at fair value through profit or loss

To manage its price risk arising from investments in equity securities, The Group has a specialized investment company (portfolio manager) which manages the investment of the Group. The Board of directors constantly monitors the exposures and provides directions to manage risks and maximize profits.

None of the Group investments are quoted in the financial markets. The valuation of the investments is taking place by the portfolio manager in accordance with the accounting policy (2.4).

Liquidity Risk

It is the risk that the Group may not be able to meet its financial obligations as they fall due. The policy of the Group is to ensure that sufficient liquidity is available at all times to meet contractual obligations, including loss claims. Liquidity risk management of the Group includes maintaining sufficient cash and marketable securities, having adequate amount of credit facilities and investing in securities which can be easily closed out. The Group also has the option to raise additional capital to meet funding requirements.

Capital Risk Management

The Group objectives when managing capital are:-

- To ensure adequate funds are available to underwrite risks and market conditions;
- To make available funds for future development of the business;
- To safeguard the Group's ability to continue as a going concern so that it can continue to operate;
- To provide adequate return to shareholders and policyholders

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

(All amounts are in Kuwaiti Dinars unless otherwise stated)

The Board of Directors constantly monitors the capital structure of the Group with a view to ensuring that a balance is maintained between returns and risk. The management ensures that the Group is not geared beyond acceptable limits. For this purpose, the Group may adjust the amount of dividend payable to its shareholders, issue new shares or sell assets to reduce debt.

Furthermore in order to protect against the impact of large claims and catastrophes, the Group is not required under law to maintain technical reserves depending on the exposure to various types of underwriting exposures.

The Group places some of its investments securities and bank deposits under lien to the regulator. The amount of securities and deposits determined as a percentage of direct premium, received during the year for all the segments.

Under the laws of Kuwait, the Group is also required to appropriate 10% of its net profit to of a statutory reserve, with restrictions on its distribution. In accordance with the Articles of the Parent Company, the Parent Company has appropriated of its net profits as a voluntary reserve.

During the year, and also during 2007, the Group has relied mainly on its internal resources to finance its operations, and no external finance were relied on.

Critical accounting estimates and judgments

In accordance with the accounting policies under IFRS adopted by The Group, management is required to make the following judgments and estimations that may affect the carrying values of assets and liabilities.

Judgments

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 on the amounts recognised in the financial statements:

(i) Classification of investments

On acquisition of an investment, the Group decides whether it should be classified as "at fair value through profit or loss" or "available for sale".

The Group classifies investments as 'at fair value through profit or loss' if they are acquired primarily for the purpose of short term profit making or if they are managed and their performance is evaluated on a reliable fair value basis in accordance with a documented investment strategy. All other investments are classified as "available for sale".

(ii) Impairment of investments

The Group treats "available for sale" equity investments as impaired when there has been a significant or prolonged decline in their fair value below their cost. The determination of what is "significant" or "prolonged" requires significant judgement. In addition, the Group also evaluates among other factors, normal volatility in the share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be considered appropriate when there is evidence of deterioration in the financial position of the investee, industry and sector performance; changes in technology and operational and financing cash flows.

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:

Impairment losses on receivables

The Group reviews investments in debt instruments on a quarterly basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required.

Valuation of unquoted equity investments

Valuation techniques for unquoted investment securities is based on estimates such as expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; recent arm's length market transactions; current fair value of another instrument that is substantially the same; or valuation models.

Any changes in these estimates and assumptions as well as the use of different, but equally reasonable estimates and assumptions may have an impact on the carrying value of loan losses and fair values of unquoted equity investments.

21. Related parties transaction

In the ordinary course of business of the Group, there are transactions with related parties represented in shareholders, senior management and executive managers and all of these transactions have been done according to basis of dealing with others and by management approval.

Transactions and balance are as follows:

	<u>2008</u>	<u>2007</u>
Shareholders		
Income statement		
Murabaha and investment deposits income	-	277
Investments at fair value	728,504	1,230,638
Investment available for sale	(1,348,982)	168,807
Balance sheet		
Investments at fair value through profit or loss	3,870,874	7,963,835
Investment available for sale	5,543,409	5,539,145
Other liabilities	7,680	-
Key management compensation	-	6,300
Policyholders'		
Income statement		
Total premiums written	224,219	287,487
Balance sheet		
Premiums under collection	26,766	19,465
Key management compensation	145,920	119,700

A related party is managing an investment portfolio amounted to KD 9,414,283 In favor of the Group as at 31 December 2008 (KD 13,502,980 as at 31 December 2007) and has resulted in losses have been included in the statement of income for the current year amounted to KD 620,478 and unrealized gains have been included directly in equity amounted to KD 80,008 for the year ended 31 December 2008 as portfolio management expenses amounted to KD 11,875 for the year then ended.

22. Contingent liabilities

In the ordinary course of business of the Parent Company, letters of guarantee have been issued for others by an amount of KD 955,260 as at 31 December 2008 (KD 955,260 - 2007) for a governmental institution for operating insurance business.

These guarantees are secured by Murabaha ad investment deposits pledged at the banks (Note 4).

On July 2007, Kuwait's Ministry of Health suspended the governmental health insurance operation which was conducted by the corporate insurance companies. The Group believes that such claims will not have a material effect on the Group's financial position.

23. Reclassification of comparative figures

The group has changed the presentation of the free profit loan to the policyholders and policyholders deficit reserve in the year 2008 financial statements. Previously, the Group used to report the deficit in the policyholders results as an asset in the balance sheet and the policyholders deficit reserve as a liability with the same amount. In the year 2008, the management has decided to offset to show the balance in net. The management believes that this will give proper understanding to the reader of the financial statements.