AL AHLEIA INSURANCE CO. S.A.K.

Established in Kuwait on 12th June 1962
By virtue of Amiri Decree No. 37

Authorized and Paid Up Capital KD. 17,191,155
Commercial Register No. 9389
Insurance License No. 3

Registered in accordance with the Insurance Companies and Agents Law No. 24 for 1961

H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
AMIR OF KUWAIT

H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
CROWN PRINCE

BOARD OF DIRECTORS

Mr. Sulaiman Hamad Mohammed Al-Dalali
CHAIRMAN & MANAGING DIRECTOR

Mr. Ayman Abdullatif Ali Al-Shayea
VICE CHAIRMAN

Mr. Abdullah Mohammed Abdullah Al-Saad
DIRECTOR

Mr. Abdul Aziz Abdul Razzaq Al-Jassar
DIRECTOR

Mr. Emad Mohammed Abdul Rahman Al-Bahar
DIRECTOR

Mr. Emad Jassem Hamad Al-Sager
DIRECTOR

Mr. Ahmad Yousef Ibrahim Al-Ghanem
DIRECTOR

Mr. Adel Mohammed Ahmed Al-Ghanam
DIRECTOR

Mr. Abdul Mouhsen Jassem Mohammed Al-Kharafi
DIRECTOR

MANAGEMENT

Mr. Ibrahim K. Al-Duhaim
DEPUTY GENERAL MANAGER

Mr. Jamal Y. Al-Houlli
DEPUTY GENERAL MANAGER - MOTOR DEPT.

Mr. Jawad R. Saleh
DEPUTY GENERAL MANAGER - LIFE & HEALTH DEPT.

Mr. Mohammed A. Al-Sa'ad
DEPUTY GENERAL MANAGER - SUPPORTING DEPT.

Mr. Ghazi A. Al-Roumi
DEPUTY GENERAL MANAGER - PRODUCTION & BRANCHES DEPT.

Mr. Mohammed A. Samour
DEPUTY GENERAL MANAGER - MARINE & AVIATION DEPT.

Dr. Fayeq H. Tawdros
ACTUARY

SISTER COMPANIES

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

P.O.Box 21929, Al Safat 13080, Kuwait
Tel.: (965) 22432011/2 - Fax: (965) 22427823
E-mail: kuwaitre@ kuwaitre.com
www.kuwaitre.com

Trade Union Insurance Co. E.C.

Head Office - Al Khobar

P.O.Box 1022, Al Khobar - 31952, Saudi Arabia
Tel.: (9663) 8572222 - Fax: (9663) 8147608
E-mail: info@tui-sa.com
www.tui-sa.com

Riyadh Branch

P.O.Box 25975, Riyadh - 11476, Saudi Arabia
Tel.: (9661) 4792715 / 2061217
Fax: (9661) 4793298
E-mail: tui-riy@tui-sa.com

Dammam Branch

P.O.Box 3532, Dammam - 31481, Saudi Arabia
Tel.: (9663) 8272902 / 8290320 / 8274338
Fax: (9663) 8291736
E-mail: tui-dam@tui-sa.com

Jeddah Branch

P.O.Box 10163, Jeddah - 21433, Saudi Arabia
Tel.: (9662) 6658654 / 6650637
Fax: (9662) 6651895
E-mail: tui-jed@tui-sa.com

Hofuf Branch

P.O.Box 2576, Al-Hasa, Saudi Arabia
Tel.: (9663) 5305545 - Fax: (9663) 5307628
E-mail: tui-huf@tui-sa.com

Bahrain Branch

P.O.Box 1125, Manama, Bahrain
Tel.: (9733) 243555 / 261497
Fax: (9733) 252354

Burgan Insurance Company S.A.L.

(Formerly Arab Life Insurance Company S.A.L.)
E-mail: burgan@burgan-ins.com
www.burgan-ins.com

Beirut Branch

P.O.Box 11-7338 Riyad Al-Suluh,
Beirut 11072240, Lebanon
Tel.: (9611) 751851
Fax: (9611) 742569

Bhamdoon Branch

Tel.: (9615) 260300
Fax: (9615) 260311

Al-Brajna Tower Branch

Tel.: (9611) 451365

Tripoli Branch

P.O.Box: 206, Lebanon
Tel.: (9616) 627641
Fax: (9616) 441251

Saydah Branch

P.O.Box 969, Lebanon
Tel.: (9617) 728453
Fax: (9617) 728454

Arab Life & Accident Insurance Co. P.S.C.

P.O.Box 925250, Amman 11190, Jordan
Tel.: (9626) 5693180/7 - Fax: (9626) 5693188
E-mail: ala@wanadoo.jo
www.arab-insurance.com.jo

HEAD OFFICE & BRANCHES

HEAD OFFICE

Ahmad Al-Jaber Street, Al-Sharq, Kuwait
P.O.Box 1602 Safat, Postal Code 13017
Cable: Al-Ahleia
Tel.: (965) 1888444 - Fax: (965) 22430308 - 22411330
E-mail: aic@alahleia.com - www.alahleia.com

Shuwaikh Branch
Banks Street, Shuwaikh - Tel./Fax: 24832183

Sabhan Branch
Near Banks Group, Sabhan - Tel./Fax : 24748239

Hawalli Branch
Tunis street, Al-Rehab Complex, Hawalli - Tel./Fax: 22642157

Plajat Branch
Plajat Street, front of Showbiz, Salmiya - Tel./Fax: 25729631

Al-Soor Branch
Al-Soor Street, Mounzer Tower, Al-Salheiah - Tel./Fax: 22440350

Technical Testing Branch
Kuwait Motoring Co. - Tel./Fax: 24834400

Fahaheel Branch
Al-Daboos Street, Naif Al-Daboos Complex - Tel./Fax: 23910393

Farwaniya Branch
Habib Manawer Street, Al-Hajraf Complex, Farwaniya
Tel./Fax: 24756471/2

Salmiya Branch
Salem Al-Mubarak Street, Salmiya - Tel.: 25733380 - Fax: 25747042

Al-Jewan Branch
Al-Jewan Area, Ministry of Defence Co-op - Tel./Fax: 24992481

Al-Qurain Branch
Al-Qurain Markets - Tel./Fax: 25470233

Citizen Services Branch
Sabhan - Tel.: 24710989 - Fax: 24710897

BANKERS

IN KUWAIT

The National Bank of Kuwait S.A.K
The Commercial Bank of Kuwait S.A.K
The Gulf Bank K.S.C
Al-Ahli Bank of Kuwait S.A.K
Ahli United Bank S.A.K
Kuwait International Bank S.A.K
Burgan Bank S.A.K
Kuwait Finance House K.S.C
Bank of Bahrain and Kuwait S.A.B

ABROAD

Ahli United Bank (UK) PLC, London
Al-Ahli Bank of Kuwait, Dubai
Arab African International Bank, Cairo
Bank Audi, Beirut

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
					1 ٢٧	2 ٢٨
3 ٢٩	4 ١	5 ٢	6 ٣	7 ٤	8 ٥	9 ٦
10 ٧	11 ٨	12 ٩	13 ١٠	14 ١١	15 ١٢	16 ١٣
17 ١٤	18 ١٥	19 ١٦	20 ١٧	21 ١٨	22 ١٩	23 ٢٠
24 ٢١	25 ٢٢	26 ٢٣	27 ٢٤	28 ٢٥	29 ٢٦	30 ٢٧

أبريل
ربيع ٢ - جمادى ١
APRIL
Rabi' II - Jumada I
2011

AGENDA

FOR THE FORTY SEVENTH MEETING OF THE ANNUAL ORDINARY GENERAL ASSEMBLY

1. Approving the Board of Directors' Report for the Financial year ending 31 December 2010.
2. listening to the Auditors' Report for the Financial year 31 December 2010.
3. Approving the General Balance Sheet and the Statement of Profit and Loss for the Financial year ending 31 December 2010.
4. Approving dealing with related parties.
5. Approving the proposal of the Board of Directors of distributing cash Dividends to the shareholders at 25% of the paid up capital, i.e. twenty five fils per Share, in addition to distribution of 8,595,580 shares at 5% as free bonus, for the shareholders of the company as of the date of General Assembly's meeting, to be distributed within ten days from the date of the General Assembly meeting, and to authorize the chairman to sell the fractions.
6. Approving the proposal of the Board of directors regarding the remuneration of its members.
7. Renewal of the authorization of the Board of Directors to purchase shares of the Company as per the provisions of the law, at a percentage not exceeding 10 % of the total number of the Company's shares within a period of eighteen months from the date of the Ordinary General Assembly meeting.
8. Releasing the members of the Board of Directors of all matters relevant to their actions for the Financial year ending 31 December 2010.
9. Appointing or re-appointment of Auditors for the Financial year 2011, and Authorizing the Board of Directors to determine their remuneration.
10. Election of the Directors for the Board for the next three years.

FOR THE EXTRAORDINARY GENERAL MEETING

1. Approval of capital raise from KD. 17,191,155 to KD. 18,050,713 by means of distributing free bonus shares to shareholders as much as 5% from paid up capital i.e. KD. 859,558.
2. Approval of amendment of article (6) of the memorandum of association and article (7) of the company's articles of association as follows:

Original Text

The company's capital is KD. 17,191,155 distributed on 171,911,550 shares the value of each 100 fils.

Proposed Adjustment

The company's capital is KD. 18,050,713 distributed on 180,507,130 shares the value of each 100 fils.

REPORT OF THE BOARD OF DIRECTORS

Submitted to the Shareholders during the 47th meeting of the Ordinary General Assembly at the Company's Head Office on Wednesday 20/4/2011 at 12:30 noon.

Dear Shareholders,
It gives me and my fellow members of your Company's Board of Directors the pleasure to welcome you again in our annual ordinary meeting and to present to you our brief report on the Company's activities during the year 2010.

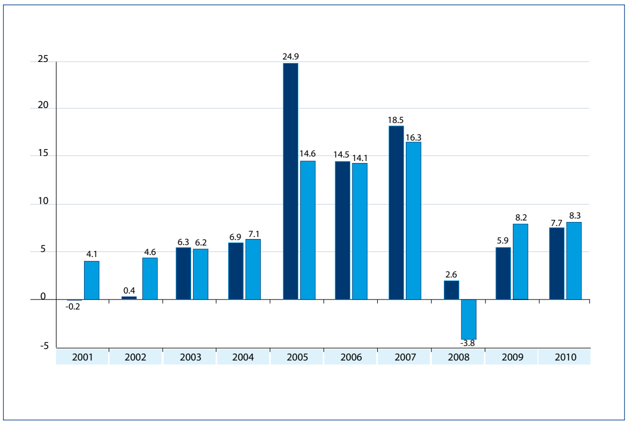
Whereas the year 2010 is considered another year of success and distinguished financial performance, Al Ahleia continues to confirm its established presence in the insurance market locally and regionally. The Company achieved positive results in 2010 realizing a net profit of KD 8,275,439 after amortizing unrealized losses in the profits and losses account of KD 1,706,676 compared to profits of KD 8,163,108 in 2009.

The positive results achieved during the year clearly reflect the strict strategy adopted by the Company to reduce the risks surrounding the Company. The Company's strategy has aimed at focusing on the quality of clients and insurance services provided to them with securing maximum protection for the Company. The Company management also believes that corporate governance has become an essential means to improve performance to the highest degree while mitigating risks to minimal and safeguard the interests and rights of shareholders and policyholders.

In doing so, the company relied on diversification of revenues and extending its wide network insurance coverage regionally, as well as offering new insurance products. This has resulted in achieving recorded results, and continued to strengthen the company's provision in order to reinforce its position both locally and regionally.

And to present you our brief report on the Company's activities during the year 2010, touching on the events that affected the insurance market in general and the performance of our Company in particular. International insurance market witnessed a gradual improvement in 2010, after it had incurred tremendous losses in 2008, as a result of the aftermath of the global financial crisis , which adversely affected many insurance and reinsurance companies to the extent of bankruptcy. In addition to a relative pickup in the investment market, 2010 did not witness major insurance disasters, a fact that helped stimulating insurance market.

Your Company have proved serious in their transactions through proper underwriting and increase participation in the result by raising the limits of their retention, such action being within your Company's strategies as shown in attached schedules and compared with result of previous years.



Growth of Recognized Net Profit & Unrecognized Profit in Shareholders' Equity
(in million KD)

Unrecognized Profit in Shareholders' Equity
Recognized Net Profit

REPORT OF THE BOARD OF DIRECTORS

It is technically and statistically known that in order to increase retention without subjecting the financial position of the Company to any fluctuations, a larger number homogeneous risks should be relied on, which is our objective for reliance on the theory of probabilities.

The policy of regional expansion also helped promote and improve our risk profile through continuous efforts to increase personal insurances in addition to obtaining huge commercial and industrial insurances, of which shares can be exchanged with sister and co-insurance companies. Consequently, this would lead to the increasing of retentions. Beside the present sister companies in Jordan, Lebanon, Saudi Arabia, Egypt, Yemen and Iraq whose particulars are included in this report. The Top Management is working on a feasibility study of other Arab markets in preparation for increasing its expansion to achieve this general strategic objective.

Your Company continued to pursue its policy of attracting young promising Kuwaiti Nationals and encourage them to study and train in insurance, locally and abroad and assign to responsibilities that fit with their level of education and practice. This would achieve job stability in the long run.

In addition to the Company's efforts in expanding through new fields of traditional insurance and its concern with strengthening the management of branches and the marketing department, the development of inward reinsurance falls within its strategies and goals.

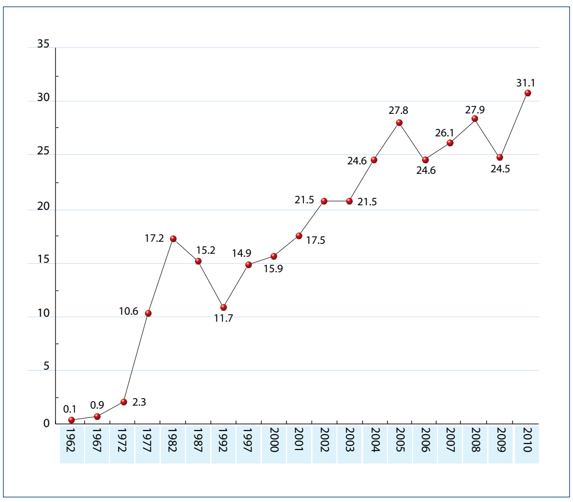
The figures below show that your Company has continued to reinforce capital and technical reserves to guarantee the success of its ambitions and achieve the other different objectives without being subject to any fluctuations in the future results and to fortify the foundations for growth and development.

The year 2010 was closed with the following information:

FIRST: INSURANCE ACTIVITIES

The gross annual production amounted to KD. 31.1 million against KD. 24.5 million in 2009 i.e. an increase at the rate of 27%. The net technical return on insurance premiums totaled KD. 5.5 million (KD. 4.7 million in 2009).

Here in after is a detailed summary of these aggregates:



Insurance Activity
(in million KD)

REPORT OF THE BOARD OF DIRECTORS

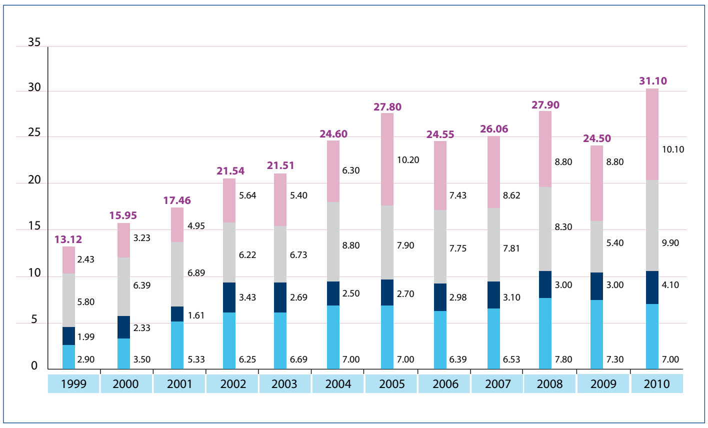
General Accident (non- life business):

Gross written premiums amounted to KD. 21,023,290 against KD. 15,688,088 in 2009, i.e. an increase of KD. 5,335,202 at the rate of 34%. The profit of these departments totaled KD. 4,419,344 as against KD. 3,944,912 in 2009.

The Marine & Aviation business produced a net profit of KD. 1,947,792 as against KD.1,739,305 in 2009, the General Accident (which includes Motor) ended with a net profit of KD. 1,938,498 as against net profit of KD. 1,966,820 in 2009 and the Fire KD. 533,054 against KD. 238,787 in 2009.

Gross Written Premiums
(in million KD)

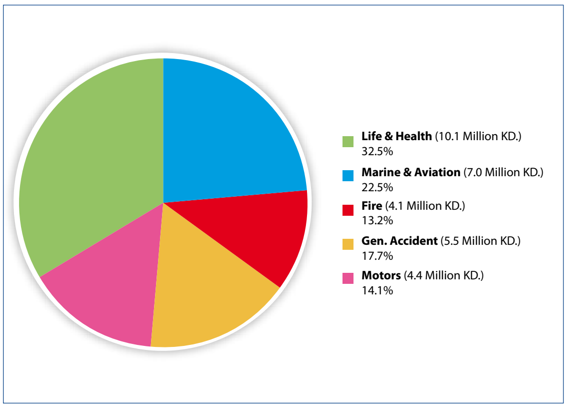
Fire
Marine & Aviation
Life & Health
G.A (Incl. Motor)



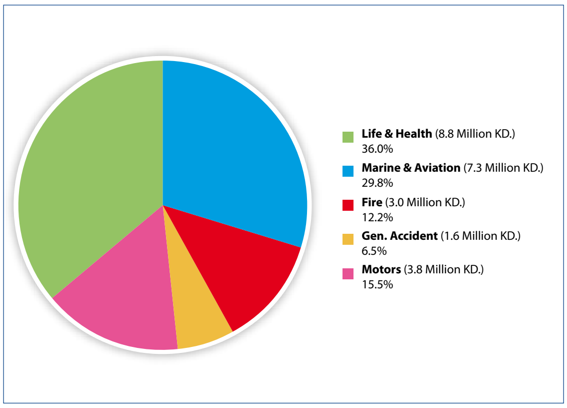
Life & Health Insurances:

Total premium income amounted to KD. 10,125,419 against KD. 8,816,144 in 2009, an increase of KD. 1,309,275 at the rate of 14.9%. The net profit amounted to KD. 1,060,859 against profit of KD. 713,523 in 2009, after reassessment of the Mathematical Reserve by the Company's Actuary and after increasing the same by KD. 323,500 to reach KD. 3,638,500 against KD. 3,315,000 in 2009.

The company's investment in life and health insurance made profits of KD. 348,431 against KD. 240,030 in 2009.



Source of Written Premiums 2010



Source of Written Premiums 2009

SECOND: OVERSEAS BUSINESS RUN-OFF

We continued following up the results of the Company's underwriting agreements under the overseas long-tail business and settling the parts maturing during the present financial year in a manner similar to what was followed in the previous years.
The amount of K.D 29,053 was settled this year against K.D 23,686 in 2009.
Although the indication points to a reduction in new compensations. The remainder of the said obligations was identified and assessed in preparation for dealing therewith methodically, with the best means that would result in the company being freed from the consequences of the said remaining obligations with the least possible loss.

THIRD: INVESTMENTS ACTIVITIES

There were signs of recovery from the repercussions of the financial crisis that emerged at the end of 2008 began to appear in the Kuwaiti economy during 2010. In addition to stimulus measures taken by the government of the State of Kuwait in 2009, the Government has developed a five-year development plan includes expenditure amounting to KD 31 billion on large projects; the matter which will have a significant impact at all levels of economic and social development as well as to improve the investment environment by issuing the law of the Capital Market Authority and the privatization law.

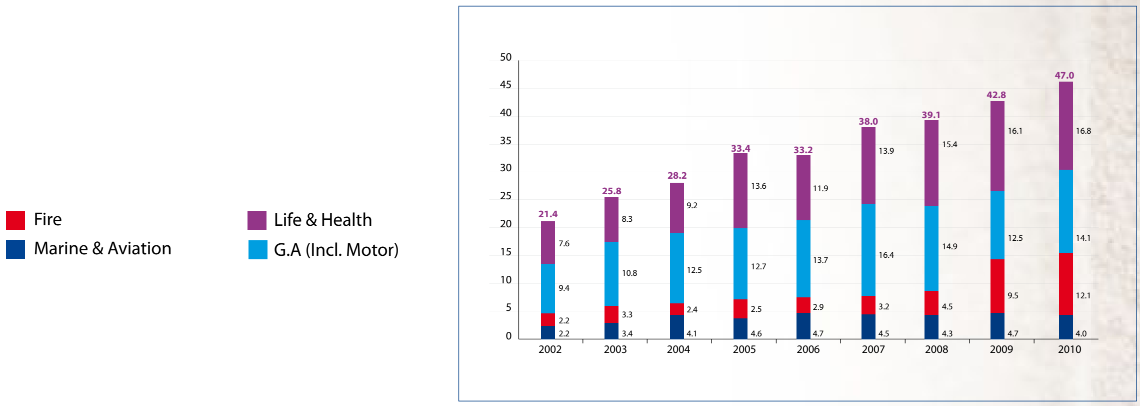
The investment of the company in 2010 made a profit of KD 4,173,435 after amortization of KD 1,706,676 as unrealized losses (Impairment) of the company's investments, against profit of KD 5,503,646 in 2009 in addition to recording KD 7,698,286 as unrealized profits in equity.

FOURTH: PROFIT & LOSS ACCOUNT

The result of the Company's operations from both insurance and investments activities, after deducting the reserves, provisions and various items usually charged to the profit and loss account, indicates that the activities for the year have yielded a net profit of KD 8,275,439 against profit of KD. 8,163,108 in 2009.

By adding profit brought forward from the previous year of KD. 7,793,463 the gross profit allowable for distribution amounts to KD. 16,068,902 compared to KD. 14,122,090 for the year 2009.

The Board of Directors of your Company recommends to deduct the amount of KD. 875,208 i.e. 10% of this year profit and add it to the Statutory Reserve, KD. 875,208 i.e. another 10% to the General Reserve, discounting the sum of KD. 500,000 From the year's profit to be added to the Special Voluntary Reserve and an amount of KD. 87,521 for Kuwait Foundation for the Advancement of Sciences representing the 1% earmarked year's profit as legally determined, and an amount of KD. 181,516 to support the National Workforce and an amount of



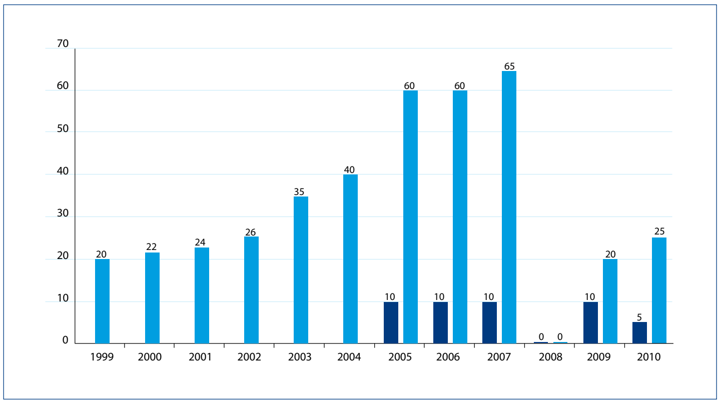
Technical Reserves
(Unearned Premiums, Additional, Mathematical & Outstanding Claims Reserves)
(in million KD)

REPORT OF THE BOARD OF DIRECTORS

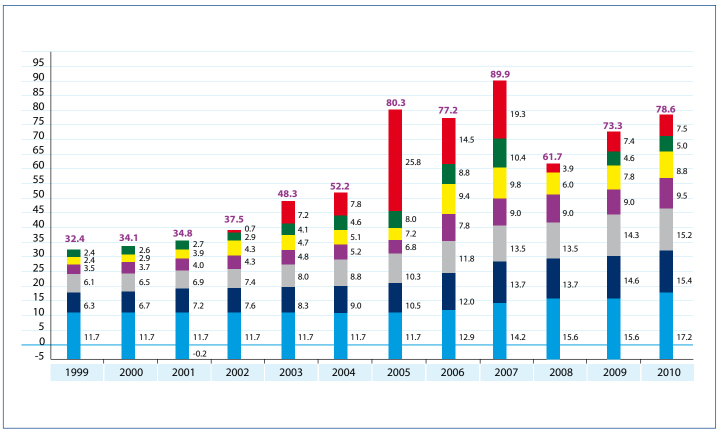
KD.72,606 to Zakat Tax. The Board of Directors also recommends the distribution of the sum of KD 4,198,893 to the Shareholders of the Company on the Paid-up Capital at the rate of 25%, i.e. twenty five Fils per share, in addition to distribution of 8,595,580 shares at 5 % as free bonus, i.e. 5 shares for each 100 shares, provided that such distribution takes place within two weeks from the General Assembly meeting date, and to authorize the chairman to sell the fraction.

The Board of Directors also suggests to allocate KD. 135,000 as Directors remuneration for the fiscal year ending 31/12/2010 and to carry forward the remaining net profit of K.D 966,572 to the next year.

On the basis of all the foregoing, the Statutory Reserve shall become KD.15,450,580 the General Reserve KD. 15,211,055, the Special Voluntary Reserve KD. 9,500,000 and the profits carried forward to the next year KD. 8,760,035 beside the additional technical reserves in the various insurance branches reaching KD. 6,700,000.



Cash Dividends & Bonus Share



Shareholders Equity - the value of Bonus Shares is not deducted
(in million KD)

FIFTH: BOARD OF DIRECTORS' AUTHORIZATION TO PURCHASE THE COMPANY'S SHARES

The Board of Directors recommends authorizing it to purchase part of the Company's shares, in accordance with the provisions of the law, such purchase to be limited to 10% of the number of shares, and such authorization to be for a period not exceeding eighteen months from the date of the General Assembly meeting.

SIXTH: GRATITUDE AND APPRECIATION

In concluding our report we extend our warmest congratulations to Kuwait on the occasion of the 50th National Day, 20th commemoration of Liberation and 5th anniversary of H.H. the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, as the ruler of Kuwait. We wish to express our appreciation and gratitude to H.H. the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah for his leadership and noble prudence, H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, the Crown prince, and appeal to Almighty God to support them in continuing their efforts for the advancement and prosperity of the State of Kuwait, reinforcing the Kuwaiti economy, supporting national companies and providing comprehensive patronage for the citizens of their Country and to their nation for a more constructive and prosperous future, and we pray the Almighty God to bless them with strength and good health.

We would like also to express our thanks to the Ministry of Commerce and Industry, represented by the Administration of Insurance Companies, for their attention and understanding of the local market circumstances. Our thanks is also extended to the Ministry of Interior represented by the Traffic Department for their continuous efforts to control the roads and develop the compulsory motor insurance. As well, we extend a special gratitude to the company's valuable Shareholders and clients for their continuous trust and support. Our appreciation and gratitude also goes to our Reinsurer's for their support and prompt reaction to our legitimate needs.

On this occasion, the Board of Director s would like to place on record their appreciation for the great efforts and full devotion of the Company's management on all administrative and technical levels, as well as the employees, which leads towards Company progress and prosperity in a unique family environment and team work so as to offer the best. We conclude this annual report by appealing to God Almighty to provide us the blessing of security and stability.

May His peace, mercy and blessings be with you always.

The Board of Directors

FINANCIAL STATEMENTS

Contents

AUDITORS' REPORT

Ernst & Young
Ernst & Young
Al Aiban, Al Osaimi & Partners

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13001 Safat, Kuwait
Baitak Tower, 18-21st Floor,
Safat Square, Ahmed Al Jaber Street

Tel. : 2245 2880 / 2295 5000
Fax: 2245 6419
Email: kuwait@kw.ey.com
www.ey.com/me

MAZARS
Middle East LLP

Allied Accountants
Abdullatif Al-Majid & Co.
Certified Public Accountants - Expert

P.O. Box 5506 safat- 13056 Kuwait
Tel: 22432082/3/4 - Fax: 22402640
E-mail: info@alliedaccountants-kw.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL-AHLEIA INSURANCE COMPANY S.A.K.

Report on the Financial Statements

We have audited the accompanying financial statements of Al-Ahleia Insurance Company S.A.K. (the "Company"), which comprise the statement of financial position as at 31 December 2010, and the income statement, statement of comprehensive 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 information.

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate 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 the 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 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 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 Company's board of directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Company's Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, or of the Company's Articles of Association, as amended, 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

Abdullatif A. H. Al-Majid
Licence No. 70 A
of Allied Accountants - Mazars

23 March 2011
Kuwait

INCOME STATEMENT
Year ended 31 December 2010

	Notes	2010 KD	2009 KD
Revenue			
Gross premiums		**31,148,709**	24,504,232
Premiums ceded to reinsurers		**(19,961,796)**	(14,305,181)
Net premiums		**11,186,913**	10,199,051
Movement in unearned premiums		**(521,873)**	254,831
Net premiums earned		**10,665,040**	10,453,882
Commission received on ceded reinsurance		**5,096,503**	3,183,073
Policy issuance fees		**526,932**	532,063
Net investment income	3	**4,173,435**	5,503,646
Other income		**158,127**	229,281
Total revenue		**20,620,037**	19,901,945
Expenses			
Claims incurred	9	**(5,120,761)**	(4,863,832)
Commissions		**(2,131,103)**	(1,499,169)
(Decrease) increase in life mathematical reserve		**(323,500)**	91,000
Maturity and cancellations of life insurance policies		**(178,144)**	(525,818)
General and administrative expenses		**(4,114,447)**	(4,478,398)
Total expenses		**(11,867,955)**	(11,276,217)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT AND DIRECTORS' FEES		**8,752,082**	8,625,728
Contribution to KFAS		**(87,521)**	(83,849)
NLST		**(181,516)**	(174,122)
Zakat		**(72,606)**	(69,649)
Directors' fees		**(135,000)**	(135,000)
PROFIT FOR THE YEAR		**8,275,439**	8,163,108
BASIC AND DILUTED EARNINGS PER SHARE	4	**49.40 fils**	48.80 fils

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Notes	2010 KD	2009 KD
Profit for the year		**8,275,439**	8,163,108
Other comprehensive income			
Net unrealised gain (loss) on financial assets available for sale		**1,405,073**	(1,886,276)
Net realised loss on disposal of financial assets available for sale		**(1,298,801)**	(154,505)
Impairment loss on financial assets available for sale	3	**1,706,676**	5,334,927
Share of other comprehensive income of associates	6	**(52,053)**	-
Foreign currency translation adjustment	6	**(15,220)**	185,630
Other comprehensive income for the year		**1,745,675**	3,479,776
Total comprehensive income		**10,021,114**	11,642,884

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
At 31 December 2010

	Notes	2010 KD	2009 KD
ASSETS			
Property and equipment	5	**3,136,279**	3,286,717
Investments in associates	6	**13,765,141**	12,881,561
Financial assets available for sale	7	**69,397,716**	75,220,321
Loans secured by life insurance policyholders		**95,842**	56,227
Premiums and insurance balances receivable	8	**12,878,837**	8,530,188
Reinsurance recoverable on outstanding claims	9	**25,654,761**	21,990,984
Other debit balances	10	**2,156,683**	1,940,083
Fixed deposits	11	**15,008,048**	11,056,905
Bank balances and cash	12	**1,018,971**	333,749
TOTAL ASSETS		**143,112,278**	135,296,735
EQUITY AND LIABILITIES			
Equity			
Share capital	13	**17,191,155**	15,628,323
Statutory reserve	14	**15,450,580**	14,575,372
General reserve	14	**15,211,055**	14,335,847
Special voluntary reserve	14	**9,500,000**	9,000,000
Treasury shares	15	**(1,715,677)**	(2,043,712)
Treasury shares reserve		**1,370,511**	1,333,534
Cumulative changes in fair values		**7,698,286**	5,937,391
Foreign currency translation reserve		**99,279**	114,499
Retained earnings		**13,818,486**	12,396,944
Total equity		**78,623,675**	71,278,198
LIABILITIES			
Liabilities arising from insurance contracts:			
Outstanding claims reserve	9	**33,639,723**	30,349,407
Unearned premiums reserve	9	**3,036,225**	2,514,352
Life mathematical reserve	9	**3,638,500**	3,315,000
Additional reserve	9	**6,700,000**	6,700,000
Total liabilities arising from insurance contracts		**47,014,448**	42,878,759
Insurance payables	16	**6,427,229**	5,785,660
Other credit balances	17	**8,943,238**	8,366,647
Premiums received in advance		**2,103,688**	1,677,023
Term loan		**-**	2,500,000
Bank overdraft	12	**-**	2,810,448
Total liabilities		**64,488,603**	64,018,537
TOTAL EQUITY AND LIABILITIES		**143,112,278**	135,296,735

Sulaiman Hamad M. Al-Dalali
Chairman And Managing Director

Ayman Abdullatif A. Al-Shayea
Vice Chairman

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Share capital KD	Statutory reserve KD	General reserve KD	Special voluntary reserve KD	Treasury shares KD	Treasury shares reserve KD	Cumulative changes in fair values KD	Foreign currency translation reserve KD	Retained earnings KD	Total equity KD
Balance at 1 January 2010	15,628,323	14,575,372	14,335,847	9,000,000	(2,043,712)	1,333,534	5,937,391	114,499	12,396,944	71,278,198
Profit for the year	-	-	-	-	-	-	-	-	8,275,439	8,275,439
Other comprehensive income (loss)	-	-	-	-	-	-	1,760,895	(15,220)	-	1,745,675
Total comprehensive income (loss) for the year	-	-	-	-	-	-	1,760,895	(15,220)	8,275,439	10,021,114
Issue of bonus shares (Note 13)	1,562,832	-	-	-	-	-	-	-	(1,562,832)	-
Cash dividends (Note 13)	-	-	-	-	-	-	-	-	(3,040,649)	(3,040,649)
Purchase of treasury shares	-	-	-	-	(159,865)	-	-	-	-	(159,865)
Sale of treasury shares	-	-	-	-	487,900	36,977	-	-	-	524,877
Transfer to reserves	-	875,208	875,208	500,000	-	-	-	-	(2,250,416)	-
At 31 December 2010	**17,191,155**	**15,450,580**	**15,211,055**	**9,500,000**	**(1,715,677)**	**1,370,511**	**7,698,286**	**99,279**	**13,818,486**	**78,623,675**
Balance at 1 January 2009	15,628,323	13,712,799	13,473,274	9,000,000	(2,217,777)	1,335,437	2,643,245	(71,131)		
Profit for the year	-	-	-	-	-	-	-	-	5,958,982	59,463,152
Other comprehensive income	-	-	-	-	-	-	3,294,146	185,630	8,163,108	8,163,108
									-	3,479,776
Total comprehensive income for the year	-	-	-	-	-	-	3,294,146	185,630	8,163,108	11,642,884
Purchase of treasury shares	-	-	-	-	(134,733)	-	-	-	-	(134,733)
Sale of treasury shares	-	-	-	-	308,798	(1,903)	-	-	-	306,895
Transfer to reserves	-	862,573	862,573	-	-	-	-	-	(1,725,146)	-
At 31 December 2009	15,628,323	14,575,372	14,335,847	9,000,000	(2,043,712)	1,333,534	5,937,391	114,499	12,396,944	71,278,198

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 KD	2009 KD
OPERATING ACTIVITIES			
Profit before contribution to KFAS, NLST, Zakat and directors' fees		**8,752,082**	8,625,728
Adjustments for:			
Share of results of associates	3	**(211,690)**	(15,181)
Excess of fair value of investment in an associate over acquisition price		**-**	(2,640,015)
Loss on sale of investment in associates	3	**8,670**	-
Gain on sale of financial assets available for sale	3	**(3,848,994)**	(4,702,250)
Impairment loss on financial assets available for sale	3	**1,706,676**	5,334,927
Interest income		**(411,762)**	(583,489)
Dividend income	3	**(1,239,593)**	(1,934,096)
Interest expenses		**85,171**	857,658
Provision for employees' end of service benefits		**113,481**	70,571
Depreciation of property and equipment	5	**164,896**	164,480
		5,118,937	5,178,333
Changes in operating assets and liabilities:			
Premiums and insurance balances receivable		**(4,348,649)**	1,059,575
Reinsurance recoverable on outstanding claims		**(3,663,777)**	(4,552,916)
Other debit balances		**(14,930)**	256,205
Liabilities arising from insurance contracts		**4,135,689**	3,788,287
Insurance payables		**641,569**	942,343
Other credit balances		**355,810**	133,148
Premiums received in advance		**426,665**	(170,745)
Cash from operations		**2,651,314**	6,634,230
Employees' end of service benefits paid		**(107,400)**	(51,219)
Paid to KFAS		**(83,849)**	-
Paid to NLST		**(174,122)**	-
Paid to Zakat		**(69,649)**	-
Paid to directors		**(135,000)**	-
Net cash from operating activities		**2,081,294**	6,583,011
INVESTING ACTIVITIES			
Purchase of property and equipment	5	**(14,458)**	(69,185)
Purchase of investment in associates	6	**(907,498)**	(133,693)
Proceeds from sale of investment in associates		**21,999**	-
Redemption of bonds		**500,000**	-
Purchase of financial assets available for sale		**(7,009,582)**	(12,400,040)
Proceeds from sale of financial assets available for sale		**16,287,453**	24,066,206
Movement in loans secured by life insurance policyholders		**(39,615)**	10,844
Movement in fixed deposits		**(3,951,143)**	(429,718)
Interest income received		**210,092**	333,165
Dividends received from associates	6	**137,666**	552,293
Dividend income received		**1,239,593**	1,934,096
Net cash from investing activities		**6,474,507**	13,863,968
FINANCING ACTIVITIES			
Dividends paid		**(2,925,143)**	(49,255)
Purchase of treasury shares		**(159,865)**	(134,733)
Sale of treasury shares		**524,877**	306,895
Term loan repaid		**(2,500,000)**	(20,000,000)
Net cash used in financing activities		**(5,060,131)**	(19,877,093)
INCREASE IN CASH AND CASH EQUIVALENTS		**3,495,670**	569,886
Cash and cash equivalents at the beginning of the year		**(2,476,699)**	(3,046,585)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	**1,018,971**	(2,476,699)

The attached notes 1 to 25 form part of these financial statements.

1 CORPORATE INFORMATION

The financial statements of Al-Ahleia Insurance Company S.A.K. (the "Company") for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 23 March 2011. The Shareholders' General Assembly has the power to amend these financial statements after issuance.

The Company is a Kuwaiti Shareholding Company registered in 1962 under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments. It is engaged in various insurance activities, including reinsurance. Its registered head office address is at P. O. Box 1602, Safat 13017, Kuwait.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and applicable requirements of Ministerial Order No. 18 of 1990.

The financial statements have been prepared on the historical cost convention as modified to include the measurement at fair value of financial assets available for sale.

The financial statements have been presented in Kuwaiti Dinars (KD) which is the functional currency of the Company.

2.2 Change 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)

2.2 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 recognised 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:

2.3 Summary of significant accounting policies

Revenue recognition

Premiums earned
Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premiums is taken to the income statement in order that revenue is recognised over the period of risk.

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

Interest income
Interest income is recognised using the effective interest rate method.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

Realised gains and losses
Realised gains and losses include gain and loss on financial assets and are calculated as the difference between net sales proceeds and the original or amortised cost, and are recorded on occurrence of the sale transactions.

Finance costs
Finance costs are calculated and recognised on a time proportionate basis taking into account the outstanding balance payable and applicable interest rate.

KFAS, NLST and Zakat
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat represent levies/taxes imposed on the entity at the flat percentage of net profits less permitted deductions under the prevalent respective fiscal regulations of the State of Kuwait. Under prevalent taxation/levy regulations no carry forward of losses is permitted and there are no significant differences between the tax /levy bases of assets and liabilities and their carrying amount for financial reporting purposes.

Tax/statutory levy	Rate
Contribution to KFAS	1.0% of net profit less permitted deductions
NLST	2.5% of net profit less permitted deductions
Zakat	1.0% of net profit less permitted deductions

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.

Policy acquisition costs
Commissions paid to intermediaries and other (incremental) direct costs incurred in relation to the acquisition and renewal of insurance contracts is capitalised as an intangible asset. The deferred policy acquisition costs (DAC) are subsequently amortised over the terms of the insurance contracts to which they relate as premiums are earned.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amounts is less than the carrying value an impairment loss is recognised in the income statement. DAC is also considered in the liability adequacy test for each reporting period.

DAC are derecognised when the related contracts are settled or disposed of.

Liability adequacy test
At each financial position date the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred policy acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision created.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

Reinsurance contracts held

For large claims the Company enters into agreements with other parties for reinsurance purposes in order to minimise financial exposure. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. These amounts are shown as "reinsurers' recoverable on outstanding claims" in the statement of financial position until the claim is paid by the Company. Once the claim is paid the amount due from the reinsurers in connection with the paid claim is transferred to "Premiums and insurance balances receivable".

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the income statement.

Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business.

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.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Product classification

Insurance contracts

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or the other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception if insurance risk becomes significant.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

Property and equipment
Property and equipment is stated at cost, excluding the costs of day-today servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Depreciation is provided on a straight line basis over the useful lives of the following classes of assets:

• Buildings on freehold land	25 years
• Leasehold properties	20 to 25 years
• Furniture, fixtures, equipment and motor vehicles	3 to 5 years

The assets' residual values, and useful lives and method of depreciation are reviewed and adjusted if appropriate at each financial year end and adjusted prospectively, if appropriate.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognised in the income statement as an expense.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Investments in associates
The Company's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Company's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in other comprehensive income of the associate, the Company recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits or losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The share of profit of the associate is shown on the face of the income statement. This is profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring its accounting policies in line with the Company.

After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in associates. The Company determines at each reporting date, whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the income statement.

Upon loss of significant influence over the associate, the Company measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

Financial instruments

Financial assets
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, financial asset available for sale, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

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 "loans secured by life insurance policyholders", "premiums and insurance balances receivable", "reinsurance recoverable on outstanding claims", "other debit balances" and "fixed deposits".

Financial liabilities
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives as appropriate. 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.

Insurance payables
Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial liabilities (continued)

Other credit balances
Other credit balances are stated at their cost. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Fair value
The fair value of financial instruments that are traded in active 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.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 25.

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 assets 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

Outstanding claims reserve
Outstanding claims comprise the estimated cost of claims incurred and reported but not settled at the financial position date. Provisions for reported claims not paid as at the financial position date is made on the basis of individual case estimates.

Any difference between the provisions at the financial position date and settlements and provisions in the following year is included in the underwriting account for that year.

Unearned premiums reserve
The reserve for unearned premiums 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.

Life mathematical reserve
The reserve for the life business at the financial position date represents the mathematical liability of policies in force at that date as determined by the Company's actuaries.

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

End of service indemnity
Provision is made for employees' end of service indemnity in accordance with the Kuwait Labour Law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the amount payable to employees as a result of involuntary termination of employment as of the financial position date.

Treasury shares
Treasury shares consist of the Company's own shares that have been issued, subsequently reacquired by the Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (treasury shares reserve) which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Foreign currencies
Foreign currency transactions are recorded in Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the financial position date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Exchange differences are reported as part of the results for the year.

The Company's investment in foreign associates is retranslated using the year end rates of exchange and the resulting exchange differences are accumulated in a separate component of other comprehensive income. Any goodwill or fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign entity are recorded using the exchange rate at the effective date of the transaction.

Segment reporting
A business segment is a Company of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

Contingencies
Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

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

Valuation of unquoted financial assets
Valuation of unquoted 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; or
- Other valuation models.

Non-life insurance contract liabilities
For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the financial position date, reserve for outstanding claims (OCR) and for the expected ultimate cost of claims incurred but not yet reported at the financial position date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or maker factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

Life insurance contract liabilities (Life mathematical reserve)
The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Company base mortality and morbidity tables on standard industry and national tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

Judgement

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 financial assets

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

Impairment of financial assets

The Company treats financial assets available for sale 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 financial assets.

3 NET INVESTMENT INCOME

	2010 KD	2009 KD
Share of results of associates (Note 6)	**211,690**	15,181
Loss on sale of investment in associates	**(8,670)**	-
Excess of fair value of investment in an associate over acquisition price	**-**	2,640,015
Gain on sale of financial assets available for sale	**3,848,994**	4,702,250
Interest on bonds	**24,260**	28,750
Interest on fixed deposits	**387,502**	554,739
Dividend income	**1,239,593**	1,934,096
Realised gain on sale of pre-emptive rights	**-**	571,779
Other investment income	**176,742**	391,763
Impairment loss on financial assets available for sale	**(1,706,676)**	(5,334,927)
	4,173,435	5,503,646

4 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 ordinary shares outstanding during the year (excluding treasury shares).

There are no dilutive potential ordinary shares. The information necessary to calculate basic earnings per share based on weighted average number of shares outstanding during the year is as follows:

	2010 KD	2009 KD
Profit for the year	**8,275,439**	8,163,108
	Shares	Shares
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	**167,530,337**	167,272,637
Basic and diluted earnings per share	**49.40 fils**	48.80 fils

The comparative basic and diluted earnings per share have been restated due to the issuance of bonus shares (see Note 13).

5 PROPERTY AND EQUIPMENT

	Freehold land KD	Buildings on freehold land KD	Leasehold properties KD	Furniture, fixtures equipment and motor vehicles KD	Total KD
Cost:					
At 1 January 2009	1,725,500	2,910,884	246,410	1,747,949	6,630,743
Additions	-	-	1,832	67,353	69,185
Disposals	-	-	-	(29,365)	(29,365)
At 31 December 2009	1,725,500	2,910,884	248,242	1,785,937	6,670,563
Additions	-	-	-	14,458	14,458
At 31 December 2010	**1,725,500**	**2,910,884**	**248,242**	**1,800,395**	**6,685,021**
Depreciation:					
At 1 January 2009	-	1,384,149	157,647	1,706,935	3,248,731
Charge for the year	-	116,435	3,870	44,175	164,480
On disposals	-	-	-	(29,365)	(29,365)
At 31 December 2009	-	1,500,584	161,517	1,721,745	3,383,846
Charge for the year	-	116,435	3,871	44,590	164,896
At 31 December 2010	-	1,617,019	165,388	1,766,335	3,548,742
Net carrying amount:					
At 31 December 2010	**1,725,500**	**1,293,865**	**82,854**	**34,060**	**3,136,279**
At 31 December 2009	1,725,500	1,410,300	86,725	64,192	3,286,717

6 INVESTMENT IN ASSOCIATES

The Company has the following investment in associates:

	Ownership percentage 2010 KD	Ownership percentage 2009 KD	Country of incorporation	2010 KD	2009 KD
Burgan Insurance Company S.A.L. (formerly Arab Life Insurance Company S.A.L.)	**49.37%**	49.37%	Lebanon	**374,927**	370,280
Trade Union Insurance Company E.C.	**20.95%**	20.95%	Bahrain	**1,591,356**	2,064,986
Arab Life and Accident Insurance Company P.S.C.	**27.70%**	27.70%	Jordan	**1,092,111**	1,064,992
Kuwait Reinsurance Company K.S.C. (Closed)	**30.00%**	26.34%	Kuwait	**10,706,747**	9,381,303
				13,765,141	12,881,561

6 INVESTMENTS IN ASSOCIATES (continued)

	2010 KD	2009 KD
The movement of the investment in associates during the year is as follows:		
Carrying value at 1 January	**12,881,561**	4,737,162
Additions	**907,498**	133,693
Disposals	**(30,669)**	-
Share of results of associates (Note 3)	**211,690**	15,181
Transfers to financial assets available for sale	-	(1,069,067)
Transfers from financial assets available for sale	-	6,791,240
Excess of fair value of investment in an associate over acquisition price	-	2,640,015
Dividends received	**(137,666)**	(552,293)
Share of other comprehensive income of associates	**(52,053)**	-
Foreign currency translation adjustment	**(15,220)**	185,630
Carrying value at 31 December	**13,765,141**	12,881,561

	2010 KD	2009 KD
Share of associates' financial position:		
Assets	**26,942,516**	24,009,447
Liabilities	**(13,177,375)**	(11,127,886)
Net assets	**13,765,141**	12,881,561
Share of associates' revenues and profit:		
Revenues	**2,082,122**	2,390,188
Profit	**211,690**	15,181

Investments in associates include quoted associate with a carrying value of KD 10,706,747 (2009: KD 9,381,303) having a market value of KD 6,929,594 (2009: KD 6,492,781).

7 FINANCIAL ASSETS AVAILABLE FOR SALE

	2010 KD	2009 KD
Equity securities:		
Quoted	**23,562,635**	31,787,398
Unquoted	**45,835,080**	42,932,922
	69,397,715	74,720,320
Debt securities:		
Bonds	**1**	500,001
	69,397,716	75,220,321

Included in financial assets available for sale are unquoted securities and managed funds with a value of KD 16,360,516 (31 December 2009: KD 15,475,684) which are carried at cost less impairment due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at a reliable measure of fair value. Management has performed a review of its unquoted financial assets to assess whether impairment has occurred in the value of the investments due to the impact of the global financial crisis, based on information available in respect of these investments. Accordingly, an impairment loss of KD 908,176 (31 December 2009: KD 1,908,087) has been recognised in this respect.

Impairment loss of KD 798,500 (31 December 2009: KD 3,426,840) has been made against quoted securities on which there has been a significant or prolonged decline in fair value below cost.

8 PREMIUMS AND INSURANCE BALANCES RECEIVABLE

	2010 KD	2009 KD
Policyholder's accounts receivable		
Premiums receivable	**9,068,449**	6,931,400
Provision for doubtful debts	**(1,005,183)**	(1,100,040)
Net policyholder's accounts receivable	**8,063,266**	5,831,360
Insurance and reinsures accounts receivable		
Reinsures receivable	**4,954,687**	2,837,944
Provision for doubtful debts	**(139,116)**	(139,116)
Net insurance and reinsures accounts receivable	**4,815,571**	2,698,828
Total premium and insurance receivable balances	**12,878,837**	8,530,188

The Company's terms of business require amounts to be paid within the underwriting year and as such these receivables are remeasured at cost. Arrangements with the reinsurance companies normally require settlement on a quarterly basis.

Movements in the allowance for impairment of policyholder's accounts receivable were as follows:

	2010 KD	2009 KD
At 1 January	**1,100,040**	1,005,261
Charge for the year	**-**	100,000
Amounts written off	**(94,857)**	(5,221)
At 31 December	**1,005,183**	1,100,040

No movements took place in the allowance for impairment of insurance and reinsurers receivables during the year ended 31 December 2010 and 31 December 2009.

9 LIABILITIES ARISING FROM INSURANCE CONTRACTS

31 December 2010	Marine and aviation KD	Accident KD	Fire KD	Life and health KD	Total KD
OUTSTANDING CLAIMS RESERVE:					
Gross balance at the beginning of the year	3,146,917	7,290,148	8,179,337	11,733,005	30,349,407
Reinsurance recoverable on outstanding claims	(2,717,988)	(2,765,318)	(7,827,223)	(8,680,455)	(21,990,984)
Net balance at the beginning of the year	428,929	4,524,830	352,114	3,052,550	8,358,423
Gross claims incurred during the year	1,163,533	3,551,110	14,914,714	6,874,649	26,504,006
Reinsurance recoverable	(821,115)	(1,150,997)	(14,738,595)	(4,672,538)	(21,383,245)
Claims incurred	**342,418**	**2,400,113**	**176,119**	**2,202,111**	**5,120,761**
Gross claims paid during the year	(1,773,864)	(2,669,182)	(12,221,624)	(6,549,020)	(23,213,690)
Reinsurance recoverable	1,419,074	271,149	12,012,522	4,016,723	17,719,468
Paid during the year	**(354,790)**	**(2,398,033)**	**(209,102)**	**(2,532,297)**	**(5,494,222)**
NET BALANCE AT THE END OF THE YEAR	**416,557**	**4,526,910**	**319,131**	**2,722,364**	**7,984,962**
Represented in:					
Gross balance at the end of the year	2,536,586	8,172,076	10,872,427	12,058,634	33,639,723
Reinsurance recoverable on outstanding claims	(2,120,029)	(3,645,166)	(10,553,296)	(9,336,270)	(25,654,761)
NET BALANCE AT THE END OF THE YEAR	**416,557**	**4,526,910**	**319,131**	**2,722,364**	**7,984,962**
Unearned premiums reserve	**260,382**	**2,530,149**	**245,694**	**-**	**3,036,225**
Life mathematical reserve	**-**	**-**	**-**	**3,638,500**	**3,638,500**
Additional reserve	**1,250,000**	**3,350,000**	**1,000,000**	**1,100,000**	**6,700,000**

9 LIABILITIES ARISING FROM INSURANCE CONTRACTS (continued)

31 December 2009	Marine and aviation KD	Accident KD	Fire KD	Life and health KD	Total KD
OUTSTANDING CLAIMS RESERVE:					
Gross balance at the beginning of the year	2,663,996	9,424,445	3,216,415	10,910,433	26,215,289
Reinsurance recoverable on outstanding claims	(2,364,405)	(4,407,611)	(2,913,046)	(7,753,006)	(17,438,068)
Net balance at the beginning of the year	299,591	5,016,834	303,369	3,157,427	8,777,221
Gross claims incurred during the year	1,657,133	1,813,599	7,242,506	6,537,945	17,251,183
Reinsurance recoverable	(1,396,271)	245,016	(6,850,345)	(4,385,751)	(12,387,351)
Claims incurred	260,862	2,058,615	392,161	2,152,194	4,863,832
Gross claims paid during the year	(1,174,212)	(3,947,896)	(2,279,584)	(5,715,373)	(13,117,065)
Reinsurance recoverable	1,042,688	1,397,277	1,936,168	3,458,302	7,834,435
Paid during the year	(131,524)	(2,550,619)	(343,416)	(2,257,071)	(5,282,630)
NET BALANCE AT THE END OF THE YEAR	428,929	4,524,830	352,114	3,052,550	8,358,423
Represented in:					
Gross balance at the end of the year	3,146,917	7,290,148	8,179,337	11,733,005	30,349,407
Reinsurance recoverable on outstanding claims	(2,717,988)	(2,765,318)	(7,827,223)	(8,680,455)	(21,990,984)
NET BALANCE AT THE END OF THE YEAR	428,929	4,524,830	352,114	3,052,550	8,358,423
Unearned premiums reserve	333,499	1,887,358	293,495	-	2,514,352
Life mathematical reserve	-	-	-	3,315,000	3,315,000
Additional reserve	1,250,000	3,350,000	1,000,000	1,100,000	6,700,000

10 OTHER DEBIT BALANCES

	2010 KD	2009 KD
Accrued income	**208,683**	256,677
Reserve retained by reinsurers	**307,881**	214,183
Reserve for Arab war risk insurance syndicate fund (Note 19)	**1,027,319**	1,034,071
Other debit balances	**348,918**	302,073
Amounts due from Kuwait Clearing Company	**263,882**	133,079
	2,156,683	1,940,083

11 FIXED DEPOSITS

Fixed deposits represent short notice bank deposits with local financial institutions. These deposits are denominated in Kuwaiti dinars and carry an average effective interest rate of 3.21% (2009: 3.69%) per annum.

12 CASH AND CASH EQUIVALENTS

	2010 KD	2009 KD
Bank balances and cash	**1,018,971**	333,749
Bank overdraft	-	(2,810,448)
Cash and cash equivalent	**1,018,971**	(2,476,699)

13 SHARE CAPITAL, CASH DIVIDENDS AND BONUS SHARES

The authorised, issued and fully paid up share capital consists of 171,911,550 shares of 100 fils each (31 December 2009: 156,283,230).

Cash dividends and bonus shares

The Ordinary Annual General Assembly of the Company's shareholders held on 20 April 2010 approved the payment of cash dividends amounting to KD 3,040,649 for the year ended 31 December 2009 and represents 20% of paid up share capital (2008: Nil).

The Extraordinary General Assembly of the Company's shareholders held on 10 May 2010 approved the increase of authorised, issued and paid up share capital from KD 15,628,323 to KD 17,191,155 through issuance of 15,628,320 bonus shares of 100 fils each for the year ended 31 December 2009 which is equivalent to 10% of paid up share capital (2008: Nil).

The Board of Directors of the Company have proposed cash dividend of 25 fils per share (2009: 20 fils) and 5% bonus shares of paid up share capital (2009: 10%) 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.

14 RESERVES

Statutory reserve

As required by the Law of Commercial Companies and the Company's articles of association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees has been transferred to statutory reserve. The Company may resolve to discontinue such annual transfers since the reserve exceeds 50% of paid up share capital.

Only the part of the reserve in excess of 50% of paid up capital is freely distributable. Distribution of the balance is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

General reserve

In accordance with the Company's articles of association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' fees is has been transferred to general reserve.

Special voluntary reserve

In accordance with the Company's articles of association, the board of directors can resolve to transfer certain amount of the profit for the year to the special voluntary reserve. This transfer can be suspended at the discretion of the general assembly.

15 TREASURY SHARES

	2010 KD	2009 KD
Number of shares	**3,955,842**	4,310,571
Percentage of issued shares (%)	**2.30**	2.76
Market value (KD)	**2,057,038**	2,284,603

16 INSURANCE PAYABLES

	2010 KD	2009 KD
Policyholders and agencies payable	**556,450**	445,035
Insurance and reinsurance payables	**5,870,779**	5,340,625
	6,427,229	5,785,660

17 OTHER CREDIT BALANCES

	2010 KD	2009 KD
Claims payable	**2,122,786**	1,969,166
Reserve retained on reinsurance business	**1,089,817**	927,236
Reserve for Arab war risk insurance syndicate fund (Note 19)	**1,027,319**	1,034,072
Other payables	**4,703,316**	4,436,173
	8,943,238	8,366,647

18 SEGMENT INFORMATION

The Company operates in two segments, general risk insurance and life and health insurance. There are no inter-segment transactions. The Company's assets and operation are located in Kuwait. Following are the details of those two primary segments:

A) Segment information – Income statement

	Marine and aviation KD	Accident KD	Fire KD	Total general risk insurance KD	Life and health KD	Total KD
Year ended 31 December 2010:						
Revenue:						
Gross premiums	7,034,524	9,844,527	4,144,239	21,023,290	10,125,419	**31,148,709**
Premiums ceded to reinsurers	(5,570,329)	(4,429,467)	(3,627,188)	(13,626,984)	(6,334,812)	**(19,961,796)**
Net premiums	1,464,195	5,415,060	517,051	7,396,306	3,790,607	**11,186,913**
Movement in unearned premiums	73,117	(642,791)	47,801	(521,873)	-	**(521,873)**
Net premiums earned	1,537,312	4,772,269	564,852	6,874,433	3,790,607	**10,665,040**
Commission received on ceded reinsurance	1,863,626	1,625,086	627,505	4,116,217	980,286	**5,096,503**
Policy issuance fees	-	526,932	-	526,932	-	**526,932**
Total revenue	3,400,938	6,924,287	1,192,357	11,517,582	4,770,893	**16,288,475**
Expenses:						
Claims incurred	(342,418)	(2,400,113)	(176,119)	(2,918,650)	(2,202,111)	**(5,120,761)**
Commissions and discounts	(347,285)	(1,439,595)	(157,276)	(1,944,156)	(186,947)	**(2,131,103)**
Increase in life mathematical reserve	-	-	-	-	(323,500)	**(323,500)**
Maturity and cancellations of life insurance policies	-	-	-	-	(178,144)	**(178,144)**
General and administrative expenses for insurance business	(763,443)	(1,146,081)	(325,908)	(2,235,432)	(819,332)	**(3,054,764)**
Total expenses	(1,453,146)	(4,985,789)	(659,303)	(7,098,238)	(3,710,034)	**(10,808,272)**
Net underwriting result	1,947,792	1,938,498	533,054	4,419,344	1,060,859	**5,480,203**
Net investment income				3,825,004	348,431	**4,173,435**
Other income				66,434	91,693	**158,127**
Other general and administrative expenses				(507,217)	-	**(507,217)**
Unallocated expenses				(552,466)	-	**(552,466)**
Profit before contribution to KFAS, NLST, Zakat and Directors' Fees						**8,752,082**

18 SEGMENT INFORMATION (continued)

A) Segment information – Income statement (continued)

	Marine and aviation KD	Accident KD	Fire KD	Total general risk insurance KD	Life and health KD	Total KD
Year ended 31 December 2009:						
Revenue:						
Gross premiums	7,305,519	5,400,434	2,982,135	15,688,088	8,816,144	24,504,232
Premiums ceded to reinsurers	(5,688,418)	(793,713)	(2,370,033)	(8,852,164)	(5,453,017)	(14,305,181)
Net premiums	1,617,101	4,606,721	612,102	6,835,924	3,363,127	10,199,051
Movement in unearned premiums	9,663	247,427	(2,259)	254,831	-	254,831
Net premiums earned	1,626,764	4,854,148	609,843	7,090,755	3,363,127	10,453,882
Commission received on ceded reinsurance	1,385,605	628,346	402,447	2,416,398	766,675	3,183,073
Policy issuance fees	-	532,063	-	532,063	-	532,063
Total revenue	3,012,369	6,014,557	1,012,290	10,039,216	4,129,802	14,169,018
Expenses:						
Claims incurred	(260,862)	(2,058,615)	(392,161)	(2,711,638)	(2,152,194)	(4,863,832)
Commissions and discounts	(246,011)	(968,652)	(139,177)	(1,353,840)	(145,329)	(1,499,169)
Decrease in life mathematical reserve	-	-	-	-	91,000	91,000
Maturity and cancellations of life insurance policies	-	-	-	-	(525,818)	(525,818)
General and administrative expenses for insurance business	(766,191)	(1,020,470)	(242,165)	(2,028,826)	(683,938)	(2,712,764)
Total expenses	(1,273,064)	(4,047,737)	(773,503)	(6,094,304)	(3,416,279)	(9,510,583)
Net underwriting result	1,739,305	1,966,820	238,787	3,944,912	713,523	4,658,435
Net investment income				5,263,616	240,030	5,503,646
Other income				160,034	69,247	229,281
Other general and administrative expenses				(1,245,986)	-	(1,245,986)
Unallocated expenses				(519,648)	-	(519,648)
Profit before contribution to KFAS, NLST, Zakat and Directors' Fees						8,625,728

18 SEGMENT INFORMATION (continued)

B) Segment information – Statement of financial position

	General risk insurance KD	Life and health insurance KD	Total KD
31 December 2010			
Assets	**120,723,580**	**22,388,698**	**143,112,278**
Liabilities	**42,148,552**	**22,340,051**	**64,488,603**
31 December 2009			
Assets	112,942,590	22,354,145	135,296,735
Liabilities	41,664,392	22,354,145	64,018,537

Takaful Insurance Department
The Company has established a new insurance unit named Takaful Insurance for life and non-life insurance which will be specialised in issuing Islamic insurance products. The newly established unit commenced its operations during October 2009. The impact of the related premiums written and net profit on the Company's financial statements is immaterial to be disclosed separately.

19 PARTICIPATION IN ARAB WAR RISK INSURANCE SYNDICATE FUND

This item represents the Company's share of accumulated fund and emergency reserves at 31 December 2009 in accordance with the fund's advice No. 476/2010 dated 19/04/2010 and is equivalent to USD 3,658,542 (2008: USD 3,595,520).

20 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company and entities controlled, jointly controlled or significantly influenced by such party. Pricing policies and terms of these transactions are approved by the Company's management.

Transactions with related parties included in the income statement are as follows:

	Associates KD	Major shareholders KD	**2010 KD**	2009 KD
Gross premiums	535,166	3,260,327	**3,795,493**	1,805,460
Claims incurred	387,008	1,122,339	**1,509,347**	2,704,805
Share of results of associates	203,020	-	**203,020**	15,181

Balances with related parties included in the statement of financial position are as follows:

	Associates KD	Major shareholders KD	**2010 KD**	2009 KD
Investment in associates	13,765,141	-	**13,765,141**	12,881,561
Premiums and insurance balances receivable	397,129	2,810,314	**3,207,443**	1,172,999
Other credit balances	181,401	28,785	**210,186**	1,027,452

Compensation of key management personnel:

	2010 KD	2009 KD
Salaries and other short term benefits	**250,054**	128,846
Employees' end of service benefits	**96,106**	86,106
	346,160	214,952

21 CONTINGENCIES

At the financial position date, the Company had future capital commitments with respect to purchase of financial assets available for sale amounting to KD 6,490,463 (31 December 2009: KD 8,130,183) and had contingent liabilities in respect of letter of credit granted by a bank amounting to KD Nil (31 December 2009: KD 500,000) from which it is anticipated that no material liabilities will arise.

22 STATUTORY GUARANTEES

In accordance with Kuwaiti Law:

(a) Investments of KD 90,000 (2009: KD 110,000) have been deposited with a Kuwaiti bank as security to underwrite general insurance business;
(b) Investments of KD 45,000 (2009: KD 45,000) have been deposited with a Kuwaiti bank in respect of the Company's right to transact life assurance business;
(c) Other investments, in the form of deposits and bonds amounting to KD 5,850,000 (2009: KD 3,960,000) are held in Kuwait.
(d) The Company's premises with net carrying amount of KD 1,293,865 (2009: KD 1,410,300) have been mortgaged with the Ministry of Commerce and Industry.

23 RISK MANAGEMENT

(a) Governance framework

The Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Company is establishing a risk management function with clear terms of reference from the Company's board of directors, its committees and the associated executive management committees. This will be supplemented with a clear organisational structure that document delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Also, a Company policy framework including risk profiles for the Company, risk management, control and business conduct standards for the Company's operations.

(b) Regulatory framework

Law No. 24 of 1961, Law No.13 of 1962 and Decree No. 5 of 1989, and the rules and regulations issued by the Ministry of Commerce provide the regulatory framework for the insurance industry in Kuwait. All insurance companies operating in Kuwait are required to follow these rules and regulations.

The following are the key regulations governing the operation of the Company:

For the life and capital insurance contracts issued in Kuwait, the full mathematical reserves are to be retained in Kuwait

- For marine insurance contracts, at least 15% of the premiums collected in the previous year are to be retained in Kuwait.
- For all other types of insurance, at least 30% of the premiums collected in the previous year are to be retained in Kuwait.
- The funds retained in Kuwait should be invested as under:
    - A minimum of 40% of the funds are to be in the form of cash deposits in a bank operating in Kuwait.
    - A maximum of 25% could be invested in foreign securities (foreign government bonds or foreign securities - bonds and shareholding companies).
    - A maximum of 30% should be invested in Kuwaiti companies' shares or bonds.
    - A maximum of 15% should be in a current account with a bank operating in Kuwait.

(c) Insurance risk

The residual value may be invested in bonds issued or guaranteed by the Government of Kuwait, properties based in Kuwait or loans secured by first mortgage of properties based in Kuwait.

The Company's internal audit is responsible for monitoring compliance with the above regulations and has delegated authorities and responsibilities from the board of directors to ensure compliance.

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The majority of insurance business ceded is placed on a quota share basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 5% of total reinsurance assets at the financial position date.

23 RISK MANAGEMENT (CONTINUED)

(c) Insurance risk (continued)

Insurance risk is divided into risk of life insurance and investment contracts and risk of non life insurance contracts as follows:

(1) Life insurance contracts

Life insurance contracts offered by the Company include term insurance, Group life and disability, Group medical including third party administration (TPA), endowment, investment and pension (individual policies).

Term assurance are conventional regular premium products when lump sum benefits are payable on death or permanent disability.

Pension plans are contracts when retirement benefits are expressed in the form of an annuity payable at retirement age. If death occurs before retirement, contracts generally return the value of the fund accumulated or sum assured whichever is greater. Some contracts give the policyholder the option at retirement to take a cash sum or pension annuity allowing the policyholders the option of taking the more valuable of the two. Provision of additional death benefits may be provided by cancellation of units or through supplementary term assurance contracts. Certain personal pension plans also include contribution protection benefits that provide for payment of contributions on behalf of policyholders in periods of total disability. For contracts with discretionary participation features (DPF), changes in the level of pensions are based on the rate of return declared annually by the insurer which is not guaranteed.

Guaranteed annuities are single premium products which pay a specified payment to the policyholder whilst they and/or their spouse are still alive. Payments are generally either fixed or increased each year at a specified rate or in line with the rate of inflation. Most contracts guarantee an income for a minimum period usually of five years, irrespective of death.

Death benefits of endowment products are subject to a guaranteed minimum amount. The maturity value usually depends on the investment performance of the underlying assets. For contracts with DPF the guaranteed minimum may be increased by the addition of bonuses. These are set at a level that takes account of expected market fluctuations, such that the cost of the guarantee is generally met by the investment performance of the assets backing the liability. However in circumstances when there has been a significant fall in investment markets, the guaranteed maturity benefits may exceed investment performance and these guarantees become valuable to the policyholder. Certain pure endowment pensions contain the option to apply the proceeds towards the purchase of an annuity earlier than the date shown on the contract or to convert the contract to 'paid up' on guaranteed terms. The majority of the mortgage endowment contracts offered by the Company have minimum maturity values subject to certain conditions being satisfied.

For healthcare contracts the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

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

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

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

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

23 RISK MANAGEMENT (CONTINUED)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

for payment of some or all costs. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

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

For annuity contracts, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

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

The table below sets out the concentration of life insurance and investment contracts by type of contract:

31 December 2010 **Type of contract**	**Gross liabilities KD**	**Reinsurers' share of liabilities KD**	**Net liabilities KD**
Term insurance	16,874	(15,631)	**1,243**
Group life and disability	1,842,614	(1,706,847)	**135,767**
Group medical including TPA (through external institution)	495,803	(459,271)	**36,532**
Endowment individual policies	667,396	(618,221)	**49,175**
Pensions (individual policies)	223,390	-	**223,390**
Total life insurance contract	**3,246,077**	**(2,799,970)**	**446,107**
Total investment contracts and participation feature	**3,135,475**	**-**	**3,135,475**
Other life insurance contract liabilities	**56,919**	**-**	**56,919**

31 December 2009 Type of contract	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
Term insurance	17,453	(16,450)	1,003
Group life and disability	1,566,862	(1,476,774)	90,088
Group medical including TPA (through external institution)	513,330	(483,816)	29,514
Endowment individual policies	532,702	(502,073)	30,629
Pensions (individual policies)	257,281	-	257,281
Total life insurance contract	2,887,628	(2,479,113)	408,515
Total investment contracts and participation feature	2,880,079	-	2,880,079
Other life insurance contract liabilities	26,406	-	26,406

23 RISK MANAGEMENT (CONTINUED)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions

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

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

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

▪ *Mortality and morbidity rates*

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

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

▪ *Longevity*

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

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

▪ *Investment return*

The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments.

An increase in investment return would lead to a reduction in expenditure and an increase in profits for the shareholders.

▪ *Expenses*

Operating expenses assumptions reflect the projected costs of maintaining and servicing in-force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate.

An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

▪ *Lapse and surrender rates*

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

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

23 RISK MANAGEMENT (CONTINUED)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

Key assumptions (continued)

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

A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

Sensitivities
The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist they are the main reason for the asymmetry of sensitivities.

(2) Non-life insurance contracts

The Company principally issues the following types of general insurance contracts: marine and aviation, accident and fire. Risks under non-life insurance policies usually cover twelve month duration.

For general insurance contracts the most significant risks arise from climate changes, natural disasters and terrorist activities which are only covered in fire line of business.

Insurance contracts at times also cover risk for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risk that may involve significant litigation.

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

The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (i.e. fire line of business). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a pre-determined maximum amount based on the Company's risk appetite as decided by management.

23 RISK MANAGEMENT (CONTINUED)

(c) Insurance risk (continued)

(3) General risk insurance contracts

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

31 December 2010	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
Marine and Aviation	**2,536,586**	**(2,120,029)**	**416,557**
Accident	**8,172,076**	**(3,645,166)**	**4,526,910**
Fire	**10,872,427**	**(10,553,296)**	**319,131**
Total	**21,581,089**	**(16,318,491)**	**5,262,598**
31 December 2009			
Marine and Aviation	3,146,917	(2,717,988)	428,929
Accident	7,290,148	(2,765,318)	4,524,830
Fire	8,179,337	(7,827,223)	352,114
Total	18,616,402	(13,310,529)	5,305,873

Key assumptions

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

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

Sensitivities

The non-life insurance claims provision is sensitive to the above key assumptions. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process which is indicated in the table below:

31 December 2010	Change in assumption	Impact on gross liabilities KD	Impact on net liabilities KD	Impact on profit KD
Average claim cost	**+10%**	**309,880**	**153,102**	**402,121**
Average number of claim	**+10%**	**1,212**	**949**	**43,632**
Average claim settlement paid	**Reduce from 18 months to 12 months**	**612**	**301**	**N/A**
31 December 2009				
Average claim cost	+10%	302,880	149,871	388,765
Average number of claim	+10%	1,202	945	41,662
Average claim settlement paid	Reduce from 18 months to 12 months	598,630	299,501	N/A

23 RISK MANAGEMENT (CONTINUED)

(d) Financial risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Company is developing its policies and procedures to enhance the Company's mitigation of credit risk exposures.

- A Company credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are monitored by the management.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- The credit risk in respect of customer balances, incurred on non-payment of premiums will only persist during the grace period specified in the policy document until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	31 December 2010		
Exposure credit risk by classifying financial assets according to type of insurance	**General insurance KD**	**Life and health insurance KD**	**Total KD**
Debt securities	1	-	**1**
Loans secured by life insurance policyholders	-	95,842	**95,842**
Policyholders accounts receivables (gross)	7,353,949	1,714,500	**9,068,449**
Insurance and reinsurers account receivable (gross)	4,310,771	643,916	**4,954,687**
Reinsurance recoverable on outstanding claims	16,318,491	9,336,270	**25,654,761**
Other debit balances	2,120,795	35,888	**2,156,683**
Fixed deposits	6,393,534	8,614,514	**15,008,048**
Cash and cash equivalents	1,011,110	7,861	**1,018,971**
Total credit risk exposure	**37,508,651**	**20,448,791**	**57,957,442**

	31 December 2009		
Exposure credit risk by classifying financial assets according to type of insurance			
Debt securities	500,001	-	500,001
Loans secured by life insurance policyholders	-	56,227	56,227
Policyholders accounts receivables (gross)	4,760,738	2,170,662	6,931,400
Insurance and reinsurers account receivable (gross)	2,512,270	325,674	2,837,944
Reinsurance recoverable on outstanding claims	13,310,529	8,680,455	21,990,984
Other debit balances	1,879,048	61,035	1,940,083
Fixed deposits	1,609,875	9,447,030	11,056,905
Cash and cash equivalents	330,417	3,332	333,749
Total credit risk exposure	24,902,878	20,744,415	45,647,293

23 RISK MANAGEMENT (CONTINUED)

(d) Financial risks (continued)

(1) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the financial assets by classifying assets according to international credit ratings of the counterparties.

Exposure credit risk by classifying financial Assets according to international credit rating agencies

	A KD	B KD	Not rated KD	Total KD
31 December 2010				
Debt securities	**-**	**-**	**1**	**1**
Loans secured by life insurance policyholders	**-**	**-**	**95,842**	**95,842**
Policyholders accounts receivable (gross)	**207,232**	**651,212**	**8,210,005**	**9,068,449**
Insurance and reinsurance accounts receivables (gross)	**-**	**1,378,556**	**3,576,131**	**4,954,687**
Reinsurance recoverable on outstanding claims	**8,871,005**	**12,160,000**	**4,623,756**	**25,654,761**
Other debit balances	**-**	**-**	**2,156,683**	**2,156,683**
Fixed deposits	**15,008,048**	**-**	**-**	**15,008,048**
Bank balances and cash	**1,018,971**	**-**	**-**	**1,018,971**
Total credit risk exposure	**25,105,256**	**14,189,768**	**18,662,418**	**57,957,442**

Exposure credit risk by classifying financial Assets according to international credit rating agencies

	A KD	B KD	Not rated KD	Total KD
31 December 2009				
Debt securities	500,001	-	-	500,001
Loans secured by life insurance policyholders	-	-	56,227	56,227
Policyholders accounts receivable (gross)	300,000	431,400	6,200,000	6,931,400
Insurance and reinsurance accounts receivables (gross)	747,500	701,201	1,389,243	2,837,944
Reinsurance recoverable on outstanding claims	7,625,301	9,500,000	4,865,683	21,990,984
Other debit balances	-	-	1,940,083	1,940,083
Fixed deposits	11,056,905	-	-	11,056,905
Bank balances and cash	333,749	-	-	333,749
Total credit risk exposure	20,563,456	10,632,601	14,451,236	45,647,293

23 RISK MANAGEMENT (CONTINUED)

(d) Financial risks (continued)

(1) Credit risk (continued)

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

(2) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Management monitors liquidity requirements on a daily basis and ensures that sufficient funds are available. The Company has sufficient liquidity and, therefore, does not resort to borrowings in the normal course of business.

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:

	Within 1 Year KD	> than 1 year KD	Total KD
31 December 2010			
Financial liabilities:			
Insurance payables	2,000,000	4,427,229	**6,427,229**
Other credit balances	7,343,932	1,600,000	**8,943,932**
Premiums received in advance	1,500,000	603,688	**2,103,688**
	10,843,932	**6,630,917**	**17,474,849**
31 December 2009			
Financial liabilities:			
Insurance payables	1,212,000	4,573,660	5,785,660
Other credit balances	5,866,647	2,500,000	8,366,647
Premiums received in advance	677,023	1,000,000	1,677,023
Term loan	2,613,125	-	2,613,125
Bank overdraft	2,965,023	-	2,965,023
	13,333,818	8,073,660	21,407,478

23 RISK MANAGEMENT (CONTINUED)

(d) Financial risks (continued)

(2) Liquidity risk (continued)

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 investment in associate and financial assets available for sale are based on management's estimate of liquidation of those financial assets.

31 December 2010	Within 1 Year KD	> than 1 year KD	Total KD
Assets			
Property and equipment	-	3,136,279	**3,136,279**
Investments in associates	-	13,765,141	**13,765,141**
Financial assets available for sale	34,397,716	35,000,000	**69,397,716**
Loans secured by life insurance policyholders	10,737	85,105	**95,842**
Premiums and insurance balances receivable	10,209,000	2,669,837	**12,878,837**
Reinsurance recoverable on outstanding claims	5,554,761	20,100,000	**25,654,761**
Other debit balances	1,156,683	1,000,000	**2,156,683**
Fixed deposits	15,008,048	-	**15,008,048**
Bank balances and cash	1,018,971	-	**1,018,971**
	67,355,916	**75,756,362**	**143,112,278**
Liabilities			
Liabilities arising from insurance contracts	7,014,448	40,000,000	**47,014,448**
Insurance payables	1,500,000	4,927,229	**6,427,229**
Other credit balances	6,443,238	2,500,000	**8,943,238**
Premiums received in advance	2,103,688	-	**2,103,688**
	17,061,374	**47,427,229**	**64,488,603**
31 December 2009			
Assets			
Property and equipment	-	3,286,717	3,286,717
Investments in associates	-	12,881,561	12,881,561
Financial assets available for sale	-	75,220,321	75,220,321
Loans secured by life insurance policyholders	16,868	39,359	56,227
Premiums and insurance balances receivable	6,824,150	1,706,038	8,530,188
Reinsurance recoverable on outstanding claims	9,628,864	12,362,120	21,990,984
Other debit balances	1,474,463	465,620	1,940,083
Fixed deposits	11,056,905	-	11,056,905
Bank balances and cash	333,749	-	333,749
	29,334,999	105,961,736	135,296,735
Liabilities			
Liabilities arising from insurance contracts	10,350,759	32,528,000	42,878,759
Insurance payables	1,212,000	4,573,660	5,785,660
Other credit balances	5,866,647	2,500,000	8,366,647
Premiums received in advance	677,023	1,000,000	1,677,023
Term loan	2,500,000	-	2,500,000
Bank overdraft	2,810,448	-	2,810,448
	23,416,877	40,601,660	64,018,537

23 RISK MANAGEMENT (CONTINUED)

(d) Financial risks (continued)

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises three types of risk: currency risk, interest rate risk and equity price risk.

(i) Currency risk
Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit due to changes in fair value of currency sensitive assets and liabilities.

The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear. The effect of decreases in profit and other comprehensive income is expected to be equal and opposite to the effect of the increases shown.

		2010		2009	
	Change in variables	**Impact on profit KD**	**Impact on other comprehensive income KD**	Impact on profit KD	Impact on other comprehensive income KD
USD	± 5%	**4,801**	**1,170,219**	4,898	1,263,948
JD	± 5%	**15,915**	**52,573**	15,918	52,790
EGP	± 5%	**2,432**	**81,068**	2,425	75,401
Euro	± 5%	**482**	**122,190**	480	119,968
GBP	± 5%	**943**	**43,947**	939	48,200
Others	± 5%	**-**	**227,497**	56,967	-

(ii) 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.

The sensitivity of the income statement is the effect of the assumed changes in interest rates, on the Company's profit before contribution to KFAS, NLST, Zakat 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 75 basis points in interest rates on, with all other variables held constant, profit before taxation and director's fees will be KD 5,135 (2009: KD 5,768).

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

23 RISK MANAGEMENT (CONTINUED)

(d) Financial risks (continued)

(3) Market risk (continued)

(iii) Equity price risk
Equity price risk arises from the change in fair values of equity investments. The Company manages this risk through diversification of investments in terms of geographical distribution and industrial concentration.

The effect on other comprehensive income as a result of a change in the fair value of financial assets available for sale at 31 December due 10% change in the following market indices with all other variables held constant is as follows:

	2010		2009	
Market indices	**Effect on profit KD**	**Effect on other comprehensive income KD**	Effect on profit KD	Effect on other comprehensive income KD
Kuwait	**331,002**	**5,628,872**	337,514	6,807,711
Other GCC countries	**-**	**1,156,969**	-	206,498
Europe	**-**	**332,275**	-	244,466
Others	**298,012**	**2,195,984**	304,707	2,651,081

The effect of decreases in profit and other comprehensive income is expected to be equal and opposite to the effect of the increases shown.

24 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 shareholders' 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 issues new shares.

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

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's policy is to keep the gearing ratio between 35% and 60%. The Company includes within net debt, liabilities arising from insurance contracts, payables and term loans less cash and cash equivalent. Capital includes equity of the Company.

	2010 KD	2009 KD
Liabilities arising from insurance contracts	**47,014,448**	42,878,759
Payables	**17,474,155**	15,829,330
Term loan	**-**	2,500,000
Less: Cash and cash equivalents	**(1,018,971)**	(2,476,699)
Net debt	**63,469,632**	58,731,390
Total capital	**78,623,675**	71,278,198
Capital and net debt	**142,093,307**	130,009,588
Gearing ratio	**45%**	45%

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and cash equivalent, financial assets available for sale and debt securities. Financial liabilities consist of bank overdraft.

The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost (Note 7), are not materially different from their carrying values. The Company uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities:

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are 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:

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

31 December 2010	Total fair value KD	Level 1 KD	Level 2 KD	Level 3 KD
Financial assets available for sale:				
Quoted	**23,562,635**	23,562,635	-	-
Unquoted	**16,360,516**	-	-	16,360,516
Total	**39,923,151**	23,562,635	-	16,360,516
31 December 2009				
Financial assets available for sale:				
Quoted	31,787,398	31,787,398	-	-
Unquoted	15,475,684	-	-	15,475,684
Total	47,263,082	31,787,398	-	15,475,684

During the year, there have been no transfers between hierarchies.