AL AHLEIA INSURANCE CO. S.A.K.

ANNUAL Report 2007

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

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. 14,207,566.384
Commercial Register No. 9389
Insurance License No. 3

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

Board of Directors

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

Mr. Ayman Abdullatif Ali Al-Shayea
VICE CHAIRMAN

Mr. Fawzi Mohammed Abdulmohsen Al-Kharafi
DIRECTOR

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

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

Dr. Ali M. Akbar
INFORMATION TECHNOLOGY CONSULTANT

Branches

1- Shuwaikh Branch
Banks Street, Shuwaikh
Tel./Fax: 4832183

2- Sabhan Branch
Near Banks Group, Sabhan
Tel./Fax : 4748239

3- Hawalli Branch
Tunis street, Al-Rehab Complex, Hawalli
Tel./Fax: 2642157

4- Plajat Branch
Plajat Street, front of Showbiz, Salmiya
Tel./Fax: 5729631

5- Al-Soor Branch
Al-Soor Street, Mounzer Tower, Al-Salheiah
Tel./Fax: 2440350

6- Technical Testing Branch
Kuwait Motoring Co.
Tel./Fax: 4834400

7- Fahaheel Branch
Al-Daboos Street, Naif Al-Daboos Complex
Tel./Fax: 3910393

8- Farwaniya Branch
Habib Manawer Street, Al-Hajraf Complex, Farwaniya
Tel./Fax: 4756471/2

9- Salmiya Branch
Salem Al-Mubarak Street, Salmiya
Tel.: 5733380 - Fax: 5747042

10- Al-Jewan Branch
Al-Jewan Area, Ministry of Defence Co-op
Tel./Fax: 4992481

Sister Companies

TRADE UNION INSURANCE CO. E.C.

Head Office - Al Khobar
P.O.Box 1022, Al Khobar - 31952, Saudi Arabia
Tel: (9663) 8572222 - Fax: (9663) 8580056
E-mail: info@tui-sa.com
www.tui-sa.com

Riyadh Branch
P.O.Box 25975, Riyadh - 11476, Saudi Arabia
Tel: (9661) 4792715 / 4741093 / 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

ARAB LIFE INSURANCE COMPANY S.A.L
E-mail: arablife@arablife-ins.com

Beirut Branch
P.O.Box: 11-7338 Riyad Al-Suluh,
Beirut 11072240, Lebanon
Tel: (9611) 751851 - 742570/1
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
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

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
The Bank of Kuwait and the Middle East 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 FOURTH MEETING OF THE ANNUAL ORDINARY GENERAL ASSEMBLY

1. Approving the Board of Directors' Report for the Financial year ending 31 December 2007.
2. Listening to the Auditors' Report for the Financial year ending 31 December 2007.
3. Approving the General Balance Sheet and the Statement of Profit and Loss for the Financial year ending 31 December 2007.
4. Approving dealing with related parties.
5. Approving the proposal of the Board of Directors of distributing cash dividends to the shareholders at 65% of the paid up capital, i.e. sixty five fils per share, in addition to distribution of 14,207,566 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 2007.
9. Appointing or re-appointment of Auditors for the Financial year 2008, and authorizing the Board of Directors to determine their remuneration.
10. Election of the Directors for the Board for the next three years.

FOR THE EXTRAORDINARY GENERAL MEETING

1. Approval of capital raise from KD. 14,207,566.384 to KD. 15,628,323 by means of distributing free bonus shares to shareholders as much as 10% from paid up capital i.e. KD. 1,420,756.600.

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. 14,207,566.384 distributed on 142,075,663 shares the value of each 100 fils.

Proposed Adjustment
The company's capital is KD. 15,628,323 distributed on 156,283,230 shares the value of each 100 fils.

Chairman & Managing Director, company managers,

Ramadan gathering party (Ghabga)
As a usual practice every year in Ramadan, Al Ahleia company threw a gathering party (Ghabga) to its employees. The reception was abounding in several entertainment shows and features including contests and prizes. Beside company's employees and their families, the party was attended by the Chairman and a number of the Board Members.

Employee honoring

Shots from the party

Abu-Jassoum show (Gergaia'n)

Sharing employees their special occasions

Contests

AL AHLEIA INSURANCE COMPANY S.A.K.

Report of the Board of Directors

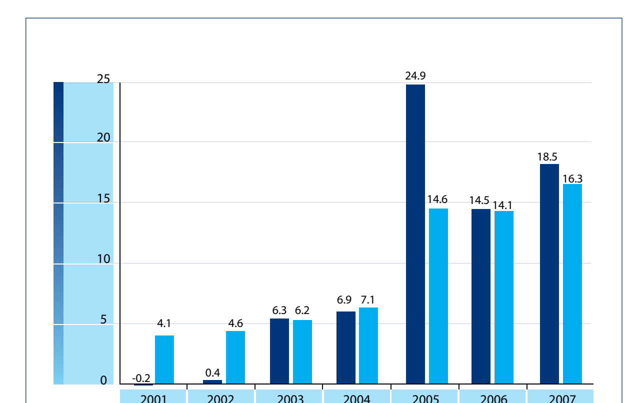
Submitted to the Shareholders during the 44th meeting of the Ordinary General Assembly at the Company's Head Office on Wednesday 9/4/2008 at 11.30 a.m.

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 2007.

The year 2007 marked another bright and firm step in the march of eligibility for securing success and excellence. Its net profit for the year 2007 amounted to KD.16,321,686 against net profit which amounted KD.14,143,435 in 2006.

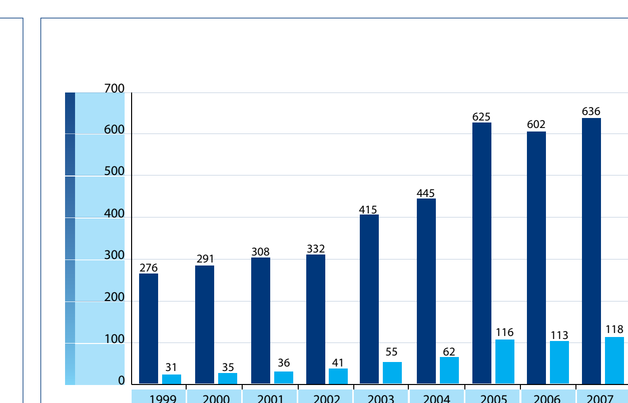
In addition to unrealized profits and unlisted in profit/loss account amounted to KD.18,480,843 (130 fils on each share), listed in Shareholders Equity for the year 2007 against (112 fils on each share for the year 2006). In doing so, the company relied on diversification of revenues and extending its wide network insurance coverage regionally, as well as offering new insurance products. This has resulted in achieving record results, and continued to strengthen the company's provision in order to reinforce its position both locally and regionally.

And to present to you our brief report on the Company's activities during the year 2007, touching on the events that affected the insurance market in general and the performance of our Company in particular.



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

Unrecognized Profit in Shareholders' Equity   Recognized Net Profit

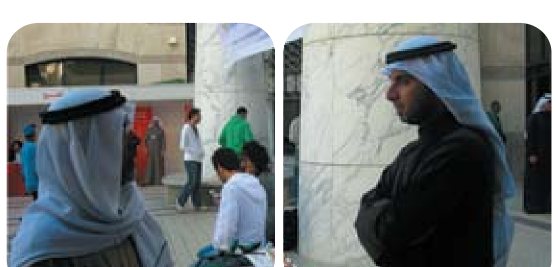


Growth of Share Profitability & Share Book Value
(fils)

Share Book Value   Share Profitability

Employment Exhibition
Under the patronage of Dr. Rashid Al-Ajmi, Dean of College of Administration Science, Al Ahleia Insurance Company participated in the Employment Exhibition in which it promoted its services and offered jobs to newly graduates.

The visit of Mr. Ghazi Al-Roumi, Deputy General Manager, Production & Branches Dept.



AL AHLEIA INSURANCE COMPANY S.A.K.

Report of the Board of Directors

Soft market was the main feature in virtually all lines of insurance in 2007. Despite some deadly storms, insurance companies' balance sheets are flush at the year end, calls for premium reductions have increased in direct insurance & reinsurance. Your company have proved serious in their transactions through proper underwriting and increase participation in the results by raising the limits of their retention, such action being within your Company's strategies as shown in attached schedules and compared with results 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.

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.

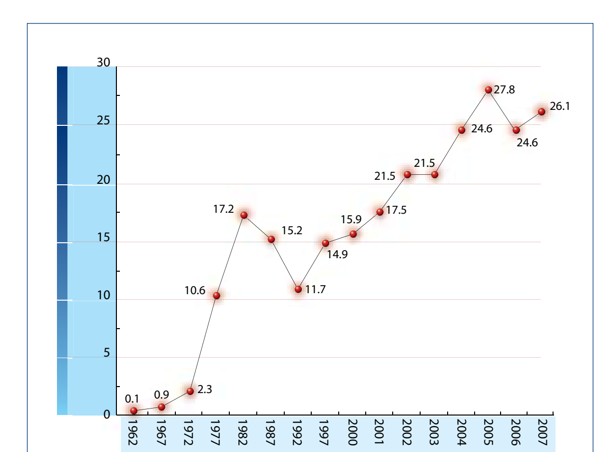
Your Company continued to pursue its policy of attracting young promising Kuwaiti Nationals and encourage them to study and train in insurance, locally and abroad and assign to responsibilities that fit with their level of education and practice. This would achieve job stability in the long run.

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 2007 closed with the following information:

FIRST : INSURANCE ACTIVITIES:
The gross annual production amounted to KD. 26.1 million against KD. 24.6 million in 2006 i.e. an increase at the rate of 6.1%. The net technical return on insurance premiums totaled KD. 3.73 million (KD. 2.47 million in 2006) and the increase of additional reserves by about KD. 694,947.

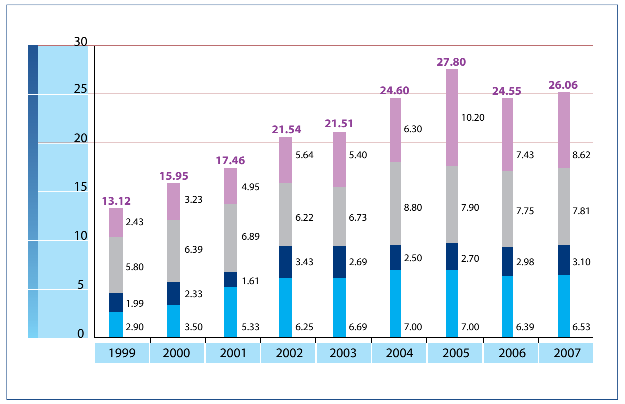


Insurance Activity
(in million KD)

AL AHLEIA INSURANCE COMPANY S.A.K.

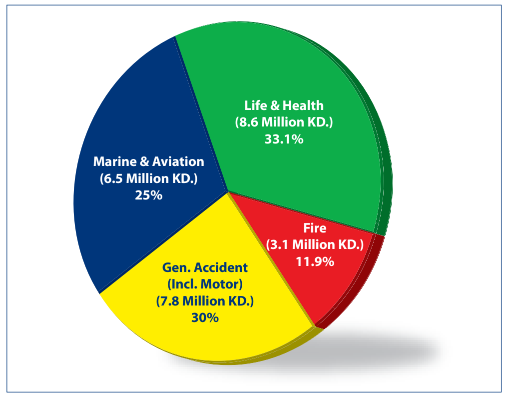
Report of the Board of Directors

Hereinafter is a detailed summary of these aggregates:

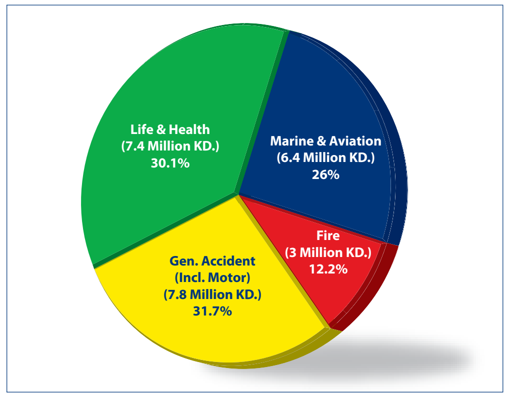


Gross Written Premiums
(in million KD)

General Accident (non- life business):
Gross written premiums amounted to KD.17,445,256 against KD. 17,122,701 in 2006, i.e. an increase of KD. 322,555 at the rate of 1.9%. The net profit of these departments totaled KD. 2,601,610 after increase of additional reserve for these departments by KD. 594,947 as against KD.1,555,474 after increase of additional reserve by KD. 530,580 in 2006.
The Marine & Aviation business produced a net profit of KD. 1,208,873 after increase of additional reserve by KD. 150,000 as against profit of KD. 934,794 in 2006, the Fire KD. 313,205 after increase of additional reserve by KD. 50,000 (KD. 33,254 in 2006) and the General Accident (which includes Motor) ended with a net profit of KD. 1,079,532 after increasing the additional reserve for these departments by KD. 394,947 as against net profit of KD. 587,426 in 2006.



Source of Written Premiums 2007
(in million KD)

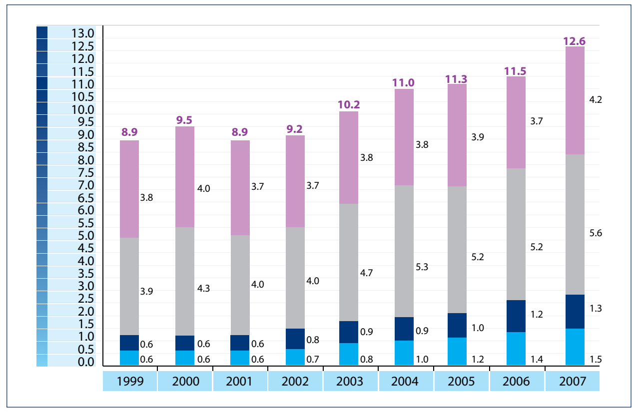


Source of Written Premiums 2006
(in million KD)

Life & Health Insurances:
Total premium income amounted to KD. 8,615,407 against KD. 7,430,686 in 2006, an increase of KD. 1,184,721 at the rate of 15.9 %. The net profit amounted to KD.1,133,649 against KD. 916,167 in 2006, after reassessment of the Mathematical Reserve by the Company's Actuary and after increasing the Additional Reserve by another KD. 100,000 to reach KD. 1,100,000.

AL AHLEIA INSURANCE COMPANY S.A.K.

Report of the Board of Directors



Technical Reserves
(Unexpired Risks+Additional & Mathematical Reserves)
(in million KD)

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.

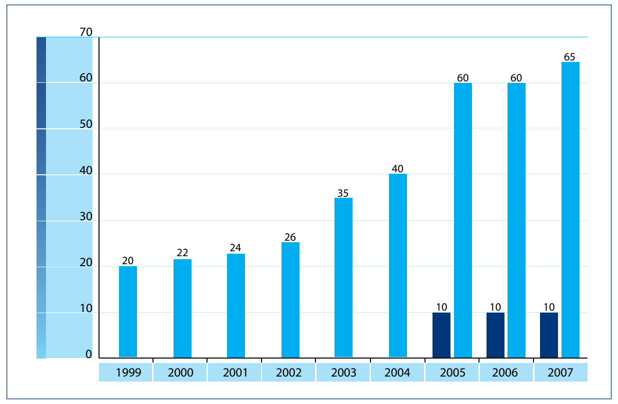
Although the indication points to a reduction in new compensations. The remainder of the said obligations was identified and assessed in preparation for dealing therewith methodically, with the best means that would result in the company being freed from the consequences of the said remaining obligations with the least possible loss.

THIRD: INVESTMENTS ACTIVITIES:
Kuwait Stock Market improved due to the economic boom and the rise of oil prices by 14 % above last year's figures, a fact that affected Kuwaiti Companies positively, and was reflected in the rise of weight index by 34% during 2007. We could benefit in achieving a net income of KD. 13,949,385 as against KD. 12,934,074 in 2006, i.e. an increase of KD. 1,015,311 at the rate of 7.8%.

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. 16,321,686 after deducting the share of Kuwait Foundation for the Advancement of Sciences, the Directors fees, the provision for support of National Workforce and Zakat, as opposed to KD. 14,143,435 in 2006, thus recording an increase of KD. 2,178,251 at the rate of 15.4%.

By adding profit brought forward from the previous year of KD. 8,512,625 the gross profit allowable for distribution amounts to KD. 24,834,312 compared to KD. 21,298,317 for the year 2006.

The Board of Directors of your Company recommends to deduct the amount of KD. 1,700,406 i.e. 10% of this year profit and add it to the Statutory Reserve, KD.1,700,406 i.e. another 10% to the General Reserve, and an amount of KD.170,041 for Kuwait Foundation for the Advancement of Sciences representing the 1% earmarked



Cash Dividends & Bonus Share

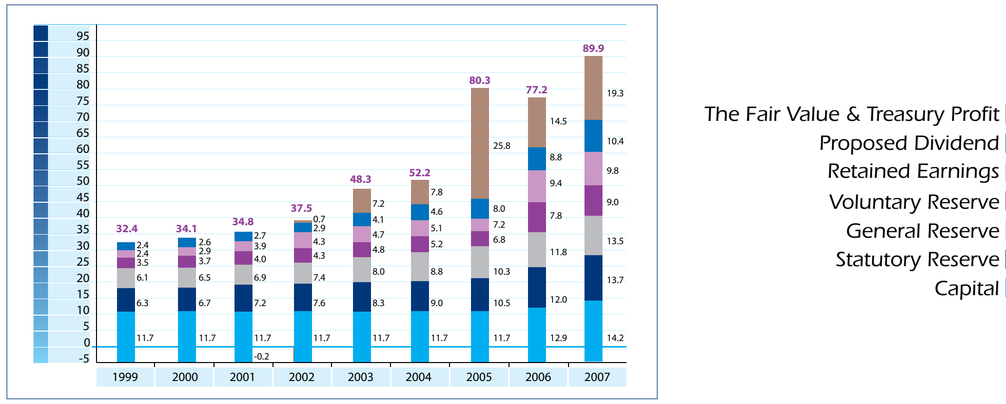
Spring Camp
In conjunction with Kuwait's commemorations of the National Day, Al Ahleia Insurance Company held its annual Spring Camp for the year 2007, in which the company's employees and their family spent delightful times enjoying a host of entertainment activities and shows Several companies patronized the event.

Report of the Board of Directors

year's profit as legally determined, an amount of KD. 368,332 to support the National Workforce and an amount of KD. 9,004 to Zakat. The Board of Directors also recommends the distribution of the sum of KD. 8,980,468 to the Shareholders of the Company on the Paid-up Capital at the rate of 65%, i.e. 65 Fils per share, In addition to distribution of 14,207,566 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 31/12/2007, to transfer KD.1,250,000 to the Voluntary Reserve and to carry forward the remaining net profit of KD. 1,269,650 to the next year.

On the basis of all the foregoing, the Statutory Reserve shall become KD. 13,712,799, the General Reserve KD.13,473,274 the Voluntary Reserve KD. 9,000,000 and the profits carried forward to the next year KD. 9,782,276 beside the additional technical reserves in the various insurance branches reaching KD. 6,700,000.



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

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

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

SIXTH: GRATITUDE AND APRPECIATION:

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 would like to commend the good deeds of H.H. Al Amir Alwaled Sheikh Sa'ad Al-Abdullah Al-Salem Al-Sabah, 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 to Almighty God to bless them with strength and good health.

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

On this occasion, the Board of Director's would like to place on record their appreciation for the great efforts and full devotion of the Company's management on all administrative and technical levels, as well as the employees, which leads toward 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 give mercy to our Martyrs and bestow His grace of patience and comfort on their relatives and friends and 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

ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS
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13001 Safat. Kuwait
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Fax: 245 6419
Email: kuwait@kw.ey.com

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

P.O. Box 5506 Safat-13056 Kuwait
Tel.: 2432082/3/4
Fax: 2402640
E-mail: info@allied-accountants.com

AL AHLEIA INSURANCE COMPANY S.A.K.

Auditors' Report

Dear Shareholders,

We have audited the accompanying financial statements of Al-Ahleia Insurance Company S.A.K. (the company), which comprise the balance sheet as at 31 December 2007 and the income statement, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as of 31 December 2007 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 these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2007 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
MOORES ROWLAND INTERNATIONAL

10 March 2008
Kuwait

Income Statement

Year ended 31 December 2007

	Notes	2007 KD	2006 KD
Revenue:			
Premiums written		**26,060,663**	24,553,387
Reinsurance premiums ceded		**(15,544,368)**	(15,423,289)
Net premiums written		**10,516,295**	9,130,098
Movement in unearned premiums		**(220,587)**	139,453
Net premiums earned		**10,295,708**	9,269,551
Commission received on ceded reinsurance		**2,590,968**	2,762,920
Policy issuance and transfer fees		**557,082**	578,005
Net investment income from life insurance	3	**765,082**	549,257
Other income		**199,087**	69,477
		14,407,927	13,229,210
Expenses:			
Claims incurred	11	**5,511,688**	5,808,665
Commissions and discounts		**1,350,883**	1,496,354
Increase in additional reserve		**694,947**	580,580
Increase (decrease) in life mathematical reserve		**374,000**	(163,000)
Maturity and cancellations of life insurance policies		**164,424**	247,044
General and administrative expenses		**2,576,726**	2,787,926
		10,672,668	10,757,569
NET UNDERWRITING INCOME		**3,735,259**	2,471,641
Net investment income	3	**13,949,385**	12,934,074
Sundry income		**5,608**	24,455
Unallocated general and administrative expenses		**(686,189)**	(680,948)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT AND DIRECTORS' FEES		**17,004,063**	14,749,222
Contribution to KFAS		**(170,041)**	(147,492)
National labour support tax		**(368,332)**	(323,295)
Zakat		**(9,004)**	-
Directors' fees		**(135,000)**	(135,000)
PROFIT FOR THE YEAR		**16,321,686**	14,143,435
BASIC AND DILUTED EARNINGS PER SHARE	4	**117.88 fils**	102.06 fils

The attached notes 1 to 29 form part of these financial statements.

Balance Sheet

At 31 December 2007

	Notes	2007 KD	2006 KD
ASSETS			
Property and equipment	5	**3,396,491**	3,543,180
Investment properties	6	**1,290,766**	1,300,634
Investment in associates	7	**3,352,539**	2,673,080
Investment in unconsolidated subsidiaries	8	**100,001**	1
Investment in equities and bonds	9	**120,152,981**	78,283,982
Loans to life policyholders		**97,013**	93,553
Premiums and insurance balances receivable	10	**8,341,033**	8,703,802
Reinsurance recoverable on outstanding claims	11	**17,269,695**	13,465,225
Other debit balances	12	**2,106,275**	4,613,029
Fixed and short notice bank deposits	13	**11,821,564**	9,641,990
Bank balances and cash	14	**2,063,393**	3,131,573
TOTAL ASSETS		**169,991,751**	125,450,049
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**14,207,566**	12,915,969
Statutory reserve	16	**13,712,799**	12,012,393
General reserve	16	**13,473,274**	11,772,868
Special voluntary reserve	16	**9,000,000**	7,750,000
Treasury shares	18	**(1,823,665)**	(1,642,769)
Treasury shares reserve		**1,106,482**	995,104
Cumulative changes in fair value		**18,480,843**	14,468,320
Foreign currency translation reserve		**(223,258)**	(42,114)
Retained earnings		**20,183,499**	17,348,473
Total equity		**88,117,540**	75,578,244
Liabilities			
Liabilities arising from insurance contracts:	11		
Outstanding claims reserve		**25,441,046**	21,703,612
Unearned premiums reserve		**2,779,264**	2,558,676
Life mathematical reserve		**3,094,000**	2,720,000
Additional reserve		**6,700,000**	6,200,000
Total liabilities arising from insurance contracts		**38,014,310**	33,182,288
Insurance payables	19	**5,801,010**	5,364,925
Other credit balances	20	**9,789,239**	9,390,907
Term loans	21	**27,330,402**	-
Bank overdraft	14	**939,250**	1,933,685
Total liabilities		**81,874,211**	49,871,805
TOTAL EQUITY AND LIABILITIES		**169,991,751**	125,450,049

SULAIMAN HAMAD M. AL-DALALI
Chairman And Managing Director

AYMAN ABDULLATIF A. AL-SHAYEA
Vice Chairman

The attached notes 1 to 29 form part of these financial statements.

Statement of Cash Flows
Year ended 31 December 2007

	Note	2007 KD	2006 KD
OPERATING ACTIVITIES			
Profit before contribution to KFAS, NLST, Zakat and diretors' fees		**17,004,063**	14,749,222
Adjustments for:			
Provision for employees' end of service benefits		**108,495**	87,762
Depreciation of property and equipment		**163,692**	204,604
Depreciation of investment properties		**106,877**	99,147
Gain on sale of available for sale investments		**(11,274,870)**	(9,643,306)
Dividend income		**(3,185,796)**	(2,895,841)
Interest income		**(933,952)**	(842,531)
Share of results of associates		**11,547**	(215,197)
Interest expense		**452,692**	-
		2,452,748	1,543,860
Changes in operating assets and liabilities:			
Premiums and insurance balances receivable		**362,769**	3,769,919
Reinsurance receivable on outstanding claims		**(3,804,470)**	(960,689)
Other debit balances		**2,877,135**	245,556
Liabilities arising from insurance contracts		**4,832,022**	(187,952)
Insurance payable		**436,085**	(1,910,850)
Other credit balances		**(120,778)**	(166,573)
Cash from operations		**7,035,511**	2,333,271
Employees' end of service benefits paid		**(33,228)**	(29,393)
Paid to KFAS		**(147,492)**	(152,175)
National labour support tax paid		**(586,095)**	-
Directors' fees paid		**(135,000)**	(135,000)
Net cash from operating activities		**6,133,696**	2,016,703
INVESTING ACTIVITIES			
Purchase of property and equipment		**(17,003)**	(9,583)
Purchase of investment properties		**(97,009)**	(119,610)
Purchase of investment in associates		**(921,371)**	(21,726)
Purchase of investment in unconsolidated subsidiary		**(100,000)**	-
Redemption of bonds		**125,000**	2,166,667
Purchase of available for sale investments		**(67,266,680)**	(46,222,348)
Proceeds from sale of available for sale investments		**40,560,075**	41,763,194
Movement in loans to life policyholders		**(3,460)**	1,119
Movement in fixed and short notice bank deposits		**(2,179,574)**	3,569,269
Dividends received		**3,138,113**	2,881,852
Dividends received from associates		**49,221**	-
Interest income received		**611,253**	548,646
Net cash (used in) from investing activities		**(26,101,435)**	4,557,480
FINANCING ACTIVITIES			
Dividends paid		**(7,366,890)**	(6,983,715)
Purchase of treasury shares		**(421,553)**	(330,162)
Sale of treasury shares		**352,035**	267,411
Term loan obtained		**27,330,402**	-
Net cash from (used in) financing activities		**19,893,994**	(7,046,466)
DECREASE IN CASH AND CASH EQUIVALENTS		**(73,745)**	(472,283)
Cash and cash equivalents at the beginning of the year		**1,197,888**	1,670,171
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	**1,124,143**	1,197,888

The attached notes 1 to 29 form part of these financial statements.

Statement of Changes in Equity
Year ended 31 December 2007

	Notes	Share capital KD	Statutory reserve KD	General reserve KD	Special voluntary reserve KD	Treasury shares KD	Treasury shares reserve KD	Cumulative changes in fair value KD	Foreign currency translation reserve KD	Retained earnings KD	Total equity KD
Balance at 1 January 2006		**11,741,790**	**10,537,471**	**10,297,946**	**6,750,000**	**(1,470,658)**	**885,744**	**24,946,044**	**(19,517)**	**15,187,835**	**78,856,655**
Transferred to income statement on sale of available for sale investments	9	-	-	-	-	-	-	**(10,354,319)**	-	-	**(10,354,319)**
Net movement in fair value of available for sale investments during the year	9	-	-	-	-	-	-	**(123,405)**	-	-	**(123,405)**
Foreign currency translation adjustment	7	-	-	-	-	-	-	-	**(22,597)**	-	**(22,597)**
Total expense for the year recognised directly in equity		-	-	-	-	-	-	**(10,477,724)**	**(22,597)**	-	**(10,500,321)**
Profit for the year		-	-	-	-	-	-	-	-	**14,143,435**	**14,143,435**
Total income and expense for the year		-	-	-	-	-	-	**(10,477,724)**	**(22,597)**	**14,143,435**	**3,643,114**
Issue of bonus shares	17	**1,174,179**	-	-	-	-	-	-	-	**(1,174,179)**	-
Dividends	17	-	-	-	-	-	-	-	-	**(6,858,774)**	**(6,858,774)**
Purchase of treasury shares		-	-	-	-	**(330,162)**	-	-	-	-	**(330,162)**
Sale of treasury shares		-	-	-	-	**158,051**	**109,360**	-	-	-	**267,411**
Transfer to reserves	16	-	**1,474,922**	**1,474,922**	**1,000,000**	-	-	-	-	**(3,949,844)**	-
Balance at 31 December 2006		**12,915,969**	**12,012,393**	**11,772,868**	**7,750,000**	**(1,642,769)**	**995,104**	**14,468,320**	**(42,114)**	**17,348,473**	**75,578,244**
Transferred to income statement on sale on available for sale investments	9	-	-	-	-	-	-	**7,654,970**	-	-	**7,654,970**
Net movement in fair value of available for sale investments during the year	9	-	-	-	-	-	-	**(3,642,447)**	-	-	**(3,642,447)**
Foreign currency translation adjustment	7	-	-	-	-	-	-	-	**(181,144)**	-	**(181,144)**
Total income and expense for the year recognised directly in equity		-	-	-	-	-	-	**4,012,523**	**(181,144)**	-	**3,831,379**
Profit for the year		-	-	-	-	-	-	-	-	**16,321,686**	**16,321,686**
Total income and expense for the year		-	-	-	-	-	-	**4,012,523**	**(181,144)**	**16,321,686**	**20,153,065**
Issue of bonus shares	17	**1,291,597**	-	-	-	-	-	-	-	**(1,291,597)**	-
Dividends	17	-	-	-	-	-	-	-	-	**(7,544,251)**	**(7,544,251)**
Purchase of treasury shares		-	-	-	-	**(421,553)**	-	-	-	-	**(421,553)**
Sale of treasury shares		-	-	-	-	**240,657**	**111,378**	-	-	-	**352,035**
Transfer to reserves	16	-	**1,700,406**	**1,700,406**	**1,250,000**	-	-	-	-	**(4,650,812)**	-
Balance at 31 December 2007		**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**

The attached notes 1 to 29 form part of these financial statements.

Balance Sheet -Life & Health

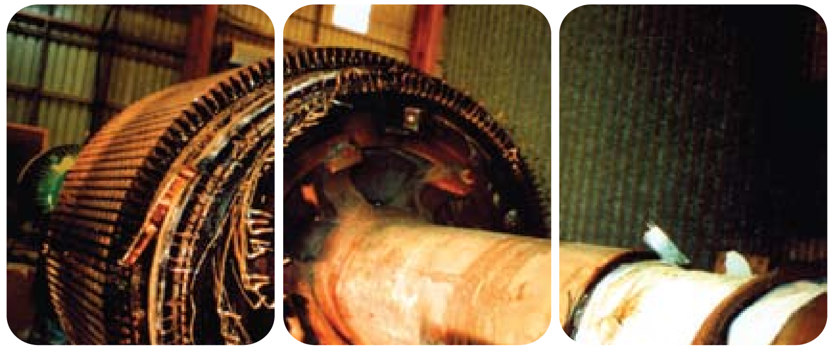
At 31 December 2007

	2007 KD	2006 KD
ASSETS		
Property and equipment	**2,901**	3,062
Investment in equities and bonds	**419,932**	851,203
Loans to life policyholders	**97,013**	93,553
Premiums and insurance balances receivable	**1,789,388**	1,946,027
Reinsurance recoverable on outstanding claims	**7,211,881**	5,548,686
Other debit balances	**195,567**	173,712
Fixed and short notice bank deposits	**8,396,869**	8,139,705
Bank balances and cash	**4,801**	2,941
TOTAL ASSETS	**18,118,352**	16,758,889
LIABILITIES		
Liabilities arising from insurance contracts:		
Outstanding claims reserve	**9,735,491**	8,197,911
Life mathematical reserve	**3,094,000**	2,720,000
Additional reserve	**1,100,000**	1,000,000
Total liabilities arising from insurance contracts	**13,929,491**	11,917,911
Insurance payables	**1,200,676**	1,423,418
Other credit balances	**2,988,185**	3,417,560
TOTAL LIABILITIES	**18,118,352**	16,758,889

The attached notes 1 to 29 form part of these financial statements.

Claims

Al Ahleia Insurance Company's policy is based on offering its clients the best service ever, as well as insurance consultations, making every effort to extend the best insurance advice as regards insurance coverage, as well as the best insurance compensations services by accelerating compensation procedures, enabling its clients to repair damages in the shortest time possible.



1 ACTIVITIES

The financial statements of Al-Ahleia Insurance Company S.A.K. (the "company") for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Board of Directors on 10 March 2008. 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

Basis of preparation

The financial statements are prepared under the historical cost convention as modified to include the measurement at fair value of available for sale investments.

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

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 accounting policies used in the preparation of these financial statements are consistent with those used in the previous year, except that the company has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of revised standards, as reflected in the notes, does not have any material effect on the financial position as at 1 January 2007. They did however give rise to additional disclosures:

IFRS 7 Financial Instruments: Disclosures

IFRS 7 Financial Instruments: Disclosures is mandatory for reporting periods beginning on or after 1 January 2007. The new standard replaces and amends disclosure requirements previously set out in IAS 32 Financial Instruments: Presentation and Disclosures. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements.

The first time adoption of IFRS 7, however, has not resulted in any prior-period adjustments of cash flows, net income or balance sheet line items.

IAS 1 Presentation of Financial Statements

In accordance with the amendments to IAS 1 Presentation of Financial Statements, the company now reports on its capital management's objectives, policies and procedures for managing capital.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRIC 10 Interim Financial Reporting and Impairment

IFRIC 10 Interim Financial Reporting and Impairment prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at amortised cost to be reversed at a subsequent balance sheet date. This interpretation does not have any impact on the company's financial statements.

Term loan

Term loan is carried on the balance sheet at its principal amount.

Finance costs

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

IASB Standards and Interpretations issued but not yet adopted:

IAS 1 Presentation of Financial Statements - Revised (effective 2009)

IAS 1: Presentation of Financial Statements – Revised has been revised to require that an entity must present all non-owner changes in equity either in one statement of comprehensive income or in two separate statements (i.e. a statement of income and a statement of comprehensive income). Components of comprehensive income such as changes in revaluation surplus, gains and losses on remeasuring available for sale investments and gains and losses arising from translating the financial statements of foreign operation may not be presented in the statement of changes in equity. The application of the revised standard is not expected to result in any prior period adjustments of cash flow, net income or balance sheet line items in the initial period of application.

IFRS 8: Operating Segments – Revised (effective 2009)

IFRS 8: Operating Segments – Revised (effective 2009) is a disclosure standard which may result in a redesignation of the company's reportable segments but is not expected to have any impact on the results or financial position of the company.

IAS 23: Borrowing Costs - Revised

IAS 23: Borrowing Costs – Revised has been amended resulting into elimination of the previously available option to expense all borrowing costs when incurred. Under the revised standard, all borrowing costs that are directly attributable to qualifying assets are to be capitalised. The application of the revised standard is not expected to have a material impact on the financial statements in the period of initial application.

Other significant accounting policies are set as follows:

Revenue recognition

Premiums earned

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Reinsurance contracts held
The company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

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.

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

Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

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

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

2 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. Insurance contracts can also transfer financial risk.

Investment contracts

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

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

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 property	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.

Investment properties

Investment properties held for the generation of rental income are accounted for as property and equipment. The rate of depreciation is based on an estimated useful life of 25 years for buildings.

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 balance sheet 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 amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the company recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

resulting from transactions between the company and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the company.

Bonds

Bonds classified as "loans" are measured at amortised cost using the effective interest rate method.

Available for sale investments

Available for sale investments are recognised and derecognised, 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 available for sale investments 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 equity. Upon impairment any loss, or upon derecognition any gain or loss, previously reported as "cumulative changes in fair value" within equity is included in the income statement for the year.

Receivables

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

Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, fixed and short notice bank deposits with an original maturity of three months or less and money market funds that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents in the statement of cash flows are presented net of bank overdraft. Fixed and short notice bank deposits that have a maturity of more than three months from the date of placement are excluded from cash and cash equivalents.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset, or company of financial assets, may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised 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 amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets (continued)
Reversal, of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased. The reversal of impairment losses are recognised in the income statement except for available for sale investments which are recognised in the cumulative changes in fair value.

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 group of similar financial assets) is derecognised when:

a) The rights to receive cash flows from the asset have expired;
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 recognised 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 derecognised 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 recognised in the income statement.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Life mathematical reserve
The reserve for the life business at the balance sheet 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 balance sheet date in addition to other contingencies and any differences that may arise. Provision based on management's judgement and the company's prior experience is maintained for the cost of settling claims incurred but not reported at the balance sheet date.

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

Provision for employees' 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 balance sheet date.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

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 equity. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- 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 balance sheet date, provision for outstanding claims (OCR) and for the expected ultimate cost of claims incurred but not yet reported at the balance sheet 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 geographical area, as well as 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Reinsurance
The company is exposed to disputes with, and possibility of defaults by, its reinsurers. The company monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

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

Classification of investments
The company decides on acquisition of investments whether they should be classified as investments carried at fair value through income statement, held to maturity investments or available for sale investments.

The management classifies investments as carried at fair value through income statement if they are acquired primarily for the purpose of short term profit making and the fair value of those investments can be reliably determined.

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

The management classifies investments as held to maturity if they are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the management has the positive intention and ability to hold to maturity.

All other investments are classified as available for sale.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgement (continued)

Classification of real estate

Management decides on acquisition of a real estate whether it should be classified as trading or investment property.

The management classifies real estate as trading property if it is acquired principally for sale in the ordinary course of business.

The management classifies real estate as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

Impairment of investments

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

Segment reporting

A business segment is a group 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.
A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Contingencies

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

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

Notes to the Financial Statements
At 31 December 2007

3 NET INVESTMENT INCOME

	2007 KD	2006 KD
Dividend income	**3,185,796**	2,895,841
Interest on bonds	**70,190**	177,942
Interest on fixed and short notice bank deposits	**863,762**	664,589
Rental income	**234,613**	312,842
Gain on sale of available for sale investments	**11,274,870**	9,643,306
Other investment income	**268,572**	406,191
Share of results of associates	**(11,547)**	215,197
	15,886,256	14,315,908
General and administrative expenses	**(201,483)**	(215,691)
Depreciation of investment properties	**(106,877)**	(99,147)
Interest expense	**(452,692)**	-
Financial charges and other expenses	**(410,737)**	(444,622)
Foreign exchange loss	**-**	(73,117)
	(1,171,789)	(832,577)
	14,714,467	13,483,331

Included in general and administrative expenses is an amount of KD 163,692 (31 December 2006: KD 204,604) which represents depreciation of property and equipment.

Net investment income reported in the income statement as follows:

	2007 KD	2006 KD
Net investment income	**13,949,385**	12,934,074
Net investment income from life insurance	**765,082**	549,257
	14,714,467	13,483,331

4 BASIC AND DILUTED EARNINGS PER SHARE

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

	2007 KD	2006 KD
Profit for the year	16,321,686	14,143,435
	Shares	Shares
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	138,455,876	138,583,012
Basic and diluted earnings per share	117.88 fils	102.06 fils

The basic and diluted earnings per share for the previous year have been restated to reflect the bonus shares for 2006 that have been approved by the Annual General Assembly held on 9 April 2007 (Note 17).

There are no dilutive potential ordinary shares.

5 PROPERTY AND EQUIPMENT

	Freehold land KD	Building on freehold land KD	Leasehold property KD	Furniture, fixtures equipment and motor vehicles KD	Total KD
Cost:					
At 1 January 2006	1,725,500	2,910,884	161,041	1,670,047	6,467,472
Additions	-	-	-	9,583	9,583
At 31 December 2006	1,725,500	2,910,884	161,041	1,679,630	6,477,055
Additions	-	-	-	17,003	17,003
At 31 December 2007	1,725,500	2,910,884	161,041	1,696,633	6,494,058
Depreciation:					
At 1 January 2006	-	1,034,844	153,064	1,541,363	2,729,271
Charge for the year	-	116,435	383	87,786	204,604
At 31 December 2006	-	1,151,279	153,447	1,629,149	2,933,875
Charge for the year	-	116,435	402	46,855	163,692
At 31 December 2007	-	1,267,714	153,849	1,676,004	3,097,567
Net carrying amount:					
At 31 December 2007	1,725,500	1,643,170	7,192	20,629	3,396,491
At 31 December 2006	1,725,500	1,759,605	7,594	50,481	3,543,180

6 INVESTMENT PROPERTIES

	Buildings on freehold land 2007 KD	2006 KD
Cost:		
At 1 January	2,724,077	2,604,467
Additions	97,009	119,610
At 31 December	2,821,086	2,724,077
Depreciation		
At 1 January	1,423,443	1,324,296
Charge for the year	106,877	99,147
At 31 December	1,530,320	1,423,443
Net carrying amount:		
At 31 December	1,290,766	1,300,634

The above investment properties were subsequently sold to an unrelated party at a total price of KD 5,000,000. Accordingly, the sale price is considered to be the fair value of investment properties as of 31 December 2007. Prior years fair value amounting to KD 4,500,000 was determined based on a valuation by an independent real estate valuer in Kuwait.

7 INVESTMENT IN ASSOCIATES

The company has the following investment in associates:

	Ownership percentage 2007	Ownership percentage 2006	Country of incorporation	2007 KD	2006 KD
Arab Life Insurance Company S.A.L.	49.37%	49.37%	Lebanon	344,475	368,866
Trade Union Insurance Company E.C.	20.00%	20.00%	KSA	1,929,875	1,467,011
Arab Life and Accident Insurance Co. P.S.C.	27.20%	21.47%	Jordan	1,078,189	837,203
				3,352,539	2,673,080
The movement of the investment in associates during the year is as follows:					
Carrying value at 1 January				2,673,080	2,458,754
Foreign currency translation adjustment				(181,144)	(22,597)
Additions				921,371	21,726
Share of results of associates				(11,547)	215,197
Dividends received				(49,221)	-
Carrying value at 31 December				3,352,539	2,673,080

7 INVESTMENT IN ASSOCIATES (continued)

Goodwill included in the carrying value of the investment in associates amounted to KD 273,824 (2006: KD 273,824).

During the period, the company subscribed in the increase of the share capital of Trade Union Insurance Company E.C. by an amount of KD 364,120.

In addition, the company acquired new shares in Arab Life and Accident Insurance Co. P.S.C. for a total consideration of KD 557,250. As a result, the equity holding of the company in this entity increased to 27.20%.

	2007 KD	2006 KD
Share of associates' balance sheets:		
Assets	6,573,296	6,528,068
Liabilities	(3,220,757)	(3,854,988)
Net assets	3,352,539	2,673,080
Share of associates' revenues and results:		
Revenues	1,738,344	1,237,775
Results	(11,547)	215,197

The company's share of results of associates was calculated based on accounts prepared by their respective management. In the opinion of the company's management, results reported in the management accounts will not be materially different if these management accounts had been audited by the auditors' of those companies.

Share of results of Trade Union Insurance Company E.C. is included in the financial statements of the company three months in arrears.

8 INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

The company has the following investment in unconsolidated subsidiaries:

	Ownership percentage 2007	Ownership percentage 2006	Country of incorporation	2007 KD	2006 KD
Al-Ahleia Al Motaheda Company	100%	-	Kuwait	100,000	-
Hawk Insurance Company Ltd.	100%	100%	United Kingdom	1	1
				100,001	1

During the year, the company established a new subsidiary Al-Ahleia Al Motaheda Company for a total consideration of KD 100,000.

The company owns 100% of the share capital of Hawk Insurance Company Ltd., registered in the United Kingdom, amounting to KD 214,250 against which a provision of KD 214,249 has been taken to cover any impairment in the net worth of the shareholders' equity. The subsidiary ceased acceptance of new business in October 1976 and is inactive.

Notes to the Financial Statements
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9 INVESTMENT IN EQUITIES AND BONDS

	2007 KD	2006 KD
Available for sale investments:		
Quoted equity securities	80,930,612	51,671,275
Unquoted equity securities	38,222,368	25,487,706
	119,152,980	77,158,981
Loans:		
Bonds	1,000,000	1,125,000
Bonds of corporation for settlement of forward share transactions:		
Nominal value	459,701	459,701
Provision for impairment	(459,700)	(459,700)
	1	1
	120,152,981	78,283,982

Included in available for sale investments are unquoted securities with a value of KD 32,270,458 (31 December 2006: KD 25,487,706) 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 is of the opinion that there has been no impairment in value of these investments and, given the difficulty in obtaining reliable valuations, believes it is more appropriate to carry them at cost.

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

	2007 KD	2006 KD
Net unrealised loss	(3,642,447)	(123,405)
Net realised loss (gain) reclassified to the income statement on disposal	7,654,970	(10,354,319)
	4,012,523	(10,477,724)

Uncalled commitments relating to unquoted equity securities at 31 December 2007 amounted to KD 7,867,105 (2006: KD 7,167,885).

10 PREMIUMS AND INSURANCE BALANCES RECEIVABLE

	2007 KD	2006 KD
Policyholders accounts receivable		
Premiums receivable	7,296,694	7,569,963
Provision for doubtful debts	(669,644)	(702,035)
Net policyholders accounts receivable	6,627,050	6,867,928
Insurance and reinsures accounts receivable		
Reinsures receivable	1,905,780	2,039,880
Provision for doubtful debts	(191,797)	(204,006)
Net insurance and reinsures accounts receivable	1,713,983	1,835,874
Total premium and insurances receivables	8,341,033	8,703,802

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 policyholders accounts receivables were as follows:

	2007 KD	2006 KD
At 1 January	702,035	702,035
Amounts written off	(32,391)	-
At 31 December	669,644	702,035

Movements in the allowance for insurance and reinsurance receivables were as follows:

	2007 KD	2006 KD
At 1 January	204,006	255,570
Amounts written off	(12,209)	(51,564)
At 31 December	191,797	204,006

Notes to the Financial Statements
At 31 December 2007

11 LIABILITIES ARISING FROM INSURANCE CONTRACTS

31 December 2007	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	3,327,464	8,477,657	1,700,580	8,197,911	21,703,612
Reinsurance recoverables	(3,053,527)	(3,460,292)	(1,402,720)	(5,548,686)	(13,465,225)
Net balance at the beginning of the year	273,937	5,017,365	297,860	2,649,225	8,238,387
Gross claims incurred during the year	1,768,715	6,112,276	691,880	6,830,703	15,403,574
Reinsurance recoverable	(1,400,900)	(3,330,730)	(595,960)	(4,564,296)	(9,891,886)
Claims incurred	367,815	2,781,546	95,920	2,266,407	5,511,688
Gross claims paid during the year	(2,071,085)	(3,824,668)	(477,264)	(5,293,123)	(11,666,140)
Reinsurance recoverables	1,817,656	1,000,597	368,062	2,901,101	6,087,416
Paid during the year	(253,429)	(2,824,071)	(109,202)	(2,392,022)	(5,578,724)
NET BALANCE AT THE END OF THE YEAR	388,323	4,974,840	284,578	2,523,610	8,171,351
Represented in:					
Gross balance at the end 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 END OF THE YEAR	388,323	4,974,840	284,578	2,523,610	8,171,351
Unearned premiums reserve	295,448	2,210,288	273,528	-	2,779,264
Life mathematical reserve	-	-	-	3,094,000	3,094,000
Additional reserve	1,250,000	3,350,000	1,000,000	1,100,000	6,700,000

11 LIABILITIES ARISING FROM INSURANCE CONTRACTS (continued)

31 December 2006	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	3,406,838	7,522,465	1,478,777	9,731,031	22,139,111
Reinsurance recoverables	(3,090,844)	(2,782,736)	(1,240,426)	(5,390,530)	(12,504,536)
Net balance at the beginning of the year	315,994	4,739,729	238,351	4,340,501	9,634,575
Gross claims incurred during the year	1,914,035	4,616,176	631,672	4,810,865	11,972,748
Reinsurance recoverable	(1,705,517)	(1,321,723)	(478,825)	(2,658,018)	(6,164,083)
Claims incurred	**208,518**	**3,294,453**	**152,847**	**2,152,847**	**5,808,665**
Gross claims paid during the year	(1,993,409)	(3,660,984)	(409,869)	(6,343,985)	(12,408,247)
Reinsurance recoverable	1,742,834	644,167	316,531	2,499,862	5,203,394
Paid during the year	**(250,575)**	**(3,016,817)**	**(93,338)**	**(3,844,123)**	**(7,204,853)**
NET BALANCE AT THE END OF THE YEAR	**273,937**	**5,017,365**	**297,860**	**2,649,225**	**8,238,387**
Represented in:					
Gross balance at end of the year	3,327,464	8,477,657	1,700,580	8,197,911	21,703,612
Reinsurance recoverables	(3,053,527)	(3,460,292)	(1,402,720)	(5,548,686)	(13,465,225)
NET BALANCE AT THE END OF THE YEAR	**273,937**	**5,017,365**	**297,860**	**2,649,225**	**8,238,387**
Unearned premiums reserve	**313,730**	**2,033,609**	**211,337**	**-**	**2,558,676**
Life mathematical reserve	**-**	**-**	**-**	**2,720,000**	**2,720,000**
Additional reserve	**1,100,000**	**3,150,000**	**950,000**	**1,000,000**	**6,200,000**

12 OTHER DEBIT BALANCES

	2007 KD	2006 KD
Accrued income	**393,922**	332,389
Reserve retained by reinsurers	**119,745**	86,384
Reserve for Arab war risk insurance syndicate fund (Note 23)	**953,086**	995,716
Other debit balances	**237,133**	254,135
Payment on account of investment	**155,954**	2,443,699
Amounts due from Kuwait Clearing Company	**246,435**	500,706
	2,106,275	4,613,029

13 FIXED AND SHORT NOTICE BANK DEPOSITS

Those represent short notice bank deposits with local financial institutions. These are denominated in Kuwaiti Dinar and carry an average effective interest rate of 6.9% (2006: 6.8%) per annum.

14 CASH AND CASH EQUIVALENTS

	2007 KD	2006 KD
Cash in hand and at banks	**133,368**	39,899
Fixed and short notice bank deposits	**1,930,025**	3,091,674
Bank balances and cash	**2,063,393**	3,131,573
Bank overdraft	**(939,250)**	(1,933,685)
Cash and cash equivalents	**1,124,143**	1,197,888

Bank overdrafts are denominated in Kuwaiti dinars and carry an average effective interest rate of approximately 2% per annum over Central Bank of Kuwait discount rate (2006: 2% over Central Bank of Kuwait discount rate).

Fixed deposits are placed with local banks in Kuwait. These are denominated in Kuwaiti Dinars, short term in nature, with average effective interest rate of 5.6% (2006: 6.1%).

15 SHARE CAPITAL

Authorised, issued and fully paid up share capital consists of 142,075,660 shares of 100 fils each (31 December 2006: 129,159,694).

16 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.

16 RESERVES (continued)

Statutory reserve (continued)
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 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.

17 DIVIDENDS PAID AND PROPOSED

The board of directors of the company have proposed a cash dividend of 65 fils per share (2006: 60 fils) and bonus shares of 10% of paid up share capital (2006: 10%). This proposal is subject to the approval of the shareholders' General Assembly.

On 9 April 2007, the Annual General Assembly of the company's shareholders approved the following:

- Increase of share capital from KD 12,915,969 to KD 14,207,566 through issuance of 12,915,969 bonus shares of 100 fils each for the year ended 31 December 2006 equivalent to 10% of paid up share capital (2005: 10% of paid up share capital).
- Payment of cash dividends related to the year ended 31 December 2006 of 60% of paid up share capital (2005: 60%).

18 TREASURY SHARES

	2007 KD	2006 KD
Number of shares	3,914,610	3,477,176
Percentage of issued shares (%)	2.76	2.69
Market value (KD)	2,935,958	3,025,143

19 INSURANCE PAYABLES

	2007 KD	2006 KD
Policyholders and agencies payables	673,308	749,957
Insurance and reinsurance payables	5,127,702	4,614,968
	5,801,010	5,364,925

20 OTHER CREDIT BALANCES

	2007 KD	2006 KD
Premiums received in advance	2,179,164	2,782,659
Claims payable	1,195,677	1,427,950
Dividends payable	419,731	242,377
Accrued supervision fees	128,120	126,061
Other accrued expenses and credit balances	1,536,276	663,742
Reserve retained on reinsurance business	875,387	909,135
Reserve for Arab war risk insurance syndicate fund (Note 23)	953,086	995,716
Provision for staff leave pay	233,417	193,511
Provision for employees' end of service benefits	578,248	502,981
Provision for national labour support tax	375,552	593,315
Provision for KFAS	170,041	147,492
Zakat payable	9,004	-
Directors' fees	135,000	135,000
Employees bonus	1,000,536	670,968
	9,789,239	9,390,907

21 TERM LOANS

Those represent term loans obtained from a local bank to finance the acquisition of an available for sale investment. Included in term loans is an amount of KD 2,330,402 which will be settled in 2008. The remaining balance of KD 25,000,000 will be settled in 2010. The average interest rate related to term loans equal to 1% per annum over the Central Bank of Kuwait discount rate (31 December 2006: Nil).

22 SEGMENT INFORMATION

The company operates in two segments, general risk insurance and life and health insurance. There are no intersegment transactions. Following are the details of those two primary segments:

Year ended 31 December 2007:	Marine and aviation KD	Accident KD	Fire KD	Total general risk insurance KD	Life and health KD	Total KD
Revenue:						
Premiums written	6,532,327	7,812,017	3,100,912	17,445,256	8,615,407	26,060,663
Reinsurance premiums ceded	(5,195,194)	(2,585,358)	(2,557,357)	(10,337,909)	(5,206,459)	(15,544,368)
Net premiums written	1,337,133	5,226,659	543,555	7,107,347	3,408,948	10,516,295
Movement in unearned premiums	18,283	(176,679)	(62,191)	(220,587)	-	(220,587)
Net premiums earned	1,355,416	5,049,980	481,364	6,886,760	3,408,948	10,295,708
Commission received on ceded reinsurance	1,225,960	320,792	397,009	1,943,761	647,207	2,590,968
Policy issuance and transfer fees	-	557,082	-	557,082	-	557,082
Other income	24,470	58,443	3,625	86,538	112,549	199,087
	2,605,846	5,986,297	881,998	9,474,141	4,168,704	13,642,845
Expenses:						
Claims incurred	367,815	2,781,546	95,920	3,245,281	2,266,407	5,511,688
Commissions and discounts	204,012	793,205	154,843	1,152,060	198,823	1,350,883
Movement in additional reserve	150,000	394,947	50,000	594,947	100,000	694,947
Increase in life mathematical reserve	-	-	-	-	374,000	374,000
Maturity and cancellations of life insurance policies	-	-	-	-	164,424	164,424
General and administrative expenses	675,146	937,067	268,030	1,880,243	696,483	2,576,726
	1,396,973	4,906,765	568,793	6,872,531	3,800,137	10,672,668
Segment result	1,208,873	1,079,532	313,205	2,601,610	368,567	2,970,177
Net investment income				13,949,385	765,082	14,714,467
Sundry income						5,608
Unallocated general and administrative expenses						(686,189)
Profit before contribution to KFAS, NLST, Zakat and directors' fees						17,004,063
OTHER INFORMATION						
Segment assets				12,995,142	9,199,737	22,194,879
Cash and investments				138,878,257	8,918,615	147,796,872
Total assets				151,873,399	18,118,352	169,991,751
Segment liabilities				62,639,908	18,118,352	80,758,260
Unallocated liabilities				1,115,951	-	1,115,951
Total liabilities				63,755,859	18,118,352	81,874,211
Depreciation				161,063	2,629	163,692

22 SEGMENT INFORMATION (continued)

Year ended 31 December 2006:	Marine and aviation KD	Accident KD	Fire KD	Total general risk insurance KD	Life and health KD	Total KD
Revenue:						
Premiums written	6,385,475	7,754,093	2,983,133	17,122,701	7,430,686	24,553,387
Reinsurance premiums ceded	(5,187,981)	(3,226,302)	(2,562,295)	(10,976,578)	(4,446,711)	(15,423,289)
Net premiums written	1,197,494	4,527,791	420,838	6,146,123	2,983,975	9,130,098
Movement in unearned premiums	(62,140)	229,922	(28,329)	139,453	-	139,453
Net premiums earned	1,135,354	4,757,713	392,509	6,285,576	2,983,975	9,269,551
Commission received on ceded Reinsurance	1,128,672	738,612	279,955	2,147,239	615,681	2,762,920
Policy issuance and transfer fees	-	578,005	-	578,005	-	578,005
Other income	20,917	35,285	4,185	60,387	9,090	69,477
	2,284,943	6,109,615	676,649	9,071,207	3,608,746	12,679,953
Expenses:						
Claims incurred	208,518	3,294,453	152,847	3,655,818	2,152,847	5,808,665
Commissions and discounts	182,573	968,472	122,969	1,274,014	222,340	1,496,354
Increase in additional reserve	180,491	250,089	100,000	530,580	50,000	580,580
Decrease in life mathematical reserve	-	-	-	-	(163,000)	(163,000)
Maturity and cancellations of life insurance policies	-	-	-	-	247,044	247,044
General and administrative expenses	778,567	1,009,175	267,579	2,055,321	732,605	2,787,926
	1,350,149	5,522,189	643,395	7,515,733	3,241,836	10,757,569
Segment result	934,794	587,426	33,254	1,555,474	366,910	1,922,384
Net investment income				12,934,074	549,257	13,483,331
Sundry income						24,455
Unallocated general and administrative expenses						(680,948)
Profit before contribution to KFAS, NLST, Zakat and directors' fees						14,749,222
OTHER INFORMATION						
Segment assets				13,566,347	7,671,487	21,237,834
Cash and investments				95,124,813	9,087,402	104,212,215
Total assets				108,691,160	16,758,889	125,450,049
Segment liabilities				31,994,732	16,758,889	48,753,621
Unallocated liabilities				1,118,184	-	1,118,184
Total liabilities				33,112,916	16,758,889	49,871,805
Depreciation				201,985	2,619	204,604

23 PARTICIPATION IN ARAB WAR RISK INSURANCE SYNDICATE FUND

This item represents the company's share of accumulated fund and emergency reserves at 31 December 2006 in accordance with the fund's advice no. 699/2007 dated 26 April 2007 and is equivalent to US $ 3,484,776 (2005: US $ 3,437,770).

24 RELATED PARTY TRANSACTIONS

These represent unconsolidated subsidiaries, 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	31 December 2007 KD	31 December 2006 KD
Premium written	**353,055**	**1,589,745**	**1,942,800**	2,192,920
Claims incurred	**75,392**	**401,309**	**476,701**	222,660
Share of results of associates	**(11,547)**	**-**	**(11,547)**	215,197

Balances with related parties included in the balance sheet are as follows:

	Unconsolidated subsidiaries KD	Associates KD	Major shareholders KD	31 December 2007 KD	31 December 2006 KD
Investment in unconsolidated subsidiaries	**100,001**	**-**	**-**	**100,001**	1
Investment in associates	**-**	**3,352,539**	**-**	**3,352,539**	2,673,080
Premiums and insurance balances receivable	**-**	**406,279**	**1,244,418**	**1,650,697**	2,126,520
Other credit balances	**-**	**-**	**80,574**	**80,574**	104,310

Key management personnel compensation

	2007 KD	2006 KD
Salaries and other short term benefits	**324,547**	289,395
Employees' end of service benefits	**66,106**	44,885

25 CONTINGENCIES

At 31 December 2007, the company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it has anticipated that no material liabilities will arise amounting to KD 500,000 (2006: KD 500,000).

The above contingencies are due within 90 days from the balance sheet date.

26 STATUTORY GUARANTEES

In accordance with Kuwaiti Law:

(a) Investments of KD 110,000 (2006: KD 110,000) have been deposited with a Kuwaiti bank as security to underwrite general insurance business.

(b) Investments of KD 45,000 (2006: 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 4,432,188 (2006: KD 4,056,260) are held in Kuwait.

(d) The company's premises with net carrying amount of KD 1,643,170 (2006: KD 1,759,605) have been mortgaged with the Ministry of Commerce and Industry.

27 RISK MANAGEMENT

(a) Governance framework

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

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

(b) Regulatory framework

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

27 RISK MANAGEMENT (continued)

(b) Regulatory framework (continued)

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.

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 and quality control department is responsible for monitoring compliance with the above regulations and has delegated authorities and responsibilities from the board of directors to ensure compliance.

(c) Insurance risk

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 and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The majority of insurance business ceded is placed on a quota share basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

27 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

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 balance sheet 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 individual policies and pensions individual policies.

Term assurance are conventional regular premium products when lump sum benefits are payable on death or permanent disability. Few contracts have a surrender value.

Pensions 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 premiums. Most contracts give the policyholder the option at retirement to take a cash sum at guaranteed conversion rates 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.

27 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 and geography, 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 company reinsures its annuity contracts on a quota share basis to mitigate its risk.

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.

27 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:

	2007			2006		
Type of contract	**Gross liabilities KD**	**Reinsurers' share of liabilities KD**	**Net liabilities KD**	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
Term insurance	**22,067**	**20,964**	**1,103**	18,308	17,393	915
Group life and disability	**1,678,971**	**1,502,679**	**176,292**	1,636,100	1,364,308	271,792
Group medical including TPA (through external institution)	**450,942**	**194,482**	**256,460**	485,338	121,335	364,003
Endowment individual policies	**720,245**	**704,835**	**15,410**	697,758	662,870	34,888
Pensions (individual policies)	**290,903**	**-**	**290,903**	275,624	-	275,624
Total life insurance contract	**3,163,128**	**2,422,960**	**740,168**	3,113,128	2,165,906	947,222
Total investment contracts and participation feature	**2,312,432**	**-**	**2,312,432**	1,736,540	-	1,736,540
Other life insurance contract liabilities	**41,400**	**-**	**41,400**	36,238	-	36,238

The geographical concentration of the company's life insurance contracts with Discretionary Participation Feature (DPF) liabilities is noted below. The disclosure is based on the countries where the business is written.

a. Insurance contracts

	2007			2006		
	Gross liabilities KD	**Reinsurers' share of liabilities KD**	**Net liabilities KD**	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
Kuwait	**3,204,528**	**2,422,960**	**781,568**	3,149,366	2,165,906	983,460

b. Investment contracts

	2007			2006		
	Gross liabilities KD	**Reinsurers' share of liabilities KD**	**Net liabilities KD**	Gross liabilities KD	Reinsurers' share of liabilities KD	Net liabilities KD
Kuwait	**2,312,432**	**-**	**2,312,432**	1,736,540	-	1,736,540

27 RISK MANAGEMENT (continued)

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

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

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

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

- Mortality and morbidity rates

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

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

- Longevity

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

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

27 RISK MANAGEMENT (continued)

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

- 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.

- 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.

Notes to the Financial Statements

At 31 December 2007

27 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)
(1) Life insurance contracts (continued)

The assumptions that have the greatest effect on the balance sheet and income statement of the company are listed below:

Portfolio assumptions by type of business impacting net liabilities	Mortality and morbidity rates		Investment return		Lapse and surrender rates		Discount rates		Renewal expenses		Inflation rate	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Investment contracts:												
With fixed and guaranteed terms	**A49/52 Ult.**	A49/52 Ult.	**Quarterly market interest rate**	Quarterly market interest rate	**N/A**	N/A	**4%**	4%	**4% of AP+3% of SA**	4% of AP+3% of SA	**3%**	3%
Non guaranteed terms	**A49/52 Ult.**	A49/52 Ult.	**N/A**	N/A	**N/A**	N/A	**4%**	4%	**4% of AP+3% of SA**	4% of AP+3% of SA	**3%**	3%
Life term assurance:												
Males	**A49/52 Ult.**	A49/52 Ult.	**4%**	4%	**N/A**	N/A	**4%**	4%	**4% of AP+3% of SA**	4% of AP+3% of SA	**3%**	3%
Females	**A49/52 Ult.**	A49/52 Ult.	**4%**	4%	**N/A**	N/A	**4%**	4%	**4% of AP+3% of SA**	4% of AP+3% of SA	**3%**	3%

Notes to the Financial Statements

At 31 December 2007

27 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)
(1) Life insurance contracts (continued)

Sensitivities

The analysis below is performed, by an independent third party actuarial with experience and qualifications, for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and profit if significant. 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.

Life insurance contracts

31 December 2007	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit
Mortality/morbidity	**N/A**	**N/A**	**N/A**	**N/A**
Investment return	**-1%**			**N/A**
Expenses	**+10%**	**Covered by contingency reserve of KD 41,400**		**N/A**
Discount rate	**-1%**			**N/A**
Longevity	**N/A**	**N/A**	**N/A**	**N/A**
Lapse and surrenders rate	**N/A**	**N/A**	**N/A**	**N/A**
31 December 2006				
Mortality/morbidity	N/A	N/A	N/A	N/A
Investment return	-1%			N/A
Expenses	+10%	Covered by contingency reserve of KD 36,238		N/A
Discount rate	-1%			N/A
Longevity	N/A	N/A	N/A	N/A
Lapse and surrenders rate	N/A	N/A	N/A	N/A

Investment contracts

31 December 2007	Change in assumptions	Increase/(decrease) on gross liabilities	Increase/(decrease) on net liabilities	Increase/(decrease) on profit
Mortality/morbidity	**N/A**	**N/A**	**N/A**	**N/A**
Investment return	**-1%**			**N/A**
Expenses	**+10%**	**Covered by contingency reserve of KD 41,400**		**N/A**
Discount rate	**-1%**			**N/A**
Longevity	**N/A**	**N/A**	**N/A**	**N/A**
Lapse and surrenders rate	**N/A**	**N/A**	**N/A**	**N/A**
31 December 2006				
Mortality/morbidity	N/A	N/A	N/A	N/A
Investment return	-1%			N/A
Expenses	+10%	Covered by contingency reserve of KD 36,238		N/A
Discount rate	-1%			N/A
Longevity	N/A	N/A	N/A	N/A
Lapse and surrenders rate	N/A	N/A	N/A	N/A

27 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)
(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 below risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. 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 and geography. 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 2007

27 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)
(2) Non-life insurance contracts (continued)

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

Concentration of insurance contract liabilities by type of contract:	**2007** Gross liabilities KD	**2007** Reinsurers' share of liabilities KD	**2007** Net liabilities KD	2006 Gross liabilities KD	2006 Reinsurers' share of liabilities KD	2006 Net liabilities KD
Marine and Aviation	**3,025,094**	**2,636,771**	**388,323**	3,327,464	3,053,527	273,937
Accident	**10,765,265**	**5,790,425**	**4,974,840**	8,477,657	3,460,292	5,017,365
Fire	**1,915,196**	**1,630,618**	**284,578**	1,700,580	1,402,720	297,860
Total	**15,705,555**	**10,057,814**	**5,647,741**	13,505,701	7,916,539	5,589,162

The geographical concentration of the company's non-life insurance contract liabilities is noted below. The disclosure is based on the countries where the business is written.

Geographical concentration of insurance contract liabilities:	**2007** Gross liabilities KD	**2007** Reinsurers' share of liabilities KD	**2007** Net liabilities KD	2006 Gross liabilities KD	2006 Reinsurers' share of liabilities KD	2006 Net liabilities KD
Kuwait	**15,705,555**	**10,057,814**	**5,647,741**	13,505,701	7,916,539	5,589,162

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.

27 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)
(2) Non-life insurance contracts (continued)
Sensitivities

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

31 December 2007	Change in assumptions	Impact on gross liabilities KD	Impact on net liabilities KD	Impact on profit KD
Average claim cost	+10%	324,528	146,037	297,017
Average number of claim	+10%	1,209	985	48,152
Average claim settlement paid	Reduce from 18 months to 12 months	641,056	290,074	N/A

31 December 2006	Change in assumptions	Impact on gross liabilities KD	Impact on net liabilities KD	Impact on profit KD
Average claim cost	+10%	365,581	183,002	192,238
Average number of claim	+10%	1,341	1,289	38,265
Average claim settlement paid	Reduce from 18 months to 12 months	N/A	N/A	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.

27 RISK MANAGEMENT (continued)

(d) Financial risks (continued)
(1) Credit risk (continued)

- The credit risk in respect of customer balances, incurred on non-payment of premiums will only persist during the grace period specified in the policy document until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The table below shows the maximum exposure to credit risk for the components of the balance sheet:

Exposure credit risk by classifying financial assets according to type of insurance	31 December 2007 General KD	Life KD	Total KD
Loans (bonds)	1,000,001	-	1,000,001
Loans to life policyholders	-	97,013	97,013
Policyholders accounts receivables (gross)	5,677,735	1,618,959	7,296,694
Insurance and reinsurance account receivable (gross)	1,735,351	170,429	1,905,780
Reinsurance recoverable on outstanding claims	10,057,814	7,211,881	17,269,695
Other debit balances	1,910,708	195,567	2,106,275
Fixed and short notice bank deposits	3,424,695	8,396,869	11,821,564
Bank balances and cash	2,058,592	4,801	2,063,393
Total credit risk exposure	25,864,896	17,695,519	43,560,415

Exposure credit risk by classifying financial assets according to type of insurance	31 December 2006 General KD	Life KD	Total KD
Loans (bonds)	1,000,001	125,000	1,125,001
Loans to life policyholders	-	93,553	93,553
Policyholders accounts receivables (gross)	5,772,387	1,797,576	7,569,963
Insurance and reinsurance account receivable (gross)	1,891,429	148,451	2,039,880
Reinsurance recoverable on outstanding claims	7,916,539	5,548,686	13,465,225
Other debit balances	4,439,316	173,713	4,613,029
Fixed and short notice bank deposits	1,502,285	8,139,705	9,641,990
Bank balances and cash	3,128,632	2,941	3,131,573
Total credit risk exposure	25,650,589	16,029,625	41,680,214

27 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 2007 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.

Exposure credit risk by classifying financial Assets according to international credit rating agencies	AAA KD	AA KD	A KD	BBB KD	Not rated KD	Total KD
31 December 2007						
Loans (bonds)	-	-	1,000,001	-	-	1,000,001
Loans to life policyholders	-	-	-	-	97,013	97,013
Policyholders accounts receivables (gross)	-	-	87,561	65,670	7,143,463	7,296,694
Insurance and reinsurance account receivable (gross)	89,572	198,203	179,143	615,566	823,296	1,905,780
Reinsurance recoverable on outstanding claims	898,024	2,012,786	2,751,231	8,965,391	2,642,263	17,269,695
Other debit balances	-	-	-	-	2,106,275	2,106,275
Fixed and short notice bank deposits	-	-	-	11,821,564	-	11,821,564
Bank balances and cash	-	1,999,619	63,774	-	-	2,063,393
Total credit risk exposure	987,596	4,210,608	4,081,710	21,468,191	12,812,310	43,560,415

Not rated are classified as follows using internal credit rating.

	Neither past due nor impaired			
	High grade KD	Standard grade KD	Past due or Impaired KD	Total KD
31 December 2007				
Loans to life policyholders	-	97,013	-	97,013
Policyholders accounts receivable (gross)	-	6,622,477	520,986	7,143,463
Reinsurance accounts receivable (gross)	-	698,296	125,000	823,296
Reinsurance recoverable on outstanding claims	2,642,263	-	-	2,642,263
Other debit balances	-	2,106,275	-	2,106,275
	2,642,263	9,524,061	645,986	12,812,310

27 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(1) Credit risk (continued)

Exposure credit risk by classifying financial Assets according to international credit rating agencies	AAA KD	AA KD	A KD	BBB KD	Not rated KD	Total KD
31 December 2006						
Loans (bonds)	-	-	1,125,001	-	-	1,125,001
Loans to life policyholders	-	-	-	-	93,553	93,553
Policyholders accounts receivables (gross)	-	-	29,521	75,231	7,465,211	7,569,963
Insurance and reinsurance account receivable (gross)	5,157	280,123	161,211	678,201	915,188	2,039,880
Reinsurance recoverable on outstanding claims	1,035,360	2,120,143	2,613,412	5,780,433	1,915,877	13,465,225
Other debit balances	-	-	-	-	4,613,029	4,613,029
Fixed and short notice bank deposits	-	-	-	9,641,990	-	9,641,990
Bank balances and cash	-	-	3,094,615	36,958	-	3,131,573
Total credit risk exposure	1,040,517	2,400,266	7,023,760	16,212,813	15,002,858	41,680,214

Not rated are classifies as follows using internal credit rating.

	Neither past due nor impaired			
	High grade KD	Standard grade KD	Past due or Impaired KD	Total KD
31 December 2006				
Loans to life policyholders	-	93,553	-	93,553
Policyholders accounts receivable (gross)	-	6,974,425	490,786	7,465,211
Reinsurance accounts receivable (gross)	-	790,188	125,000	915,188
Reinsurance recoverable on outstanding claims	1,915,877	-	-	1,915,877
Other debit balances	-	4,613,029	-	4,613,029
	1,915,877	12,471,195	615,786	15,002,858

27 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(1) Credit risk (continued)

The following table represents the aging analysis of financial assets:

	< 30 days KD	30 - 60 days KD	60 - 90 days KD	90 - 120 days KD	> 120 days KD	Total KD
31 December 2007						
Loans (bonds)	-	-	-	-	1,000,001	1,000,001
Loans to life policyholders	-	-	-	6,612	90,401	97,013
Policyholders accounts receivables	3,058,889	1,044,058	215,483	514,274	2,463,990	7,296,694
Insurance and reinsurance account receivable	413,785	-	451,839	582,840	457,316	1,905,780
Reinsurance recoverable on outstanding claims	-	229,903	1,189,560	3,100,120	12,750,112	17,269,695
Other debit balances	-	-	-	545,290	1,560,985	2,106,275
Fixed and short notice bank deposits	-	2,000,000	-	9,821,564	-	11,821,564
Bank balances and cash	-	2,063,393	-	-	-	2,063,393
Total	3,472,674	5,337,354	1,856,882	14,570,700	18,322,805	43,560,415

	< 30 days KD	30 - 60 days KD	60 - 90 days KD	90 - 120 days KD	> 120 days KD	Total KD
31 December 2006						
Loans (bonds)	-	-	-	-	1,125,001	1,125,001
Loans to life policyholders	-	-	-	-	93,553	93,553
Policyholders accounts receivables	2,890,979	243,133	680,207	954,682	2,800,962	7,569,963
reinsurance receivable	250,023	-	332,291	904,691	552,875	2,039,880
Reinsurance recoverable on outstanding claims	-	194,430	980,675	2,000,560	10,289,560	13,465,225
Other debit balances	-	-	135,505	976,522	3,501,002	4,613,029
Fixed and short notice bank deposits	-	1,000,000	8,641,990	-	-	9,641,990
Bank balances and cash	3,131,573	-	-	-	-	3,131,573
Total	6,272,575	1,437,563	10,770,668	4,836,455	18,362,953	41,680,214

27 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 company is developing its policies and procedures to enhance the company's mitigation of liquidity risk.

The table below summarises the maturity of the liabilities of the company based on remaining undiscounted contractual obligations for 31 December 2007:

	Up to 1 month KD	1-3 months KD	3-12 months KD	1-5 years KD	5-10 years KD	Total KD
Liabilities						
Outstanding claims reserve	1,448,471	4,579,388	9,693,038	8,508,282	1,211,867	25,441,046
Unearned premiums reserve	80,598	528,060	1,610,401	560,205	-	2,779,264
Life mathematical reserve	-	-	-	4,000	3,090,000	3,094,000
Additional reserve	-	-	-	700,000	6,000,000	6,700,000
Insurance payables	251,000	1,190,010	3,850,000	510,000	-	5,801,010
Other credit balances	733,808	1,985,312	4,512,618	1,681,000	876,501	9,789,239
Term loans	-	-	2,494,424	29,883,904	-	32,378,328
Bank overdraft	939,250	-	-	-	-	939,250
	3,453,127	8,282,770	22,160,481	41,847,391	11,178,368	86,922,137

The table below summarises the maturity of the liabilities of the company based on remaining undiscounted contractual obligations for 31 December 2006.

	Up to 1 month KD	1-3 months KD	3-12 months KD	1-5 years KD	5-10 years KD	Total KD
Liabilities						
Outstanding claims reserve	1,302,180	3,417,121	8,478,145	7,507,990	998,176	21,703,612
Unearned premiums reserve	79,141	512,811	1,551,681	415,043	-	2,558,676
Life mathematical reserve	-	-	-	2,000	2,718,000	2,720,000
Additional reserve	-	-	-	200,000	6,000,000	6,200,000
Insurance payables	186,121	1,211,867	3,621,125	345,812	-	5,364,925
Other credit balances	712,176	1,876,122	4,452,205	1,632,177	718,227	9,390,907
Bank overdraft	1,933,685	-	-	-	-	1,933,685
	4,213,303	7,017,921	18,103,156	10,103,022	10,434,403	49,871,805

27 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: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (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 principal transactions are carried out in KD and its exposure to foreign exchange risk arise primarily with respect to US dollar (USD), Jordanian dinar (JD), Egyptian pound (EGP), Euro, Pound sterling (GBP) and others.

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

The table below summarises the company's exposure to foreign currency exchange rate risk at balance sheet date by categorising assets and liabilities by major currencies.

27 RISK MANAGEMENT (continued)

(d) Financial risks (continued)
(3) Market risk (continued)
(i) Currency risk (continued)

	Kuwaiti Dinar	USD (KD equivalent)	JD (KD equivalent)	EGP (KD equivalent)	Euro (KD equivalent)	GBP (KD equivalent)	Others (KD equivalent)	Total KD
31 December 2007:								
ASSETS								
Property and equipment	3,396,491	-	-	-	-	-	-	3,396,491
Investments properties	1,290,766	-	-	-	-	-	-	1,290,766
Investments in associates	-	2,274,349	1,078,190	-	-	-	-	3,352,539
Investment in unconsolidated subsidiaries	100,001	-	-	-	-	-	-	100,001
Investment in equities and bonds	92,954,169	18,513,282	-	3,027,155	1,699,464	820,925	3,137,986	120,152,981
Loans to life policyholders	97,013	-	-	-	-	-	-	97,013
Premiums and insurance balances receivable	5,112,672	2,810,711	-	54,214	13,897	133,482	216,057	8,341,033
Reinsurance recoverable on outstanding claims	11,121,685	5,180,908	34,539	43,174	25,905	863,484	-	17,269,695
Other debit balances	1,033,444	1,072,831	-	-	-	-	-	2,106,275
Fixed and short notice bank deposits	11,821,564	-	-	-	-	-	-	11,821,564
Bank balances and cash	1,730,132	275,474	-	55,340	1,668	650	129	2,063,393
Total assets	128,657,937	30,127,555	1,112,729	3,179,883	1,740,934	1,818,541	3,354,172	169,991,751

	Kuwaiti Dinar	USD (KD equivalent)	JD (KD equivalent)	EGP (KD equivalent)	Euro (KD equivalent)	GBP (KD equivalent)	Others (KD equivalent)	Total KD
31 December 2007:								
LIABILITIES								
Liabilities arising from insurance contracts								
Outstanding claims reserve (gross)	16,386,033	7,632,314	50,882	63,603	36,162	1,272,052	-	25,441,046
Unearned premium reserve (net)	1,686,221	953,968	-	18,053	4,627	44,449	71,946	2,779,264
Life mathematical reserve	2,629,900	464,100	-	-	-	-	-	3,094,000
Additional reserve	6,700,000	-	-	-	-	-	-	6,700,000
Total liabilities arising from insurance contracts	27,402,154	9,050,382	50,882	81,656	40,789	1,316,501	71,946	38,014,310
Policyholders and agencies payables	572,312	100,996	-	-	-	-	-	673,308
Insurance and reinsurance payables	2,839,283	1,975,355	-	43,568	9,857	85,314	174,325	5,127,702
Other credit balances	7,960,766	1,828,473	-	-	-	-	-	9,789,239
Term loans	27,330,402	-	-	-	-	-	-	27,330,402
Bank overdraft	939,250	-	-	-	-	-	-	939,250
Total liabilities	67,044,167	12,955,206	50,882	125,224	50,646	1,401,815	246,271	81,874,211

27 RISK MANAGEMENT (continued)

(d) Financial risks (continued)
(3) Market risk (continued)
(i) Currency risk (continued)

31 December 2006: ASSETS	Kuwaiti Dinar	USD (KD equivalent)	JD (KD equivalent)	EGP (KD equivalent)	Euro (KD equivalent)	GBP (KD equivalent)	Others (KD equivalent)	Total KD
Property and equipment	3,543,180	-	-	-	-	-	-	3,543,180
Investments properties	1,300,634	-	-	-	-	-	-	1,300,634
Investments in associates	-	1,835,877	837,203	-	-	-	-	2,673,080
Investment in unconsolidated subsidiaries	-	-	-	-	-	1	-	1
Investment in equities and bonds	59,173,556	15,286,684	-	2,517,693	823,929	393,800	88,320	78,283,982
Loans to life policyholders	93,553	-	-	-	-	-	-	93,553
Premiums and insurance balances receivable	5,335,033	2,932,955	-	56,572	14,502	139,287	225,453	8,703,802
Reinsurance recoverable on outstanding claims	8,671,607	4,039,567	26,930	33,663	20,197	673,261	-	13,465,225
Other debit balances	3,530,929	1,082,100	-	-	-	-	-	4,613,029
Fixed and short notice bank deposits	9,641,990	-	-	-	-	-	-	9,641,990
Bank balances and cash	2,794,827	330,173	-	-	-	-	6,573	3,131,573
Total assets	94,085,309	25,507,356	864,133	2,607,928	858,628	1,206,349	320,346	125,450,049

31 December 2006: LIABILITIES	Kuwaiti Dinar	USD (KD equivalent)	JD (KD equivalent)	EGP (KD equivalent)	Euro (KD equivalent)	GBP (KD equivalent)	Others (KD equivalent)	Total KD
Liabilities arising from insurance contracts								
Outstanding claims reserve (gross)	13,980,126	6,511,084	43,407	54,259	32,555	1,082,181	-	21,703,612
Unearned premium reserve (net)	1,568,351	862,207	-	16,630	4,266	40,946	66,276	2,558,676
Life mathematical reserve	2,339,200	380,800	-	-	-	-	-	2,720,000
Additional reserve	6,200,000	-	-	-	-	-	-	6,200,000
Total liabilities arising from insurance contracts	24,087,677	7,754,091	43,407	70,889	36,821	1,123,127	66,276	33,182,288
Policyholders and agencies payables	637,463	112,494	-	-	-	-	-	749,957
Insurance and reinsurance payables	2,200,745	2,031,510	13,415	17,682	10,099	341,517	-	4,614,968
Other credit balances	7,486,056	1,904,851	-	-	-	-	-	9,390,907
Bank overdraft	1,933,685	-	-	-	-	-	-	1,933,685
Total liabilities	36,345,626	11,802,946	56,822	88,571	46,920	1,464,644	66,276	49,871,805

27 RISK MANAGEMENT (continued)

(d) Financial risks (continued)
(3) Market risk (continued)
(i) Currency risk (continued)

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 (due to changes in fair value of currency sensitive monetary assets and liabilities) and equity (due to the fluctuation in the exchange rates related to associated companies).

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 non-linear. The effect of decreases in profit and equity is expected to be equal and opposite to the effect of the increases shown.

		2007		2006	
	Change in variables	Impact on profit KD	Impact on equity KD	Impact on profit KD	Impact on equity KD
USD	+ 5%	**180,764**	**1,039,381**	170,907	856,128
JD	+ 5%	**816**	**53,896**	1,494	41,859
EGP	+ 5%	**1,347**	**148,271**	82	125,820
Euro	+ 5%	**458**	**84,973**	608	40,995
GBP	+ 5%	**20,152**	**40,930**	32,524	20,307
Others	+ 5%	**1,504**	**156,895**	8,269	4,406

(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 company's interest risk guideline requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The guideline also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities.

The company has no significant concentration of interest rate 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.

27 RISK MANAGEMENT (continued)

(d) Financial risks (continued)
(3) Market risk (continued)
(ii) Interest rate risk (continued)

	2007		2006	
	Change in variables %	Impact on profit KD	Change in variables %	Impact on profit before tax KD
Currency				
KD	**5**	**40.299**	5	247,879
USD	**5**	**202**	5	329

The effect of decreases in profit and equity 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 period.

(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 and industrial concentration.

The effect on equity (as a result of a change in the fair value of available for sale investments) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

	2007		2006	
Market indices	Change in equity price %	Effect on equity KD	Change in equity price %	Effect on equity KD
Kuwait	**+5**	**4,663,258**	+5	2,428,918
Other GCC countries	**+5**	**470,581**	+5	297,141
Europe	**+5**	**162,845**	+5	59,511
Others	**+5**	**569,620**	+5	636,444

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

27 RISK MANAGEMENT (continued)

(d) Financial risks (continued)
(3) Market risk (continued)
(iii) Equity price risk (continued)

The table below indicates that the geographical concentration of investments and deposits which is as follows:

	Kuwait KD	Other GCC Countries KD	Europe KD	America KD	Middle East KD	Asia KD	Total KD
31 December 2007							
Investments in associates	-	-	-	-	3,352,539	-	3,352,539
Investment in unconsolidated subsidiaries	100,000	-	1	-	-	-	100,001
Investment in equities and bonds	95,789,089	7,451,101	2,459,508	9,524,508	-	4,928,775	120,152,981
Fixed and short notice bank deposits	11,821,564	-	-	-	-	-	11,821,564
Bank balances and cash	2,063,393	-	-	-	-	-	2,063,393
	109,774,046	7,451,101	2,459,509	9,524,508	3,352,539	4,928,775	137,490,478

	Kuwait KD	Other GCC Countries KD	Europe KD	America KD	Middle East KD	Asia KD	Total KD
31 December 2006							
Investments in associates	-	-	-	-	2,673,080	-	2,673,080
Investment in an unconsolidated subsidiary	-	-	1	-	-	-	1
Investment in equities and bonds	51,614,002	6,563,713	877,077	7,681,656	6,768,287	4,779,248	78,283,983
Fixed and short notice bank deposits	9,641,990	-	-	-	-	-	9,641,990
Bank balances and cash	3,131,573	-	-	-	-	-	3,131,573
	64,387,565	6,563,713	877,078	7,681,656	9,441,367	4,779,248	93,730,627

28 CAPITAL MANAGEMENT

The primary objective of the company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders or issues new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

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 less cumulative changes in fair values.

	2007 KD	2006 KD
Liabilities arising from insurance contracts	**38,014,310**	33,182,288
Payables	**15,590,249**	14,755,832
Term loans	**27,330,402**	-
Less: Cash and cash equivalents	**(1,124,143)**	(1,197,888)
Net debt	**79,810,818**	46,740,232
Total capital	**69,636,697**	61,109,924
Capital and net debt	**149,447,515**	107,850,156
Gearing ratio	**53%**	43%

29 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank balances, deposits, investments and receivables. Financial liabilities consist of bank overdraft, term loans and payables.

The fair values of financial instruments, with the exception of certain available for sale investments carried at cost (see note 9), are not materially different from their carrying values.