AL AHLEIA INSURANCE CO. S.A.K.

Annual Report 2009

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. 15,628,323
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. Hussam Fawzi 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	SENIOR DIRECTOR - MARINE & AVIATION DEPT.
Dr. Fayeq H. Tawdros	ACTUARY

SISTER COMPANIES

Industrial Electrical Projects Co. (K.S.C.) Closed

P.O.Box 295, Dasman 15453, Kuwait
Tel.: (965) 1822882 - Fax: (965) 24735014
www.iep-kw.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

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

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

Al-Watania Insurance Y.S.C.

Head Office - Sana'a, Yemen

P.O.Box 15497
Tel.: (9671) 272713/874
Fax: (9671) 272924
www.alwataniains.com

Al-Iraq International Insurance Co.

Iraq - Baghdad, Al Karada Al Sharkya,
Babil Neighborhood,
District No. 925
Tel.: 7788956

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) 22240033 - 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

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

AGENDA

FOR THE FORTY SIXTH MEETING OF THE ANNUAL ORDINARY GENERAL ASSEMBLY

1- Approving the Board of Directors ' Report for the Financial year ending 31 December 2009 .

2- listening to the Auditors' Report for the Financial year ending 31 December 2009 .

3- Approving the General Balance Sheet and the Statement of Profit and Loss for the Financial year ending 31 December 2009.

4- Approving dealing with related parties.

5- Approving the proposal of the Board of Directors of distributing cash dividends to the shareholders at 20% of the paid up capital, i.e. twenty fils per share, in addition to distribution of 15,628,323 shares at 10% 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 2009.

9- Appointing or re-appointment of Auditors for the Financial year 2010, and Authorizing the Board of Directors to determine their remuneration.

FOR THE EXTRAORDINARY GENERAL MEETING

1- Approval of capital raise from KD. 15,628,323 to KD. 17,191,155 by means of distributing free bonus shares to shareholders as much as 10% from paid up capital i.e. KD. 1,562,832 .

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. 15,628,323 distributed on 156,283,230 shares the value of each 100 fils.

Proposed Adjustment

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

REPORT OF THE BOARD OF DIRECTORS

Submitted to the Shareholders during the 46th meeting of the Ordinary General Assembly at the Company's Head Office on Tuesday 20/4/2010 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 2009.

The year 2009 was indeed the year of challenges resulting from exceptional situation imposed by the aftermath of global financial crisis on both local and regional levels.

Nevertheless, our Company's results for 2009 were positive as it made a net profits of KD. 8,163,108 after deducting KD. 5,334,927 as amortization of unrealized losses in profit/loss account, as against loss of KD. 3,816,468 in 2008. The positive results clearly reflect the company's conservative and well considered policies and its vigilance on the volatility of the local market.

During 2009, the Company settled an amount of KD. 20,000,000 of its loan to a local bank, leaving the outstanding amount at KD. 2.5m, as against KD. 22.5m in 2008, a fact that upgraded its ranking by standard & poor's from BBB+/Negative/-- to BBB+/Stable/--.

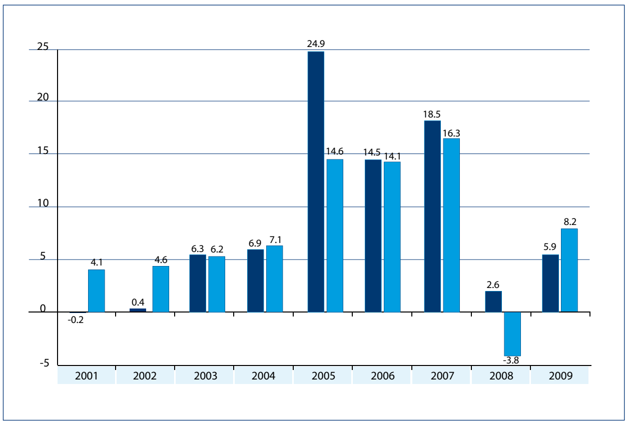
In doing so, the Company relied on diversification of revenues and extending its wide network insurance coverage regionally, as well as offering new insurance products. This has resulted in achieving recorded results, and continued to strengthen the company's provision in order to reinforce its position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

And to present you our brief report on the Company's activities during the year 2009, 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 2009, 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, 2009 did not witness major insurance disasters ,a fact that helped stimulating insurance market.

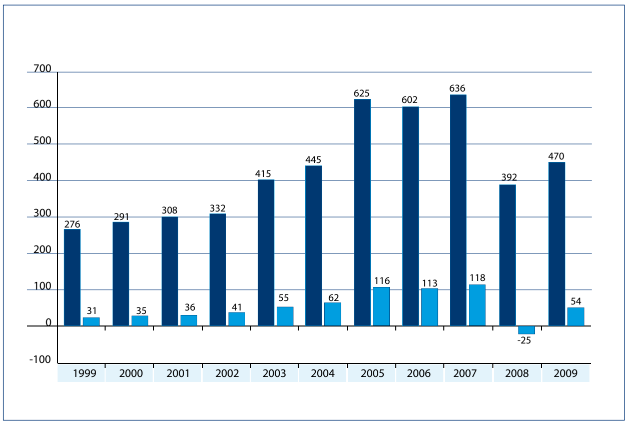
Your Company have proved serious in their transactions through proper underwriting and increase participation in the result by raising the limits of their retention, such action being within your Company's strategies as shown in attached schedules and compared with result of previous years.

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.



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

Unrecognized Profit in Shareholders' Equity
Recognized Net Profit



Growth of Share Profitability & Share Book Value
(fils)

Share Book Value
Share Profitability

REPORT OF THE BOARD OF DIRECTORS

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.

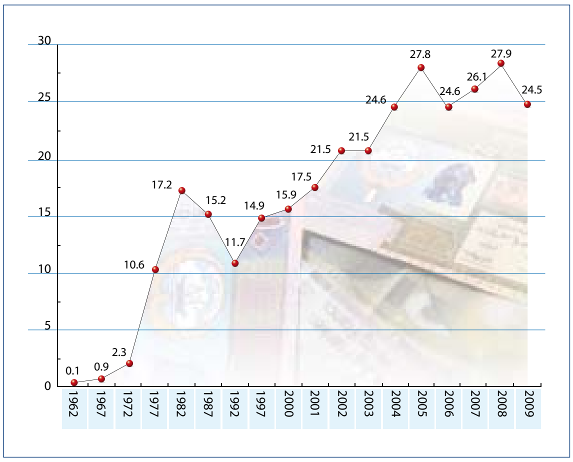
The year 2009 was closed with the following information:

FIRST: INSURANCE ACTIVITIES

The gross annual production amounted to KD. 24.5 million against KD. 27.9 million in 2008 i.e. a shortage at the rate of 12.1 %. The net technical return on insurance premiums totaled KD. 4.7 million (KD. 3.9 million in 2008) after increase of additional reserves by about KD. 23,686 .

Hereinafter is a detailed summary of these aggregates:

Insurance Activity
(in million KD)

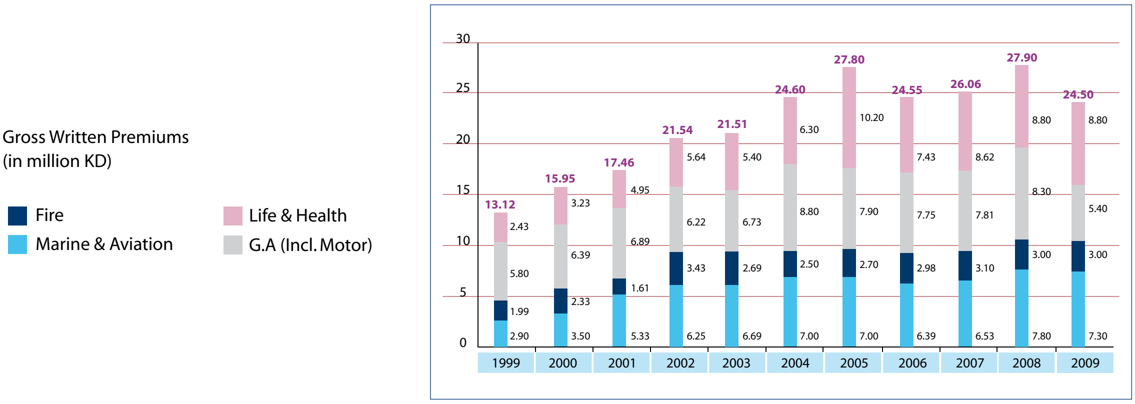


REPORT OF THE BOARD OF DIRECTORS

General Accident (non- life business):

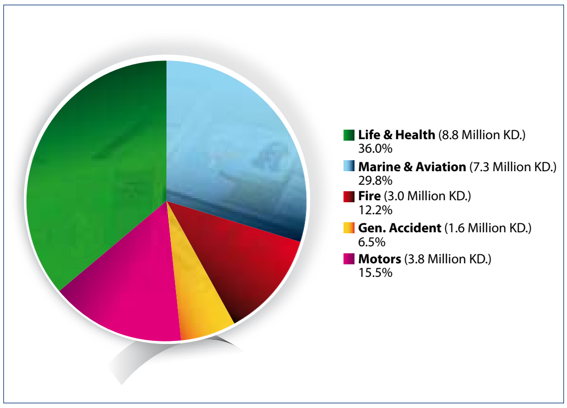
Gross written premiums amounted to KD. 15,688,088 against KD. 19,105,631 in 2008, i.e. a shortage of KD. 3,417,543 at the rate of 17.9%.
The net profit of these departments totaled KD. 3,944,912 after increase of additional reserve for these departments by KD. 23,686 as against KD. 3,887,295 after increase of additional reserve by KD. 36,607 in 2008.

The Marine & Aviation business produced a net profit of KD. 1,739,305 as against KD. 1,891,986 in 2008 the Fire KD. 238,787 (KD. 325,946 in 2008) and the General Accident (which includes Motor) ended with a net profit of KD. 1,966,820 after increasing the additional reserves for these departments by KD. 23,686 as against net profit of KD. 1,669,363 in 2008.

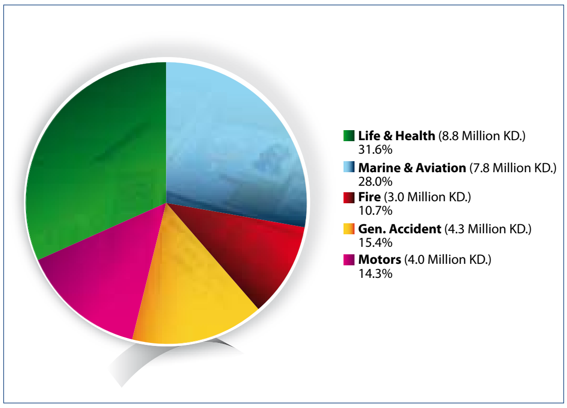


Life & Health Insurances:

Total premium income amounted to KD. 8,816,144 against KD. 8,758,115 in 2008, an increase of KD. 58,029 at the rate of 0.7%.
The net profit amounted to KD. 713,523 against loss of KD. 21,675 in 2008, after reassessment of the Mathematical Reserve by the Company's Actuary and after decreasing the same by KD. 91,000 to reach KD. 3,315,000 against KD. 3,406,000 in 2008.
The company's investment in life and health insurance made profits of KD. 240,030 after listing unrealized losses of KD. 273,896.



Source of Written Premiums 2009



Source of Written Premiums 2008

REPORT OF THE BOARD OF DIRECTORS

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. The amounts paid under those agreements were charged to the additional reserves in the General Insurance Classes in a manner similar to what was followed in the previous years.

The amount of K.D 23,686 was settled this year against K.D 36,607 in 2008.

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

As a result of the global financial crisis represented in the decrease of oil prices and the decline in the performance of financial markets, Kuwaiti economy came under pressures in 2009. In order to offset these outcomes, the Kuwaiti government took a number of stimulating procedures such as government guarantee of bank deposits and lower interest rates . In addition, the Central Bank of Kuwait passed a financial stability law by which the government guarantees 50 % of the new loans .

As a result of the above course of action inflation rate dropped to 6.4% as against 9.8% in 2008 .

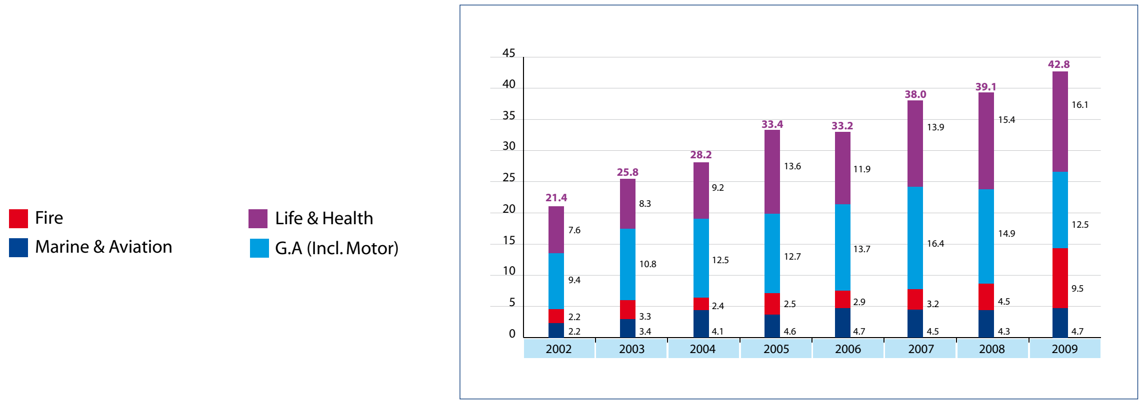
Kuwait intends to increase investment expenses volume for 2010, in additional to stabilize average oil prices at $70 p/b in which the government hopes to make a surplus of KD. 5.5 b.

The investment of the company in 2009 made a profit of KD. 5,503,646 after amortization of KD. 5,334,927 as unrealized losses (Impairment) of the company's investments, against KD. 5,573,976 in 2008 in addition to recording KD. 5,937,391 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. 8,163,108 against loss of KD. 3,816,468 in 2008.

By adding profit brought forward from the previous year of KD. 5,958,982 the gross profit allowable for distribution amounts to KD. 14,122,090 compared to KD. 5,958,982 for the year 2008.



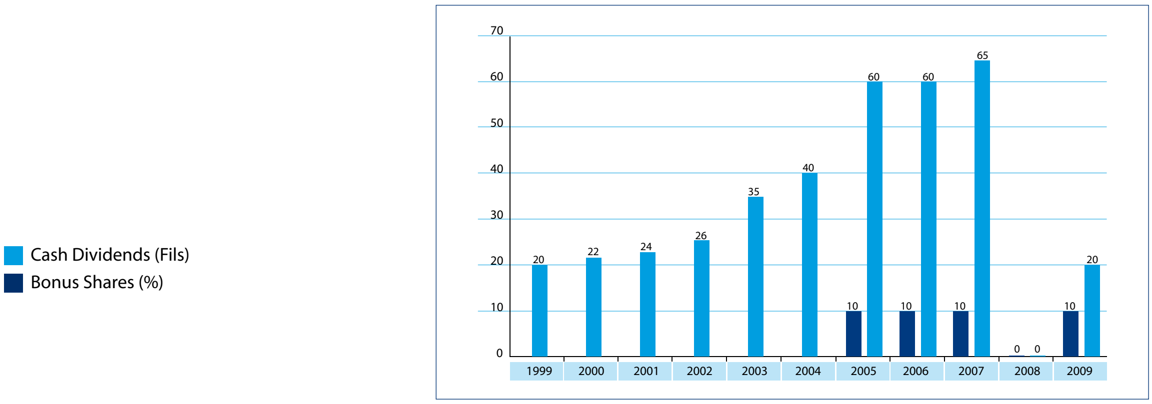
Technical Reserves
(Unearned Premiums, Additional, Mathematical & Outstanding Claims Reserves)
(in million KD)

REPORT OF THE BOARD OF DIRECTORS

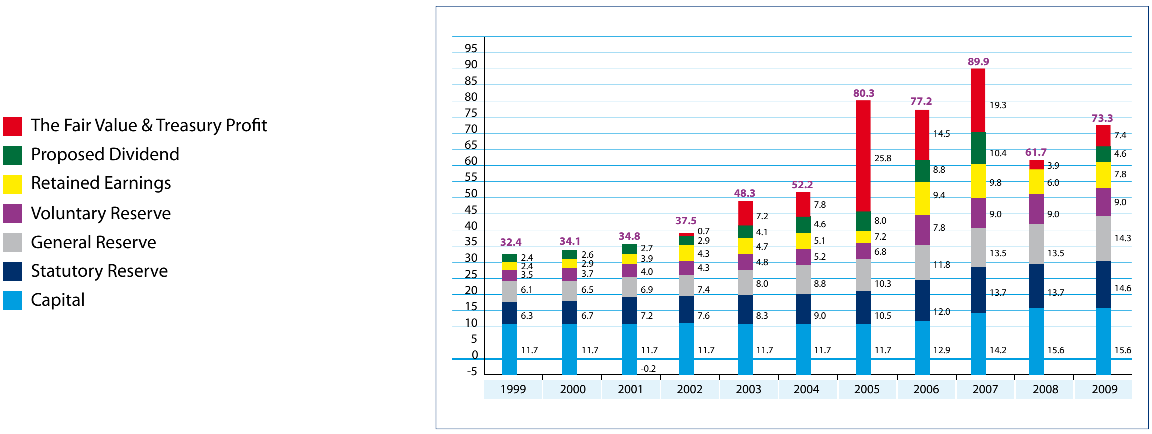
The Board of Directors of your Company recommends to deduct the amount of KD. 862,573 i.e. 10% of this year profit and add it to the Statutory Reserve, KD. 862,573 i.e. another 10% to the General Reserve, and an amount of KD. 83,849 for Kuwait Foundation for the Advancement of Sciences representing the 1% earmarked year's profit as legally determined, an amount of KD. 174,122 to support the National Workforce and an amount of KD. 69,649 to Zakat Tax. The Board of Directors also recommends the distribution of the sum of KD. 3,039,453 to the Shareholders of the Company on the Paid-up Capital at the rate of 20%, i.e. twenty Fils per share, in addition to distribution of 15,628,320 shares at 10% as free bonus, i.e. 10 shares for each 100 shares, provided that such distribution takes place within ten days 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 31/12/2009 and to carry forward the remaining net profit of KD. 1,835,677 to the next year.

On the basis of all the foregoing, the Statutory Reserve shall become KD. 14,575,372 the General Reserve KD. 14,335,847 the Voluntary Reserve KD. 9,000,000 and the profits carried forward to the next year KD. 7,794,659 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)

REPORT OF THE BOARD OF DIRECTORS

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 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 Directors 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
Al Aiban, Al Osaimi & Partners

P.O. Box 74 Safat
13001 Safat, Kuwait
Baitak Tower, 18-21st Floor,
Safat Square, Ahmed Al Jaber Street

Tel.: 2245 2880 / 22955000 - 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.

We have audited the accompanying financial statements of Ahleia Insurance Company S.A.K. (the "Company"), which comprise the statement of financial position as at 31 December 2009 and the related income statement, statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, anda summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 directors, 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 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Company and the financial statements, together with the contents of the report of the board of directors relating to this 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, and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2009 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

21 March 2010
Kuwait

INCOME STATEMENT
Year ended 31 December 2009

	Notes	2009 KD	2008 KD
Revenue:			
Gross premiums		24,504,232	27,863,746
Premiums ceded to reinsurers		(14,305,181)	(16,954,129)
Net premiums		10,199,051	10,909,617
Movement in unearned premiums		254,831	10,080
Net premiums earned		10,453,882	10,919,697
Commission received on ceded reinsurance		3,183,073	3,253,837
Policy issuance fees		532,063	566,395
Total Revenue		14,169,018	14,739,929
Expenses:			
Claims incurred	9	(4,863,832)	(6,125,870)
Commissions		(1,499,169)	(1,341,018)
Increase in additional reserve		(23,686)	(36,607)
Decrease (increase) in life mathematical reserve		91,000	(312,000)
Maturity and cancellations of life insurance policies		(525,818)	(350,437)
General and administrative expenses for insurance business		(2,689,078)	(2,708,377)
Total Expenses		(9,510,583)	(10,874,309)
NET UNDERWRITING RESULT		4,658,435	3,865,620
Investment income	3	10,838,573	16,327,780
Impairment of financial assets available for sale	7	(5,334,927)	(21,901,756)
Other general and administrative expenses		(1,765,634)	(2,817,012)
Other income		229,281	708,900
PROFIT (LOSS) BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT AND DIRECTORS' FEES		8,625,728	(3,816,468)
Contribution to KFAS		(83,849)	-
NLST		(174,122)	-
Zakat		(69,649)	-
Directors' fees		(135,000)	-
PROFIT (LOSS) FOR THE YEAR		8,163,108	(3,816,468)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE	4	53.83 fils	(25.15) fils

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	2009 KD	2008 KD
Profit (loss) for the year	8,163,108	(3,816,468)
Other comprehensive income (loss)		
Net unrealized loss on financial assets available for sale	(1,886,276)	(32,636,449)
Net realized loss transferred to income statement on disposal of available for sale investments	(154,505)	(5,102,905)
Impairment loss on financial assets available for sale recognized in the income statement	5,334,927	21,901,756
Foreign currency translation adjustment	185,630	152,127
Other comprehensive gain (loss) for the year	3,479,776	(15,685,471)
Total comprehensive income (loss) for the year	11,642,884	(19,501,939)

STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 KD	2008 KD
ASSETS			
Property and equipment	5	3,286,717	3,382,012
Investments in associates	6	12,881,561	4,737,162
Financial assets available for sale	7	75,220,321	89,947,191
Loans secured by life insurance policyholders		56,227	67,071
Premiums and insurance balances receivable	8	8,530,188	9,589,763
Reinsurance recoverable on outstanding claims	9	21,990,984	17,438,068
Other debit balances	10	1,940,083	1,945,964
Fixed deposits	11	11,056,905	10,627,187
Bank balances and cash	12	333,749	73,281
TOTAL ASSETS		135,296,735	137,807,699
EQUITY AND LIABILITIES			
Equity			
Share capital	13	15,628,323	15,628,323
Statutory reserve	14	14,575,372	13,712,799
General reserve	14	14,335,847	13,473,274
Special voluntary reserve	14	9,000,000	9,000,000
Treasury shares		(2,043,712)	(2,217,777)
Treasury shares reserve		1,333,534	1,335,437
Cumulative changes in fair values		5,937,391	2,643,245
Foreign currency translation reserve		114,499	(71,131)
Retained earnings		12,396,944	5,958,982
Total equity		71,278,198	59,463,152
LIABILITIES			
Liabilities arising from insurance contracts:			
Outstanding claims reserve	9	30,349,407	26,215,289
Unearned premiums reserve	9	2,514,352	2,769,183
Life mathematical reserve	9	3,315,000	3,406,000
Additional reserve	9	6,700,000	6,700,000
Total liabilities arising from insurance contracts		42,878,759	39,090,472
Insurance payables	17	5,785,660	4,843,317
Other credit balances	18	8,366,647	6,943,124
Premiums received in advance		1,677,023	1,847,768
Term loan	19	2,500,000	22,500,000
Bank overdraft	12	2,810,448	3,119,866
Total liabilities		64,018,537	78,344,547
TOTAL EQUITY AND LIABILITIES		135,296,735	137,807,699

Sulaiman Hamad M. Al-Dalali
Chairman And Managing Director

Ayman Abdullatif A. Al-Shayea
Vice Chairman

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	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 2009	15,628,323	13,712,799	13,473,274	9,000,000	(2,217,777)	1,335,437	2,643,245	(71,131)	5,958,982	59,463,152
Profit for the year	-	-	-	-	-	-	-	-	8,163,108	8,163,108
Other comprehensive income	-	-	-	-	-	-	3,294,146	185,630		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
Balance at 1 January 2008	14,207,566	13,712,799	13,473,274	9,000,000	(1,823,665)	1,106,482	18,480,843	(223,258)	20,183,499	88,117,540
Loss for the year	-	-	-	-	-	-	-	-	(3,816,468)	(3,816,468)
Other comprehensive (loss) income	-	-	-	-	-	-	(15,837,598)	152,127	-	(15,685,471)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(15,837,598)	152,127	(3,816,468)	(19,501,939)
Issue of bonus shares	1,420,757	-	-	-	-	-	-	-	(1,420,757)	-
Dividends	-	-	-	-	-	-	-	-	(8,987,292)	(8,987,292)
Purchase of treasury shares	-	-	-	-	(977,028)	-	-	-	-	(977,028)
Sale of treasury shares	-	-	-	-	582,916	228,955	-	-	-	811,871
At 31 December 2008	15,628,323	13,712,799	13,473,274	9,000,000	(2,217,777)	1,335,437	2,643,245	(71,131)	5,958,982	59,463,152

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 KD	2008 KD
OPERATING ACTIVITIES			
Profit (loss) before contribution to KFAS, NLST, Zakat and directors' fees		8,625,728	(3,816,468)
Adjustments for:			
Provision for employees' end of service benefits		70,571	85,045
Gain on sale of investment properties		-	(3,719,208)
Share of results of associates	3	(15,181)	(368,809)
Excess of fair value of investment in an associate over acquisition price	3	(2,640,015)	-
Interest income		(583,489)	(1,041,985)
Dividend income	3	(1,934,096)	(4,877,701)
Gain on sale of financial assets available for sale	3	(4,702,250)	(6,150,877)
Impairment of financial assets available for sale	3	5,334,927	21,901,756
Interest expenses		857,658	1,924,782
Depreciation of property and equipment		164,480	151,164
Depreciation of investment properties		-	9,974
		5,178,333	4,097,673
Changes in operating assets and liabilities:			
Premiums and insurance balances receivable		1,059,575	(1,248,730)
Reinsurance recoverable on outstanding claims		(4,552,916)	(168,373)
Other debit balances		256,205	641,684
Liabilities arising from insurance contracts		3,788,287	1,076,162
Insurance payables		942,343	(957,693)
Other credit balances		133,148	(2,166,422)
Premiums received in advance		(170,745)	(331,396)
Cash from operations		6,634,230	942,905
Employees' end of service benefits paid		(51,219)	(35,575)
Paid to KFAS		-	(170,041)
Paid to NLST		-	(373,635)
Paid to Zakat		-	(9,049)
Paid to directors		-	(135,000)
Net cash from operating activities		6,583,011	219,605
INVESTING ACTIVITIES			
Purchase of property and equipment	5	(69,185)	(136,685)
Proceeds from sale of investment properties		-	5,000,000
Purchase of investment in associates	6	(133,693)	-
Redemption of debt securities		-	500,000
Purchase of financial assets available for sale		(12,400,040)	(32,481,226)
Proceeds from sale of financial assets available for sale		24,066,206	29,498,539
Movement in loans secured by life insurance policyholders		10,844	29,942
Movement in fixed deposits		(429,718)	1,194,377
Dividends received from investment in associates	6	552,293	236,313
Dividend income received		1,934,096	4,874,206
Interest income received		333,165	664,108
Net cash from investing activities		13,863,968	9,379,574
FINANCING ACTIVITIES			
Dividends paid		(49,255)	(8,774,348)
Purchase of treasury shares		(134,733)	(977,028)
Sale of treasury shares		306,895	811,871
Term loan repaid		(20,000,000)	(4,830,402)
Net cash used in financing activities		(19,877,093)	(13,769,907)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		569,886	(4,170,728)
Cash and cash equivalents at the beginning of the year		(3,046,585)	1,124,143
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	(2,476,699)	(3,046,585)

The attached notes 1 to 28 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

1 CORPORATE INFORMATION

The financial statements of Al-Ahleia Insurance Company S.A.K. (the "Company") for the year ended 31 December 2009 were authorized for issue in accordance with a resolution of the Board of Directors on 21 March 2010. 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 have been prepared on the historical cost convention as modified to include the measurement at fair value of financial assets available for sale.

2.2 Statement of compliance

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

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

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) is presented in the notes.

2.3 Change in accounting policies and disclosures

The accounting policies used in the preparation of these financial statements are consistent with those used in previous year except as follows:

The Company has adopted the following new and amended International Financial Reporting Standards (IFRS) as of 1 January 2009:

IFRS 7 Financial Instruments: Disclosures (effective 1 January 2009):
The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in the notes of the financial statement. This amendment does not require the companies to

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Change in accounting policies and disclosures (continued)

IFRS 7 Financial Instruments: Disclosures (effective 1 January 2009): (continued)

provide comparative information on transition. Thus, the Company elected not to provide comparative information. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in the notes to the financial statements.

IFRS 8 'Operating Segments':

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Company concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 19, including the related revised comparative information.

IAS 1 Presentation of Financial Statements Revised (effective 1 January 2009):

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Company has elected to present two statements.

Improvements to IFRSs

The International Accounting Standards Board (IASB) issued certain amendments to its standards primarily with a view to removing inconsistencies and clarifying wordings. The adoption of the following amendments resulted in changes to accounting policies of the Company, but did not have any impact on the financial position or performance of the Company.

IAS 16: Property, Plant and Equipment (effective 1 January 2009)
IAS 23: Borrowing Costs revised (effective 1 January 2009)
IAS 28: Investment in Associates (effective 1 January 2009)
IAS32: Financial Instruments: Presentation (effective 1 January 2009)
IAS 36: Impairment of Asset (effective 1 January 2009)

IAS 16: Property, Plant and Equipment (effective 1 January 2009)

IAS 16 replaces the term "net selling price" with "fair value less costs to sell". The Company amended its accounting policy accordingly, which did not result in any change in the financial position.

IAS 23: Borrowing Costs revised (effective 1 January 2009)

The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Company has amended its accounting policy accordingly which did not result in any change in its financial position.

IAS 28: Investment in Associates (effective 1 January 2009)

If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on the Company. An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. This amendment has no impact on the Company because this policy was already applied.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3 Change in accounting policies and disclosures (continued)

IAS 32 Financial Instruments: Presentation (effective 1 January 2009)

Instruments and Obligations Arising on Liquidation

These amendments to IAS 32 and IAS 1 were issued in February 2008 and are effective for annual periods beginning on or after 1 January 2009. These amendments allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified features. The Company has adopted this amendment effective 1 January 2009.

IAS 36: Impairment of Asset (effective 1 January 2009)

When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the financial statements of the Company because the recoverable amount of its cash generating units is currently estimated using 'value in use'.

The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Company as the annual impairment test is performed before aggregation.

2.4 IASB Standards issued, but not yet mandatory and have not been adopted yet

IFRS 9: Financial instruments (effective 1 January 2013)

IFRS 9 will replace IAS 32 and IAS 39 upon its effective date. The application of IFRS9 will result in amendments to the classification and measurement of financial assets and liabilities of the financial statements of the Company. The amendments will be made in the financial statements when the standard becomes effective.

2.5 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 recognized over the period of risk.

Commissions earned and paid

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

Interest income

Interest income is recognized using the effective interest rate method.

Dividend income

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

Rental income

Rental income is recognized on a straight line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
2.5 Summary of Significant Accounting Policies (continued)

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

Finance costs
Finance costs are calculated and recognized 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
Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the financial position date.

The Company generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. In addition, a provision based on management's judgement and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the financial position date. Any difference between the provisions at the financial position date and settlements and provisions for the following year is included in the underwriting account for that year.

Policy acquisition costs
Commissions paid to intermediaries and other (incremental) direct costs incurred in relation to the acquisition and renewal of insurance contracts are capitalized as an intangible asset. The deferred policy acquisition costs (DAC) are subsequently amortized 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 recognized in the income statement. DAC is also considered in the liability adequacy test for each reporting period.

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

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
2.5 Summary of Significant Accounting Policies (continued)

Liability adequacy test
At each financial position date the Company assesses whether its recognizedinsurance 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 recognized 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.

Reinsurance contracts held
For large claims the Company enters into agreements with other parties for reinsurance purposes in order to minimize 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 balance receivables".

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 recognized 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 recognized 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 derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

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.

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.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of other property and equipment as follows:

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

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

Investments in associates

The Company's investment in its associates 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 the associate is included in the carrying amount of the investment and is not amortized. The income statement reflects the share of the results of operations of the associate.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss of the Company's investment in its associates. The Company determines at each financial position date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Company calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognizes the amount in income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

Investments in associates (continued)

Where there has been a change recognized directly in the other comprehensive income of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the statement of changes in other comprehensive income. Profits and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associate and the Company are identical and the associate's accounting policies conform to those used by the Company for like transactions and events in similar circumstances. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either investment at fair value through income statement, debt securities, investments available for sale and investments held to maturity, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through income statement, directly attributable transaction costs.

The Company determines that classification of its investments after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of investments are recognized on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets available for sale

Financial assets available for sale are recognized and derecognized, on a trade date basis, when the Company becomes, or ceases to be, a party to the contractual provisions of the instrument.

Investments designated as financial assets available for sale are initially recorded at cost (including transactions costs that are directly attributable to the acquisition or issue) and subsequently measured at fair value, unless this cannot be reliably measured. Changes in fair value are reported as a separate component of other comprehensive income. Upon impairment any loss, or upon derecognition any gain or loss, previously reported as "cumulative changes in fair values" within other comprehensive income is included in the income statement for the year.

An assessment is made at each financial position date to determine whether there is objective evidence that an investment may be impaired. If such evidence exists, any impairment loss (being the difference between cost and fair value, less any impairment loss previously recognized) is recognizedin the income statement. In the case of equity and similar investments the investment is written down directly whereas in the case of bonds and similar securities a provision account is used.

Debt securities

Debt securities are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Debt securities (continued)

cost of the investment. Subsequent to initial recognition, these investments are carried at amortized cost, using the effective interest rate method. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortisation process.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability 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 investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the financial position date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Receivables

Accounts receivable are stated at their face value less impairment losses or provision for doubtful accounts.

Impairment and uncollectibility of financial assets

An assessment is made at each financial position date to determine whether there is objective evidence that a financial asset, or a companyof financial assets, may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognized as follows:

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

Reversal, of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the financial asset no longer exist or have decreased. The reversal of impairment losses are recognized in the income statement except for financial assets available for sale which are recognized in the cumulative changes in fair values.

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a company of similar financial assets) is derecognized when:

a) The rights to receive cash flows from the asset have expired;

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

De-recognition of financial assets and liabilities (continued)

Financial assets (continued)

b) The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

Financial liabilities, insurance, reinsurance payable and other payables are derecognized when the obligation under the liability is discharged, cancelled or expired.

When the existing 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Outstanding claims reserve

Outstanding claims comprise the estimated cost of claims incurred and reported but not settled at the financial positiondate. 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 recognized 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 positiondate 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.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
2.5 Summary of Significant Accounting Policies (continued)

Payables
Accounts payable are stated at their cost. Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

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 realized 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 realizedsubsequently 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.

Contingencies
Contingent liabilities are not recognized 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 recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

Life insurance contract liabilities (Life mathematical reserve) (continued)

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.

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 recognized in the financial statements:

Classification of investments

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

Impairment of investments

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 INVESTMENT INCOME

	2009 KD	2008 KD
Gain on sale of investment properties	-	3,719,208
Share of results of associates (Note 6)	15,181	368,809
Excess of fair value of investment in an associate over acquisition price (Note 6)	2,640,015	-
Gain on sale of financial assets available for sale	4,702,250	6,150,877
Interest on bonds	28,750	36,599
Interest on fixed deposits	554,739	1,005,386
Dividend income	1,934,096	4,877,701
Rental income	-	27,720
Realized gain on sale of pre-emptive rights	571,779	-
Other investment income	391,763	141,480
	10,838,573	16,327,780

During the year, the Company sold its pre-emptive right to participate in the capital increase of certain financial asset available for sale to a third party amounting to KD 571,779 (2008: KD Nil).

4 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share are calculated by dividing the profit (loss) 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 (loss) per share based on weighted average number of shares outstanding during the year is as follows:

	2009 KD	2007 KD
Profit (loss) for the year	8,163,108	(3,816,468)
	Shares	Shares
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	151,644,317	151,737,655
Basic and diluted earnings (loss) per share	53.83 fils	(25.15) fils

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

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 2008	1,725,500	2,910,884	161,041	1,696,633	6,494,058
Additions	-	-	85,369	51,316	136,685
At 31 December 2008	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
Depreciation:					
At 1 January 2008	-	1,267,714	153,849	1,676,004	3,097,567
Charge for the year	-	116,435	3,798	30,931	151,164
At 31 December 2008	-	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
Net carrying amount:					
At 31 December 2009	1,725,500	1,410,300	86,725	64,192	3,286,717
At 31 December 2008	1,725,500	1,526,735	88,763	41,014	3,382,012

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

6 INVESTMENT IN ASSOCIATES

The Company has the following investment in associates:

	Ownership percentage		Country of incorpora-tion		
	2009 KD	2008 KD		2009 KD	2008 KD
Burgan Insurance Company S.A.L. (Formerly Arab Life Insurance Company S.A.L.)	49.37%	49.37%	Lebanon	370,280	363,777
Trade Union Insurance Company E.C.	20.95%	20.95%	Bahrain	2,064,986	2,304,629
Arab Life and Accident Insurance Company P.S.C.	27.70%	27.20%	Jordan	1,064,992	999,689
Kuwait Reinsurance Company K.S.C. (Closed)*	26.34%	25.88%	Kuwait	9,381,303	-
Industrial Electrical Projects Company K.S.C. (Closed)**	17.20%	20.00%	Kuwait	-	1,069,067
				12,881,561	4,737,162

* This investment was previously treated as available for sale investment as the Company did not have significant influence over the investee Company. During the current year, the Company was able to exercise significant influence by way of representation on board of director, and accordingly, this investment has been accounted for as an associate in accordance with International Accounting Standard 28 ("Investments in Associates"). As a result of this classification an amount of KD 2,640,015, which represents the difference between the fair value and the carrying value of the investment as at the date of the investee Company became an associate, was recognized in the income statement.

** During the year, the associated company "Industrial Electrical Projects Company K.S.C. (Closed)" has increased its share capital, in which the Company did not participate. As a result the Company's ownership percentage decreased to 17.20%. The Company ceased to exercise significant influence over "Industrial Electrical Projects Company K.S.C. (Closed)", and accordingly, this investment has been reclassified to available for sale investment.

	2009 KD	2008 KD
The movement of the investment in associates during the year is as follows:		
Carrying value at 1 January	4,737,162	3,352,539
Additions	133,693	-
Share of results of associates (Note 3)	15,181	368,809
Foreign currency translation adjustment	185,630	152,127
Transfers to financial assets available for sale	(1,069,067)	-
Transfers from financial assets available for sale	6,791,240	1,100,000
Excess of fair value of investment in an associate over acquisition price	2,640,015	-
Dividends received	(552,293)	(236,313)
Carrying value at 31 December	12,881,561	4,737,162

Goodwill included in the carrying value of the investment in associates amounts to KD 273,824 (2008: KD 384,853).

	2009 KD	2008 KD
Share of associates' financial position:		
Assets	24,009,447	12,506,293
Liabilities	(11,127,886)	(7,769,131)
Net assets	12,881,561	4,737,162
Share of associates' revenues and profit:		
Revenues	2,390,188	1,758,957
Net profit	15,181	368,809

Investment in associates include quoted associate with a carrying value of KD 9,381,303 (2008: KD 6,531,181) having a market value of KD 6,492,781 (2008: KD 9,333,373).

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

7 FINANCIAL ASSETS AVAILABLE FOR SALE

	2009 KD	2008 KD
Equity securities:		
Quoted	31,787,398	47,780,386
Unquoted	42,932,922	41,666,804
	74,720,320	89,447,190
Debt securities:		
Bonds	500,001	500,001
	75,220,321	89,947,191

Included in financial assets available for sale are unquoted securities and managed funds with a value of KD 42,932,922 (31 December 2008: KD 41,666,804) which are carried at cost 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 1,908,087 (31 December 2008: KD 1,500,000) has been recognized in this respect.

Impairment loss of KD 3,426,840 (31 December 2008: KD 20,401,756) has been made against quoted securities on which there has been a significant or prolonged decline in fair value below cost.

Movements in cumulative changes in fair values arising from financial assets available for sale are as follows:

	2009 KD	2008 KD
Net unrealized loss	(154,505)	(5,102,905)
Net realized loss reclassified to the income statement on disposal	(1,886,276)	(32,636,449)
Impairment of financial assets available for sale	5,334,927	21,901,756
	3,294,146	(15,837,598)

8 PREMIUMS AND INSURANCE BALANCES RECEIVABLE

	2009 KD	2008 KD
Policyholder's accounts receivable		
Premiums receivable	6,931,400	8,091,272
Provision for doubtful debts	(1,100,040)	(1,005,261)
Net policyholder's accounts receivable	5,831,360	7,086,011
Insurance and reinsures accounts receivable		
Reinsures receivable	2,837,944	2,642,868
Provision for doubtful debts	(139,116)	(139,116)
Net insurance and reinsures accounts receivable	2,698,828	2,503,752
Total premium and insurance receivable balances	8,530,188	9,589,763

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:

	2009 KD	2008 KD
At 1 January	1,005,261	669,644
Charge for the year	100,000	335,617
Amounts written off	(5,221)	-
At 31 December	1,100,040	1,005,261

Movements in the allowance for impairment of insurance and reinsurers receivables were as follows:

	2009 KD	2008 KD
At 1 January	139,116	191,797
Amounts charge for the year	-	39,289
Amounts written off	-	(91,970)
At 31 December	139,116	139,116

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

9 LIABILITIES ARISING FROM INSURANCE CONTRACTS

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

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

9 LIABILITIES ARISING FROM INSURANCE CONTRACTS (continued)

31 December 2008	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	3,025,094	10,765,265	1,915,196	9,735,491	25,441,046
Reinsurance recoverable	(2,636,771)	(5,790,425)	(1,630,618)	(7,211,881)	(17,269,695)
Net balance at the beginning of the year	388,323	4,974,840	284,578	2,523,610	8,171,351
Gross claims incurred during the year	1,335,894	6,286,313	2,149,592	6,443,112	16,214,911
Reinsurance recoverable	(1,035,780)	(3,540,656)	(1,872,976)	(3,639,629)	(10,089,041)
Claims incurred	300,114	2,745,657	276,616	2,803,483	6,125,870
Gross claims paid during the year	(1,696,992)	(7,627,133)	(848,373)	(5,268,170)	(15,440,668)
Reinsurance recoverable	1,308,146	4,923,470	590,548	3,098,504	9,920,668
Paid during the year	(388,846)	(2,703,663)	(257,825)	(2,169,666)	(5,520,000)
NET BALANCE AT THE END OF THE YEAR	299,591	5,016,834	303,369	3,157,427	8,777,221
Represented in:					
Gross balance at the end 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 END OF THE YEAR	299,591	5,016,834	303,369	3,157,427	8,777,221
Unearned premiums reserve	343,162	2,134,785	291,236	-	2,769,183
Life mathematical reserve	-	-	-	3,406,000	3,406,000
Additional reserve	1,250,000	3,350,000	1,000,000	1,100,000	6,700,000

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

10 OTHER DEBIT BALANCES

	2009 KD	2008 KD
Accrued income	256,677	414,656
Reserve retained by reinsurers	214,183	180,879
Reserve for Arab war risk insurance syndicate fund (Note 21)	1,034,071	978,874
Other debit balances	302,073	371,555
Amounts due from Kuwait Clearing Company	133,079	-
	1,940,083	1,945,964

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 3.69% (2008: 6.6%) per annum.

12 CASH AND CASH EQUIVALENTS

	2009 KD	2008 KD
Bank balances and cash	333,749	73,281
Bank overdraft	(2,810,448)	(3,119,866)
Cash and cash equivalent	(2,476,699)	(3,046,585)

Bank overdrafts are denominated in Kuwaiti dinars and carry an average effective interest rate of 2.5% per annum over Central Bank of Kuwait discount rate (2008: 2.5% over Central Bank of Kuwait discount rate).

13 SHARE CAPITAL

Authorized, issued and fully paid up share capital consists of 156,283,230 shares of 100 fils each (31 December 2008: 156,283,230).

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 DIVIDENDS PAID AND PROPOSED

The board of directors of the company have proposed a cash dividend of 20 fils per share (2008: Nil) and bonus shares of 10% of paid up share capital (2008: Nil). This proposal is subject to the approval of the shareholders' General Assembly.

16 TREASURY SHARES

	2009 KD	2008 KD
Number of shares	4,310,571	4,545,571
Percentage of issued shares (%)	2.76	2.90
Market value (KD)	2,284,603	2,500,064

17 INSURANCE PAYABLES

	2009 KD	2008 KD
Policyholders and agencies payable	445,035	472,920
Insurance and reinsurance payables	5,340,625	4,370,397
	5,785,660	4,843,317

18 OTHER CREDIT BALANCES

	2009 KD	2008 KD
Claims payable	1,969,166	1,504,762
Reserve retained on reinsurance business	927,236	1,098,490
Reserve for Arab war risk insurance syndicate fund (Note 21)	1,034,072	978,874
Other payables	4,436,173	3,360,998
	8,366,647	6,943,124

19 TERM LOAN

This represents a loan of KD 25,000,000 obtained from a local bank in 2007. During the year, an amount of KD 20,000,000 was repaid. The outstanding balance as of 31 December 2009 is KD 2,500,000 and carries interest at an effective rate of 2.5% per annum above the Central Bank of Kuwait discount rate (31 December 2008: 0.75% per annum).

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

20 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

Year ended 31 December 2009	Marine and aviation KD	Accident KD	Fire KD	Total general risk insurance KD	Life and health KD	Total KD
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)
Increase in additional reserve	-	(23,686)	-	(23,686)	-	(23,686)
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)	(996,784)	(242,165)	(2,005,140)	(683,938)	(2,689,078)
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
Investment Income				10,324,647	513,926	10,838,573
Impairment of financial assets available for sale				(5,061,031)	(273,896)	(5,334,927)
Other general and administrative expenses				(1,245,986)	-	(1,245,986)
Unallocated expenses						(519,648)
Profit before contribution to KFAS, NLST, Zakat and directors' fees						8,625,728

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

20 SEGMENT INFORMATION (continued)

A) Segment information – Income statement (continued)

Year ended 31 December 2008	Marine and aviation KD	Accident KD	Fire KD	Total general risk insurance KD	Life and health KD	Total KD
REVENUE:						
Gross premiums	7,796,986	8,344,488	2,964,157	19,105,631	8,758,115	27,863,746
Premiums ceded to reinsurers	(5,994,035)	(3,317,487)	(2,362,511)	(11,674,033)	(5,280,096)	(16,954,129)
Net premiums written	1,802,951	5,027,001	601,646	7,431,598	3,478,019	10,909,617
Movement in unearned premiums	(47,715)	75,503	(17,708)	10,080	-	10,080
Net premiums earned	1,755,236	5,102,504	583,938	7,441,678	3,478,019	10,919,697
Commission received on ceded reinsurance	1,443,492	662,392	419,261	2,525,145	728,692	3,253,837
Policy issuance fees	-	566,395	-	566,395	-	566,395
Total Revenue	3,198,728	6,331,291	1,003,199	10,533,218	4,206,711	14,739,929
Expenses:						
Claims incurred	(300,114)	(2,745,657)	(276,616)	(3,322,387)	(2,803,483)	(6,125,870)
Commissions and discounts	(204,024)	(828,059)	(145,873)	(1,177,956)	(163,062)	(1,341,018)
Increase in additional reserve	-	(36,607)	-	(36,607)	-	(36,607)
Decrease in life mathematical reserve	-	-	-	-	(312,000)	(312,000)
Maturity and cancellations of life insurance policies	-	-	-	-	(350,437)	(350,437)
General and administrative expenses from insurance business	(802,604)	(1,051,605)	(254,764)	(2,108,973)	(599,404)	(2,708,377)
Total expenses	(1,306,742)	(4,661,928)	(677,253)	(6,645,923)	(4,228,386)	(10,874,309)
Net underwriting result	1,891,986	1,669,363	325,946	3,887,295	(21,675)	3,865,620
Investment Income				15,654,877	672,903	16,327,780
Impairment of financial assets available for sale				(21,217,913)	(683,843)	(21,901,756)
Other general and administrative expenses				(2,817,012)	-	(2,817,012)
Other income						708,900
Loss for the Year						(3,816,468)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

20 SEGMENT INFORMATION (continued)

B) Segment information – Statement of financial position

	General risk insurance KD	Life and health insurance KD	Total KD
31 December 2009			
Assets	112,942,590	22,354,145	135,296,735
Liabilities	41,664,392	22,354,145	64,018,537
31 December 2008			
Assets	118,160,493	19,647,206	137,807,699
Liabilities	58,697,341	19,647,206	78,344,547

21 PARTICIPATION IN ARAB WAR RISK INSURANCE SYNDICATE FUND

This item represents the Company's share of accumulated fund and emergency reserves at 31 December 2008 in accordance with the fund's advice no. 622/03/2009 dated 05/05/2009 and is equivalent to USD 3,595,520 (2007: USD 3,540,872).

22 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	2009 KD	2008 KD
Gross premiums	263,430	1,542,030	1,805,460	2,420,029
Claims incurred	1,382,424	1,322,381	2,704,805	1,183,776
Share of results of associates	15,181	-	15,181	368,809

22 RELATED PARTY TRANSACTIONS (continued)

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

	Associates KD	Major shareholders KD	2009 KD	2008 KD
Investment in associates	12,881,561	-	12,881,561	4,737,162
Premiums and insurance balances receivable	117,582	1,055,417	1,172,999	1,659,732
Other credit balances	639,270	388,182	1,027,452	162,808

Compensation of key management personnel

	2009 KD	2008 KD
Salaries and other short term benefits	128,846	390,812
Employees' end of service benefits	86,106	76,106
	214,952	466,918

23 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 8,130,183 (31 December 2008: KD 10,195,851) and had contingent liabilities in respect of letter of credit granted by a bank amounting to KD 500,000 (31 December 2008: KD 500,000) from which it is anticipated that no material liabilities will arise.

24 STATUTORY GUARANTEES

In accordance with Kuwaiti Law:

(a) Investments of KD 110,000 (2008: KD 110,000) have been deposited with a Kuwaiti bank as security to underwrite general insurance business;

(b) Investments of KD 45,000 (2008: 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 3,960,000 (2008: KD 4,937,188) are held in Kuwait.

(d) The Company's premises with net carrying amount of KD 1,410,300 (2008: KD 1,526,735) have been mortgaged with the Ministry of Commerce and Industry.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

25 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 recognizes 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 organizational 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.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

25 RISK MANAGEMENT (continued)
(c) Insurance risk (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

25 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

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 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.

25 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

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

	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
31 December 2009			
Type of contract			
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
31 December 2008			
Type of contract			
Term insurance	15,350	14,583	767
Group life and disability	1,852,531	1,537,887	314,644
Group medical including TPA (through external institution)	500,418	215,680	284,738
Endowment individual policies	703,105	688,062	15,043
Pensions (individual policies)	275,529	-	275,529
Total life insurance contract	3,346,933	2,456,212	890,721
Total investment contracts and participation feature	2,486,575	-	2,486,575
Other life insurance contract liabilities	27,835	-	27,835

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.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

25 RISK MANAGEMENT (continued)
(c) Insurance risk (continued)
(1) Life insurance contracts (continued)
Key assumptions (continued)

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.

25 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.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

25 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:

	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
31 December 2009			
Concentration of insurance contract liabilities by type of contract:			
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
31 December 2008			
Concentration of insurance contract liabilities by type of contract:			
Marine and Aviation	2,663,996	2,364,405	299,591
Accident	9,424,445	4,407,611	5,016,834
Fire	3,216,415	2,913,046	303,369
Total	15,304,856	9,685,062	5,619,794

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:

25 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(3) General risk insurance contracts

Sensitivities (continued)

31 December 2009	Change in assumption	Impact on gross liabilities KD	Impact on net liabilities KD	Impact on profit for the year KD
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
31 December 2008				
Average claim cost	+10%	316,244	158,122	289,363
Average number of claim	+10%	1,206	976	47,812
Average claim settlement paid	Reduce from 18 months to 12 months	632,480	316,244	N/A

(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 reported to the Board Audit Committee (BAC).

- 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.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

25 RISK MANAGEMENT (continued)
(d) Financial risks (continued)
(1) Credit risk (continued)

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

	31 December 2009		
	General insurance KD	Life and health insurance KD	Total KD
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

	31 December 2008		
Exposure credit risk by classifying financial assets according to type of insurance			
Debt securities	500,001	-	500,001
Loans secured by life insurance policyholders	-	67,071	67,071
Policyholders accounts receivables (gross)	6,166,070	1,925,202	8,091,272
Insurance and reinsurers account receivable (gross)	2,359,795	283,073	2,642,868
Reinsurance recoverable on outstanding claims	9,685,062	7,753,006	17,438,068
Other debit balances	1,845,778	100,186	1,945,964
Fixed deposits	3,241,117	7,386,070	10,627,187
Cash and cash equivalents	66,838	6,443	73,281
Total credit risk exposure	23,864,661	17,521,051	41,385,712

25 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 at 31 December 2009 by classifying assets according to international credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as not rated.

	AAA KD	AA KD	A KD	BBB KD	Not rated KD	Total KD
Exposure credit risk by classifying financial Assets according to international credit rating agencies						
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)	151,000	294,500	302,000	701,201	1,389,243	2,837,944
Reinsurance recoverable on outstanding claims	1,540,201	3,100,000	2,985,100	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	1,691,201	3,728,249	15,144,006	10,632,601	14,451,236	45,647,293
31 December 2008						
Debt securities	-	-	500,001	-	-	500,001
Loans secured by life insurance policyholders	-	-	-	-	67,071	67,071
Policyholders accounts receivable (gross)	-	-	84,364	76,891	7,930,017	8,091,272
Insurance and reinsurance accounts receivable (gross)	147,109	299,678	302,341	756,123	1,137,617	2,642,868
Reinsurance recoverable on outstanding claims	1,248,442	2,006,132	2,748,001	8,897,322	2,538,171	17,438,068
Other debit balances	-	-	-	-	1,945,964	1,945,964
Fixed deposits	-	-	10,627,187	-	-	10,627,187
Bank balance and cash	-	-	73,281	-	-	73,281
Total credit risk exposure	1,395,551	2,305,810	14,335,175	9,730,336	13,618,840	41,385,712

The company does not have any material past due but not impaired financial assets at 31 December 2009 and 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

25 RISK MANAGEMENT (continued)
(d) Financial risks (continued)
(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 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
31 December 2008			
Financial liabilities:			
Insurance payables	-	4,843,317	4,843,317
Other credit balances	5,388,579	1,554,545	6,943,124
Premiums received in advance	847,768	1,000,000	1,847,768
Term loan	-	24,871,875	24,871,875
Bank overdraft	3,307,058	-	3,307,058
	9,543,405	32,269,737	41,813,142

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

25 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 based on contractual undiscounted repayment obligations.

31 December 2009	Within 1 Year KD	> than 1 year KD	Total KD
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

31 December 2008	Within 1 Year KD	> than 1 year KD	Total KD
Assets			
Property and equipment	-	3,382,012	3,382,012
Investments in associates	-	4,737,162	4,737,162
Financial assets available for sale	-	89,947,191	89,947,191
Loans secured by life insurance policyholders	23,047	44,024	67,071
Premiums and insurance balances receivable	5,322,977	4,266,786	9,589,763
Reinsurance recoverable on outstanding claims	8,313,279	9,124,789	17,438,068
Other debit balances	1,069,541	876,423	1,945,964
Fixed deposits	10,627,187	-	10,627,187
Bank balances and cash	73,281	-	73,281
	25,429,312	112,378,387	137,807,699
Liabilities			
Liabilities arising from insurance contracts	10,548,187	28,542,285	39,090,472
Insurance payables	-	4,843,317	4,843,317
Other credit balances	5,388,579	1,554,545	6,943,124
Premiums received in advance	847,768	1,000,000	1,847,768
Term loan	-	22,500,000	22,500,000
Bank overdraft	3,119,866	-	3,119,866
	19,904,400	58,440,147	78,344,547

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At 31 December 2009

25 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 recognized 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.

		2009		2008	
	Change in variables	Impact on profit KD	Impact on other comprehensive income KD	Impact on loss KD	Impact on other comprehensive loss KD
USD	± 5%	4,898	1,263,948	184,238	1,495,684
JD	± 5%	15,918	52,790	1,044	92,469
EGP	± 5%	2,425	75,401	809	95,662
Euro	± 5%	480	119,968	765	97,706
GBP	± 5%	939	48,200	6,370	49,726
Others	± 5%	56,967	-	4,546	243,405

25 RISK MANAGEMENT (continued)
(d) Financial risks (continued)
(3) Market risk (continued)

(ii) Interest rate risk
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before contribution to KFAS, NLST, Zakat and directors' fees. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate 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 non-linear.

	2009		2008	
Currency	Change in variables	Impact on profit KD	Change in variables KD	Impact on loss KD
KD	± 5%	38,452	± 5%	44,140

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

The method used for deriving sensitivity information and significant variables did not change from the previous year.

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At 31 December 2009

25 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:

	2009		2008	
Market indices	Effect on profit KD	Effect on other comprehensive income KD	Effect on loss KD	Effect on other comprehensive loss KD
Kuwait	337,514	6,807,711	2,438,267	4,956,591
Other GCC countries	-	206,498	-	1,579,218
Europe	-	244,466	-	551,231
Others	304,707	2,651,081	163,535	1,852,329

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

26 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 maximize 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 2009 and 31 December 2008.

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.

	2009 KD	2008 KD
Liabilities arising from insurance contracts	42,878,759	39,090,472
Payables	15,829,330	13,634,209
Term loan	2,500,000	22,500,000
Less: Cash and cash equivalents	2,476,699	3,046,585
Net debt	63,684,788	78,271,266
Total capital	71,278,198	59,463,152
Capital and net debt	134,962,986	137,734,418
Gearing ratio	47%	57%

27 FORMATION OF NEW BUSINESS LINES

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.

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At 31 December 2009

28 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; and

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:

31 December 2009	Total fair value KD	Level 1 KD	Level 2 KD	Level 3 KD
Financial assets available for sale:				
Quoted	31,473,795	31,473,795	-	-
Unquoted	15,475,684	-	-	15,475,684
Total	46,949,479	31,473,795	-	15,475,684

Following the amendments to IFRS 7, the Company is exempted from disclosing comparative information. During the year, there have been no transfers between hierarchies.

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