

**Kuwait Insurance Company S.A.K.
Kuwait**

**Annual Financial Statements and Independent Auditors' Report
31 December 2008**

PwC

**AL-AHLI BUREAU
Certified Accountants**

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**Kuwait Insurance Company S.A.K.
Kuwait**

Independent Auditors' Report to the Shareholders

We have audited the accompanying financial statements of Kuwait Insurance Company S.A.K. ("the Company"), which comprise the balance sheet as at 31 December 2008 and the statement of income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is 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 auditor considers 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 the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 the Company as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kuwait Insurance Company S.A.K.
Kuwait

Independent Auditors' Report to the Shareholders (Continued)

Report on other Legal and Regulatory Requirements

Furthermore, 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 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, as amended, and of Law No. 24 of 1961, as amended, concerning insurance companies and insurance agents and its related regulations and by the Company's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no material violation of Commercial Companies Law of 1960, as amended, or of Law No. 24 of 1961, as amended or of the Articles of Association have occurred during the year ended 31 December 2008 that might have had a material effect on the business of the Company or on its financial position.

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

Nasser A. Al Muqait
Licence No. 9A
Al-Ahli Bureau
Certified Accountants

Kuwait
17 February 2009

Kuwait Insurance Company S.A.K.
Kuwait

Balance Sheet as at 31 December 2008

	Note	Kuwaiti Dinars	
		2008	2007
ASSETS			
Property and equipment	3	2,295,252	2,431,287
Investment properties		135,187	135,187
Loans secured by life insurance policies		401,823	547,440
Investments	4	61,434,098	100,770,929
Due from insurance and reinsurance companies		6,221,401	6,355,732
Reinsurance companies' share of reserve for outstanding claims		17,375,135	17,838,139
Trade and other receivables	5	10,362,971	9,299,577
Fixed deposits with banks	6	24,071,967	27,571,276
Cash and cash equivalents	7	2,920,308	3,853,215
Total assets		125,218,142	168,802,782
EQUITY AND LIABILITIES			
Equity			
Issued and fully paid-up capital	8	19,404,000	19,404,000
Statutory reserve	8	9,702,000	9,702,000
Voluntary reserve	8	17,500,000	17,500,000
Retained earnings		16,078,200	26,714,674
Investment fair valuation reserve		(15,731,177)	14,596,339
Total equity		46,953,023	87,917,013
Liabilities			
Technical reserves	9	61,728,123	62,332,270
Due to insurance and reinsurance companies		8,650,948	8,542,072
Trade and other payables	10	7,886,048	7,564,230
Due to banks		-	2,447,197
Total liabilities		78,265,119	80,885,769
Total equity and liabilities		125,218,142	168,802,782

The accompanying notes form an integral part of these financial statements.

Mohammed Saleh Behbehani
Chairman

Sulaiman Khaled Al Ghunaim
Vice-Chairman

Dr. Ali Hamad Al Bahar
General Manager

**Kuwait Insurance Company S.A.K.
Kuwait**

**Statement of Income
Year ended 31 December 2008**

	Note	Kuwaiti Dinars	
		2008	2007
Revenue			
Gross premium revenue		26,871,094	27,168,592
Premium ceded to reinsurers		(12,242,359)	(12,609,648)
Net premium revenue		14,628,735	14,558,944
Change in reserve for unexpired risks		80,490	511,951
Premiums earned		14,709,225	15,070,895
Commission earned		2,222,639	2,310,366
Net income from investments	11	3,287,974	15,275,428
Other income		665,800	1,015,548
Total		20,885,638	33,672,237
Expenses			
Net incurred claims		(9,630,129)	(12,489,550)
Change in reserve for life insurance fund		1,341,832	(421,676)
Life insurance – Expiry settlement		(1,950,670)	(948,778)
Life insurance - Policies liquidated		(257,161)	(176,957)
Commissions paid		(2,235,496)	(2,100,801)
General & administrative expenses		(4,007,823)	(3,738,719)
Total		(16,739,447)	(19,876,481)
Profit before provisions		4,146,191	13,795,756
Provision for impairment of investments		(1,075,122)	-
Profit before taxes & management remuneration		3,071,069	13,795,756
Contribution to Kuwait Foundation for Advancement of Science Share (KFAS)		(30,711)	(137,958)
Board of Directors' remuneration		(56,000)	(56,000)
National Labour Support Tax		(27,166)	(301,784)
Zakat Tax		(10,866)	(7,276)
Total contribution to taxes & management remuneration		(124,743)	(503,018)
Net profit for the year		2,946,326	13,292,738
Earnings per share (fils)	12	15.18	68.50

The accompanying notes form an integral part of these financial statements.

**Kuwait Insurance Company S.A.K.
Kuwait**

**Statement of changes in Equity
Year ended 31 December 2008**

	Kuwaiti Dinars					Total
	Capital	Statutory reserve	Voluntary Reserve	Retained earnings	Investment fair valuation reserve	
Balance as at 1 January 2008	19,404,000	9,702,000	17,500,000	26,714,674	14,596,339	87,917,013
Changes in fair value of Available-for-Sale investments	-	-	-	-	(30,801,423)	(30,801,423)
Net realized loss on Available-for-Sale investments	-	-	-	-	473,907	473,907
Net loss recognised directly in equity	-	-	-	-	(30,327,516)	(30,327,516)
Net profit for the year	-	-	-	2,946,326	-	2,946,326
Total recognised income	-	-	-	2,946,326	(30,327,516)	(27,381,190)
Dividend paid for 2007 (70 fils per share)	-	-	-	(13,582,800)	-	(13,582,800)
At 31 December 2008	19,404,000	9,702,000	17,500,000	16,078,200	(15,731,177)	46,953,023
Balance as at 1 January 2007	19,404,000	9,702,000	17,500,000	25,064,336	3,898,977	75,569,313
Changes in fair value of Available-for-Sale investments	-	-	-	-	10,255,153	10,255,153
Net loss on disposal of Available-for-Sale investments	-	-	-	-	442,209	442,209
Net income recognized directly in equity	-	-	-	-	10,697,362	10,697,362
Net profit for the year	-	-	-	13,292,738	-	13,292,738
Total recognised income	-	-	-	13,292,738	10,697,362	23,990,100
Dividend paid for 2006	-	-	-	(11,642,400)	-	(11,642,400)
At 31 December 2007	19,404,000	9,702,000	17,500,000	26,714,674	14,596,339	87,917,013

The accompanying notes form an integral part of these financial statements.

Kuwait Insurance Company S.A.K.
Kuwait

Statement of Cash Flows
Year ended 31 December 2008

	Note	Kuwaiti Dinars	
		2008	2007
Cash flows from operating activities			
Net profit for the year		2,946,326	13,292,738
Adjustments for:			
Net income from investments	11	(3,287,974)	(15,275,428)
Depreciation		152,289	155,132
Provision for impairment		1,075,122	-
Staff terminal benefits		140,073	111,406
Finance expenses		54,979	43,911
Operating profit/ (loss) before working capital changes		1,080,815	(1,672,241)
Investments at fair value through profit or loss		1,062,440	2,446,401
Due from insurance & reinsurance companies		134,331	1,312,112
Trade and other receivables		(1,063,396)	(679,684)
Technical reserves		(141,141)	1,748,930
Due to insurance and reinsurance companies		108,876	774,512
Trade and other payables		661,903	(461,106)
Cash from operating activities		1,843,828	3,468,924
Payment of staff terminal benefits		(25,767)	(52,862)
Payment of KFAS		(137,958)	(50,415)
Payment of National Labour Support Tax		(301,784)	(82,354)
Payment of Zakat Tax		(7,276)	-
Payment of Board of Directors' remuneration		(56,000)	(56,000)
Net cash from operating activities		1,315,043	3,227,293
Cash flows from investing activities			
Purchase of property and equipment (net)		(9,854)	(22,697)
Repayments/ (disbursements) of loans secured by life insurance policies		145,617	(309,597)
Purchase of available-for-sale investments		(2,995,230)	(11,444,267)
Proceeds from sale of available-for-sale investments		8,071,197	9,987,213
Fixed deposits with banks		3,499,309	1,533,409
Dividend received		3,371,399	3,152,618
Interest received		1,705,961	1,385,901
Net cash from investing activities		13,788,399	4,282,580
Cash flows from financing activities			
Payment of finance expenses		(54,979)	(43,911)
Net (paid to)/ received from banks		(2,447,197)	2,447,197
Dividend paid to shareholders		(13,534,173)	(11,552,422)
Net cash used in financing activities		(16,036,349)	(9,149,136)
Net decrease in cash and cash equivalents		(932,907)	(1,639,263)
Cash and cash equivalents at beginning of the year		3,853,215	5,492,478
Cash and cash equivalents at end of the year	7	2,920,308	3,853,215

The accompanying notes form an integral part of these financial statements.

1. Incorporation and objectives

Kuwait Insurance Company S.A.K., (the Company) is a Kuwaiti Public Shareholding Company established in Kuwait in 1960 by Amiri Decree No. 7 of 1960, and registered with the Ministry of Commerce in accordance with the Insurance Companies and Agent Law No. 24 of 1961 under insurance license No. 1.

The objects of the Company are to underwrite life and non-life insurance risks such as fire, general accidents, marine and aviation and others; lend funds against life insurance policies; and to invest in permitted securities.

The registered office of the Company is located at Kuwait Insurance Building, Abdullah Al-Salem Street, Kuwait. P.O. Box 769 Safat 13008, Kuwait. The Company has 11 branches in the State of Kuwait.

During the year, the Company obtained permission from the Ministry of Commerce to engage in Islamic insurance business and accordingly commenced business in October 2008.

These financial statements have been approved for issue by the Board of Directors on 17 February 2009 and are subject to shareholders' approval.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

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

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that may affect amounts reported in these financial statements, as actual results could differ from those estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas where estimates and assumptions are significant to the financial statements, or areas involving a higher degree of judgement, are disclosed in Note 18.

The Company presents its balance sheet broadly in the reverse order of liquidity with the distinction based on expectation regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current).

Changes in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the previous year except for the adoption of the amendments to IAS 39 - Financial Instruments : Recognition and Measurement & IFRS 7 – Financial Instruments : Disclosures, relating to reclassification of Financial Assets.

On 13 October 2008, IASB approved and published amendments to IAS 39 and IFRS 7 to allow reclassification of certain financial instruments held for trading to either held to maturity, loans and receivables or available for sale categories with effect from 1 July 2008. The amendments require additional disclosures with regard to the situations in which any such reclassification is made, and its effect on the financial statements.

The Company also adopted the following International Financial Reporting Standards (IFRS) issued by IASB and Interpretations issued by International Financial Reporting Interpretation Committee (IFRIC) which do not have any impact on the financial statements of the Company.

IFRIC 11: IFRS 2 - Group and Treasury Share Transactions;
IFRIC 12: Service Concession Arrangements; and
IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The following International Financial Reporting Standards (IFRS) issued by IASB and Interpretations issued by International Financial Reporting Interpretation Committee (IFRIC), but not yet effective have not been adopted by the Company.

IAS 1: Presentation of Financial Statements (effective 01 January 2009)
IAS 16: Property, Plant and Equipment (Amended – effective 01 January 2009)
IAS 23: Borrowing Costs (Revised – effective 01 January 2009)
IAS 36: Impairment of asset (Amended – effective 01 January 2009)
IAS 38: Intangible assets (Amended – effective 01 January 2009)
IFRS 2: Share-based Payment – Vesting Conditions and Cancellations (effective 01 January 2009)
IFRS 8: Operating Segments (effective 01 January 2009)
IFRIC 13: Customer Loyalty Programmes (effective 01 July 2008)

The application of IAS 1 and IFRS 8 will result in amendments to the presentation of the financial statements of the Company. Additional disclosures will be made in the financial statements when these standards and interpretations become effective.

The application of other standards and interpretations are not expected to have a material impact on the financial statements of the Company.

2.2 Financial Instruments

Classification and measurement

The Company classifies financial assets as “at fair value through profit or loss”, “loans and receivables” and “available for sale”. Financial liabilities are classified as “other than at fair value through profit or loss”.

Recognition and de-recognition

All financial assets and liabilities are initially recognized at its fair value plus, except for financial instruments classified as “at fair value through profit or loss”, transaction costs that are directly attributable to the acquisition of the financial instrument.

A financial asset or a financial liability is recognised when the Company becomes a party to the contractual provisions of the instrument. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Company has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all risks and rewards of ownership and it no longer has control over the asset or portion of the asset. If the Company has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset. A financial liability is derecognised when the obligation specified in the contract is discharged.

All 'regular way' purchase and sale of financial assets are recognized using settlement date accounting. Changes in fair value between the trade date and settlement date are recognized in income in accordance with the policy applicable to the related instruments. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

At fair value through profit or loss

Financial assets "at fair value through profit or loss" are further divided into two sub categories: "held for trading" and "designated at fair value through profit or loss at inception". A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented investment strategy. Financial assets "at fair value through profit or loss" are subsequently re-measured at fair value and gains or losses arising from changes in fair value are included in the statement of income.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured and carried at amortized cost using the effective yield method, less any provision for impairment.

Available for sale

These are non derivative financial assets not included in any of the above classifications and are principally those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, changes in interest rates or prices. These are subsequently re-measured and carried at fair value. Any resultant unrealized gains and losses arising from changes in fair value are taken to investment fair valuation reserve in equity. When the available for sale asset is disposed off or is impaired, the related accumulated fair values earlier reported in equity are transferred to the statement of income.

Financial liabilities

Financial liabilities are carried at amortized cost using the effective yield method.

Fair values

Fair values are estimated based on quoted current bid prices or using the current market rate of interest for that instrument. The fair value of interest-bearing financial instruments is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. Fair values of unquoted instruments are estimated using price/ earnings models or discounted cash flow techniques, market price of similar instruments or broker's quotes.

Impairment

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specified asset, or a group of similar assets, may be impaired. In the case of financial assets classified as available for sale, a significant or prolonged decline in the fair value of assets below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income, is removed from shareholder's equity and recognized in the statement of income. Impairment loss recognized in the statement of income on available for sale financial assets that are equity instruments are not reversed through the statement of income.

A credit risk provision for impairment of loans and receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective rate of interest and the current interest rate for fixed and floating rate loans respectively.

2.3 Offsetting Financial instruments

Financial assets and liabilities are setoff and the net amount reported in the balance sheet when there is a legally enforceable right to setoff the recognized amounts and there is an intention to settle on a net basis, or realize the asset or settle the liability simultaneously.

2.4 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. These are depreciated on a straight line basis over their useful lives as follows:

Buildings	20 years
Equipment, Furniture and fixtures	up to 3 years

Land is not depreciated.

Property and equipment are reviewed periodically for any impairment. If there is an indication that the carrying value of the asset is greater than its recoverable amount, the asset is written down to its recoverable amount and the resultant impairment loss is taken to the statement of income.

2.5 Investment properties

Investment properties are stated at cost less any impairment in value.

2.6 Cash and cash equivalents

Cash in hand and time deposits with banks whose original maturities do not exceed a period of three months are classified as cash and cash equivalents.

2.7 Provisions for liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.8 Employees terminal benefits

Provision is made for amounts payable under Kuwaiti labour law. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date, and approximates the present value of this obligation.

2.9 Revenue recognition

Premiums are recognized as revenue annually and over the period of the cover. The portion of premiums that relates to unexpired risks at the balance sheet date is reported as reserve for unexpired risks or as unearned premium. Dividend income is recognised when the right to receive payment is established and interest on fixed deposits and bonds are recognised on time proportion basis using effective yield method.

Commission earned are recognized at the time policies are written.

Gains and losses on disposal of investments represent the difference between the selling price and the carrying value of the investment.

2.10 Insurance contract liabilities

Reserve for outstanding claims

Provisions are recognized for reported claims, which are not settled on the balance sheet date based on historical loss ratios, after deduction of expected salvage values and other recoveries.

Reserve for unexpired risks

General Insurance

This is computed at the rate of 40% of the net retained premiums for the Fire and General Accidents departments and 25% of the net retained premiums for the Marine and Aviation departments.

Life Insurance

Provisions for life insurance liabilities are recognised based on independent actuarial valuation.

Additional reserves

The Company estimates additional provisions for claims incurred but not reported at the balance sheet date based on historical loss ratios.

2.11 Foreign currencies

The Company's functional currency is the Kuwaiti Dinar. Transactions in foreign currencies are converted into Kuwaiti Dinars at the rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies outstanding at the balance sheet date are converted into Kuwaiti Dinar at the rates prevailing at the balance sheet date. Resulting gains or losses are taken to the statement of income. Translation differences on non-monetary assets measured at fair value are considered as part of changes in their fair value.

2.12 Segment reporting

A segment is a distinguishable component of the Company that is engaged in providing products or services (business segment) or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

3. Property and equipment

	Kuwaiti Dinars		
	Land & buildings	Furniture & office equipment	Total
Cost			
As at 1 January 2008	4,083,164	1,626,845	5,710,009
Additions		16,921	16,921
Disposals		(31,027)	(31,027)
As at 31 December 2008	<u>4,083,164</u>	<u>1,612,739</u>	<u>5,695,903</u>
Accumulated depreciation			
As at 1 January 2008	1,651,878	1,626,844	3,278,722
Charge for the year	136,035	-	136,035
Disposal	-	(14,106)	(14,106)
As at 31 December 2008	<u>1,787,913</u>	<u>1,612,738</u>	<u>3,400,651</u>
Net book value			
As at 31 December 2008	<u>2,295,251</u>	<u>1</u>	<u>2,295,252</u>
As at 31 December 2007	<u>2,431,286</u>	<u>1</u>	<u>2,431,287</u>

4. Investments

	Kuwaiti Dinars	
	2008	2007
<i>At fair value through profit or loss</i>		
Listed equities	-	43,560,493
Listed funds	-	5,123,245
	-	<u>48,683,738</u>
<i>Available for sale</i>		
Listed/ unlisted equities	54,092,241	47,613,683
Unlisted bonds	1,000,000	1,000,000
Unlisted funds	6,341,857	3,473,508
	<u>61,434,098</u>	<u>52,087,191</u>
Total investments	<u>61,434,098</u>	<u>100,770,929</u>

Due to the deterioration of the local and international capital markets that occurred during the current year and as allowed by the amendment made to IAS 39 issued by the International Accounting Standard Board on 13 October 2008, the Company reclassified its investments from "Fair Value Through Profit or Loss held for trading" (FVTPL) category to "Available For Sale (AFS)" category with effect from 1 July 2008.

Movements in available for sale investments:-

	Kuwaiti Dinars	
	2008	2007
Opening balance	52,087,191	38,632,786
Additions	6,448,227	11,444,267
Reclassification from FVTPL	45,439,287	-
Disposals	(11,359,765)	(8,261,983)
Changes in fair value	(30,068,286)	10,255,153
Provision for impairment	(1,075,122)	-
Foreign currency difference	(37,434)	16,968
Closing balance	<u>61,434,098</u>	<u>52,087,191</u>

If the Company had not reclassified investments from "Fair Value Through Profit or Loss held for trading" to "Available For Sale", KD 16,949,465 now recognized in equity would otherwise have been recognized as a loss in statement of income. During the six months ended 30 June 2008, the Company had recognized a loss of KD 1,810,830 in respect of the reclassified shares, in the Statement of Income.

Available for sale investments include unlisted equity investments amounting to KD 9,925,405 (31 December 2007: KD 9,974,663) carried at cost.

Investment certificates with carrying value of KD 174,000 (31 December 2007: KD 204,000) are deposited with the Ministry of Commerce, Kuwait to comply with local insurance regulations.

5. Trade and other receivables

	Kuwaiti Dinars	
	2008	2007
Trade receivables	9,975,892	9,274,098
Provision for doubtful debts	(857,360)	(857,360)
Net Trade Receivables	9,118,532	8,416,738
Accrued interest	12,700	19,281
Participation in Arab Syndicate Fund for War Risk Insurance	742,939	719,967
Other receivable	488,800	143,591
	<u>10,362,971</u>	<u>9,299,577</u>

6. Fixed deposits with banks

Fixed deposits and bank accounts amounting to KD 19,747,599 are under lien to the Ministry of Commerce, Kuwait to comply with local insurance regulations (31 December 2007: KD 21,150,000).

The average effective interest rate on time deposits was 6.42% as at 31 December 2008 (31 December 2007: 7.06%).

7. Cash and cash equivalents

	Kuwaiti Dinars	
	2008	2007
Cash on hand	16,151	13,317
Cash at banks	2,154,157	1,339,898
Time deposits	750,000	2,500,000
Cash and cash equivalents	<u>2,920,308</u>	<u>3,853,215</u>

8. Share Capital and reserves

The authorised, issued and fully paid-up capital is KD 19,404,000 divided into 194,040,000 shares with a nominal value of Kuwaiti fils 100 each.

Statutory reserve

The statutory reserve has reached 50% of the share capital and as permitted by the Articles of Association, the Company has discontinued appropriations to statutory reserve. This reserve is not available for distribution except for distribution of a maximum dividend of 5% in years when the retained earnings are inadequate for this purpose.

Voluntary reserve

In accordance with the Company's Articles of Association, 10% of net profit is transferred annually to the voluntary reserve. This reserve has been discontinued since 1998 based on a recommendation of the Board of Directors and approval of the shareholders.

Proposed dividend

The Board of Directors has proposed a cash dividend to shareholders of 30 fils per share amounting to KD 5,821,200 for the year ended 31 December 2008 (2007: 70 fils per share amounting to KD 13,582,800) which is subject to the approval of the shareholders at the next annual general meeting.

9. Technical reserves

Technical reserves movements by segment are as follows:

Year ended	Kuwaiti Dinars				
	Marine and aviation	Fire	General accident	Life	Total
31 December 2008					
Gross balance at beginning of the year	5,832,845	4,784,802	30,498,696	21,215,927	62,332,270
Less: Reinsurance recoverables	(3,806,833)	(2,849,346)	(10,745,022)	(436,938)	(17,838,139)
Net balance at beginning of the year	2,026,012	1,935,456	19,753,674	20,778,989	44,494,131
Net charge for the year	(41,806)	(103,822)	8,097,445	255,990	8,207,807
Paid during the year	(51,865)	(153,969)	(7,008,556)	(1,134,560)	(8,348,950)
Net balance at end of the year	1,932,341	1,677,665	20,842,563	19,900,419	44,352,988
Add: Reinsurance recoverables	3,995,580	2,229,526	10,598,770	551,259	17,375,135
Gross balance at end of the year	5,927,921	3,907,191	31,441,333	20,451,678	61,728,123
Year ended	Kuwaiti Dinars				
31 December 2007	Marine and aviation	Fire	General accident	Life	Total
Gross balance at beginning of the year	6,073,004	4,641,401	30,025,066	19,852,135	60,591,606
Less: Reinsurance recoverables	(4,021,083)	(2,537,273)	(10,937,656)	(350,393)	(17,846,405)
Net balance at beginning of the year	2,051,921	2,104,128	19,087,410	19,501,742	42,745,201
Net charge for the year	183,350	2,760	9,797,407	2,415,758	12,399,275
Paid during the year	(209,259)	(171,432)	(9,131,143)	(1,138,511)	(10,650,345)
Net balance at end of the year	2,026,012	1,935,456	19,753,674	20,778,989	44,494,131
Add: Reinsurance recoverables	3,806,833	2,849,346	10,745,022	436,938	17,838,139
Gross balance at end of the year	5,832,845	4,784,802	30,498,696	21,215,927	62,332,270

In July 2007, Kuwait's Ministry of Health suspended the operation of State administered scheme for medical insurance business through private medical insurance companies. The Ministry of Health is currently determining the amount of claim to be recovered from private medical insurance companies for treatment provided under the scheme. The Company believes that any such claim will not have a material effect on the Company's financial position.

10. Trade and other payables

	Kuwaiti Dinars	
	2008	2007
Insurance payables	3,171,195	2,609,526
Unearned premiums	386,830	407,321
Reserve for reinsurance premium ceded	583,757	620,979
Dividends payable	138,515	89,888
Staff payables and others	1,364,927	1,354,696
Staff terminal benefits	1,373,142	1,258,835
Reserve for Arab Syndicate Fund for War Risk Insurance	742,939	719,967
Kuwait Foundation for Advancement of Sciences (KFAS)	30,711	137,958
Board of Directors' remuneration	56,000	56,000
National labour support tax	27,166	301,784
Zakat Tax	10,866	7,276
	<u>7,886,048</u>	<u>7,564,230</u>

11. Net income from investments

	Kuwaiti Dinars	
	2008	2007
Realised gain from sale of investments	21,444	1,375,817
Unrealised (loss)/ gain on investments	(1,810,830)	9,361,092
Cash dividends	3,371,399	3,152,618
Interest and other income	1,705,961	1,385,901
	<u>3,287,974</u>	<u>15,275,428</u>

12. Earnings per share

Earning per share is calculated based on the net profit for the year and the weighted average number of ordinary shares, as follows:

	Kuwaiti Dinars	
	2008	2007
Net profit for the year	2,946,326	13,292,738
Weighted average number of issued shares (share)	194,040,000	194,040,000
Earnings per share (fils)	<u>15.18</u>	<u>68.50</u>

13. Staff Costs

General and administrative expenses include staff costs of KD 2,904,219 (31 December 2007 - KD 2,569,321).

14. Business segments

The Company has four principal business segments:

- Marine and aviation
Insurance against risks related to goods transportation and different types of marine and aviation vessels.
- Fire
Insurance against fire for different types of buildings, stores, industrial risks and gas and oil industry.

➤ General accident

Insurance against risks of contractors, machinery and computer damages and cessation of work; insurance cover for cash, bonds, fidelity, professional risks, work accidents, civil responsibility and motor vehicles

➤ Life insurance

Life insurance cover for individuals and groups and health insurance cover.

Investment activities are not considered as a segment by itself. Assets and liabilities are not allocated to the Company's segments except for those related to the life insurance segment.

Information on the Company's principal segments are as follows:

Income statement

Year ended 31 December 2008	Kuwaiti Dinars					Total
	Marine & aviation	Fire	General accident	Life	Unallocated items	
Revenue						
Gross premium revenue	3,180,142	3,714,033	15,350,233	4,626,686	-	26,871,094
Premium ceded to reinsurers	(2,753,246)	(3,301,967)	(4,523,376)	(1,663,770)	-	(12,242,359)
Net premiums revenue	426,896	412,066	10,826,857	2,962,916	-	14,628,735
Changes in reserve for unexpired risks	1,283	(42,988)	46,638	75,557	-	80,490
Premiums earned	428,179	369,078	10,873,495	3,038,473	-	14,709,225
Commissions earned	742,652	445,168	991,305	43,514	-	2,222,639
Net investments income	-	-	-	615,777	2,672,197	3,287,974
Other income	7,294	600	600,565	46,500	10,841	665,800
	<u>1,178,125</u>	<u>814,846</u>	<u>12,465,365</u>	<u>3,744,264</u>	<u>2,683,038</u>	<u>20,885,638</u>
Expenses						
Net incurred claims	40,523	146,810	(8,144,083)	(1,673,379)	-	(9,630,129)
Changes in reserve for life insurance fund	-	-	-	1,341,832	-	1,341,832
Life insurance – Expiry settlement	-	-	-	(1,950,670)	-	(1,950,670)
Life insurance – Policies liquidated	-	-	-	(257,161)	-	(257,161)
Commissions paid	(110,897)	(237,797)	(1,731,818)	(154,984)	-	(2,235,496)
General & administrative expenses	(602,189)	(430,135)	(1,261,729)	(524,902)	(1,188,868)	(4,007,823)
Provision for impairment	-	-	-	-	(1,075,122)	(1,075,122)
Contribution to Kuwait foundation for advancement of Science share (KFAS)	-	-	-	-	(30,711)	(30,711)
Board of Directors' remuneration	-	-	-	-	(56,000)	(56,000)
National Labour Support tax	-	-	-	-	(27,166)	(27,166)
Zakat Law Tax	-	-	-	-	(10,866)	(10,866)
	<u>(672,563)</u>	<u>(521,122)</u>	<u>(11,137,630)</u>	<u>(3,219,264)</u>	<u>(2,388,733)</u>	<u>(17,939,312)</u>
Net profit for the year	<u>505,562</u>	<u>293,724</u>	<u>1,327,735</u>	<u>525,000</u>	<u>294,305</u>	<u>2,946,326</u>

Year ended 31 December 2007	Kuwaiti Dinars					Total
	Marine & aviation	Fire	General accident	Life	Unallocated items	
Revenue						
Gross premium revenue	3,130,435	2,482,055	17,042,632	4,513,470	-	27,168,592
Premium ceded to reinsurers	(2,698,409)	(2,177,459)	(6,099,183)	(1,634,597)	-	(12,609,648)
Net premiums revenue	432,026	304,596	10,943,449	2,878,873	-	14,558,944
Changes in reserve for unexpired risks	(33,610)	56,129	178,579	310,853	-	511,951
Premiums earned	398,416	360,725	11,122,028	3,189,726	-	15,070,895
Commissions earned	655,448	395,897	1,216,079	42,942	-	2,310,366
Net investments income	-	-	-	1,301,519	13,973,909	15,275,428
Other income	9,420	1,561	982,365	19,488	2,714	1,015,548
	<u>1,063,284</u>	<u>758,183</u>	<u>13,320,472</u>	<u>4,553,675</u>	<u>13,976,623</u>	<u>33,672,237</u>
Expenses						
Net incurred claims	(149,740)	(58,889)	(9,975,986)	(2,304,935)	-	(12,489,550)
Changes in reserve for life						
Insurance fund	-	-	-	(421,676)	-	(421,676)
Life insurance – Expiry settlement	-	-	-	(948,778)	-	(948,778)
Life insurance – Policies liquidated	-	-	-	(176,957)	-	(176,957)
Commissions paid	(118,169)	(181,714)	(1,597,033)	(203,885)	-	(2,100,801)
General & administrative expenses	(560,519)	(400,371)	(1,174,420)	(497,444)	(1,105,965)	(3,738,719)
Contribution to Kuwait foundation for advancement of Science share (KFAS)	-	-	-	-	(137,958)	(137,958)
Board of Directors’ remuneration	-	-	-	-	(56,000)	(56,000)
National Labour Support tax	-	-	-	-	(301,784)	(301,784)
Zakat Law Tax	-	-	-	-	(7,276)	(7,276)
	<u>(828,428)</u>	<u>(640,974)</u>	<u>(12,747,439)</u>	<u>(4,553,675)</u>	<u>(1,608,983)</u>	<u>(20,379,499)</u>
Net profit for the year	<u>234,856</u>	<u>117,209</u>	<u>573,033</u>	<u>-</u>	<u>12,367,640</u>	<u>13,292,738</u>

Life insurance segment – Balance sheet

	Kuwaiti Dinars	
	2008	2007
Assets		
Loans secured by life insurance policies	401,823	547,440
Investments	3,300,000	3,300,000
Fixed deposits with banks	12,700,000	12,700,000
Due from insurance & reinsurance companies	304,666	205,888
Reinsurance share of outstanding claims reserve	551,259	436,937
Trade and other receivables	357,339	377,318
Cash and cash equivalents	251,327	223,137
Total assets	<u>17,866,414</u>	<u>17,790,720</u>
Liabilities		
Technical reserve	20,451,679	21,215,927
Due to Insurance & reinsurance companies	515	338
Trade and other payables	2,152,866	1,354,095
Total liabilities	<u>22,605,060</u>	<u>22,570,360</u>
Net assets and liabilities represented in head office current account	<u>4,738,646</u>	<u>4,779,640</u>

15. Insurance Risk Management

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

Insurance risk

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

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

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

Sources of uncertainty in the estimation of future claim payments

Non life

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

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

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

Life

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

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

16. Financial Risk Management

The Company is exposed to a variety of financial risks, through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The most important components of this financial risk are credit risk, market risk and liquidity risk. In particular, the key financial risk is that the Company's investment proceeds may not be sufficient to fund the obligation arising from its underwritings. The Company's risk management is conducted by its senior management in accordance with policies approved by the Board of Directors. The various risks that the Company is exposed to and the processes in place to manage those risks are described below.

Credit Risk

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

The maximum exposure to credit risk as of the balance sheet date, is given below.

Asset Description	Kuwaiti Dinars	
	2008	2007
Loans secured by life insurance policies	401,823	547,440
Investments	1,000,000	1,000,000
Due from insurance and reinsurance companies	6,221,401	6,355,732
Trade and other receivables	9,874,171	8,416,738
Fixed deposits with banks	24,071,967	27,571,276
Cash and cash equivalents	2,920,308	3,853,215
	44,489,670	47,744,401

The Company's credit risk exposure is primarily with entities in Kuwait.

Due from insurance and reinsurance companies represent amounts receivable from reinsurance claims net of premium on policies ceded. These are due from local and international companies of repute which have a track record of settling debts.

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

Deposits with banks are placed with banks which are A rated by reputed international rating agencies. These deposits mature with in a maximum period of 6 months from the date of this financial statements.

At 31 December 2008, trade receivables of KD 2,453,662 (31 December 2007 – KD 1,621,433) are neither past due nor impaired and KD 5,668,104 (31 December 2007 – KD 5,850,754) are past due but not impaired. Out of the past due Receivables, KD 3,973,694 (31 December 2007 – KD 4,273,167) is due for a period of two to six months and KD 1,694,410 (31 December 2007 – KD 1,577,587) for six to twelve months.

Trade receivables of KD 2,609,765 (31 December 2007 - KD 1,801,911) are impaired against which the Company carries a provision of KD 857,360 (31 December 2007 – KD 857,360). The Company believes that the balance amount of impaired trade receivables can be recovered. The other classes of financials assets are not impaired.

Market Risk

Market risk is the risk that an enterprise may incur financial losses due to adverse movements in market price of investments or interest and foreign currency rates.

(a) Foreign Currency Risk

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

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

	Kuwaiti Dinars	
	Surplus/ (deficit)	
	2008	2007
US Dollar	5,330,518	9,248,497
Sterling Pound	(223,066)	(337,250)
Euro	740,576	1,165,307
Saudi Riyal	452,069	480,348
UAE Dirham	272,684	252,935
Australian Dollar	(4,922)	(6,315)
Other Currencies	938,586	893,097

The net impact on profit/ (loss) and equity if, as of 31 December 2008, Kuwait Dinars had strengthened against major currencies by 5%, is shown below:

	Kuwaiti Dinars	
	Impact on Profit	
As at 31 December 2008		
US Dollar	139,789	(406,315)
Euro	(37,028)	-
Saudi Riyal	(22,603)	-

A 5% weakening of the Kuwaiti Dinars against the above currencies would have had the equal but the opposite effect on profit and equity.

The above analysis performed on the currency positions as of 31 December 2007 is shown below:

	Kuwaiti Dinars	
	Impact on Equity	
As at 31 December 2007		
US Dollar	(31,529)	(430,896)
Euro	(58,265)	-
Saudi Riyal	(24,017)	-

(b) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not have significant exposures to interest rate risks as its interest earning assets are on fixed rates of interest and its exposure to interest bearing liabilities are not significant.

(c) Equity Price risk

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

To manage its price risk arising from investments in equity securities, the Company invests in a diversified portfolio of securities. Diversification of the portfolio is done in accordance with the limits set by the Company. The Board of directors constantly monitors the exposures and provides directions to manage risks and maximize profits.

At 31 December 2008, if the Kuwait Stock Exchange index had increased by 5%, the equity of the Company would have increased by KD 2,525,434 (31 December 2007 - KD 1,968,931). Had the Kuwait Stock Exchange index decreased by 5%, it would have had the equal but the opposite effect on equity.

Liquidity Risk

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

The Company's contractual liabilities as of 31 December 2008 mature over a period of one year. The undiscounted value of its cash flows is KD 15,566,409 (31 December 2007 - KD 19,079,363).

17. Capital Risk Management

The Company's objectives when managing capital are

- To ensure adequate funds are available to underwrite risks and maintain investor, creditor and market conditions;
- To make available funds for future development of the business;
- To safeguard the Company's ability to continue as a going concern so that it can continue to operate;
- To provide adequate return to shareholders and benefits to its other shareholders

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

Furthermore in order to protect against the impact of large claims and catastrophes, the company is required under law to maintain technical reserves depending on the exposure to various types of underwriting exposures. The details of this reserve are given in Note No. 9.

Under local regulations, the company places some of its investments securities and bank deposits under lien to the regulator. The amount of securities and deposits to be placed under lien is determined as a % of direct premium, received during the year for all the segments other than life insurance segment. Regarding life insurance segment, the amount to be placed under lien is determined at 100% of the liability, as ascertained by an actuarial valuation at the end of the year. The extent of lien on securities and deposits is given in Note Nos. 4 and 6.

Under the laws of Kuwait, the company is also required to appropriate 10% of its net profit to a statutory reserve, with restrictions on its distribution. In accordance with the Articles of Company, the Company has appropriated 10% of its net profits as a voluntary reserve. For more information on these reserve, refer to Note No. 8.

18. Critical accounting estimates and judgments

The Company makes estimates and assumptions that may affect amounts reported in these financial statements. Estimates are revised if changes occur in the circumstances on which the estimate was based. The areas where estimates and assumptions are significant to the financial statements, or areas involving a higher degree of judgement, are:

Classification of financial instruments

On acquisition of a financial instrument, the Company's management decides its classification. In making that judgement the Company considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgement determines whether it is subsequently measured at fair value or at amortised cost.

Financial instruments carried at amortized cost

The effective yield method of calculating the amortized cost of a financial instrument involves the estimation of future cash flows through the expected life of the instrument.

Impairment of financial assets

The Company reviews financial assets at each balance sheet date to assess whether a provision for impairment loss should be recognized in the Statement of Income. The process for estimating the amount of an impairment loss involves considerable judgement by the management with respect to the estimation of future cash flows. Such estimates and assumptions are also based on several other factors involving varying degrees of judgement and uncertainty.

Provision for outstanding claims

Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Further information on the basis of estimation and significant assumptions, made by the Company are given in Note No. 15 of these financial statements.

19. Related party transactions

In the ordinary course of business, the Company carried out transaction with related parties on term approved by management. The related party transactions are subject to approval of the General Assembly meeting of shareholders. The transactions and balances with related parties are as follows:

	Kuwaiti Dinars	
	2008	2007
Gross premiums written	2,000,039	1,979,087
Due from related parties	738,846	304,597

20. Capital Commitments and contingent liabilities

	Kuwaiti Dinars	
	2008	2007
Commitment for building renovation and construction	5,600	5,600
Uncalled capital – investment	513,770	527,540

21. Comparatives

Certain comparative figures have been regrouped to conform to the current year presentation but with no effect on the financial results of the previous year.