

**KUWAIT REINSURANCE COMPANY K.S.C.
(CLOSED)**

FINANCIAL STATEMENTS

31 DECEMBER 2010



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT REINSURANCE COMPANY K.S.C. (CLOSED)

Report on the Financial Statements

We have audited the accompanying financial statements of Kuwait Reinsurance Company K.S.C. (Closed) (the "company") which comprises the statement of financial position as at 31 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory .

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the financial statements are free of 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' judgement, 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 for 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.



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
KUWAIT REINSURANCE COMPANY K.S.C. (CLOSED) (continued)**

Opinion

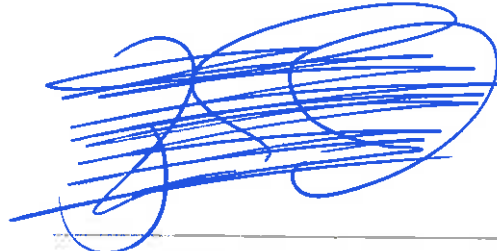
In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Matters

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 of the company 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 the financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, 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 violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2010 that might have had a material effect on the business of the company or on its financial position.



WALEED A. AL OSAIMI
LICENCE NO. 68-A
OF ERNST & YOUNG



ALI OWAID RUKHAEYES
LICENCE NO. 72 A
MEMBER OF THE INTERNATIONAL
ACCOUNTING GROUP

9 March 2011

Kuwait

Kuwait Reinsurance Company K.S.C. (Closed)

INCOME STATEMENT

For the year ended 31 December 2010

	<i>Notes</i>	<i>2010 KD</i>	<i>2009 KD</i>
Premiums earned		32,225,012	24,171,527
Premiums ceded to reinsurers		(1,082,912)	(1,129,052)
Net premiums earned	3	<u>31,142,100</u>	<u>23,042,475</u>
Claims incurred		(22,598,469)	(16,253,812)
Reinsurers' share of claims incurred		509,817	172,837
Net claims incurred	3	<u>(22,088,652)</u>	<u>(16,080,975)</u>
Premium acquisition costs		(7,619,881)	(5,477,850)
Commission received on reinsurance ceded		81,290	121,747
NET UNDERWRITING RESULT		<u>1,514,857</u>	<u>1,605,397</u>
Net investment income (loss)	4	1,544,326	(74,730)
Rental income from investment properties		918,333	1,069,223
Revaluation loss on investment properties	10	(189,900)	(1,031,400)
General and administrative expenses		(1,108,231)	(861,626)
Investment property expenses		(65,998)	(82,257)
Depreciation		(93,353)	(91,885)
Foreign exchange (loss) gain		(305,495)	628,274
Finance cost		(41,992)	(117,164)
PROFIT BEFORE TAXATION AND DIRECTORS' FEES		<u>2,172,547</u>	<u>1,043,832</u>
Contribution to Kuwait Foundation for Advancement of Sciences ("KFAS")		(19,553)	(9,394)
National Labour Support Tax ("NLST")		(50,046)	(24,987)
Zakat		(20,018)	(9,995)
Directors' fees	12	(95,000)	(85,000)
PROFIT FOR THE YEAR	5	<u>1,987,930</u>	<u>914,456</u>
BASIC AND DILUTED EARNINGS PER SHARE	6	<u>18.07 fils</u>	<u>8.31 fils</u>

The attached notes 1 to 21 form part of these financial statements.

Kuwait Reinsurance Company K.S.C. (Closed)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Profit for the year	1,987,930	914,456
Other comprehensive income:		
Financial assets available for sale:		
- Net changes in fair value of financial assets available for sale	224,753	(838,715)
- Net (gain) loss on sale of financial assets available for sale transferred to income statement	(427,349)	1,146,027
- Impairment of financial assets available for sale transferred to income statement	58,800	153,274
Foreign currency translation adjustment	(113,197)	180,616
Other comprehensive (loss) income	(256,993)	641,202
Total comprehensive income for the year	1,730,937	1,555,658

The attached notes 1 to 21 form part of these financial statements.

Kuwait Reinsurance Company K.S.C. (Closed)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

ASSETS	Notes	2010 KD	2009 KD
Bank balances, deposits and cash	7	29,787,968	26,409,975
Financial assets available for sale	8	9,455,000	8,764,104
Financial assets held to maturity		8,187,575	7,800,460
Receivables arising from reinsurance contracts		8,029,955	9,113,558
Reinsurance recoverable on outstanding claims	9	1,202,696	1,317,457
Other receivables		3,098,409	2,432,017
Investment properties	10	13,502,142	13,519,800
Property and equipment	11	1,207,529	884,348
TOTAL ASSETS		74,471,274	70,241,719
EQUITY AND LIABILITIES			
Equity			
Share capital	12	11,000,000	10,453,353
Share premium	13	5,296,366	5,296,366
Statutory reserve	13	4,138,222	3,920,967
Voluntary reserve	13	4,138,222	3,920,967
General reserve	13	10,000,000	9,500,000
Cumulative changes in fair value		(50,188)	93,608
Foreign currency translation reserve		(54,166)	59,031
Retained earnings		3,169,719	3,185,614
Total equity		37,638,175	36,429,906
Liabilities			
Technical reserves	9	32,886,285	29,646,576
Payables arising from reinsurance contracts		2,585,158	1,381,151
Term loan	14	323,520	1,617,640
Other payables		1,038,136	1,166,446
Total liabilities		36,833,099	33,811,813
TOTAL EQUITY AND LIABILITIES		74,471,274	70,241,719


 Fahad Rashed Al-Ibrahim
 Chairman

Ibrahim Khaled Al-Dhuhaim
 Deputy Chairman

The attached notes 1 to 21 form part of these financial statements.

Kuwait Reinsurance Company K.S.C. (Closed)

CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	2010 KD	2009 KD
OPERATING ACTIVITIES			
Profit before taxation and directors' fees		2,172,547	1,043,832
<i>Non-cash adjustments to reconcile profit before taxation and directors' fees to net cash flows:</i>			
Depreciation		93,353	91,885
Net investment (income) loss		(1,544,326)	74,730
Rental income from an investment properties		(918,333)	(1,069,223)
Revaluation loss on investment properties		189,900	1,031,400
Provision for employees' end of service benefits		159,168	60,628
Finance cost		41,992	117,164
		<u>194,301</u>	<u>1,350,416</u>
Working capital adjustments:			
Receivables arising from reinsurance contracts		1,083,603	(2,410,237)
Reinsurance recoverable on outstanding claims		114,761	665,430
Other receivables		(704,897)	(491,854)
Technical reserves		3,239,709	4,740,259
Payables arising from reinsurance contracts		1,204,007	638,554
Other payables		(142,219)	(33,807)
		<u>4,989,265</u>	<u>4,458,761</u>
Cash from operations		4,989,265	4,458,761
Employees' end of service benefits paid		(329,876)	(113,828)
		<u>4,659,389</u>	<u>4,344,933</u>
INVESTING ACTIVITIES			
Purchase of property and equipment		(424,057)	(23,454)
Net movement in time and call deposits		(4,574,684)	(7,379,190)
Proceeds from sale of financial assets available for sale		2,083,282	8,572,694
Proceeds from redemption of financial assets held to maturity		1,090,552	895,095
Purchase of financial assets available for sale		(2,549,425)	(3,222,129)
Purchase of financial assets held to maturity		(1,477,667)	(2,046,309)
Addition to investment properties		(172,242)	-
Proceeds from disposal of property and equipment		7,523	-
Interest received		1,214,178	1,230,189
Dividends received		104	56,329
Rent received		918,333	1,069,223
		<u>(3,884,103)</u>	<u>(847,552)</u>
FINANCING ACTIVITIES			
Dividends paid		(522,668)	(1,568,003)
Finance cost paid		(41,992)	(117,164)
Repayment of term loan		(1,294,120)	(1,294,120)
		<u>(1,858,780)</u>	<u>(2,979,287)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS			
		<u>(1,083,494)</u>	<u>518,094</u>
Cash and cash equivalents at 1 January		7,834,708	7,135,998
Foreign currency translation adjustment		(113,197)	180,616
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	7	<u><u>6,638,017</u></u>	<u><u>7,834,708</u></u>

The attached notes 1 to 21 form part of these financial statements.

Kuwait Reinsurance Company K.S.C. (Closed)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	General reserve KD	Cumulative changes in fair value KD	Foreign currency translation reserve KD	Retained earnings KD	Total KD
As at 1 January 2010	10,453,353	5,296,366	3,920,967	3,920,967	9,500,000	93,608	59,031	3,185,614	36,429,906
Profit for the year	-	-	-	-	-	-	-	1,987,930	1,987,930
Other comprehensive loss	-	-	-	-	-	(143,796)	(113,197)	-	(256,993)
Total comprehensive (loss) income for the year	-	-	-	-	-	(143,796)	(113,197)	1,987,930	1,730,937
Transfer to reserves	-	-	217,255	217,255	500,000	-	-	(934,510)	-
Bonus shares (Note 12)	546,647	-	-	-	-	-	-	(546,647)	-
Dividends (Note 12)	-	-	-	-	-	-	-	(522,668)	(522,668)
As at 31 December 2010	11,000,000	5,296,366	4,138,222	4,138,222	10,000,000	(50,188)	(54,166)	3,169,719	37,638,175
As at 1 January 2009	10,453,353	5,296,366	3,816,584	3,816,584	9,500,000	(366,978)	(121,585)	4,047,927	36,442,251
Profit for the year	-	-	-	-	-	-	-	914,456	914,456
Other comprehensive income	-	-	-	-	-	460,586	180,616	-	641,202
Total comprehensive income for the year	-	-	-	-	-	460,586	180,616	914,456	1,555,658
Transfer to reserves	-	-	104,383	104,383	-	-	-	(208,766)	-
Dividends	-	-	-	-	-	-	-	(1,568,003)	(1,568,003)
As at 31 December 2009	10,453,353	5,296,366	3,920,967	3,920,967	9,500,000	93,608	59,031	3,185,614	36,429,906

The attached notes 1 to 21 form part of these financial statements.

1 CORPORATE INFORMATION

Kuwait Reinsurance Company K.S.C. (Closed) (the “company”) is a Kuwaiti shareholding company incorporated and registered in Kuwait on 2 February 1972 and is listed on the Kuwait Stock Exchange. The registered office of the company is located at KRE Tower, Al Shuhada’a Street, Sharq, State of Kuwait.

The company is engaged in, providing reinsurance products and services to insurance companies and investment activities.

The company operates a Far East regional office (“the branch”) in Labuan, Malaysia registered as a foreign offshore company under the Offshore Companies Act, 1990 on 11 August 2006.

The financial statements of the company for the year ended 31 December 2010 were authorised for issue by the board of directors on 9 March 2011. The annual general assembly of the shareholders of the company has the power to amend these financial statements after issuance.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and applicable requirements of Ministerial Order No. 18 of 1990.

The financial statements are presented in Kuwaiti Dinars which is the functional currency of the company.

Measurement basis

The financial statements are prepared on a historical cost basis as modified for the revaluation at fair value of investment properties and financial assets available for sale.

Changes in accounting policies and disclosures

The accounting policies applied are consistent with those used in the previous year except that the company has adopted the following International Accounting Standard Board (IASB) Standards and International Financial Reporting Interpretation Committee (IFRIC) interpretations effective for the annual periods beginning on or after 1 January 2010:

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the company.

Improvements to IFRSs

In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulting from improvement to IFRS did not have any impact on the accounting policies, financial position and performance of the company.

- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 39 Financial Instruments: Recognition and Measurement

The adoption of these standards did not have any effect on the financial performance or financial position of the company. They did, however, gave rise to additional disclosures.

The following International Accounting Standards Board (“IASB”) Standards and Interpretations applicable to the company have been issued but are not yet mandatory, and have not yet been adopted by the company:

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies and disclosures (continued)

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the company's financial assets. The company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to IFRSs (issued in May 2010)

The IASB issued improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the company:

IFRS 7 Financial Instruments: Disclosures

IAS 1 Presentation of Financial Statements

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

A summary of the significant accounting policies used in preparation and presentation of the financial statements are set out below:

Revenue recognition

Premiums earned

Premiums earned are taken into income over the terms of the reinsurance contract 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. The change in provision for unearned premiums is taken to the income statement in order that revenue is recognised over the period of risk.

Claims incurred and reserve for outstanding claims

Claims, comprising amounts paid during the year and payable to contract holders and third parties at the end of the year, incurred but not reported claims and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred.

The reserve for outstanding claims comprises the estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Reserves for reported claims not paid as at the reporting date is made on the basis of individual case estimates and on management's judgement.

The company generally estimates its claims incurred but not reported based on previous experience and a provision based on management's judgement is maintained for the cost of settling claims incurred but not reported at the reporting date. Any difference between the provisions at the reporting date and settlements and provisions for the following year is included in the income statement for that year.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Reserve for unexpired risks

The reserve for unexpired risks includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

Premium acquisition costs

Commissions paid to intermediaries and other (incremental) direct costs incurred in relation to the acquisition and renewal of insurance contracts are amortised over the terms of the insurance contracts to which they relate as premiums are earned, when the related contracts are settled or disposed of.

Commissions earned

Commissions earned are recognised at the time of recognition of the related premiums.

Interest income

Interest income is recognised on the accrual basis.

Rental income

Rental income arising from operating leases on investment properties are accounted for on a straight line basis over the term of the lease.

Dividend income

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

Finance cost

Finance cost is recognised in the income statement as it accrues and is calculated using the effective interest rate method.

Taxation

National Labour Support Tax (NLST)

The company calculates the 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 for the year. As per law cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

Kuwait Foundation for the Advancement of Sciences (KFAS)

The company calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

Zakat

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

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and short term bank deposits with original maturities of 3 months or less from the date of placement.

Financial instruments

Financial assets

Financial assets within the scope of IAS 39 are classified as "financial assets available for sale", "financial assets held to maturity" and "loans and receivables". The company determines the classification of financial assets at initial recognition.

Financial assets are initially recognised at fair value plus directly attributable transaction costs.

Purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases) are recognised on trade date, i.e., the date that the company commits to sell or purchase.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as "loans and receivables". After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement. Financial assets available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Financial assets held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the company has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity financial assets are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The losses arising from impairment are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The losses arising from impairment are recognised in the income statement.

The company's loans and receivables include receivables arising from reinsurance contracts, reinsurance recoverable on outstanding claims and other recoverable.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as "financial liabilities other than at fair value through income statement". The company determines the classification of its financial liabilities at initial recognition. Financial liabilities are stated at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised.

The company classifies its financial liabilities other than at fair value through income statement as "payables arising from reinsurance contracts", "term loan" and "other payables".

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, if and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise assets and settle liabilities simultaneously.

Fair value

The fair value of financial instruments that are traded in active market markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets

The company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial re-organisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets available for sale

For financial investments available for sale, the company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial assets carried at amortised cost

For the financial assets carried at amortised cost, the company first assesses whether objective evidence of impairment exists individually for the financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

De-recognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognised when:

- the rights to receive cash flows from the asset have expired; or
- the company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either: (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the company's continuing involvement in the asset.

In that case, the company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained.

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Investment properties

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date that is determined based on valuation performed by an independent valuer using valuation methods consistent with the nature and usage of the investment properties. Gains or losses arising from changes in the fair value of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment properties is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognised in income statement in the year of retirement or disposal.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the income statement.

Land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of other property and equipment as follows:

Buildings on freehold land	50 years
Office furniture and equipment	4 years
Motor vehicles	3 years

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property and equipment.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

Impairment of non-financial assets

The company conducts internal reviews annually or more frequently if events or changes in circumstances indicate that, the values of property and equipment are impaired. If any indication of impairment exists an estimates of the asset's recoverable amount is calculated. An asset's recoverable amount is determined as the higher of an asset's or 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 groups of assets.

If the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount (i.e. the higher of fair value less costs to sell and value in use). Impairment losses are recognised in income statement in those expense categories consistent with the function of the impaired asset.

Reinsurance

In the ordinary course of business, the company assumes and cedes reinsurance. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. Reinsurance is affected under treaty, facultative and excess-of-loss reinsurance contracts. Failure of re-insurers to honour their obligations could result in losses to the company; consequently necessary allowances as estimated by management are established for amounts deemed uncollectible. Ceded reinsurance is treated as the risk and liability of the assuming companies. The re-insurers' portion of loss reserves are estimated in a manner consistent with the claim liability associated with the reinsured policy.

At each reporting date, the company assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the company makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Liability adequacy test

At each reporting 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 income and an unexpired risk provision created.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Liability adequacy test (continued)

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

Foreign currency

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the income statement.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised in the income statement are recognised in the income statement.

Assets including goodwill and liabilities, both monetary and non-monetary, of foreign operations are translated at the exchange rates prevailing at the reporting date. Operating results of such operations are translated at average exchange rates for the year. The resulting exchange differences are accumulated in a separate section of other comprehensive income (foreign currency translation reserve) until the disposal of the foreign operation.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employees' end of service benefits

Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the foreign operation operates. The expected costs of these benefits are accrued over the period of employment. The company also contributes to the government defined contribution plan for its Kuwaiti employees in accordance with the legal requirements in Kuwait. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the reporting date.

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 financial statements, but are disclosed when an inflow of economic benefits is probable.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions

Judgements

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

Classification of investments

Judgments are made in the classification of financial instruments based on management's intention at acquisition.

Impairment of financial assets available for sale

The company treats financial assets available for sale equity securities as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition the company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on receivables arising on reinsurance

The company reviews its problem receivables on a quarterly basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Valuation of unquoted financial assets

Valuation of unquoted equity financial assets is normally based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; and
- Other valuation models

The determination of the cash flows and discount factors for unquoted equity financial assets requires significant estimation.

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. 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.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

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.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2010

3 SEGMENT INFORMATION

The company is organised into segments that engage in business activities which earns revenue and incurs expenses. These segments are regularly reviewed by the chief operating decision maker for resource allocation and performance assessment. For management purposes, the company is organised in three segments of reinsurance which are fire, general accident and marine and aviation. The company also operates in the life segment which is insignificant and its net result is included in the life fund which forms part of the technical reserves.

The following are the details of the segments:

2010	<i>Fire KD</i>	<i>General accident KD</i>	<i>Marine and aviation KD</i>	<i>Total KD</i>
Revenues:				
Premiums written	17,728,825	10,241,111	5,557,958	33,527,894
Premiums ceded	(815,959)	(138,786)	(128,167)	(1,082,912)
Net premiums written	16,912,866	10,102,325	5,429,791	32,444,982
Movement in unearned premiums	(979,861)	(261,710)	(61,311)	(1,302,882)
Net premiums earned	15,933,005	9,840,615	5,368,480	31,142,100
Commission received on reinsurance ceded	1,203	(384)	80,471	81,290
Allocated net investment income	671,406	343,879	157,365	1,172,650
Segment revenues	16,605,614	10,184,110	5,606,316	32,396,040
Expenses:				
Claims incurred	10,624,082	9,153,568	2,820,819	22,598,469
Reinsurers' share of claims incurred	(455,459)	(52,032)	(2,326)	(509,817)
Net claims incurred	10,168,623	9,101,536	2,818,493	22,088,652
Premium acquisition costs	4,932,721	966,047	1,721,113	7,619,881
Allocated general and administration expenses	438,033	222,490	201,664	862,187
Segment expenses	15,539,377	10,290,073	4,741,270	30,570,720
Segment result	1,066,237	(105,963)	865,046	1,825,320
Unallocated net investment income				1,100,109
Other unallocated expenses				(312,042)
Depreciation				(93,353)
Foreign exchange loss				(305,495)
Finance cost				(41,992)
Profit before taxation and directors' fees				2,172,547
Assets:				
Cash and investments	21,743,060	11,136,304	5,096,179	37,975,543
Other assets	1,725,110	488,619	254,106	2,467,835
Unallocated cash and investments				22,957,142
Unallocated other assets				11,070,754
Total assets				74,471,274
Segment liabilities	18,503,297	9,476,971	4,336,837	32,317,105
Unallocated liabilities				4,515,994
Total liabilities				36,833,099

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2010

3 SEGMENT INFORMATION (continued)

2009	Fire KD	General accident KD	Marine and aviation KD	Total KD
Revenues:				
Premiums written	14,026,003	7,923,533	4,649,242	26,598,778
Premiums ceded	(802,046)	(149,067)	(177,939)	(1,129,052)
Net premiums written	13,223,957	7,774,466	4,471,303	25,469,726
Movement in unearned premiums	(1,348,816)	(865,311)	(213,124)	(2,427,251)
Net premiums earned	11,875,141	6,909,155	4,258,179	23,042,475
Commission received on reinsurance ceded	30,705	3,630	87,412	121,747
Allocated net investment income	654,291	282,828	230,893	1,168,012
Segment revenues	12,560,137	7,195,613	4,576,484	24,332,234
Expenses:				
Claims incurred	7,890,981	5,404,701	2,958,130	16,253,812
Reinsurers' share of claims incurred	(234,631)	8,567	53,227	(172,837)
Net claims incurred	7,656,350	5,413,268	3,011,357	16,080,975
Premium acquisition costs	3,441,012	702,361	1,334,477	5,477,850
Allocated general and administration expenses	340,176	170,093	170,089	680,358
Segment expenses	11,437,538	6,285,722	4,515,923	22,239,183
Segment result	1,122,599	909,891	60,561	2,093,051
Unallocated net investment loss				(1,204,919)
Other unallocated expenses				(263,525)
Depreciation				(91,885)
Foreign exchange gain				628,274
Finance cost				(117,164)
Profit before taxation and directors' fees				1,043,832
Assets:				
Cash and investments	19,163,841	8,283,871	6,762,723	34,210,435
Other assets	1,407,961	383,069	236,519	2,027,549
Unallocated cash and investments				22,283,904
Unallocated other assets				11,719,831
Total assets				70,241,719
Segment liabilities	16,265,563	7,031,045	5,739,950	29,036,558
Unallocated liabilities				4,775,255
Total liabilities				33,811,813

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2010

3 SEGMENT INFORMATION (continued)

Geographic information:

The company operates mainly in three geographic markets: Kuwait, Middle East & North Africa and others.

2010	Kuwait KD	Middle East & North Africa KD	Others KD	Total KD
Net premiums earned	1,639,716	11,156,095	18,346,289	31,142,100
Commission received on reinsurance ceded	47,815	33,106	369	81,290
Net investment income	1,088,074	19,365	436,887	1,544,326
Rental income from investment properties	918,333	-	-	918,333
Revaluation loss on investment properties	(189,900)	-	-	(189,900)
Segment revenues	<u>3,504,038</u>	<u>11,208,566</u>	<u>18,783,545</u>	<u>33,496,149</u>
Non-current assets	<u>14,168,904</u>	<u>-</u>	<u>540,767</u>	<u>14,709,671</u>
2009	Kuwait KD	Middle East & North Africa KD	Others KD	Total KD
Net premiums earned	1,564,608	8,309,286	13,168,581	23,042,475
Commission received on reinsurance ceded	50,745	27,220	43,782	121,747
Net investment (loss) income	(118,600)	19,835	24,035	(74,730)
Rental income from an investment property	1,069,223	-	-	1,069,223
Revaluation loss on an investment property	(1,031,400)	-	-	(1,031,400)
Segment revenues	<u>1,534,576</u>	<u>8,356,341</u>	<u>13,236,398</u>	<u>23,127,315</u>
Non-current assets	<u>14,387,652</u>	<u>-</u>	<u>16,496</u>	<u>14,404,148</u>

The revenue information is based on the location of the customers.

Non-current assets for this purpose consist of property and equipment and investment properties.

4 NET INVESTMENT INCOME (LOSS)

	2010 KD	2009 KD
Realised gain (loss) on sale of financial assets available for sale	427,349	(1,146,027)
Interest on deposits	682,295	720,240
Dividend income	104	56,329
Interest on bonds	490,356	447,772
Others	3,022	230
Impairment of financial assets available for sale	(58,800)	(153,274)
	<u>1,544,326</u>	<u>(74,730)</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2010

5 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Staff costs	<u>839,452</u>	<u>619,860</u>
Rental – operating leases	<u>7,910</u>	<u>8,508</u>

6 BASIC AND DILUTED EARNINGS PER SHARE

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

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Profit for the year	<u>1,987,930</u>	<u>914,456</u>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of shares outstanding during the year	<u>110,000,000</u>	<u>110,000,000</u>
Basic and diluted earnings per share	<u>18.07 fils</u>	<u>8.31 fils</u>

The basic and diluted earnings per share of the prior year have been restated for bonus shares approved by annual general meeting of the shareholders held on 31 March 2010 (Note 12).

7 BANK BALANCES, DEPOSITS AND CASH

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Bank balances, deposits and cash	29,787,968	26,409,975
Less: Time and call deposits with original maturities of more than 3 months	<u>(23,149,951)</u>	<u>(18,575,267)</u>
Cash and cash equivalents	<u>6,638,017</u>	<u>7,834,708</u>

Time deposits amounting to KD 7,229,377 (2009: KD 6,978,635) are held as security against letter of credit granted by a bank (Note 19).

8 FINANCIAL ASSETS AVAILABLE FOR SALE

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Equity securities:		
Quoted	764,707	544,459
Unquoted	<u>556,697</u>	<u>506,235</u>
	<u>1,321,404</u>	<u>1,050,694</u>
Unquoted managed funds	<u>8,133,596</u>	<u>7,713,410</u>
	<u>9,455,000</u>	<u>8,764,104</u>

Unquoted managed funds are measured at fair values provided by the fund managers.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2010

8 FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

Included in unquoted managed funds are private equity funds amounting to KD 5,738,070 (2009: KD 5,820,816). Private equity funds amounting to KD 5,738,070 (2009: KD 5,820,816) and unquoted equity securities amounting to KD 348,735 (2009: KD 506,235) are carried at cost due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these financial assets. Since these financial assets are unquoted, a reasonable estimate of fair value can only be determined when the individual financial assets are disposed. However, the management believes that there is no indication of impairment in value.

The company uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: Quoted prices in active market for the same instrument.

Level 2: Quoted prices in active market for similar instruments or other valuation techniques for which all significant inputs are based on observable market data ; and

Level 3: Valuation techniques for which any significant input is not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

2010	<i>Level: 1</i> <i>KD</i>	<i>Level: 2</i> <i>KD</i>	<i>Level: 3</i> <i>KD</i>	<i>Total fair value</i> <i>KD</i>
Financial assets available for sale				
Quoted equity securities	764,707	-	-	764,707
Unquoted equity securities	-	-	207,962	207,962
Unquoted managed funds	-	-	2,395,526	2,395,526
	<u>764,707</u>	<u>-</u>	<u>2,603,488</u>	<u>3,368,195</u>
2009	<i>Level: 1</i> <i>KD</i>	<i>Level: 2</i> <i>KD</i>	<i>Level: 3</i> <i>KD</i>	<i>Total fair value</i> <i>KD</i>
Financial assets available for sale				
Quoted equity securities	544,459	-	-	544,459
Unquoted managed funds	-	-	1,892,594	1,892,594
	<u>544,459</u>	<u>-</u>	<u>1,892,594</u>	<u>2,437,053</u>

For the year ended 31 December 2010, there were no transfers between level 1 and level 2 fair value measurements. However, during the year ended 31 December 2010, equity securities amounting to KD 207,962 were reclassified from level 1 to level 3 as this investment became delisted during the year. The following table shows a reconciliation of the opening and closing amount of level 3 financial assets which are recorded at fair value.

Financial assets available for sale

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
At 1 January	1,892,594	3,791,962
Fair value gain (loss) recorded in the income statement	33,307	(57,406)
(Loss) gain recorded in other comprehensive income	(252,797)	230,898
Reclassification from level 1 (see above)	207,962	-
Net purchases, sales and settlements	722,422	(2,072,860)
At 31 December	<u>2,603,488</u>	<u>1,892,594</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2010

9 TECHNICAL RESERVES

2010	Fire KD	General accident KD	Marine and aviation KD	Total general risk reinsurance KD	Life KD	Total KD
Gross outstanding claims at beginning of the year	11,708,419	4,262,178	4,995,262	20,965,859	127,721	21,093,580
Reinsurance recoverable at beginning of the year	(900,927)	(157,009)	(224,673)	(1,282,609)	(34,848)	(1,317,457)
Net outstanding claims at beginning of the year	10,807,492	4,105,169	4,770,589	19,683,250	92,873	19,776,123
Net claims incurred	10,168,623	9,101,536	2,818,493	22,088,652	73,113	22,161,765
Claims paid Reinsurers' share of claims paid	(9,366,209)	(6,969,352)	(4,285,244)	(20,620,805)	(102,503)	(20,723,308)
	557,581	13,860	53,136	624,577	122	624,699
Net claims paid	(8,808,628)	(6,955,492)	(4,232,108)	(19,996,228)	(102,381)	(20,098,609)
Net outstanding claims at end of the year	12,167,487	6,251,213	3,356,974	21,775,674	63,605	21,839,279
Reinsurance recoverable at end of the year	798,805	195,181	173,863	1,167,849	34,847	1,202,696
Gross outstanding claims at end of the year	12,966,292	6,446,394	3,530,837	22,943,523	98,452	23,041,975
Unearned premium reserve	5,537,005	3,030,577	806,000	9,373,582	-	9,373,582
Life fund	-	-	-	-	470,728	470,728
Technical reserves	18,503,297	9,476,971	4,336,837	32,317,105	569,180	32,886,285

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2010

9 TECHNICAL RESERVES (continued)

	<i>Fire KD</i>	<i>General accident KD</i>	<i>Marine and aviation KD</i>	<i>Total general risk reinsurance KD</i>	<i>Life KD</i>	<i>Total KD</i>
2009						
Gross outstanding claims at beginning of the year	10,489,837	4,165,421	4,000,841	18,656,099	190,161	18,846,260
Reinsurance recoverable at beginning of the year	(1,381,574)	(223,476)	(296,159)	(1,901,209)	(81,678)	(1,982,887)
Net outstanding claims at beginning of the year	9,108,263	3,941,945	3,704,682	16,754,890	108,483	16,863,373
Net claims incurred	7,656,350	5,413,268	3,011,357	16,080,975	43,566	16,124,541
Claims paid	(6,672,399)	(5,307,944)	(1,963,709)	(13,944,052)	(59,191)	(14,003,243)
Reinsurers' share of claims paid	715,278	57,900	18,259	791,437	15	791,452
Net claims paid	(5,957,121)	(5,250,044)	(1,945,450)	(13,152,615)	(59,176)	(13,211,791)
Net outstanding claims at end of the year	10,807,492	4,105,169	4,770,589	19,683,250	92,873	19,776,123
Reinsurance recoverable at end of the year	900,927	157,009	224,673	1,282,609	34,848	1,317,457
Gross outstanding claims at end of the year	11,708,419	4,262,178	4,995,262	20,965,859	127,721	21,093,580
Unearned premium reserve	4,557,144	2,768,867	744,688	8,070,699	-	8,070,699
Life fund	-	-	-	-	482,297	482,297
Technical reserves	16,265,563	7,031,045	5,739,950	29,036,558	610,018	29,646,576

10 INVESTMENT PROPERTIES

	<i>2010 KD</i>	<i>2009 KD</i>
At 1 January	13,519,800	14,551,200
Addition	172,242	-
Revaluation loss	(189,900)	(1,031,400)
At 31 December	13,502,142	13,519,800

The investment properties are stated at fair value, which has been determined on the basis of the valuation performed by an accredited independent valuer. The company has entered into operating lease for its investment properties (Note 20).

An investment property with fair value amounting to KD 8,787,600 (2009: KD 8,787,600) is secured against the term loan (Note 14). Subsequent to the year end, the term loan was fully repaid and lien over the investment property was removed.

11 PROPERTY AND EQUIPMENT

The land within property and equipment with a carrying value of KD 248,940 (2009: KD 248,940) is secured against the term loan (Note 14). Subsequent to the year end, the term loan was fully repaid and lien over the land was removed

12 SHARE CAPITAL, CASH DIVIDENDS, BONUS SHARES AND DIRECTORS' FEES

The authorised, issued and fully paid share capital consists of 110,000,000 (2009: 104,533,537) shares of 100 (2009: 100) fils each.

Cash dividends and bonus shares

The annual general meeting/extraordinary general meeting of the shareholders of the company held on 31 March 2010, approved the increase of authorised, issued and paid up share capital from KD 10,453,353 to KD 11,000,000 by issuing 5,466,463 bonus shares in respect of the year ended 31 December 2009. The annual general meeting of the shareholders of the company also approved cash dividend of 5 fils per share and the directors' fees of KD 85,000 in respect of the year ended 31 December 2009.

The Board of Directors of the company have proposed cash dividend of 6 fils (2009: 5 fils) per share and 6,600,000 (2009: 5,466,463) bonus shares in respect of the year ended 31 December 2010. This proposal is subject to the approval by annual general meeting of the shareholders of the company.

Directors' fees

Board of Directors' fees of KD 95,000 (2009: KD 85,000) is subject to approval by annual general meeting of the shareholders of the company.

13 RESERVES

Share premium

The share premium account is not available for distribution.

Statutory reserve

As required by the Commercial Companies Law and the company's Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees is transferred to statutory reserve. The company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of this amount.

Voluntary reserve

As required by the company's Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees is transferred to voluntary reserve. Such annual transfers may discontinue by a resolution at the General Assembly upon a recommendation by the Board of Directors. There are no restrictions on distribution from voluntary reserve.

General reserve

As and when recommended by the Board of Directors, certain amount is transferred to the general reserve from the profit for the year. These transfers are made at the discretion of the Board of Directors and are subject to the approval of annual general meeting of the shareholders of the company. There are no restrictions on the distribution from general reserve. As recommended by the Board of Directors, a transfer of KD 500,000 (2009: KD Nil) was made to general reserve.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2010

14 TERM LOAN

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Loan with maturity within 1 year	323,520	1,294,120
Loan with maturity above 1 year	-	323,520
	<u>323,520</u>	<u>1,617,640</u>

An investment property and certain property and equipment are secured against the term loan (Notes 10 and 11). Subsequent to the year end, the term loan was fully repaid and lien over the investment property and certain property and equipment were removed.

15 ARAB WAR RISKS INSURANCE SYNDICATE (AWRIS)

The company is a member of AWRIS. According to the latest advice received from AWRIS, the company's interest in the undistributed profits of AWRIS amounted to USD 1,233,906 (KD 346,481)[(2009: USD 1,205,719 (KD 346,282)]. This amount is not reflected in the company's financial statements as it is the company's policy to account for its interest only on the liquidation of AWRIS.

16 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the company and entities controlled, jointly controlled or significantly influenced by such parties. In the normal course of business, the company conducts mutual reinsurance services with related parties. Related party balances and transactions consist of the following:

	<i>Major</i> <i>shareholders</i> <i>KD</i>	<i>2010</i> <i>Total</i> <i>KD</i>	<i>2009</i> <i>Total</i> <i>KD</i>
Statement of financial position			
Receivables arising from reinsurance contracts	640,261	640,261	99,329
Payables arising from reinsurance contracts	149	149	53,508
Income statement			
Premiums earned	306,393	306,393	289,786
Claims incurred and premium acquisition costs	74,850	74,850	652,596
Key management personnel compensation			
		<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Salaries and other short term benefits		327,001	264,207
Employees' end of services benefit		119,939	34,306
		<u>446,940</u>	<u>298,513</u>

17 RISK MANAGEMENT

Risk is inherent in the company's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the company's continuing profitability and each individual within the company is accountable for the risk exposures relating to his or her responsibilities. The company is exposed to credit risk, liquidity risk, insurance risk, reinsurance risk and market risk, the latter being subdivided into interest risk, foreign currency risk and equity price risk. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the company's strategic planning process.

17.1 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 company has policies and procedures in place to limit the amount of credit exposure to any counter party. These procedures include the non-concentration of credit risk which is carefully monitored on a regular basis.

Financial assets which potentially subject the company to credit risk consist principally of bank balance and deposits, financial assets held to maturity and reinsurance related receivables. The company's bank balance and deposits are held with high credit quality banks and financial institutions. Financial assets held to maturity are issued by financial institutions with high credit rating. Reinsurance receivables are presented net of allowance for doubtful debts.

The company retains around 90-100% of the business accepted. Hence, receivables arising from reinsurance contracts mainly represent the premium – net of commission and claims – receivable from the cedants under the inward business accepted by the company. Also the company places its excess of loss covers protecting its retention with mainly 'A' rated reinsurers. Therefore the company's credit risk pertaining to reinsurance contracts accepted or placed is minimal.

Further, the company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimise its exposure to significant losses from reinsurer insolvencies.

Gross maximum exposure to credit risk

Credit risk arising from the financial assets of the company comprise receivables arising from reinsurance contracts, bank balances and deposits, reinsurance recoverable on outstanding claims, financial assets held to maturity and other receivables, the company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The table below shows the gross maximum exposure to credit risk across financial assets.

	<i>2010</i>	<i>2009</i>
	<i>KD</i>	<i>KD</i>
Bank balance and deposits	29,787,968	26,409,975
Financial assets held to maturity	8,187,575	7,800,460
Receivables arising from reinsurance contracts	8,029,955	9,113,558
Reinsurance recoverable on outstanding claims	1,202,696	1,317,457
Other receivables	3,098,409	2,432,017
Gross maximum credit risk exposure	<u>50,306,603</u>	<u>47,073,467</u>

For all classes of financial assets held by the company, the maximum credit risk exposure to the company is the carrying value as disclosed in the statement of financial position.

Collateral and other credit enhancements

All financial assets are unsecured, as the company does not hold collateral against them.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2010

17 RISK MANAGEMENT (continued)

17.1 CREDIT RISK (continued)

Risk concentration of maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the company's performance to developments affecting a particular industry or geographic location.

The company's gross maximum exposure to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the geographical regions as follows:

	<i>Kuwait KD</i>	<i>GCC and the rest of the Middle East KD</i>	<i>Others KD</i>	<i>Total KD</i>
2010				
Bank balances, deposits and cash	26,131,173	-	3,656,795	29,787,968
Financial assets held to maturity	5,080,054	-	3,107,521	8,187,575
Receivables arising from reinsurance contracts	330,355	1,454,619	6,244,981	8,029,955
Reinsurance recoverable on outstanding claims	-	-	1,202,696	1,202,696
Other receivables	1,009,969	457,844	1,630,596	3,098,409
Maximum exposure to credit risk assets	<u>32,551,551</u>	<u>1,912,463</u>	<u>15,842,589</u>	<u>50,306,603</u>

	<i>Kuwait KD</i>	<i>GCC and the rest of the Middle East KD</i>	<i>Others KD</i>	<i>Total KD</i>
2009				
Bank balances, deposits and cash	23,236,927	-	3,173,048	26,409,975
Financial assets held to maturity	5,750,000	-	2,050,460	7,800,460
Receivables arising from reinsurance contracts	566,026	1,379,583	7,167,949	9,113,558
Reinsurance recoverable on outstanding claims	-	-	1,317,457	1,317,457
Other receivables	930,583	380,599	1,120,835	2,432,017
Maximum exposure to credit risk assets	<u>30,483,536</u>	<u>1,760,182</u>	<u>14,829,749</u>	<u>47,073,467</u>

The company's gross maximum exposure to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sector as:

	<i>2010 KD</i>	<i>2009 KD</i>
Insurance companies	12,331,060	12,863,032
Banks and financial institutions	37,975,543	34,210,435
	<u>50,306,603</u>	<u>47,073,467</u>

The company's assets are not exposed to any major individual counter parties.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2010

17 RISK MANAGEMENT (continued)

17.1 CREDIT RISK (continued)

Credit quality of financial assets that are neither past due nor impaired

Reinsurers of company are selected based on their security rating assigned by reputable credit rating agencies. Also amounts due from company cedants are followed up closely and collected in time. There has not been any considerable amount to write off the amounts due from company cedants. Adequate provision for bad debts has been made for some small old balances due and provision is being updated every year. Most of company's deposits are placed with local banks with high credit rating. All bonds are placed with reputable local and Gulf companies with good financial strength.

Analysis of past due but not impaired

The company does not have any material past due but not impaired financial assets at 31 December 2010 and 31 December 2009.

Impaired financial assets

The company's impaired financial assets amount to KD 301,633 (2009: KD 301,633), which have been fully provided.

17.2 LIQUIDITY RISK

Liquidity risk is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

The company's policy on payables arising from the business accepted is to pay such liabilities from out of the collections of receivables under its reinsurance contracts. However the company settles immediately all cash loss requests and settles all other reinsurance payables as and when requested by brokers or cedants otherwise normally within 3 months of receipt of treaty statements.

The table below summarises the maturity profile of the company's liabilities based on contractual undiscounted repayment obligations.

The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The liquidity profile of financial liabilities at 31 December was as follows:

2010	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>More than 12 months KD</i>	<i>Total KD</i>
Financial liabilities				
Payables arising from reinsurance contracts	731,874	1,100,292	752,992	2,585,158
Term loan	326,563	-	-	326,563
Other payables	1,038,136	-	-	1,038,136
	<u>2,096,573</u>	<u>1,100,292</u>	<u>752,992</u>	<u>3,949,857</u>
2009	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>More than 12 months KD</i>	<i>Total KD</i>
Financial liabilities				
Payables arising from reinsurance contracts	657,192	45,341	678,618	1,381,151
Term loan	340,858	998,999	324,893	1,664,750
Other payables	1,166,446	-	-	1,166,446
	<u>2,164,496</u>	<u>1,044,340</u>	<u>1,003,511</u>	<u>4,212,347</u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2010

17 RISK MANAGEMENT (continued)

17.2 LIQUIDITY RISK

The table below summarises the maturity profile of the company's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for financial assets available for sale and investment properties are based on management's estimate of liquidation of those financial assets.

The maturity profile of assets and liabilities is as follows:

2010	Within 3 months KD	3 to 12 months KD	Over one year KD	Total KD
ASSETS				
Bank balances, deposits and cash	6,638,016	23,149,952	-	29,787,968
Financial assets available for sale	785,189	2,931,741	5,738,070	9,455,000
Financial assets held to maturity	220,000	500,000	7,467,575	8,187,575
Receivables arising from reinsurance contracts	3,470,429	4,559,526	-	8,029,955
Reinsurance recoverable on outstanding claims	457,043	745,653	-	1,202,696
Other receivables	3,098,409	-	-	3,098,409
Investment properties	-	-	13,502,142	13,502,142
Property and equipment	-	-	1,207,529	1,207,529
TOTAL ASSETS	14,669,086	31,886,872	27,915,316	74,471,274
LIABILITIES				
Technical reserves	5,590,668	10,852,474	16,443,143	32,886,285
Payables arising from reinsurance contracts	731,873	1,100,293	752,992	2,585,158
Term loans	323,520	-	-	323,520
Other payables	1,038,136	-	-	1,038,136
TOTAL LIABILITIES	7,684,197	11,952,767	17,196,135	36,833,099
2009	Within 3 months KD	3 to 12 months KD	Over one year KD	Total KD
ASSETS				
Bank balances, deposits and cash	7,834,708	18,575,267	-	26,409,975
Financial assets available for sale	555,645	2,387,643	5,820,816	8,764,104
Financial assets held to maturity	500,000	2,750,000	4,550,460	7,800,460
Receivables arising from reinsurance contracts	5,136,301	3,977,257	-	9,113,558
Reinsurance recoverable on outstanding claims	100,864	496,584	720,009	1,317,457
Other receivables	2,432,017	-	-	2,432,017
Investment property	-	-	13,519,800	13,519,800
Property and equipment	-	-	884,348	884,348
TOTAL ASSETS	16,559,535	28,186,751	25,495,433	70,241,719
LIABILITIES				
Technical reserves	4,446,986	10,376,302	14,823,288	29,646,576
Payables arising from reinsurance contracts	657,192	45,341	678,618	1,381,151
Term loans	323,530	970,590	323,520	1,617,640
Other payables	1,166,446	-	-	1,166,446
TOTAL LIABILITIES	6,594,154	11,392,233	15,825,426	33,811,813

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2010

17 RISK MANAGEMENT (continued)**17.3 MARKET RISK**

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, foreign exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

17.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The company is exposed to interest rate risk on its interest bearing assets and liabilities (bank deposits, bonds and term loans).

The sensitivity of the income statement is the effect of the assumed changes in interest rates, on the company's profit before taxation and directors' fees, based on floating rate financial assets and financial liabilities held at 31 December 2010 and 2009. There is no impact on equity.

The effect of change of 25 basis points in interest rates on, with all other variables held constant, profit before taxation and director's fees will be KD 81,611 (2009: KD 75,081).

Sensitivity to interest rate movements will be on a symmetric basis, as financial instruments giving rise to non-symmetric movements are not significant.

17.3.2 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The company incurs currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the company does not hedge its foreign currency exposure.

The effect on profit for the year, as a result of 5% change in currency rate, with all other variables held constant is shown below:

	<i>Effect on other comprehensive income</i>		<i>Effect on profit before taxation and directors' fees</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
US Dollar	119,137	79,260	192,073	236,605
EURO	-	-	17,919	295
Great Britain Pound	-	-	2,411	3,435
Malaysian Ringgit	-	-	21,436	410

Sensitivity to currency rate movements will be on a symmetric basis, as financial instruments giving rise to non-symmetric movements are not significant.

17 RISK MANAGEMENT (continued)

17.3 MARKET RISK (continued)

17.3.3 Equity price risk

Equity price risk arises from changes in the fair values of equity investments. The company manages the risk through diversification of investments in terms of industry concentration. Majority of the equity investments are in Kuwait.

The effect on other comprehensive income (as a result of change in the fair value of financial assets available for sale) at 31 December 2010 due to 10% change in Kuwait Stock Exchange index, with all other variables held constant, is KD 108,172 (2009: KD 32,934).

Sensitivity to equity price movements will be on a symmetric basis, as financial instruments giving rise to non-symmetric movements are not significant.

17.3.4 Prepayment risk

Prepayment risk is the risk that the company will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The company is not significantly exposed to prepayment risk.

17.4 INSURANCE RISK

Insurance risk is the risk that actual claims payable to the insurance companies and third parties 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. The company only reinsures short term insurance contracts in connection with property and motor (collectively known as fire and accident) and marine risks.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The company reinsures mainly general accident, fire and marine risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Fire and accident

Property

For property insurance contracts the main risks are fire and business interruption. In recent years most of the policies reinsured by the company are policies for properties containing fire detection equipment.

Some of these contracts are reinsured 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 from any individual claim and the number of claims arising out of an event.

Motor

Motor insurance is designed to compensate insurers for damage suffered to their vehicles or liability to third parties arising through accidents. The insurers could also receive compensation for the fire or theft of their vehicles.

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 reinsured comprehensive policies for owner/drivers over 21 years of age. The company also has a reinsurance cover to limit losses for any individual claim.

Marine

For marine insurance the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargo.

The reinsuring 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 from any individual claim.

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2010

17 RISK MANAGEMENT (continued)**17.4 INSURANCE RISK (continued)***Life*

For life insurance the main risk are claim for medical, death or permanent disability.

The reinsuring strategy for the life of business is to ensure that policies are well diversified in terms of type of risk and level of insured benefit. This is achieved through the terms of the policies with the insurer to cover the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history.

17.5 REINSURANCE RISK

The company is not significantly exposed to reinsurance risk as it retains around 90-100% of the business accepted.

18 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities. Financial assets consist of bank balances and cash, deposits, financial assets held to maturity, financial assets available for sale, reinsurance receivables and other receivables. Financial liabilities consist of reinsurance payables, term loan and other payables.

The fair value of financial instruments, with the exception of certain financial assets available for sale (unquoted equity securities) carried at cost (Note 8), are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to variable rate financial instruments.

19 CAPITAL COMMITMENTS AND CONTINGENCIES

As at the reporting date, the company had future capital commitments with respect to purchase of financial assets available for sale amounting to KD 1,875,477 (2009: KD 1,969,326) and had contingent liabilities in respect of letter of credit granted by a bank amounting to KD 6,374,160 (2009: KD 6,249,860) from which it is anticipated that no material liabilities will arise.

20 FUTURE LEASE RENT RECEIVABLES

The company has entered into commercial property leases on its investment property (Note 10). These are non cancellable leases having remaining lease term of 2 years.

Future minimum lease rentals receivables under non cancellable operating leases as at 31 December are as follows:

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Within one year	746,080	982,560
After one year but not more than five years	779,614	966,796
	<u>1,525,694</u>	<u>1,949,356</u>

21 CAPITAL MANAGEMENT

The primary objective of the company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders or issue new shares.

Capital comprises of equity attributable to the equity holders of the company at KD 37,638,175 as at 31 December 2010 (2009: KD 36,429,906).

The company's policy is not to borrow funds except for the purpose of construction of investment properties. The surplus funds are utilised by investments in financial assets available for sale or financial assets held to maturity.

No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.