



الأولى للتأمين التكافلي
1st TAKAFUL INSURANCE CO. س.م.ك

Annual Report 2009



His Highness Sheikh
Sabah Al-Ahmad Al-Jaber Al-Sabah
Amir of The State of Kuwait



His Highness Sheikh
Nawwaf Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of The State of Kuwait

Head Office	Murqab - Abdulla Al Mubarak Str. -Al Enmaa Tower	1880055	22444599
	Murqab - Abdulla Al Mubarak Str. -Al Barrak Group	22464116/7/8	22475643
Al- Faihaa	AlFaihaa Co-op . Society	22510123/273	
Al- Rawda	AlRawda & Hawally Co-op. Society Central Market	2255538/141	
Hawally	Ebn- Khaldon Str. - Al Danaa Complex	22640202	
Kefan	Kefan Co-op. Society	24929708	
Al- Shuwaikh	Kuwait Finance House - Commercial	24397083	24819316
Al- Fahaheel	Al- Anood Complex - makka str.	23910936	



Shareea'a Supervisory Board

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Board of Directors

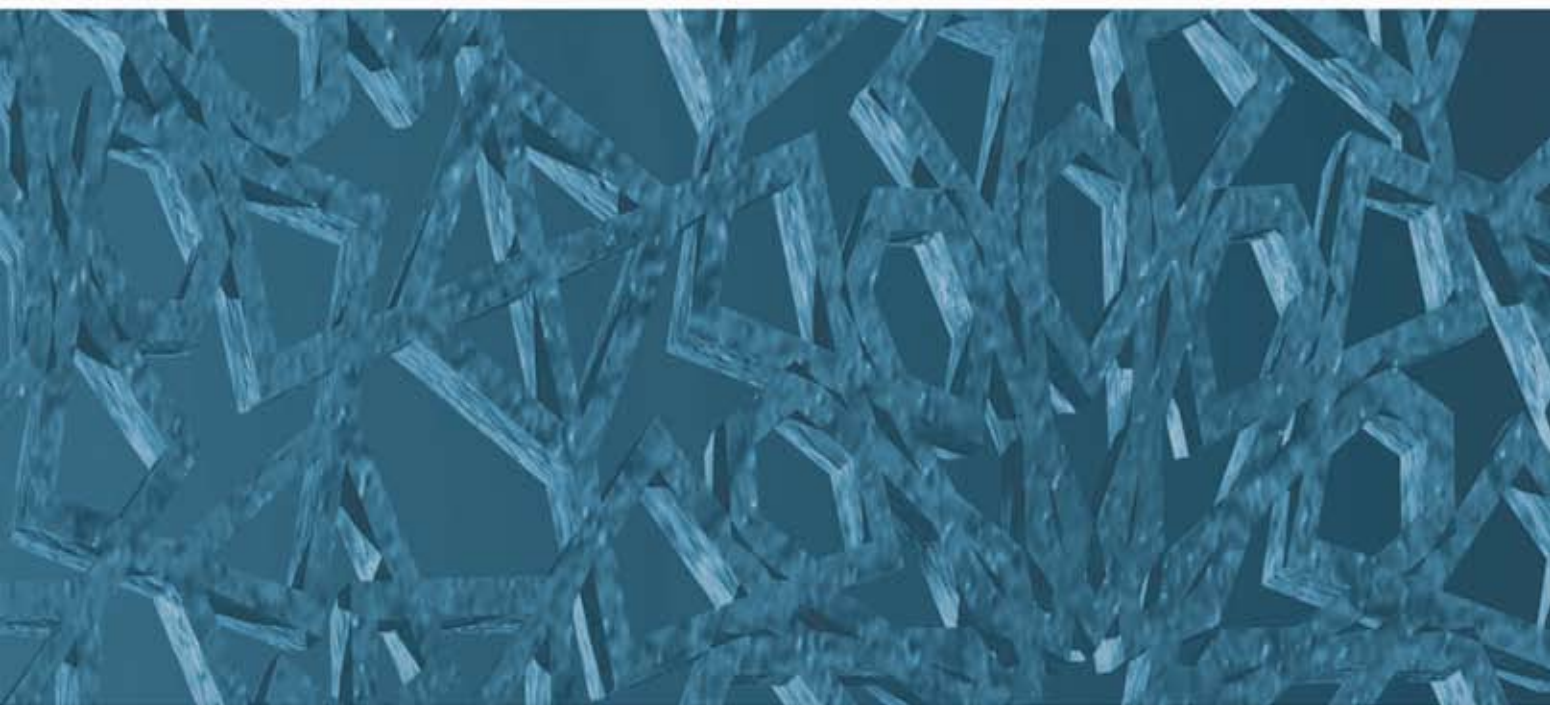
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Shareea`a Supervisory Board

Sheikh Ahmad Bazi Al-Yaseen

Chairman

Dr. Anwar Shuaib Abdulsalam

Shareea`a Board Member

Dr. Mohammad Abdul Razaq Al Tabtabae

Shareea`a Board Member

Board of Directors

Khalil Ibrahim Mohammed Al-Shami

Chairman & Managing Director

Hussain Ali Al-Attal

Deputy Chairman

Ayed Mohammad Dheef Allah Al-Doleai

Board Member

Osama Abdullateef Al-Abdul Jaleel

Board Member

Ahmed Mohammad Al Khalid

Board Member

Khalid Ali Al-Musallam

Board Member

Rami Khalid Abdullah

Board Member



Report of the Board of Directors

Dear Shareholders,

It is with great pleasure, and on behalf of my colleagues, members of the Board of First Takaful Insurance Co. K.S.C. (Closed), that I submit the annual report of the company for the financial year ending on 31.12.2009, including the report of the company's Fatwa and Sharia' Control Board. I am also pleased to state the accomplishments achieved during this year.

Dear Colleagues,

Accomplishments

First Takaful Insurance Co. preserved in 2009, and in all stability, the achievement of the goals set for it and related to the exercise of its insurance activity. It also preserved its position among the similar companies in the Takaful insurance field in the local market. The effects of the local and international financial crisis were well handled by strengthening the company, making sufficient allocations in the insurance and investment fields, observing international auditing and accounting standards, and not pushing the company towards subscription to increase production.

The company exercises its insurance and investment activity under a deliberate study, with well studied risks and according to the morals of the provisions of the Islamic Sharia', taking in consideration not to be greedy for production, despite the big number of Takaful insurance companies in the local market, which led to intense competition and increase of annual losses rates.

Within the limited work of insurance in the local market and according to the special expansion strategy and presence reinforcement in the regional markets, the company had lately entered the Saudi market by contributing with Wiqaya Takaful Insurance and Re-insurance Co., and the Turkish market, by establishing Neova Sigorta Insurance Co., as we hope that both companies become its most important aids for profitability during the coming years. The company

is also trying to open new outlets to exercise Takaful insurance in other regional countries.

The company's performance in 2009 was, thank God, well balanced between the achievement of profits and preservation of the values of the company's assets, despite the effects of the international financial crisis and the high decrease of the values of the companies' assets. This was due to the balanced policy of risks management. The company was also able to control the various insurance portfolios and to preserve the customers' portfolio. Necessary controls and procedures were set to insure sufficient liquidity for the company's activities, and we are currently working on updating new insurance products that fulfill the customers' needs. New health insurance and life insurance programs were focused on, in addition to launching the service of issuing insurance policies on the internet.

In 2009, First Takaful Insurance Co. was rated BBB- by Standard & Poors international rating agency, which is a major company specialized in credit rating. This rating is a proof of the company's financial ability and stable credit solvency on the long run, which confirms that the capital will stay sufficient and will contribute in the support of its development and growth despite the current financial and economic situations.

Investment Activity

Concerning the investments management of First Takaful Insurance Co., the latter had adopted the policy followed during the past years and related to the application of the remunerative revenue strategy with the least risks. However, with the effects of the crisis and the continuous decrease of the assets' values, the company allocated allowances for priced and un-priced investments ready for sale, for the financial year 2008 and also for 2009, which had a big effect on the results of investments for the shareholders' and subscribers' portfolios.

Insurance Activity

The company was able to achieve the goals set as per the insurance activity, but the cancellation of the fourth refinery policy by the National Petroleum Company, issued during the financial year 2008, was an obstacle that hindered the achievement of the goal for the subscriptions during this year. Concerning the customers' portfolio, the number of the company's customers was increased despite the increase of the number of insurance companies operating in the local market, which was reflected on the subscriptions' value and the number of customers. The compensations paid for the aimed amount in the financial year 2009 decreased by 19%.

The subscriptions in Takaful insurance in the financial year 2009 amounted to KD 5,298,756 compared to the achievement of the company in the financial year 2008, as they were KD 6,593,229 with a decrease of KD

at a rate of 20%. This decrease was mainly due to the cancellation of the fourth refinery policy by Kuwait National Petroleum Company. The compensations paid for the financial year 2009 amounted to KD 5,033,021 compared to the compensations paid in 2008, i.e. KD 5,039,739 with a decrease of KD 6,718.

Financial Results

Concerning the financial results of the shareholders, the company achieved net profits for the financial year 2009 amounting to KD 77,724, against KD 262,648 in 2008, with a decrease of KD 184,924 and a rate of 70%, a profitability of one share being 0.78 Fils in 2009, against 2.63 Fils in 2008. The shareholders' equity in the current year amounted to KD 11,185,439 against KD 11,458,911 in the past year, with a decrease of 2%. The total assets in the current year were of KD 11,316,232 against KD 11,595,803 in the past year, with a decrease of 2%. The decrease in net profits, shareholders' equity and total assets was due to the allocation of allowances for investments following the effects of decrease in the value of the investment assets.

The administrative and general expenses of shareholders for the current year were of KD 68,547 against KD 89,221 in the past year, with a decrease of 23%.

As per the results of the policyholders, the net deficiency of insurance operations for the financial year 2009 amounted to KD 1,356,140 against a net insurance deficiency of KD 648,635 for 2008, as a result of allocation of additional allowances as prevention for the decrease of the value of investments available for sale, and the allocation of additional allowance for compensations under settlement, to reinforce the technical reserves of the insurance portfolio to face any additional burdens for the compensations paid for the coming years, especially concerning the cases handled in courts concerning compensations for injuries and blood monies.

Aims and Hopes

First Takaful Insurance Company aims at preserving its high position in the takaful insurance field among its similar companies in the local market, and at diversifying its activities in the insurance and investment portfolios. The Board of Directors and the company's employees hope to preserve the company's reputation as a major company in the Takaful insurance field, following a curriculum derived from the Islamic Sharia', and working on increasing the company's rating or preserving the current rating under the present financial situations.

The company hopes, through the strategy of allowances in the current and past years, to improve the performance and increase the financial capacity of the company in the coming years, in a way supporting its development and path in the Takaful insurance field.

The company also aims at preserving its various basic supports despite the big challenges imposed by the changes from one time to another, especially the results of the current economic crisis and its direct effect on investments

and decrease of their value, as well as the direct challenges of the effects in the insurance field and the presence of competing insurance entities in the market.

Dear Colleagues.

First Takaful Insurance Co. grants particular importance to human resources on all levels, and works on selecting special competencies and skills, especially among Kuwaiti youth, as the company works on training and registering them in specialized faculties and institutes, to promote the employees' performance to a high professional degree so that they offer the best services to the customers. The company also aims at updating the IT systems of the various departments, while preserving the expenditure level of the human resources and committing to the set plan.

Finally, I cannot but thank His Highness, Amir of Kuwait, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, the Crown Prince, Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah and the Prime Minister, Sheikh Nasser Al-Mohammad Al-Ahmad Al-Sabah. I also thank the members of the Sharia' Control Board of the company and the Insurance

Department at the Ministry of Commerce and Industry. We console ourselves and all the workers in the Insurance Department, for the death of our colleague, Magida Fairuz, Insurance Department Manager at the Ministry of Commerce and Industry. I also thank the shareholders, the members of the Board, the company's customers and all the company's workers. Furthermore, we express our gratitude to the local and international insurance brokers and re-insurers, as well as all other competent authorities.

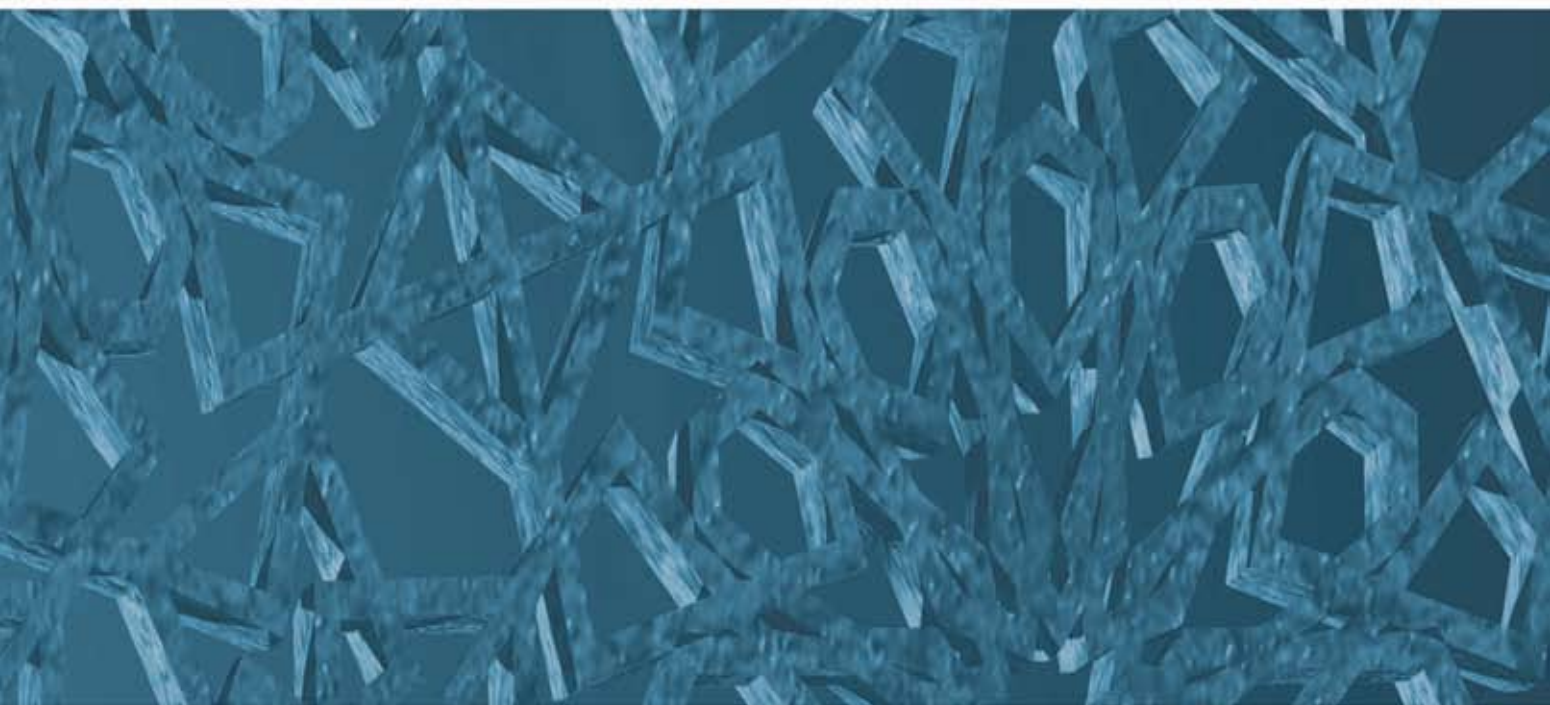
We close our annual report by thanking God, most merciful, and ask Him to bless our martyrs and preserve safety and security in Kuwait.

Best regards,

Chairman and Managing Director



Khalil Ibrahim Mohammad Al-Shami
(signature and seal)





Financial statements and independent auditors' report
First Takaful Insurance Company – KSC (Closed)
Kuwait
31 December 2009



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Independent auditors' report

To the shareholders of
First Takaful Insurance Company – KSC (Closed)
Kuwait

Report on the Financial Statements

We have audited the accompanying financial statements of First Takaful Insurance Company (A Kuwaiti Closed Shareholding Company) (“the company”), which comprise the financial position as at 31 December 2009, and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in 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 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 financial statements present fairly, in all material respects, the financial position of First Takaful Insurance Company as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion, proper books of account have been kept by the company and the financial statements, together with the contents of the report of the company's board of directors relating to these 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 financial statements incorporate all information that is required by the Commercial Companies Law of 1960, and by the company's articles of association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law, or of the company's articles of association, as amended, have occurred during the year ended 31 December 2009 that might have had a material effect on the business of the company or on its financial position.



Abdullatif M. Al-Aiban (CPA)
(Licence No. 94-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners



Fawzia Mubarak Al-Hassawi
(Licence No. 80-A)
of UHY-Fawzia Mubarak Al-Hassawi

Kuwait
31 March 2010

First Takaful Insurance Company – KSC (Closed) Kuwait

Statement of income

	Notes	Year ended 31 Dec. 2009	Year ended 31 Dec. 2008
		KD	KD
Income			
Net investment income	5	522,550	1,484,555
Impairment in value of available for sale investments	9	(374,351)	(1,160,066)
Shareholders' share of insurance surplus	16	-	29,959
Other income		-	2,468
		148,199	356,916
Expenses			
General and administrative expenses		56,779	56,779
Other expenses		11,768	32,442
		68,547	89,221
Profit before contribution to KFAS, NLST and Zakat		79,652	267,695
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(717)	(2,409)
National Labour Support Tax (NLST)		(865)	(1,884)
Zakat		(346)	(754)
Profit for the year		77,724	262,648
Basic and diluted earnings per share	7	0.78 Fils	2.63 Fils

The notes set out on pages 23 to 56 form an integral part of these financial statements.

First Takaful Insurance Company – KSC (Closed) Kuwait

Statement of comprehensive income

	Year ended 31 Dec. 2009 KD	Year ended 31 Dec. 2008 KD
Profit for the year	77,724	262,648
<i>Other comprehensive income:</i>		
Available for sale investments:		
- Net losses arising during the year	(674,804)	(2,839,081)
- Transferred to statement of income on sale	(50,743)	(989,123)
- Transferred to statement of income on impairment	374,351	1,160,066
Total other comprehensive loss	(351,196)	(2,668,138)
Total comprehensive loss for the year	(273,472)	(2,405,490)

The notes set out on pages 23 to 56 form an integral part of these financial statements.

First Takaful Insurance Company – KSC (Closed) Kuwait

Statement of financial position

	Notes	31 Dec. 2009	31 Dec. 2008
		KD	KD
Assets			
Bank balance		1,448	1,448
Investment deposit	8	135,000	135,000
Available for sale investments	9	5,807,179	7,596,532
Investment in an associates	10	2,382,067	1,779,053
Other assets		9,461	11,513
Land under development	11	1,959,750	1,959,750
Amount due from policyholders	12	1,021,327	112,507
Total assets		11,316,232	11,595,803
Equity and liabilities			
Equity			
Share capital	13	10,000,000	10,000,000
Legal reserve	14	842,836	834,871
Fair value reserve		(60,191)	291,005
Retained earnings		402,794	333,035
Total equity		11,185,439	11,458,911
Liabilities			
Other liabilities		130,793	136,892
Total liabilities		130,793	136,892
Total equity and liabilities		11,316,232	11,595,803



Khalil Ibrahim M. Al-Shami
 Chairman and Managing Director

The notes set out on pages 23 to 56 form an integral part of these financial statements.

**First Takaful Insurance Company – KSC (Closed)
Kuwait**

Statement of changes in equity

	Share capital KD	Legal reserve KD	Fair value reserve KD	Retained earnings KD	Total KD
Balance at 1 January 2009	10,000,000	834,871	291,005	333,035	11,458,911
Profit for the year	-	-	-	77,724	77,724
Other comprehensive income:					
Available for sale investments:					
- Net losses arising during the year	-	-	(674,804)	-	(674,804)
- Transferred to statement of income on sale	-	-	(50,743)	-	(50,743)
-Transferred to statement of income on impairment	-	-	374,351	-	374,351
Total comprehensive (loss)/income for the year	-	-	(351,196)	77,724	(273,472)
Transfer to legal reserve	-	7,965	-	(7,965)	-
Balance at 31 December 2009	10,000,000	842,836	(60,191)	402,794	11,185,439
Balance at 1 January 2008	10,000,000	808,101	2,959,143	1,897,157	15,664,401
Payment of cash dividends	-	-	-	(1,800,000)	(1,800,000)
Transactions with owners	-	-	-	(1,800,000)	(1,800,000)
Profit for the year	-	-	-	262,648	262,648
Other comprehensive income:					
Available for sale investments:					
- Net losses arising during the year	-	-	(2,839,081)	-	(2,839,081)
- Transferred to statement of income on sale	-	-	(989,123)	-	(989,123)
-Transferred to statement of income on impairment	-	-	1,160,066	-	1,160,066
Total comprehensive (loss)/income for the year	-	-	(2,668,138)	262,648	(2,405,490)
Transfer to legal reserve	-	26,770	-	(26,770)	-
Balance at 31 December 2008	10,000,000	834,871	291,005	333,035	11,458,911

The notes set out on pages 23 to 56 form an integral part of these financial statements.

First Takaful Insurance Company – KSC (Closed) Kuwait

Statement of cash flows

	Year ended 31 Dec. 2009	Year ended 31 Dec. 2008
	KD	KD
OPERATING ACTIVITIES		
Profit for the year	77,724	262,648
Adjustments for:		
Net investment income	(522,550)	(1,484,555)
Impairment in value of available for sale investments	374,351	1,160,066
Shareholders' share of insurance surplus	-	(29,959)
	(70,475)	(91,800)
Changes in operating assets and liabilities:		
Other assets	2,052	5,849
Other liabilities	(6,099)	(107,120)
Net cash used in operating activities	(74,522)	(193,071)
INVESTING ACTIVITIES		
Purchase of available for sale investments	(363,045)	(1,433,664)
Proceeds from sale of available for sale investments	1,687,689	3,004,714
Acquisition of associate	(390,090)	-
Dividend received	45,035	408,526
Profit on investment deposit, murabaha and ijara received	3,753	9,021
Net cash from investing activities	983,342	1,988,597
FINANCING ACTIVITIES		
Movement in due from policyholders	(908,820)	4,721
Payment of dividends	-	(1,800,000)
Net cash used in financing activities	(908,820)	(1,795,279)
Increase in cash and cash equivalents	-	247
Cash and cash equivalents at the beginning of the year	1,448	1,201
Cash and cash equivalents at the end of the year	1,448	1,448

The notes set out on pages 23 to 56 form an integral part of these financial statements.

First Takaful Insurance Company – KSC (Closed) Kuwait

Notes to the financial statements

31 December 2009

1 Incorporation and activities

First Takaful Insurance Company (“the company”) is a closed Kuwaiti Shareholding Company incorporated on 25 July 2000 and is registered under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments. Its shares are listed on the Kuwait Stock Exchange.

The address of the company’s registered office is PO Box 5713, Safat 13058, State of Kuwait.

The company is engaged in:

- Carrying out all types of insurance takaful activities (co-operative insurance) and related activities, including insurance and reinsurance.
- Investing the funds available to the company in various activities that are commensurate with the company’s objectives and not in conflict with the provisions of the Islamic Shari’a and the established rules and regulations.
- Providing insurance and reinsurance consultancy and technical studies to companies involved in similar activities.
- Investing the contributed funds from policyholders and returns thereon.

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 Sharee’a Supervisory Board.

The 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 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 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.

All insurance and investment activities are conducted in accordance with Islamic Sharee’a, as approved by Fatwa and Sharia Supervisory Board. The board of directors approved these financial statements for issue on 31 March 2010 and are subject to the approval of the general assembly of the shareholders.

2 Adoption of new and revised International Financial Reporting Standards

2.1 The company has adopted the following new standards, interpretations, revisions and amendments to IFRS issued by International Accounting Standards Board, which are relevant to and effective for the company’s financial statements for the annual period beginning 1 January 2009. Certain other new standards and interpretations have been issued but are not relevant to the company’s operations and therefore not expected to have a material impact on the company’s financial statements.

- Amendments to IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements (Revised)
- Annual Improvements 2008

Significant effects on current, prior or future periods arising from the first-time application of these new requirements in respect of presentation, recognition and measurement are described below.

2.1.1 Amendment to IFRS 7: Financial Instruments: Disclosures

The amendments require additional disclosures for financial instruments that are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent to which they are based on observable market data. A separate quantitative maturity analysis must be presented for derivative financial liabilities that shows the remaining contractual maturities, where these are essential for an understanding of the timing of cash flows. The company has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

First Takaful Insurance Company – KSC (Closed) Kuwait

Adoption of new and revised International Financial Reporting Standards (Continued)

2.1.2 IAS 1 Presentation of Financial Statements (Revised)

The adoption of IAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the company's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. IAS 1 affects the presentation of owner changes in equity and introduces a 'statement of comprehensive income'.

The revised standard also requires presentation of a comparative statement of financial position as at the beginning of the first comparative period, in some circumstances. Management considers that this is not necessary this year because 31 December 2007 statement of financial position is the same as that previously reported.

2.1.3 Annual Improvements 2008

The Improvements have led to a number of changes in the detail of the company's accounting policies some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported. The majority of these amendments are effective from 1 January 2009.

2.2 At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted.

Management anticipates that all of the pronouncements will be adopted in the company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not relevant to the company's operations and therefore not expected to have a material impact on the company's financial statements.

- IFRS 9 Financial Instruments
- IAS 28 Investments in Associates (Revised)
- Annual Improvements 2009

2.2.1 IFRS 9 Financial Instruments (effective from 1 January 2013 earlier application is permitted)

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety by the end of 2010, with the replacement standard to be effective for annual periods beginning 1 January 2013. IFRS 9 is the first part of Phase 1 of this project. The main phases are:

- Phase 1: Classification and Measurement
- Phase 2: Impairment methodology
- Phase 3: Hedge accounting

In addition, a separate project is dealing with derecognition.

Although earlier application of this standard is permitted, the Technical Committee of the Ministry of Commerce and Industry of Kuwait decided on 30 December 2009, to postpone this early application till further notice, due to the non-completion of the remaining stages of the standard.

First Takaful Insurance Company – KSC (Closed)

Kuwait

Adoption of new and revised International Financial Reporting Standards (Continued)

2.2.2 IAS 28 Investments in Associates (Revised) (effective from 1 July 2009)

The revised standard introduces changes to the accounting requirements for the loss of significant influence of an associate and for changes in the company's interest in associates. These changes will be applied prospectively in accordance with the transitional provisions and so do not have an immediate effect on the company's financial statements.

2.2.3 Annual Improvements 2009

The IASB has issued Improvements for International Financial Reporting Standards 2009 which have led to a number of changes in the detail of the company's accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported. Most of these amendments become effective in annual periods beginning on or after 1 July 2009 or 1 January 2010.

3 Significant accounting policies

The accounting policies used in the preparation of the financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2008. The significant accounting policies adopted in the preparation of the financial statements are set out below:

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared under historical cost convention, modified to include measurement at fair value of available for sale investments.

The financial statements have been presented in Kuwaiti Dinar which is the functional currency of the company.

Revenue recognition

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

Income from murabaha and deposits

Income from murabaha and investment deposits is recognised on a time proportion basis taking account of the principal outstanding and the rate applicable.

Dividend income

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

Shareholders' share of insurance surplus

Shareholders' share of insurance surplus is determined based on the company's bye-laws and Takaful practices and is recognised in the statement of income upon approval by the Board of Directors, Fatwa and Sharee'a supervisory board and Annual General Assembly of the shareholders.

Taxation and Zakat

The company calculates the National Labour Support Tax (NLST) in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit after deducting directors' fees for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

The company calculates the contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) at 1% of taxable profit after deducting directors' fees in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

Contribution to Zakat is calculated at 1% of the profit of the company in accordance with the Ministry of Finance resolution No. 58/2007.

Deposits

Deposits are stated at the balance invested and do not include related accrual of profit (which is included in accrued investment income).

First Takaful Insurance Company – KSC (Closed) Kuwait

3 Significant accounting policies (continued)

Available for sale investments

Available for sale investments are initially recognised at cost, being the fair value of the consideration given including all acquisition costs associated with the investments.

After initial recognition, available for sale investments are remeasured at fair value. For investments traded in organised financial markets, fair value is determined based on the closing bid prices on the financial position date.

For investments where there is no quoted market price, reasonable estimate of the fair value is determined by reference to an earnings multiple, or an industry specific earnings multiple or a value based on a similar publicly traded company. Fair value estimates take into account liquidity constraints and assessments for any permanent impairment. Investments whose fair value can not be reliably measured are carried at cost.

Any gain or loss arising from remeasurement to fair value for available for sale investments is recognized in the equity under fair value reserve account until the investment is sold, collected, or otherwise disposed of or the investment is determined to be impaired, at which time the cumulative gain or loss previously recognised in the equity is included in the statement of income.

Investment in associates

An associate is an entity over which the company exerts significant influence. Significant influence is presumed to exist when the company holds between 20 to 50 percent of the voting power of investee company. Investment in associates are accounted for under the equity method of accounting. Where an associate is acquired and held exclusively for resale, it is accounted for as a non-current asset held for resale under IFRS 5. Under the equity method, the investment in associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the company's share of the associate's equity. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The company recognises in the statement of income its share of the total recognised profit or loss of the associate from the date that influence effectively commenced until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the company's share in the associate arising from changes in the associate's equity. The company's share of those changes is recognised directly in other comprehensive income.

Unrealised gains on transactions with associate are eliminated to the extent of the company's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

An assessment of investment in an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist. Whenever impairment requirements of IAS 36, indicate that investment in an associate may be impaired, the entire carrying amount of investment is tested by comparing its recoverable amount with its carrying value. Goodwill is included in the carrying amount of an investment in associate and, therefore, is not separately tested for impairment.

The reporting dates of the associates and the company are identical or are not more than three months apart if different. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the company's financial statements. The associate's accounting policies conform to those used by the company for like transactions and events in similar circumstances.

Land under development

Properties in the course of construction for production or administrative purpose are carried at cost, less any recognised impairment loss.

Fair values

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

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

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3 Significant accounting policies (continued)

The determination of fair value is done for each investment individually.

Recognition and de-recognition of financial assets and liabilities

A financial asset is recognised when the company becomes a party to the contractual provisions of the instrument. A financial asset (or where applicable a part of a financial asset or a part of group of financial assets) is de-recognised either when the rights to receive cash flows from the asset have expired;

The company 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

The company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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 statement of income.

Impairment and uncollectability of financial assets

An assessment is made at each financial position 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 statement of income.

Impairment is determined as follows:

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

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

Impairment of non-financial assets

The company assesses at each financial position date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or companies of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount by recognising impairment loss in the statement of income. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

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3 Significant accounting policies (continued)

An assessment is made at each financial position date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

Provisions

Provisions are recognised where the company has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Cash and cash equivalents

Cash and cash equivalents as presented in the statement of cash flows consist of bank balance.

Foreign currencies

Transactions in foreign currencies are translated into Kuwait Dinar at rates of exchange prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies at the financial position date are retranslated into Kuwait Dinar at rates of exchange prevailing at that date. Exchange differences arising from translation are taken to the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Contingencies

Contingent liabilities are not recognised in the statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the statement of financial position, but are disclosed when an inflow of economic benefits is probable.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumption about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial position 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; or
- other valuation models.

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4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Critical judgement in applying accounting policies

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

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held for trading, at fair value through statement of income, or available for sale.

The company classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments (continued)

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

All other investments are classified as available for sale.

Impairment of available for sale investments

The company 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 judgment. The company recognised impairment loss of KD374,351 (2008:KD1,160,066) with respect to available for sale investments.

5 Net investment income

	Year ended 31 Dec. 2009	Year ended 31 Dec. 2008
	KD	KD
Profit on investment deposit, murabaha and ijara	3,753	9,021
Dividend income	45,035	408,526
Realised gain on sale of available for sale investments	473,762	1,067,008
	522,550	1,484,555

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6 Net gain/(loss) on financial assets

Net gain/(loss) on financial assets, analysed by category, is as follows:

	Year ended 31 Dec. 2009	Year ended 31 Dec. 2008
	KD	KD
Investment deposit, murabaha and ijara	3,753	9,021
Available for sale investments	144,446	315,468
Net realised gain	148,199	324,489
Net unrealised loss recognised in equity	(351,196)	(2,668,138)
	(202,997)	(2,343,649)

7 Basic and diluted earnings per share

Basic and diluted earnings per share is computed by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	Year ended 31 Dec. 2009	Year ended 31 Dec. 2008
Profit for the year (KD)	77,724	262,648
Weighted average shares in issue during the year (number)	100,000,000	100,000,000
Basic and diluted earnings per share	0.78 Fils	2.63 Fils

8 Investment deposit

In accordance with Kuwaiti law (Business operations licence), an amount of KD135,000 (2008: KD135,000) has been deposited with a Kuwaiti financial institution as security to underwrite general insurance business and life insurance. The average rate of profit earned on the deposits during 2009 was 2.78% (2008: 4.3%).

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8 Available for sale investments

	31 Dec. 2009	31 Dec. 2008
	KD	KD
Investment in unquoted managed funds	633,336	798,498
Quoted equity securities	1,717,323	2,288,589
Unquoted equity securities	3,456,520	4,509,445
	5,807,179	7,596,532

Quoted equity securities include an investment with carrying value of KD825,000 (2008: KD1,005,000) which is 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.

Unquoted investments include investments in private equity funds amounting to KD633,336 (2008: KD798,498). These investments are carried at net asset values as reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

The investment in unquoted equity securities are stated at cost due to the unpredictable nature of future cash flows and the unavailability of financial information to arrive at a reliable measure of fair value. Management has performed an analysis of the underlying investments which indicates that there is no impairment.

Available for sale investments with carrying value of KD212,924 on 1 January 2009 were reclassified as investment in associate (note 10).

The company recognised impairment loss by KD374,351 (2008: KD1,160,066) in respect of certain available for sale investments.

9 Investment in an associates

	Country of incorporation	Percentage of ownership		Purpose
		31 Dec. 2009	31 Dec. 2008	
		%	%	
Weqaya Takaful Insurance Company-SSC (Quoted)	Saudi Arabia	10	10	Insurance
Neova Sigorta Insurance Company (Unquoted)	Turkey	10	-	Insurance

Investment in Weqaya has been accounted for as an associate since the shareholder of the company own 10% and policyholders own 10% in the investee and therefore able to exercise significant influence over the investee.

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During the year ended 31 December 2009, the company classified the investment in Neova Sigorta Insurance Company from available for sale investments to investment in associate. The company is able to exercise significant influence over the operations of the associates since it has two representatives on the board of directors of the associate.

Movement in the carrying amount of investment in associates is as follows:

	31 Dec. 2009	31 Dec. 2008
	KD	KD
Balance as at 1 January	1,779,053	1,779,053
Reclassified from available for sale investments (Note 9)	212,924	-
Additions	390,090	-
Carrying amount at 31 December	2,382,067	1,779,053

The fair value of the quoted associate was KD7,626,506 on the financial position date.
Weqaya has recently commenced operations while Neova has been established recently.

11 Land under development

Land under development represents a property acquired with the intention to construct the new head office building. Various formalities to obtain approval of the regulatory authorities are currently in progress.

12 Amount due from policyholders

	31 Dec. 2009	31 Dec. 2008
	KD	KD
Balance at the beginning of the year	112,507	87,269
Shareholders' share of insurance surplus	-	29,959
Other movements	908,820	(4,721)
Balance at the end of the year	1,021,327	112,507

Other movements in policyholders' account represent the net movement of fund transfers to and from their account including buying and selling shares on their behalf during the year.

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13 Share capital

	31 Dec. 2009	31 Dec. 2008
	KD	KD
Authorised: shares of 100 Kuwaiti Fils each	10,000,000	10,000,000
Issued and fully paid: shares of 100 Kuwaiti Fils each	10,000,000	10,000,000

14 Legal reserve

In accordance with the Commercial Companies Law and the company's articles of association, 10% of the profit for the year before KFAS, NLST, and Zakat is transferred to the legal reserve. The shareholders of company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

Distribution of legal 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 retained earnings are not sufficient for the payment of a dividend of that amount.

15 General assembly of the shareholders

The directors do not propose dividend for the year ended 31 December 2009. The general assembly held on 4 May 2009 approved the financial statements for the year ended 31 December 2008.

16 Policyholders' result by line of business and fund

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

Revenue recognition

Premiums earned

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

Policy issuance fees and policy acquisition costs

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

Reinsurance

In the normal course of business, the company 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 company and those not reported at the financial position date.

The company 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 company's prior experience is maintained for the cost of settling claims incurred but not reported at the financial position date. Any difference between the provisions at the financial position date and settlements and provisions for the following year is included in the underwriting account for that year.

Liability adequacy test

At each financial position date, the company 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 the statement of income and an unexpired risk provision created.

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

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16 Policyholders' result by line of business and fund (continued)

Receivables

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

Life mathematical reserve

The provision for life contracts is calculated on the basis of an actuarial valuation method.

Additional reserve

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial position 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 company 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 company is exposed to disputes with, and possibility of defaults by, its reinsurers. The company monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

The policyholders' result by line of business and assets and liabilities were as follows:

Policyholders' result by line of business:

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16 Policyholders' result by line of business and fund (continued)

The policyholders' result by line of business and assets and liabilities were as follows:

Policyholders' result by line of business:

Year ended 31 December 2009:

	Marine and aviation	General accident	Motor vehicles	Fire	Life	Total
	KD	KD	KD	KD	KD	KD
Premiums written	640,109	201,736	2,693,641	1,233,063	530,207	5,298,756
Less: reinsurance ceded	(458,794)	125,731	(260,630)	(1,064,276)	(99,089)	(1,757,058)
Net premiums	181,315	327,467	2,433,011	168,787	431,118	3,541,698
Movement in unearned premiums	9,306	60,028	394,489	(9,554)	(42,553)	411,716
Net premiums earned	190,621	387,495	2,827,500	159,233	388,565	3,953,414
Policy issuance fees	7,585	1,683	343,354	956	685	354,263
Other income	17,519	29,783	106,868	10,512	10,512	175,194
Total revenues	215,725	418,961	3,277,722	170,701	399,762	4,482,871
Claims incurred	(3,250)	16,634	(2,639,170)	4,004	(248,441)	(2,870,223)
Movement in life mathematical reserve	-	-	-	-	81,000	81,000
Other insurance expenses	(7,660)	(1,380)	(37,722)	(2,415)	(5,999)	(55,176)
Policy acquisition costs	(25,448)	(54,153)	(837,034)	(42,720)	(8,838)	(968,193)
Total expenses	(36,358)	(38,899)	(3,513,926)	(41,131)	(182,278)	(3,812,592)
Surplus/(deficit) by line of business	179,367	380,062	(236,204)	129,570	217,484	670,279
Allocation of general and administrative expenses	(188,105)	(272,923)	(674,685)	(105,298)	(391,128)	(1,632,139)
Net (deficit)/surplus from insurance operations	(8,738)	107,139	(910,889)	24,272	(173,644)	(961,860)
Investment income	7,821	13,297	47,711	4,693	4,693	78,215
Impairment of available for sale investments	(47,250)	(80,324)	(288,221)	(28,350)	(28,350)	(472,495)
Net (deficit)/surplus from insurance operations	(48,167)	40,112	(1,151,399)	615	(197,301)	(1,356,140)

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16 Policyholders' result by line of business and fund (continued)

Year ended 31 December 2008:

	Marine and aviation	General accident	Motor vehicles	Fire	Life	Total
	KD	KD	KD	KD	KD	KD
Premiums written	795,977	1,525,200	2,995,043	919,457	357,552	6,593,229
Less: reinsurance ceded	(584,625)	(1,001,147)	(106,385)	(793,850)	(55,659)	(2,541,666)
Net premiums	211,352	524,053	2,888,658	125,607	301,893	4,051,563
Movement in unearned premiums	10,669	(24,969)	275,771	9,623	(16,505)	254,589
Net premiums earned	222,021	499,084	3,164,429	135,230	285,388	4,306,152
Policy issuance fees	8,326	1,790	439,768	870	4,977	455,731
Reinsurance profit share	8,700	10,348	-	(146)	74,931	93,833
Total revenues	239,047	511,222	3,604,197	135,954	365,296	4,855,716
Claims incurred	(49,369)	(100,507)	(2,373,524)	(425)	(6,225)	(2,530,050)
Movement in life mathematical reserve	-	-	-	-	62,000	62,000
Other insurance expenses	(8,899)	(5,424)	(46,189)	(1,951)	(3,537)	(66,000)
Policy acquisition costs	(36,841)	(59,204)	(865,094)	(27,437)	(8,531)	(997,107)
Total expenses	(95,109)	(165,135)	(3,284,807)	(29,813)	43,707	(3,531,157)
Surplus by line of business	143,938	346,087	319,390	106,141	409,003	1,324,559
Allocation of general and administrative expenses	(178,468)	(287,214)	(733,242)	(109,834)	(392,279)	(1,701,037)
Net (deficit)/surplus from insurance operations	(34,530)	58,873	(413,852)	(3,693)	16,724	(376,478)
Investment income	43,542	74,777	267,314	26,294	26,294	438,221
Impairment of available for sale investments	(71,038)	(120,764)	(433,330)	(42,623)	(42,623)	(710,378)
Net (deficit)/surplus from insurance operations	(62,026)	12,886	(579,868)	(20,022)	395	(648,635)

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16 Policyholders' result by line of business and fund (continued) Policyholders' assets, liabilities and fund:

	31 Dec. 2009	31 Dec. 2008
	KD	KD
Assets		
Cash and bank balances	272,184	133,832
Premiums receivable	1,597,300	1,829,806
Accounts receivable and prepayments	1,654,101	1,174,473
Available for sale investments	2,272,837	3,121,322
Investment in an associate	1,779,053	1,779,053
Investment deposits	1,357,745	1,357,745
Reinsurance recoverable on outstanding claims	4,119,966	4,052,423
Furniture and equipment	113,122	138,053
Total assets	13,166,308	13,586,707
Liabilities		
Reinsurance balances payable	849,711	508,508
Unearned premiums (net)	1,525,515	1,937,231
Outstanding claims reserve (gross)	6,274,478	6,526,469
Life mathematical reserve (net)	200,286	281,286
Additional reserve (net)	1,166,000	418,000
Reserve retained on reinsurance business	260,710	253,320
Other liabilities	1,922,806	2,182,986
Murabaha payables	1,255,003	1,216,274
Amount due to shareholders	1,021,327	112,507
Total liabilities	14,475,836	13,436,581
Policyholders' fund		
Net surplus retained for policyholders	239,088	887,723
Net deficit from insurance operations for the year	(1,356,140)	(648,635)
Fair value reserve	(192,476)	(88,962)
Total policyholders' fund	(1,309,528)	150,126
Total liabilities and policyholders' fund	13,166,308	13,586,707

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16 Policyholders' result by line of business and fund (continued)

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

Movement in policy holders' fund:

	31 Dec. 2009	31 Dec. 2008
	KD	KD
Balance at beginning of the year	150,126	1,922,857
Shareholders' share of insurance surplus for the year ended 31 December 2007	-	(29,959)
Net deficit from insurance operations for the year	(1,356,140)	(648,635)
Cumulative changes in fair value	(103,514)	(1,094,137)
Balance at the end of the year	(1,309,528)	150,126

Shareholders' share of insurance surplus was distributed in accordance with Article (52) of the company's articles of association. This article requires insurance surplus to be allocated between the shareholders and policyholders equally. Share of policyholders should not be less than 50% of net insurance surplus and should be approved by the company's Board of Directors and Fatwa and Sharee'a supervisory board.

17 Related party transactions

These represent transactions made, in the ordinary course of business, with related parties i.e. directors and major shareholders and companies of which they are principal shareholders. Management approves prices and terms of these transactions.

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

	31 Dec. 2009	31 Dec. 2008
	KD	KD
SHAREHOLDERS		
Statement of financial position:		
Investment deposit	135,000	135,000
Available for sale investments	1,294,370	1,508,338
Statement of income:		
Profit on investment deposit	3,753	5,805
Dividend income	42,025	69,367
Other expenses	-	20,920
Key management compensation:		
Salaries and other short term benefits	52,346	52,346
Termination benefits	4,433	4,433

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17 Related party transactions (continued)

	31 Dec. 2009	31 Dec. 2008
	KD	KD
POLICYHOLDERS		
Statement of financial position:		
Premiums receivable	92,927	72,407
Investment deposits	1,357,745	1,357,745
Profit on investment deposits (included in accounts receivable and prepayments)	39,864	62,389
Available for sale investments	531,593	578,589
Murabaha payable	1,255,003	1,216,274
Statement of income:		
Premiums written	336,634	220,617
Profit on investment deposits	39,864	62,389
Dividend income	16,387	22,191
Finance charges	92,435	74,815
Key management compensation:		
Salaries and other short term benefits	192,396	192,396
Termination benefits	16,187	16,187

18 Capital commitments

At the financial position date the company was committed to purchase investment amounting to KD170,198 (2008: KD 549,815).

19 Contingent liabilities

Contingent liabilities at the financial position date in respect of outstanding letters of guarantee amounted to KD595,107 (2008: KD 609,760).

20 Risk management objectives and policies

The company's risk and financial management framework is to protect the company's shareholders and policyholders 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 company 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 company policy framework is being put in place to set out the risk profiles for the company, risk management, control and business conduct standards for the company's operations.

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 company:

- 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

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20 Risk management objectives and policies (continued)

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 company'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 ensure compliance.

Insurance risk is the risk that actual claims payable to policyholders 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 company underwrites mainly marine and aviation, fire and general accident, motor and life 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.

(1) Non-life insurance contracts

The company 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 months duration.

For general insurance contracts the most significant risks arise from climate changes, natural disasters and terrorist activities.

Marine and aviation

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 company has reinsurance cover to limit losses for any individual claim to KD380,000.

Fire and accident

For property insurance contracts the main risks are fire and business interruption. In recent years the company 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 company has reinsurance cover for such damage to limit losses for any individual claim to KD2,850,000.

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 company has only underwritten comprehensive policies for owner/drivers over 21 years of age. The company has reinsurance cover to limit losses for any individual claim to KD500,000.

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.

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

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. 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

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20 Risk management objectives and policies (continued)

(1) Non-life insurance contracts (continued)

the risk exposure of the company. The company further enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the company.

The company 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).

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

	31 Dec. 2009			31 Dec. 2008		
	Gross liabilities	Reinsurers' share of liabilities	Net liabilities	Gross liabilities	Reinsurers' share of liabilities	Net liabilities
	KD	KD	KD	KD	KD	KD
Marine and aviation	73,736	(10,114)	63,622	108,604	(34,743)	73,861
General accident	1,754,782	(1,197,522)	557,260	2,673,592	(1,876,079)	797,513
Motor vehicles	6,480,105	(2,567,799)	3,912,306	5,480,437	(1,801,116)	3,679,321
Fire	148,447	(82,418)	66,029	163,984	(100,447)	63,537
Total	8,457,070	(3,857,853)	4,599,217	8,426,617	(3,812,385)	4,614,232

Key assumptions

The principal assumption underlying the estimates is the company'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.

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.

Sensitivities

	Change in assumption	Impact on gross liabilities	Impact on net liabilities	Impact on profit
		KD	KD	KD
31 December 2009				
Average claim cost	+10%	416,149	246,280	(169,869)
Average number of claim	+10%	416,149	145,750	(69,339)
Average claim settlement paid	Reduce from 18 Months to 12 Months	48,169	46,683	-
31 December 2008				
Average claim cost	+10%	490,752	270,703	(220,049)
Average number of claim	+10%	490,752	149,323	(98,668)
Average claim settlement paid	Reduce from 18 Months to 12 Months	56,804	51,312	-

First Takaful Insurance Company – KSC (Closed) Kuwait

20 Risk management objectives and policies (continued)

Key assumptions (continued)

(2) Life insurance contracts

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

The underwriting 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 use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history.

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 company, type of risk insured and by industry.

Life insurance contracts offered by the company include company whole life insurance, credit life (banks), and company medical including third party administration (TPA).

The main risks that the company is exposed to are as follows.

- Mortality risk – risk of loss arising due to policyholder death experience being different than expected.
- Morbidity risk – risk of loss arising due to policyholder health experience being different than expected.
- Longevity risk – risk of loss arising due to the annuitant living longer than expected.
- Investment return risk – risk of loss arising from actual returns being different than expected.
- Expense risk – risk of loss arising from expense experience being different than expected.
- Policyholder decision risk – risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the location of the risk insured by the company as life business mainly written in Gulf countries.

The company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the company to pursue third parties for payment of some or all costs. The company 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 company.

For contracts where death or disability are the insured risks the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected.

The insurance risks described above are also affected by the contract holders' right to pay reduced or no future premiums, to terminate the contract completely. As a result, the amount of insurance risk is also subject to contract holder behaviour.

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20 Risk management objectives and policies (continued)

Key assumptions (continued)

(2) Life insurance contracts

The table below sets out the concentration of life insurance and by type of contract.

	31 Dec. 2009			31 Dec. 2008		
	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
Type of contract						
Credit life (Credit insurance)	667,620	(467,334)	200,286	937,620	(656,334)	281,286
Other life insurance contract liabilities	508,924	(262,113)	246,811	455,083	(240,038)	215,045
Total life insurance contract	1,176,544	(729,447)	447,097	1,392,703	(896,372)	496,331

All life insurance contracts are in Kuwait, the analysis above would not be materially different if based on the countries in which the counterparties are situated.

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

Life insurance contract estimates are either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included. Assumptions are made in relation to future deaths, voluntary terminations, investment returns and administration expenses. If the liabilities are not adequate, the assumptions are altered to reflect the current estimates.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

• Mortality and morbidity rates

Assumptions are based on standard industry and national tables, according to the type of contract written and the territory in which the insured person resides, reflecting recent historical experience and are adjusted when appropriate to reflect the company's own experiences. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

An increase in rates will lead to a larger number of claims and claims could occur sooner than anticipated, which will increase the expenditure and reduce profits.

First Takaful Insurance Company – KSC (Closed) Kuwait

20 Risk management objectives and policies (continued)

Key assumptions (continued)

(2) Life insurance contracts

• Longevity

Assumptions are based on standard industry and national tables, adjusted when appropriate to reflect the company's own risk experience. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

An increase in longevity rates will lead to an increase in the number of annuity payments made, which will increase the expenditure and reduce profits.

• Expenses

Operating expenses assumptions reflect the projected costs of maintaining and servicing in-force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate. An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

• Lapse and surrender rates

Lapses relate to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the company's experience and vary by product type, policy duration and sales trends (based on available experiences locally and within the company).

An increase in lapse rates early in the life of the policy would tend to reduce profits, but later increases are broadly neutral in effect.

• Discount rate

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on Central Bank of Kuwait rate, adjusted for the company's own risk exposure.

A decrease in the discount rate will increase the value of the insurance liability.

Death rates are considered to be having the biggest effect on the balance sheet and statement of income. The death rates have been obtained according to so many tables, most important of them are A49/52 and A67/70.

Financial risks

The company's activities expose it to variety of financial risks: market risk (including price risk), credit risk and liquidity risk.

The board of directors is ultimately responsible for the overall risk management and for approving risk strategies and principles. The company's risk management focuses on actively securing the company's short to medium term cash flows by minimizing the potential adverse effects on the company's financial performance which analyse exposures by degree and magnitude of risks. Long term financial investments are managed to generate lasting returns.

The company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The most significant financial risks to which the company is exposed to are described below.

First Takaful Insurance Company – KSC (Closed) Kuwait

20 Risk management objectives and policies (continued)

20.1 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 company credit policy and exposure to credit risk is monitored on an ongoing basis. The company seeks to avoid undue concentrations of risks with individuals or company of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate.

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

- A company credit risk policy setting out the assessment and determination of what constitutes credit risk for the company. Compliance with the policy is monitored and exposures and breaches are reported to the company's board of directors. 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 company 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 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.

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

	31 Dec. 2009	31 Dec. 2008
	KD	KD
SHAREHOLDERS		
Bank balance	1,448	1,448
Investment deposit	135,000	135,000
Amount due from policyholders	1,021,327	112,507
Other assets	9,461	11,513
Total credit risk exposure	1,167,236	260,468
POLICYHOLDERS		
Cash and bank balances	272,184	133,832
Investment deposits	1,357,745	1,357,745
Accounts receivable and prepayments	1,654,101	1,174,473
Premiums receivable	1,597,300	1,829,806
Reinsurance recoverable on outstanding claims	4,119,966	4,052,423
Total credit risk exposure	9,001,296	8,548,279

First Takaful Insurance Company – KSC (Closed) Kuwait

20 Risk management objectives and policies (continued)

20.1 Credit risk

Credit quality per class of financial assets

The credit quality of financial assets is managed by the company using internal credit ratings. The table below shows the credit quality by class of asset for related financial position lines, based on the company's credit rating system.

At 31 December 2009, credit quality per class is as follows:

	Neither past due nor impaired			Total
	High grade	Standard grade	Past due or impaired	
	KD	KD	KD	KD
SHAREHOLDERS				
Bank balance	1,448	-	-	1,448
Investment deposit	135,000	-	-	135,000
Amount due from policyholders	-	1,021,327	-	1,021,327
Other assets	-	9,461	-	9,461
	136,448	1,030,788	-	1,167,236
POLICYHOLDERS				
Cash and bank balances	272,184	-	-	272,184
Investment deposits	1,357,745	-	-	1,357,745
Accounts receivable and prepayments	632,911	1,021,190	-	1,654,101
Premiums receivable	772,346	762,153	62,801	1,597,300
Reinsurance recoverable on outstanding claims	-	4,119,966	-	4,119,966
	3,035,186	5,903,309	62,801	9,001,296

At 31 December 2008, credit quality per class is as follows:

	Neither past due nor impaired			Total
	High grade	Standard grade	Past due or impaired	
	KD	KD	KD	KD
SHAREHOLDERS				
Bank balance	1,448	-	-	1,448
Investment deposit	135,000	-	-	135,000
Amount due from policyholders	-	112,507	-	112,507
Other assets	-	11,513	-	11,513
	136,448	124,020	-	260,468
POLICYHOLDERS				
Cash and bank balances	133,832	-	-	133,832
Investment deposits	1,357,745	-	-	1,357,745
Accounts receivable and prepayments	419,445	755,028	-	1,174,473
Premiums receivable	732,644	1,022,166	74,996	1,829,806
Reinsurance recoverable on outstanding claims	-	4,052,423	-	4,052,423
	2,643,666	5,829,617	74,996	8,548,279

First Takaful Insurance Company – KSC (Closed)

Kuwait

20 Risk management objectives and policies (continued)

20.2 Liquidity risk

Liquidity risk is the risk that the company will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

Maturity profile of assets and liabilities at 31 December 2009 and 2008:

	Within 1–3 month	Within 3-6 months	Within 6-12 months	Total Up to 1 year	Over 1 year	Total
	KD	KD	KD	KD	KD	KD
2009						
SHAREHOLDERS						
Assets						
Bank balance	1,448	-	-	1,448	-	1,448
Investment deposit	-	-	-	-	135,000	135,000
Available for sale investments	-	-	-	-	5,807,179	5,807,179
Investment in an associates	-	-	-	-	2,382,067	2,382,067
Other assets	-	9,461	-	9,461	-	9,461
Land under development	-	-	-	-	1,959,750	1,959,750
Amount due from policyholders	-	-	1,021,327	1,021,327	-	1,021,327
	1,448	9,461	1,021,327	1,032,236	10,283,996	11,316,232
Liabilities						
Other liabilities	112,248	2,928	15,617	130,793	-	130,793
	112,248	2,928	15,617	130,793	-	130,793
POLICYHOLDERS						
Assets						
Cash and bank balances	272,184	-	-	272,184	-	272,184
Premiums receivable	772,346	238,947	390,570	1,401,863	195,437	1,597,300
Accounts receivable and prepayments	632,912	367,549	524,953	1,525,414	128,687	1,654,101
Available for sale investments	-	-	877,627	877,627	1,395,210	2,272,837
Investment in an associate	-	-	-	-	1,779,053	1,779,053
Investment deposits	-	-	-	-	1,357,745	1,357,745
Reinsurance recoverable on outstanding claims	411,997	1,441,988	1,441,988	3,295,973	823,993	4,119,966
Furniture and equipment	-	-	-	-	113,122	113,122
	2,089,439	2,048,484	3,235,138	7,373,061	5,793,247	13,166,308
Liabilities						
Reinsurance balances payable	523,823	325,888	-	849,711	-	849,711
Unearned premiums (net)	228,827	305,103	381,379	915,309	610,206	1,525,515
Outstanding claims reserve (gross)	627,447	941,172	1,568,620	3,137,239	3,137,239	6,274,478
Life mathematical reserve (net)	-	-	-	-	200,286	200,286
Additional reserve (net)	-	-	-	-	1,166,000	1,166,000
Reserve retained on reinsurance business	-	-	260,710	260,710	-	260,710
Other liabilities	678,496	574,172	210,338	1,463,006	459,800	1,922,806
Murabaha payable	-	1,255,003	-	1,255,003	-	1,255,003
Amount due to shareholders	-	-	1,021,327	1,021,327	-	1,021,327
	2,058,593	3,401,338	3,442,374	8,902,305	5,573,531	14,475,836

First Takaful Insurance Company – KSC (Closed) Kuwait

20 Risk management objectives and policies (continued)

20.2 Liquidity risk

	Within 1–3 month	Within 3-6 months	Within 6-12 months	Total Up to 1 year	Over 1 year	Total
	KD	KD	KD	KD	KD	KD
2009						
SHAREHOLDERS						
Assets						
Bank balance	1,448	-	-	1,448	-	1,448
Investment deposit	-	-	-	-	135,000	135,000
Available for sale investments	-	-	-	-	7,596,532	7,596,532
Investment in an associate	-	-	-	-	1,779,053	1,779,053
Other assets	-	11,513	-	11,513	-	11,513
Land under development	-	-	-	-	1,959,750	1,959,750
Amount due from policyholders	-	-	112,507	112,507	-	112,507
	1,448	11,513	112,507	125,468	11,470,335	11,595,803
Liabilities						
Other liabilities	114,228	7,047	15,617	136,892	-	136,892
	114,228	7,047	15,617	136,892	-	136,892
POLICYHOLDERS						
Assets						
Cash and bank balances	133,832	-	-	133,832	-	133,832
Premiums receivable	732,644	517,974	509,519	1,760,137	69,669	1,829,806
Accounts receivable and prepayments	299,831	332,423	339,459	971,713	202,760	1,174,473
Available for sale investments	-	-	-	-	3,121,322	3,121,322
Investment in an associate	-	-	-	-	1,779,053	1,779,053
Investment deposits	-	-	-	-	1,357,745	1,357,745
Reinsurance recoverable on outstanding claims	1,013,106	1,215,727	1,013,106	3,241,939	810,484	4,052,423
Furniture and equipment	-	-	-	-	138,053	138,053
	2,179,413	2,066,124	1,862,084	6,107,621	7,479,086	13,586,707
Liabilities						
Reinsurance balances payable	425,163	83,345	-	508,508	-	508,508
Unearned premiums (net)	290,586	387,446	484,307	1,162,339	774,892	1,937,231
Outstanding claims reserve (gross)	652,646	978,970	1,631,617	3,263,233	3,263,236	6,526,469
Life mathematical reserve (net)	-	-	-	-	281,286	281,286
Additional reserve (net)	-	-	-	-	418,000	418,000
Reserve retained on reinsurance business	-	-	253,320	253,320	-	253,320
Other liabilities	712,898	612,628	162,105	1,487,631	695,355	2,182,986
Murabaha payable	-	-	1,216,274	1,216,274	-	1,216,274
Amount due to shareholders	-	112,507	-	112,507	-	112,507
	2,081,293	2,174,896	3,747,623	8,003,812	5,432,769	13,436,581

First Takaful Insurance Company – KSC (Closed) Kuwait

20 Risk management objectives and policies (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 company 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 company's principal transactions are carried out in KD and its exposure to foreign exchange risk arises primarily with respect to US dollar and Saudi Riyal.

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

The currency risk is primarily managed by the company through financial instruments.

The tables below summaries the company's exposures to foreign currency exchange rate risk at the balance sheet date:

	Kuwaiti Dinar	Saudi Riyal	Other	Total
	KD	KD	KD	KD
31 December 2009				
SHAREHOLDERS				
Bank balance	1,448	-	-	1,448
Investment deposit	135,000	-	-	135,000
Available for sale investments	5,807,179	-	-	5,807,179
Investment in an associates	-	1,779,053	603,014	2,382,067
Other assets	9,461	-	-	9,461
Land under development	1,959,750	-	-	1,959,750
Amount due from policy holders	1,021,327	-	-	1,021,327
	8,934,165	1,779,053	603,014	11,316,232

First Takaful Insurance Company – KSC (Closed) Kuwait

20 Risk management objectives and policies (continued)

(3) Market risk

	Kuwaiti Dinar	Saudi Riyal	Other	Total
31 December 2008	KD	KD	KD	KD
SHAREHOLDERS				
Bank balance	1,448	-	-	1,448
Investment deposit	135,000	-	-	135,000
Available for sale investments	7,383,608	-	212,924	7,596,532
Investment in an associate	-	1,779,053	-	1,779,053
Other assets	11,513	-	-	11,513
Land under development	1,959,750	-	-	1,959,750
Amount due from policy holders	112,507	-	-	112,507
	9,603,826	1,779,053	212,924	11,595,803

	Kuwaiti Dinar	US Dollar	Saudi Riyal	Other	Total
31 December 2009	KD	KD	KD	KD	KD
POLICYHOLDERS					
Cash and bank balances	243,275	28,909	-	-	272,184
Premiums receivable	1,468,681	106,881	-	21,738	1,597,300
Accounts receivable and prepayments	1,101,336	482,095	14,465	56,205	1,654,101
Available for sale investments	1,553,403	591,547	-	127,887	2,272,837
Investment in an associate	-	-	1,779,053	-	1,779,053
Investment deposits	1,357,745	-	-	-	1,357,745
Reinsurance recoverable on outstanding claims	3,707,969	411,997	-	-	4,119,966
Furniture and equipment	113,122	-	-	-	113,122
	9,545,531	1,621,429	1,793,518	205,830	13,166,308

First Takaful Insurance Company – KSC (Closed) Kuwait

20 Risk management objectives and policies (continued)

(3) Market risk

	Kuwaiti Dinar	US Dollar	Saudi Riyal	Other	Total
	KD	KD	KD	KD	KD
POLICYHOLDERS					
Cash and bank balances	115,240	18,592	-	-	133,832
Premiums receivable	1,709,186	93,720	-	26,900	1,829,806
Accounts receivable and prepayments	840,319	275,720	8,946	49,488	1,174,473
Available for sale investments	2,410,169	591,758	-	119,395	3,121,322
Investment in an associate	-	-	1,779,053	-	1,779,053
Investment deposits	1,357,745	-	-	-	1,357,745
Reinsurance recoverable on outstanding claims	3,662,021	390,402	-	-	4,052,423
Furniture and equipment	138,053	-	-	-	138,053
	10,232,733	1,370,192	1,787,999	195,783	13,586,707

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before KFAS, NLST and Zakat, and equity (due to changes in fair value of currency sensitive monetary assets and liabilities and changes in foreign currency translation of foreign subsidiary). There has been no change during the year in the assumptions and methods used in the preparation of the sensitivity analysis.

	Changes in variables	31 Dec. 2009		31 Dec. 2008	
		Impact on profit	Impact on equity	Impact on profit	Impact on equity
	%	KD	KD	KD	KD
SHAREHOLDERS					
Saudi Riyal	+5	-	88,953	-	88,953
Other	+5	-	30,151	-	10,646
Saudi Riyal	-5	-	(88,953)	-	(88,953)
Other	-5	-	(30,151)	-	(10,646)

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20 Risk management objectives and policies (continued)

(3) Market risk

	Changes in variables	31 Dec. 2009		31 Dec. 2008	
		Impact on profit	Impact on equity	Impact on profit	Impact on equity
	%	KD	KD	KD	KD
POLICYHOLDERS					
Us Dollar	+5	51,494	29,577	38,922	29,588
Saudi Riyal	+5	723	88,953	447	88,953
Other	+5	3,897	6,394	3,819	5,970
US Dollar	-5	(51,494)	(29,577)	(38,922)	(29,588)
Saudi Riyal	-5	(723)	(88,953)	(447)	(88,953)
Other	-5	(3,897)	(6,394)	(3,819)	(5,970)

(b) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The company has no significant profit bearing assets other than investment deposits. The company is also exposed to profit rate risk with respect to its murabaha payable.

The following table illustrates the sensitivity of the profit for the year to a reasonably possible change in profit rates of +1% and -1% (2008: +1% and -1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market condition. The calculations are based on the company's financial instruments held at each financial position date. All other variables are held constant. There is no impact on the company's equity:

	31 Dec. 2009		31 Dec. 2008	
	+1%	-1%	+1%	-1%
	KD	KD	KD	KD
SHAREHOLDERS				
Profit for the year	1,350	(1,350)	1,350	(1,350)
POLICYHOLDERS				
Profit for the year	1,027	(1,027)	1,415	(1,415)

c) Equity price risk

The company is exposed to equity price risk with respect to its equity investments. Equity investments are classified as available for sale.

To manage its price risk arising from investments in equity securities, the company diversifies its investments. Diversification of the investments is done in accordance with the limits set by the company.

The sensitivity analysis below have been determined based on the exposure to equity price risks at the reporting date. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

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20 Risk management objectives and policies (continued)

If equity prices had been 10% (2008: 10%) higher/lower, the effect on the profit for the year and equity would have been as follows:

	31 Dec. 2009			31 Dec. 2008		
	Increase in equity price	Effect on equity	Effect on profit	Increase in equity price	Effect on equity	Effect on profit
	%	KD	KD	%	KD	KD
SHAREHOLDERS						
Investment in unquoted managed funds	10%	63,334	-	+10%	79,850	-
Quoted equity securities	10%	171,732	-	+10%	228,859	-
Unquoted equity securities	10%	345,652	-	+10%	450,945	-
POLICYHOLDERS						
Investment in unquoted managed funds	10%	57,078	-	+10%	101,641	-
Quoted equity securities	10%	87,763	-	+10%	133,891	-
Unquoted equity securities	10%	82,443	-	+10%	76,600	-

c) Equity price risk (continued)

	31 Dec. 2009			31 Dec. 2008		
	Decrease in equity price	Effect on equity	Effect on profit	Decrease in equity price	Effect on equity	Effect on profit
	%	KD	KD	%	KD	KD
SHAREHOLDERS						
Investment in unquoted managed funds	-10%	(63,334)	-	-10%	(79,850)	-
Quoted equity securities	-10%	(171,732)	-	-10%	(228,859)	-
Unquoted equity securities	-10%	(345,652)	-	-10%	(450,945)	-
POLICYHOLDERS						
Investment in unquoted managed funds	-10%	(57,078)	-	-10%	(101,641)	-
Quoted equity securities	-10%	(87,763)	-	-10%	127,668	(261,559)
Unquoted equity securities	-10%	(82,443)	-	-10%	(76,600)	-

21 Fair values of financial instruments

Financial assets include cash and bank balances, investment deposit, available for sale investments and certain other assets and liabilities. The fair values of the financial assets and liabilities, with the exception of certain available for sale investments carried at cost (see note 9), are not materially different from their carrying values.

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22 Summary of financial assets and liabilities by category (continued)

The carrying amounts of the company's financial assets and liabilities as stated in the consolidated statement of financial position may also be categorized as follows:

	Carrying amount 2009	Fair value 2009	Carrying amount 2008	Fair value 2008
	KD	KD	KD	KD
SHAREHOLDERS				
Bank balance	1,448	-	1,448	-
Investment deposit	135,000	-	135,000	-
Available for sale investments	3,456,520	2,350,659	4,509,445	3,087,087
Other assets	9,461	-	11,513	-
Amount due from policy holders	1,021,327	-	112,507	-
	4,623,756	2,350,659	4,769,913	3,087,087
Other liabilities	130,793	-	136,892	-
POLICYHOLDERS				
Cash and bank balances	272,184	-	133,832	-
Premiums receivable	1,597,300	-	1,829,806	-
Accounts receivable and prepayments	1,654,101	-	1,174,473	-
Available for sale investments	824,433	1,448,404	766,002	2,355,320
Investment deposits	1,357,745	-	1,357,745	-
Reinsurance recoverable on outstanding claims	4,119,966	-	4,052,423	-
	9,825,729	1,448,404	9,314,281	2,355,320
Reinsurance balances payable	849,711	-	508,508	-
Unearned premiums	1,525,515	-	1,937,231	-
Other liabilities	1,922,806	-	2,182,986	-
Murabaha payable	1,255,003	-	1,216,274	-
Amount due to shareholders	1,021,327	-	112,507	-
	6,574,362	-	5,957,506	-

Financial instruments measured at fair value

The company adopted the amendments to IFRS 7 *Improving Disclosures about Financial Instruments* effective from 1 January 2009. These amendments require the company to present certain information about financial instruments measured at fair value in the consolidated statement of financial position. In the first year of application comparative information need not be presented for the disclosures required by the amendment. Accordingly, the disclosure for the fair value hierarchy is only presented for the 31 December 2009 year end.

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22 Summary of financial assets and liabilities by category (continued)

The following table presents financial assets and liabilities measured at fair value in the consolidated statement of financial position in accordance with the fair value hierarchy.

This hierarchy company financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

31 December 2009

	Note	Level 1	Level 2	Total
		KD	KD	KD
SHAREHOLDERS				
Assets				
<i>Available for sale investments:</i>				
Quoted securities	a	1,717,323	-	1,717,323
Unquoted fund	b	-	633,336	633,336
		1,717,323	633,336	2,350,659
POLICYHOLDERS				
Assets				
<i>Available for sale investments:</i>				
Quoted securities	a	877,628	-	877,628
Unquoted funds	b	-	570,776	570,776
		877,628	570,776	1,448,404

There have been no significant transfers between levels 1 and 2 during the reporting period.

Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

a) Quoted securities

All the listed equity securities are publicly traded in stock exchanges. Fair values have been determined by reference to their quoted bid prices at the reporting date.

b) Unquoted funds

Unquoted funds represent investments in private equity funds, these investments are carried at net asset values reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

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23 Capital management objectives

The company's capital management objectives are to ensure the company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

The capital consists of total equity. The company manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The company monitors its capital by way of return on equity. This is calculated by reference to profit for the year divided by total equity as follows:

	31 Dec. 2009	31 Dec. 2008
Profit for the year	77,724	262,648
Total equity	11,185,439	11,458,911
Return on equity	0.7%	2%