Gulf Insurance Company - K.S.C.
And Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2007

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2007

	Notes	*2007* *KD*	*2006* *KD*
Revenue:			
Premiums written		**74,084,609**	70,547,809
Reinsurance premiums ceded		**(35,384,832)**	(33,260,713)
Net premiums written		**38,699,777**	37,287,096
Movement in unearned premiums		**(797,198)**	(867,561)
Net premiums earned		**37,902,579**	36,419,535
Commission received on ceded reinsurance		**5,897,497**	4,878,829
Policy issuance fees		**1,194,486**	1,039,020
Net investment income from life insurance	3	**2,383,866**	1,431,495
		47,378,428	43,768,879
Expenses:			
Claims incurred		**24,916,434**	19,590,546
Commission and discounts		**6,147,261**	4,527,602
Increase in life mathematical reserve		**1,197,788**	8,045,000
Increase in additional reserve		**58,597**	80,843
Maturity and cancellations of life insurance policies		**693,834**	599,588
General and administrative expenses		**9,903,100**	6,992,303
		42,917,014	39,835,882
NET UNDERWRITING RESULT		**4,461,414**	3,932,997
Net investment income	3	**39,123,228**	6,373,722
Sundry income		**95,196**	162,013
		43,679,838	10,468,732
Other charges			
Unallocated general and administrative expenses		**(3,137,982)**	(1,440,208)
		(3,137,982)	(1,440,208)
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT TAX AND DIRECTORS' FEES		**40,541,856**	9,028,524
Contribution to KFAS		**(391,555)**	(87,463)
National Labour Support tax		**(954,639)**	(191,157)
Zakat tax		**(23,336)**	-
Directors' fees		**(120,000)**	(80,000)
PROFIT FOR THE YEAR		**39,052,326**	8,669,904
Attributable to:			
Equity holders of the parent company		**37,665,945**	8,387,648
Minority interest		**1,386,381**	282,256
		39,052,326	8,669,904
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	4	**352.86 fils**	79.41 fils
DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	4	**349.68 fils**	79.41 fils

The attached notes 1 to 27 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	*2007* *KD*	*2006* *KD*
ASSETS			
Property and equipment	5	**6,191,673**	5,666,059
Investments in associated companies	6	**4,050,680**	981,671
Intangible assets		**2,725,109**	2,699,664
Investments carried at fair value through income statement	7	**22,829,621**	12,205,923
Investments available for sale	8	**60,913,490**	62,168,455
Debt securities (loans)		**4,300,000**	5,516,155
Investments held to maturity		**4,731,485**	1,531,836
Loans secured by life insurance policies		**438,165**	126,976
Premiums and insurance balances receivable	9	**22,961,088**	18,668,400
Reinsurance recoverable on outstanding claims	10	**22,224,904**	15,805,880
Property held for sale		**291,249**	1,314,451
Other assets	11	**6,364,875**	6,229,618
Cash and cash equivalents	12	**65,008,645**	54,514,057
TOTAL ASSETS		**223,030,984**	187,429,145
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities arising from insurance contracts:	10		
Outstanding claims reserve (gross)		**44,263,271**	33,946,971
Unearned premiums reserve (net)		**13,287,003**	13,501,164
Life mathematical reserve (net)		**15,617,788**	14,420,000
Additional reserve (net)		**3,064,061**	2,957,525
Total liabilities arising from insurance contracts		**76,232,123**	64,825,660
Bank overdraft	12	**7,888,638**	8,726,980
Premiums received in advance		**2,736,907**	5,767,755
Insurance payable	13	**25,507,388**	27,300,390
Other liabilities	14	**11,010,746**	6,772,550
TOTAL LIABILITIES		**123,375,802**	113,393,335
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT			
Share capital	15	**11,310,000**	11,310,000
Share premium		**3,600,000**	3,600,000
Treasury shares	16	**(3,385,743)**	(3,151,943)
Treasury shares reserve		**1,011,297**	-
Employees Share option reserve	17	**318,508**	-
Statutory reserve	18	**11,310,000**	10,363,850
Voluntary reserve		**15,263,413**	11,319,880
Cumulative changes in fair value		**12,084,472**	18,511,012
Foreign currency translation adjustments		**(496,807)**	23,323
Retained earnings		**35,555,940**	8,589,328
		86,571,080	60,565,450
Minority interest		**13,084,102**	13,470,360
Total equity		**99,655,182**	74,035,810
TOTAL LIABILITIES AND EQUITY		**223,030,984**	187,429,145

Faisal Al-Ayyar
Vice Chairman

The attached notes 1 to 27 form part of these consolidated financial statements.

Gulf Insurance Company - K.S.C. And Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Attributable to equity holders of the parent											*Minority interest KD*	*Total equity KD*
	Share capital KD	*Share premium KD*	*Treasury shares KD*	*Treasury shares reserve KD*	*Employees share option reserve KD*	*Statutory reserve KD*	*Voluntary reserve KD*	*Cumulative changes in fair value KD*	*Foreign currency translation adjustments KD*	*Retained earnings KD*	*Sub total KD*		
Balance at 31 December 2006	11,310,000	3,600,000	(3,151,943)	-	-	10,363,850	11,319,880	18,511,012	23,323	8,589,328	60,565,450	13,470,360	74,035,810
Change in fair value of investments available for sale	-	-	-	-	-	-	-	7,942,825	-	-	7,942,825	-	7,942,825
Sale of investments available for sale	-	-	-	-	-	-	-	(13,816,174)	-	-	(13,816,174)	-	(13,816,174)
Impairment of investment available for sale	-	-	-	-	-	-	-	(553,191)	-	-	(553,191)	-	(553,191)
Foreign currency translation adjustments	-	-	-	-	-	-	-	-	(520,130)	-	(520,130)	-	(520,130)
Net income and expense recognised directly in equity	-	-	-	-	-	-	-	(6,426,540)	(520,130)	-	(6,946,670)	-	(6,946,670)
Profit for the year	-	-	-	-	-	-	-	-	-	37,665,945	37,665,945	1,386,381	39,052,326
Total recognised income and expense for the year	-	-	-	-	-	-	-	(6,426,540)	(520,130)	37,665,945	30,719,275	1,386,381	32,105,656
Dividends for 2006 (Note 27)	-	-	-	-	-	-	-	-	-	(5,809,650)	(5,809,650)	-	(5,809,650)
Purchase of treasury shares	-	-	(2,589,057)	-	-	-	-	-	-	-	(2,589,057)	-	(2,589,057)
Sale of treasury shares	-	-	2,355,257	1,011,297	-	-	-	-	-	-	3,366,554	-	3,366,554
Cost of share based payment	-	-	-	-	318,508	-	-	-	-	-	318,508	-	318,508
Net movement in minority interest	-	-	-	-	-	-	-	-	-	-	-	(1,772,639)	(1,772,639)
Transfer to reserves	-	-	-	-	-	946,150	3,943,533	-	-	(4,889,683)	-	-	-
Balance at 31 December 2007	**11,310,000**	**3,600,000**	**(3,385,743)**	**1,011,297**	**318,508**	**11,310,000**	**15,263,413**	**12,084,472**	**(496,807)**	**35,555,940**	**86,571,080**	**13,084,102**	**99,655,182**

The attached notes 1 to 27 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2007

	Attributable to equity holders of the parent									Minority interest KD	Total equity KD
	Share capital KD	*Share premium KD*	*Treasury shares KD*	*Statutory reserve KD*	*Voluntary reserve KD*	*Cumulative changes in fair value KD*	*Foreign currency translation adjustments KD*	*Retained earnings KD*	*Sub total KD*		*Total KD*
Balance at 31 December 2005	11,310,000	3,600,000	(3,117,257)	9,489,223	10,445,253	21,634,473	(35,141)	7,235,684	60,562,235	1,889,241	62,451,476
Change in fair value of investments available for sale	-	-	-	-	-	(77,926)	-	-	(77,926)	-	(77,926)
Sale of investments available for sale	-	-	-	-	-	(3,045,535)	-	-	(3,045,535)	-	(3,045,535)
Foreign currency translation adjustments	-	-	-	-	-	-	58,464	-	58,464	-	58,464
Net income and expense recognized directly in equity	-	-	-	-	-	(3,123,461)	58,464	-	(3,064,997)	-	(3,064,997)
Profit for the year	-	-	-	-	-	-	-	8,387,648	8,387,648	282,256	8,669,904
Total recognized income and expense for the year	-	-	-	-	-	(3,123,461)	58,464	8,387,648	5,322,651	282,256	5,604,907
Dividends	-	-	-	-	-	-	-	(5,284,750)	(5,284,750)	-	(5,284,750)
Purchase of treasury share	-	-	(34,686)	-	-	-	-	-	(34,686)	-	(34,686)
Net movement of minority interest	-	-	-	-	-	-	-	-	-	11,298,863	11,298,863
Transfer to reserves	-	-	-	874,627	874,627	-	-	(1,749,254)	-	-	-
Balance at 31 December 2006	11,310,000	3,600,000	(3,151,943)	10,363,850	11,319,880	18,511,012	23,323	8,589,328	60,565,450	13,470,360	74,035,810

The attached notes 1 to 27 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2007

	Note	2007 KD	2006 KD
OPERATING ACTIVITIES			
Profit before contribution to KFAS, NLST, Zakat tax and directors' fees		**40,541,856**	9,028,524
Adjustments for:			
Depreciation		**1,165,082**	1,572,353
Net investment income		**(43,062,912)**	(7,805,217)
Impairment of investment		**1,555,818**	-
Impairment of goodwill		**448,949**	-
Cost of share based payment		**318,508**	-
		967,301	2,795,660
Changes in operating assets and liabilities:			
Investments carried at fair value through income statement		**(10,623,698)**	(478,141)
Premiums and insurance balances receivable		**(4,292,688)**	(5,163,713)
Reinsurance recoverable on outstanding claims		**(6,419,024)**	(1,395,504)
Property held for sale		**1,023,202**	(144,000)
Other assets		**(135,257)**	(2,029,115)
Liabilities arising from insurance contracts		**11,406,463**	22,476,363
Premiums received in advance		**(3,030,848)**	(605,872)
Insurance payable		**(1,793,001)**	13,579,048
Other liabilities		**(810,849)**	698,423
Cash (used in) generated from operations		**(13,708,399)**	29,733,149
Paid to KFAS		**(87,463)**	(72,826)
Paid to NLST		**(178,460)**	(174,688)
Paid to directors		**(80,000)**	(80,000)
Net cash (used in) from operating activities		**(14,054,322)**	29,405,635
INVESTING ACTIVITIES			
Purchase of property and equipment		**(1,837,306)**	(3,453,815)
Proceeds from sale of property and equipment		**146,610**	33,578
Net movement on investments available for sale		**(1,491,709)**	(1,005,070)
Purchase of investments in associates		**(3,278,070)**	(4,450,506)
Proceeds from sale of associate		-	476,726
Purchase of investment held to maturity		**(3,199,649)**	(1,531,836)
Decrease in debt securities (loans)		**1,216,155**	1,381,009
Increase in loans secured by life insurance policies		**(311,189)**	(39,707)
Acquisition of subsidiary		**(2,058,942)**	(2,293,909)
Interest received		**2,197,720**	1,259,855
Dividends received		**1,582,831**	2,145,600
Other investment income received		**38,502,343**	389,224
Net cash from (used in) investing activities		**31,468,794**	(7,088,851)
FINANCING ACTIVITIES			
Dividends paid		**(5,952,651)**	(5,284,750)
Net movement of treasury shares		**777,497**	(34,686)
Minority interest movement		**(386,258)**	11,298,863
Net cash (used in) from financing activities		**(5,561,412)**	5,979,427
Foreign currency translation adjustments		**(520,130)**	58,464
INCREASE IN CASH AND CASH EQUIVALENTS		**11,332,930**	28,354,675
Cash and cash equivalents at beginning of the year		**45,787,077**	17,432,402
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	12	**57,120,007**	45,787,077

The attached notes 1 to 27 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial statements of Gulf Insurance Company – K.S.C (the "parent company" and Subsidiaries (the "Group") for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the directors on 24 January 2008. The Shareholders' General Assembly has the power to amend these financial statements after issuance.

The parent company was incorporated as a Kuwaiti Shareholding Company in accordance with the Amiri Decree No. 25 of 9 April 1962, and is listed on the Kuwait Stock Exchange. The parent company is 75.3% (2006: 53.79%) owned by Kuwait Projects Company Holding K.S.C. (the "ultimate parent company"). The parent company's objectives include all types of insurance, indemnities, compensations and investing its capital and assets in various financial and real estate investments, both locally and abroad.

The address of the Company's registered office is at Ahmed Al Jaber Street, Shark, Kuwait City P.O. Box 1040 Safat, 13011 State of Kuwait.

The Group employs 511 employees for the year ended 31 December 2007 (2006:400 employees).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The consolidated financial statements have been prepared on a historical cost convention modified to include the measurement at fair value of investments carried at fair value through income statement and investments available for sale.

The consolidated financial statements have been presented in Kuwaiti Dinars.

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

Change in accounting policies
The accounting policies adopted are consistent with those of the previous financial year except as noted below.

The Group 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 which is effective for annual reporting periods beginning on or after 1 January 2007;
- The consequential amendments to IAS 1 Presentation of Financial Statements;
- IFRIC 10 Interim Financial Reporting and Impairment effective for annual reporting periods beginning 1 November 2006.

IFRS 7 Financial Instruments: Disclosures
IFRS 7 Financial Instruments: Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. 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. In particular, the Group's financial statements now feature:

- A sensitivity analysis, to explain the Group's risk exposure in regards to its insurance risk;
- A sensitivity analysis, to explain the Group's risk exposure in regards to its financial instruments; and
- Net gain or loss on each category of financial assets.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting policies (continued)

IAS 1 Presentation of Financial Statements
In accordance with the amendments to IAS 1 Presentation of Financial Statements, the Group now reports on its capital management's objectives, policies and procedures in each annual financial report.

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 Group's consolidated financial statements.

The following new Standards and Interpretations which are yet to become effective have not been adopted:
- IAS 1 (Revised) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009)
- IFRS 8 Operating Segments (effective for annual periods on or after 1 January 2009)
- IAS 23 (Revised) Borrowing costs (effective for accounting periods beginning on or after 1 January 2009)
- IFRIC 11 Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)

IAS 1 Presentation of Financial Statements
IAS 1 Presentation of Financial Statements 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
IFRS 8 Operating Segments is a disclosure standard which may result in a redesignation of the Group's reportable segments but is not expected to have any impact on the results or financial position of the Group.

IAS 23 Borrowing Costs
IAS 23 Borrowing Costs 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 consolidated financial statements in the period of initial application.

The Group does not intend to apply any of the above pronouncements early.

Based on the Group's current business model and accounting policies, management does not expect material impact on the Group's consolidated financial statements in the period of initial applications of the above interpretations.

The following standards, amendments and interpretations are mandatory for reporting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyper-Inflationary Economies; and
- IFRIC 9 Reassessment of Embedded Derivatives.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of Significant Accounting Policies

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2007. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interest represents the portion of profit or loss and net assets not held by the Group and is presented separately in the income statement and within equity in the consolidated balance sheet, separately from the parent company's shareholders' equity. Acquisitions of minority interest is accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

Revenue recognition

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

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

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

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

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 carrying value, and are recorded on occurrence of the sale transactions.

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 statement as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Group and those not reported at the balance sheet date.

The Group 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 Group'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 of 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.

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.

Liability adequacy test
At each balance sheet date the Group 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 light of estimated future cash flows, the entire deficiency is immediately recognised in the income statement and an unexpired risk provision is created.

The Group 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
In order to minimise financial exposure from large claims the Group enters into agreements with other parties for reinsurance purposes. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. These amounts are shown as “reinsurers’ share of outstanding claims” in the balance sheet until the claim is paid by the Group. Once the claim is paid the amount due from the reinsurers in connection with the paid claim is transferred to “receivables arising from insurance and reinsurance contracts”.

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Product classification
Insurance contract
Insurance contracts are those contracts when the Group (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 Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

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

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

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

Depreciation is computed on a straight-line basis over the estimated useful lives of property and equipment as follows:

Building	20 – 50	years
Furniture and fixtures	1 – 10	years
Motor vehicles	1 – 4	years
Leasehold improvements	7	years

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

Investments in associated companies
The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group 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 charges in the Group's share of net assets of the associate, less any impairment in value. Goodwill relating to an 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. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss of the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognises the amount in the income statement.

Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Business combinations and goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets and liabilities of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or Groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or Groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or Group of cash-generating units), to which the goodwill relates. The recoverable amount is the higher of its fair value less costs to sell and its value-in-use, determined on an individual asset (or cash-generating unit) basis, unless the individual asset (or cash-generating unit) does not generate cash flows that are largely independent from those of other assets or Groups of assets (or Groups of cash-generating units).

Previously recorded impairment losses for goodwill are not reversed in future periods.

When goodwill forms part of a cash-generating unit (Group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determine the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and related goodwill is recognised in the income statement.

Investments and other financial assets

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

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

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

Investments carried at fair value through income statement

Financial assets at fair value through income statement, has two sub categories namely financial assets held for trading and those designated at fair value through income statement at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- the assets and liabilities are part of a Group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value.

Fair value adjustments and realised gain and loss are recognised in the income statement.

Investments available for sale
After initial recognition investments available for sale are measured at fair value with gains and losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain and loss previously reported in equity is recognised in the consolidated income statement. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Debt securities (loan)
Debt securities (loan) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest rate method. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Investments held to maturity
Investments held to maturity are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Fair value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

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

Cash and cash equivalents
Cash includes cash on hand and at banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of placement and that are subject to an insignificant risk of change in value. Cash and cash equivalents in the consolidated statement of cash flows are presented net of bank overdrafts.

Impairment and uncollectability of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset, or Group 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 cost 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 uncollectability 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 consolidated statement of income except for available for sale equity 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 Group 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 Group 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 Group 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 Group’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 Group 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.

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 Group’s actuaries.

Payables
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.

End of service indemnity
Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares
Treasury shares consist of the parent company's own shares that have been issued, subsequently reacquired by the Group 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 gain on sale of treasury shares 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.

Employees' share option reserve
Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

Equity-settled transactions
The cost of equity-settled transactions with employees is measured under the intrinsic value method. Under this method, the cost is determined by comparing the market value of the parent company's shares at each reporting date and the date of final settlement to the exercise price with any change in intrinsic value recognised in the consolidated income statement.

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees exercise their rights. The cumulative expense recognised for equity-settled transactions at each reporting date until the exercise date reflects the extent to which the exercise period has expired and the number of awards that, in the opinion of the directors at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

The dilutive effect of the outstanding options is reflected as additional share dilution in the computation of the earnings per share (see note 4).

Foreign currencies
Foreign currency transactions are recorded in Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Exchange differences are reported as part of the results for the year. Assets and liabilities, both monetary and non-monetary including goodwill of foreign subsidiaries are translated at the exchange rates prevailing at the balance sheet date. Operating results of such subsidiaries are translated at average rates of exchange for the subsidiary's period of operations. The resulting exchange differences are accumulated in a separate section of shareholders' equity (foreign currency translation adjustments) until the disposal of the subsidiary. 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Group'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.

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 Group base mortality and morbidity tables on standard industry and national tables which reflect historical experiences, adjusted when appropriate to reflect the Group'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 Group is exposed to disputes with, and possibility of defaults by, its reinsurers. The Group monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Judgement

In the process of applying the Group'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

Management has to decide on acquisition of an investment whether it should be classified as available for sale or investments carried at fair value through statement of income and held to maturity investments. The Group classifies investments as carried at fair value through income statement if the fair value can be reliably determined. All other investments are classified as available for sale.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgement (continued)

Impairment of investments

The Group 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 Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

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.

3 NET INVESTMENT INCOME

Net investment income for life insurance analysed by category for the year, is as follows:

	Investments held for trading KD	*Designated investments at fair value through income statement KD*	*Investments available for sale KD*	*Debt securities (loan) KD*	*Investment held to maturity KD*	*Time and call deposits KD*	***2007 Total KD***	*2006 Total KD*
Realised gains (losses)	720,521	-	-	-	-	-	**720,521**	(57)
Unrealised gains	-	246,915	-	-	-	-	**246,915**	320,336
Dividends income	99,608	-	-	-	-	-	**99,608**	106,263
Interest income	-	-	-	366,155	-	1,189,380	**1,555,535**	1,009,368
Gain on financial assets	820,129	246,915	-	366,155	-	1,189,380	**2,622,579**	1,436,110
Total investment income	820,129	246,915	-	366,155	-	1,189,380	**2,622,579**	1,436,110
Financial charges and other expenses	(8,713)	-	(230,000)	-	-	-	**(238,713)**	(4,615)
Total investment expense	(8,713)	-	(230,000)	-	-	-	**(238,713)**	(4,615)
Net investment income	811,416	246,915	(230,000)	366,155	-	1,189,380	**2,383,866**	1,431,495

3 NET INVESTMENT INCOME (continued)

Net investment income for non-life, analysed by category for the year, is as follows:

	Investments in associated companies KD	*Investments held for trading KD*	*Designated investments at fair value through income statement KD*	*Investments available for sale KD*	*Debt securities (loan) KD*	*Investment held to maturity KD*	*Property held for sale KD*	*Time and call deposits KD*	***2007 Total KD***	*2006 Total KD*
Realised gains	-	1,078,831	-	34,938,113	-	-	-	-	**36,016,944**	4,111,159
Unrealised gains	-	-	1,684,751	-	-	-	-	-	**1,684,751**	(297,472)
Dividends income	-	10,485	453,123	1,019,615	-	-	-	-	**1,483,223**	2,123,815
Interest income	-	-	-	-	19,508	375,310	-	2,058,857	**2,453,675**	1,049,465
Gain on financial assets	-	1,089,316	2,137,874	35,957,728	19,508	375,310	-	2,058,857	**41,638,593**	6,986,967
Share of result of associates	(209,061)	-	-	-	-	-	-	-	**(209,061)**	16,540
Gain on sale of associates	-	-	-	-	-	-	-	-	**-**	2,351
Rental income	-	-	-	-	-	-	139,216	-	**139,216**	79,617
Other investment income	-	-	-	-	-	-	-	-	-	42,544
Total Investment income	(209,061)	1,089,316	2,137,874	35,957,728	19,508	375,310	139,216	2,058,857	**41,568,748**	7,128,019
Financial charges	-	-	(36,449)	(331,531)	-	-	-	-	**(367,980)**	(506,200)
Impairment loss provision	-	-	-	(1,555,818)	-	-	-	-	**(1,555,818)**	-
Other investment expenses	-	(78,622)	(216,803)	(167,026)	-	-	(59,271)	-	**(521,722)**	(248,097)
Total Investment expense	-	(78,622)	(253,252)	(2,054,375)	-	-	(59,271)	-	**(2,445,520)**	(754,297)
Net investment income	**(209,061)**	**1,010,694**	**1,884,622**	**33,903,353**	**19,508**	**375,310**	**79,945**	2,058,857	**39,123,228**	6,373,722

3 NET INVESTMENT INCOME (continued)

During 2007, the ultimate parent company led and administered a Group of sellers' (the sellers) holding (including the parent company's holding), in aggregate, a majority share interest in National Mobile Telecommunication Company K.S.C. (Wataniya). The sellers sold their 51% interest in Wataniya to Qtel International Investments L.L.C, a subsidiary of Qatar Telecom Q.S.C. The parent company's investment was partly included under investments at fair value through income statement and partly under investments available for sale. This sale resulted in a realized gain to the parent company of KD 29,867,310 (after deducting transaction costs). This amount is included in the net realised gain on sale of "investments carried at fair value through income statement" and "investments available for sale".

4 BASIC AND DILUTED EARNING PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

Basic earnings per share are calculated by dividing profit for the year attributable to equity holders of the parent company by the weighted average number of shares outstanding during the year. Diluted earning per share are calculated by dividing profit for the year attributable to equity holders of the parent company by the weighted average number of ordinary shares, less treasury shares, outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares which is reserved from employee share option scheme.

	2007	*2006*
	KD	*KD*
Profit for the year attributable to equity holders of the parent company	**37,665,945**	8,387,648
	Shares	Shares
Number of shares outstanding at the beginning of the year	**113,100,000**	113,100,000
Weighted average number of treasury shares	**(6,354,192)**	(7,470,000)
Weighted average number of shares outstanding during the year	**106,745,808**	105,630,000
Basic earnings per share	**352.86 Fils**	79.41 Fils
Weighted average number of shares outstanding during the year adjusted for the effect of dilution	**107,716,721**	105,630,000
Diluted earning per share	**349.68 Fils**	79.41 Fils

5 PROPERTY AND EQUIPMENT

	Land and buildings KD	*Furniture And fixtures KD*	*Motor vehicles KD*	*Leasehold improvements KD*	*Total KD*
Cost:					
At 1 January 2006	4,892,401	3,259,152	139,227	6,797	8,297,577
Additions	1,177,825	2,055,036	216,370	4,584	3,453,815
Disposals	-	(4,324)	(25,809)	-	(30,133)
Foreign currency translation differences	-	3,169	285	-	3,454
At 31 December 2006	6,070,226	5,313,033	330,073	11,381	11,724,713
Additions	1,212,571	389,647	75,037	160,051	1,837,306
Disposals	(43,636)	(23,695)	(58,930)	-	(126,261)
Foreign currency translation differences	(142,586)	(51,694)	(6,484)	(7,576)	(208,340)
At 31 December 2007	**7,096,575**	**5,627,291**	**339,696**	**163,856**	**13,227,418**
Accumulated Depreciation:					
At 1 January 2006	1,623,155	2,768,582	111,361	3,639	4,506,737
Charge for the year	120,231	1,338,228	112,785	1,109	1,572,353
On disposals	-	(3,058)	(19,750)	-	(22,808)
Foreign currency translation differences	-	2,246	126	-	2,372
At 31 December 2006	1,743,386	4,105,998	204,522	4,748	6,058,654
Charge for the year	496,427	532,363	53,119	83,173	1,165,082
On disposals	(1,527)	(23,151)	(41,915)	0	(66,593)
Foreign currency translation differences	(36,387)	(71,800)	(6,825)	(6,386)	(121,398)
At 31 December 2007	**2,201,899**	**4,543,410**	**208,901**	**81,535**	**7,035,745**
Net carrying amount:					
At 31 December 2007	**4,894,676**	**1,083,881**	**130,795**	**82,321**	**6,191,673**
At 31 December 2006	4,326,840	1,207,035	125,551	6,633	5,666,059

5 PROPERTY AND EQUIPMENT (continued)

The parent company's building is mortgaged for carrying value of KD 1,260,000 in favour of the Minister of Commerce and Industry. Of this amount, KD 600,000 is in accordance with Article No. 7 of the Insurance Companies and Agents By-law No. 24 of 1961 (related to Life Insurance Business), and the balance, in compliance with Article 3 of the Ministerial Decree No. 30 of 1975 (2006: KD 1,260,000).

6 INVESTMENTS IN ASSOCIATED COMPANIES

The Company has the following investment in associates:

	Country of incorporation	*Percentage of ownership*		*Principal activity*
		2007	*2006*	
United Warehousing and Refrigeration Co. K.S.C. (Closed)	Kuwait	**20%**	20%	Logistic and storage activities
United Real Estate Company (Jordan) J.S.C.	Jordan	**20%**	-	Real estate activities

During 2007, the parent company acquired 7,000,000 shares for an amount of KD 3,278,765 being 20% of the share capital of newly formed Real Estate Company: "United Real Estate Company (Jordan) J.S.C.", a company incorporated in Kingdom of Jordan.

Carrying amount of investment in associates

	2007 ***KD***	*2006* *KD*
At 1 January	**981,671**	8,195,348
Additions	**3,278,765**	4,450,506
Disposal	**-**	(474,375)
Transferred to investments available for sale	**-**	(2,692,216)
Transferred to subsidiary companies	**-**	(8,502,313)
Share of results of associates	**(209,061)**	16,540
Foreign currency translation differences	**(695)**	(11,819)
At 31 December	**4,050,680**	981,671
Share of associates' balance sheet:		
Current assets	**6,511,135**	927,518
Non-current assets	**24,310**	71,925
Current liabilities	**(2,330,296)**	(14,193)
Non-current liabilities	**(154,469)**	(3,579)
Net assets	**4,050,680**	981,671

	2007 ***KD***	*2006* *KD*
Share of associates' revenue and profit:		
Revenue	**8,795**	52,755
Net results	**(209,061)**	16,540

7 INVESTMENTS CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

	2007 *KD*	*2006* *KD*
Held for Trading:		
Quoted securities	**3,848,041**	11,530,612
Designated upon initial recognition:		
Quoted managed funds	**18,981,580**	675,311
	22,829,621	12,205,923

8 INVESTMENTS AVAILABLE FOR SALE

	2007 *KD*	*2006* *KD*
Quoted securities	**46,780,049**	46,308,411
Unquoted securities	**11,870,211**	14,270,994
Unquoted managed funds	**2,263,230**	1,589,050
	60,913,490	62,168,455

Included under available for sale investments are unquoted securities and managed funds with a value of KD 11,995,208 (2006: KD 9,543,525) 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 not aware of any circumstances that would indicate any impairment in the value of these investments at the balance sheet date.

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

	2007 *KD*	*2006* *KD*
Net unrealised gain (loss)	**7,942,825**	(77,926)
Net realised gain reclassified to the income statement on disposal	**(13,816,174)**	(3,045,535)
Realised loss reclassified to the income statement on impairment	**(553,191)**	-
	(6,426,540)	(3,123,461)

9 PREMIUMS AND INSURANCE BALANCES RECEIVABLE

	2007 *KD*	*2006* *KD*
Policyholders accounts receivable		
Premiums receivable	**20,617,190**	18,235,982
Insured debts receivable	**543,675**	405,072
	21,160,865	18,641,054
Provision for doubtful debts	**(2,819,748)**	(2,911,180)
Net policyholders accounts receivable	**18,341,117**	15,729,874

9 PREMIUMS AND INSURANCE BALANCES RECEIVABLE (continued)

	2007	*2006*
	KD	*KD*
Insurance and reinsures accounts receivable		
Reinsures receivable	**5,381,562**	3,743,581
Provision for doubtful debts	**(761,591)**	(805,055)
Net insurance and reinsures accounts receivable	**4,619,971**	2,938,526
Total premiums and insurance balances receivable	**22,961,088**	18,668,400

The Group'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	*2006*
	KD	*KD*
At 1 January	**2,911,180**	2,835,154
Charge for the year	**91,433**	123,763
Amounts written off	**(1,445)**	(7,577)
Unused amounts reversed	**(181,420)**	(40,160)
At 31 December	**2,819,748**	2,911,180

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

	2007	*2006*
	KD	*KD*
At 1 January	**805,055**	850,597
Charge for the year	**4,522**	27,754
Amounts written off	**(25,782)**	(70,096)
Unused amounts reversed	**(22,204)**	(3,200)
At 31 December	**761,591**	805,055

10 LIABILITIES AND ASSETS ARSING FROM INSURANCE CONTRACTS

31 December 2007	*Marine and aviation KD*	*Property KD*	*Casualty* KD*	*Life & Medical KD*	*Total KD*
OUTSTANDING CLAIMS RESERVE:					
Gross balance at beginning of the year	3,425,048	7,526,417	14,434,599	8,560,907	33,946,971
Reinsurance recoverable on outstanding claims	(2,799,077)	(5,065,699)	(3,781,065)	(4,160,039)	(15,805,880)
Net balance at beginning of the year	625,971	2,460,718	10,653,534	4,400,868	18,141,091
Foreign currency translation difference	(97)	(133)	(207)	(1,350)	(1,787)
Arising on consolidation of new subsidiaries	(8,766)	(2,157,534)	1,189,942	652,402	(323,956)
Incurred during the year – net	205,699	213,642	12,143,917	12,353,175	24,916,433
Paid during the year – net	(217,049)	(223,859)	(10,198,328)	(10,054,178)	(20,693,414)
NET BALANCE AT END OF THE YEAR	**605,758**	**292,834**	**13,788,858**	**7,350,917**	**22,038,367**
Represented in:					
Gross balance at end of the year	**3,433,830**	**5,603,010**	**21,931,110**	**13,295,321**	**44,263,271**
Reinsurance recoverable	**(2,828,072)**	**(5,310,176)**	**(8,142,252)**	**(5,944,404)**	**(22,224,904)**
NET BALANCE AT END OF THE YEAR	**605,758**	**292,834**	**13,788,858**	**7,350,917**	**22,038,367**
Unearned premiums reserve - net	**462,467**	**669,101**	**10,058,533**	**2,096,902**	**13,287,003**
Additional reserve - net	**675,939**	**318,418**	**1,149,952**	**919,752**	**3,064,061**
Life mathematical reserve - net	**-**	**-**	**-**	**15,617,788**	**15,617,788**

There are no material claims for which the amounts and timing of claims are not settled within one year of the balance sheet date.

* Casualty includes motor business.

10 LIABILITIES AND ASSETS ARSING FROM INSURANCE CONTRACTS (continued)

31 December 2006	*Marine and aviation* KD	*Property* KD	*Casualty** KD	*Life& Medical* KD	*Total* KD
OUTSTANDING CLAIMS RESERVE:					
Gross balance at beginning of the year	3,528,249	2,153,631	10,311,545	7,371,607	23,365,032
Reinsurance recoverable on outstanding claims	(3,144,163)	(1,949,944)	(3,949,470)	(5,366,799)	(14,410,376)
Net balance at beginning of the year	384,086	203,687	6,362,075	2,004,808	8,954,656
Foreign currency translation difference	(49)	(332)	(1,091)	(297)	(1,769)
Arising on consolidation of new subsidiaries	188,151	1,713,853	3,013,922	-	4,915,926
Incurred during the year – net	249,803	1,156,633	8,357,576	9,826,534	19,590,546
Paid during the year – net	(196,020)	(613,123)	(7,078,948)	(7,430,177)	(15,318,268)
NET BALANCE AT END OF THE YEAR	625,971	2,460,718	10,653,534	4,400,868	18,141,091
Represented in:					
Gross balance at end of the year	3,425,048	7,526,417	14,434,599	8,560,907	33,946,971
Reinsurance recoverable	(2,799,077)	(5,065,699)	(3,781,065)	(4,160,039)	(15,805,880)
NET BALANCE AT END OF THE YEAR	625,971	2,460,718	10,653,534	4,400,868	18,141,091
Unearned premiums reserve - net	396,254	1,559,670	8,768,165	2,777,075	13,501,164
Additional reserve - net	675,803	319,756	1,111,966	850,000	2,957,525
Life mathematical reserve - net	-	-	-	14,420,000	14,420,000

* Casualty includes motor business

11 OTHER ASSETS

	2007 *KD*	*2006* *KD*
Accrued interest income	**1,409,911**	1,310,769
Inward reinsurance retentions	**33,365**	14,233
Refundable claims	**422,629**	277,513
Prepaid expenses and other	**3,000,845**	3,224,414
Amount due from a related party (Note 24)	**1,498,125**	1,402,689
	6,364,875	6,229,618

12 CASH AND CASH EQUIVALENTS

	2007 *KD*	*2006* *KD*
Cash on hand and at banks	**7,616,889**	8,011,277
Time and call deposits	**57,391,756**	40,502,780
Money market fund	**-**	6,000,000
Cash and cash equivalents in the balance sheet	**65,008,645**	54,514,057
Bank overdraft	**(7,888,638)**	(8,726,980)
Cash and cash equivalents in the statement of cash flows	**57,120,007**	45,787,077

13 INSURANCE PAYABLE

	2007 *KD*	*2006* *KD*
Policyholder and agencies payable	**13,007,860**	14,698,725
Insurance and reinsurance payables	**12,499,528**	12,601,665
	25,507,388	27,300,390

14 OTHER LIABILITIES

	2007 *KD*	*2006* *KD*
Accrued expenses and deposits for others	**5,719,510**	3,687,304
Reserve for reinsurance premiums	**1,130,398**	821,393
Kuwait Foundation for the Advancement of Sciences	**391,555**	87,463
Provision for end of service indemnity	**2,658,611**	1,905,233
National Labour Support Tax	**967,336**	191,157
Proposed directors' fees	**120,000**	80,000
Zakat tax	**23,336**	-
	11,010,746	6,772,550

15 SHARE CAPITAL

Authorised, issued and fully paid capital consists of 113,100,000 shares of 100 fils each (2006: 113,100,000 shares).

16 TREASURY SHARES

	2007	*2006*
Number of shares (share)	**6,088,934**	7,470,000
Percentage of issued shares (%)	**5.3**	6.6
Market value (KD)	**5,175,594**	4,108,500

17 PROFIT-SHARING SCHEMES

The parent company operates profit-sharing schemes to reward the performance of its employees. The scheme is in operation for a period of 3 years, with the first year being the fiscal year ended 31 December 2006. The scheme is implemented by means of treasury shares which should not exceed 5% of the parent company's share capital.

The scheme covers all employees who are entitled to receive a portion of their annual bonus in shares to be issued by the Parent Company. The scheme participants grant an option to subscribe for shares allotted to the employees at the commencement of each year of a three-year period through three phases, at the end of each phase the employee may exercise the option.

Options totalling 3,090,808 shares outstanding at 31 December 2007 (31 December 2006: 1,545,404 shares) had a weighted average exercise price of 500 fils (31 December 2006: 500 fils) and a weighted average remaining contractual life of two years (31 December 2006: three years).

The average fair value of share options granted during the year is KD 0.729 (31 December 2006: KD 0.556) for which an expense of KD 318,508 was recognised in the consolidated income statement (2006: Nil).

For the share options granted in 2006 of 1,545,404 shares, an expense of KD 25,963 out of KD 318,508 has been recognised in 2007.

18 STATUTORY RESERVE

As required by the commercial companies law and the parent company's articles of association, 10% of profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support tax, Zakat tax and directors' fees has been transferred to statutory reserve. The parent company may resolve to discontinue such annual transfers since the reserve exceeds 50% of the share capital.

There are no restrictions on distribution of amounts in excess of 50% of the capital. Distribution of the remaining balance of the reserve is limited to the amount required to enable the payment of a dividend of 5% of the share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of this amount.

19 SEGMENT INFORMATION

a) Consolidated segment information

The Group operates in two segments, general risk insurance and life insurance; there are no inter-segment transactions. Following are the details of those two primary segments:

Year ended 31 December 2007:	*Marine and aviation KD*	*Property KD*	*Casualty and Motor KD*	*Total general risk insurance KD*	*Life and medical KD*	***Total KD***
Revenue:						
Premiums written	8,877,549	10,604,538	35,706,884	55,188,971	18,895,638	**74,084,609**
Reinsurance premiums ceded	(7,212,356)	(9,786,718)	(13,324,321)	(30,323,395)	(5,061,437)	**(35,384,832)**
Net premiums written	1,665,193	817,820	22,382,563	24,865,576	13,834,201	**38,699,777**
Movement in unearned premiums	(75,811)	(220,934)	(2,097,925)	(2,394,670)	1,597,472	**(797,198)**
Net premiums earned	1,589,382	596,886	20,284,638	22,470,906	15,431,673	**37,902,579**
Commission received on ceded reinsurance	1,270,336	1,624,999	2,288,050	5,183,385	714,112	**5,897,497**
Policy issuance fees	121,236	24,322	1,003,348	1,148,906	45,580	**1,194,486**
Net investment income from life insurance	-	-	-	-	2,383,866	**2,383,866**
	2,980,954	2,246,207	23,576,036	28,803,197	18,575,231	**47,378,428**
Expenses:						
Claims incurred	205,699	213,643	12,143,917	12,563,259	12,353,175	**24,916,434**
Commission and discounts	576,234	675,015	4,047,702	5,298,951	848,310	**6,147,261**
Increase in life mathematical reserve	-	-	-	-	1,197,788	**1,197,788**
Increase in additional reserve	5,080	(3,368)	52,796	54,508	4,089	**58,597**
Maturity and cancellations of life insurance policies	-	-	-	-	693,834	**693,834**
General and administrative expenses	1,288,704	1,197,281	5,326,470	7,812,455	2,090,645	**9,903,100**
	2,075,717	2,082,571	21,570,885	25,729,173	17,187,841	**42,917,014**
Net under writing result by segment	905,237	163,636	2,005,151	3,074,024	1,387,390	**4,461,414**
OTHER INFORMATION						
Segment assets				52,128,351	8,777,464	**60,905,815**
Cash and investments				130,911,392	31,213,777	**162,125,169**
Total assets				183,039,743	39,991,241	**223,030,984**
Segment liabilities				78,185,719	34,179,338	**112,365,057**
Unallocated liabilities						**11,010,744**
Total liabilities						**123,375,802**
Depreciation				1,088,204	76,878	**1,165,082**
Capital expenditure				1,733,753	103,553	**1,837,306**

19 SEGMENT INFORMATION (continued)

Year ended 31 December 2006:	*Marine and aviation KD*	*Property KD*	*Casualty and motor KD*	*Total general risk insurance KD*	*Life and medical KD*	*Total KD*
Revenue:						
Premiums written	5,923,399	13,666,813	22,830,557	42,420,769	28,127,040	70,547,809
Reinsurance premiums ceded	(4,769,840)	(11,985,154)	(8,547,909)	(25,302,903)	(7,957,810)	(33,260,713)
Net premiums written	1,153,559	1,681,659	14,282,648	17,117,866	20,169,230	37,287,096
Movement in unearned premiums	(30,956)	146,812	(585,114)	(469,258)	(398,303)	(867,561)
Net premiums earned	1,122,603	1,828,471	13,697,534	16,648,608	19,770,927	36,419,535
Commission received on ceded reinsurance	856,519	1,683,287	997,326	3,537,132	1,341,697	4,878,829
Policy issuance fees	51,100	15,892	941,994	1,008,986	30,034	1,039,020
Net investment income from life insurance	-	-	-	-	1,431,495	1,431,495
	2,030,222	3,527,650	15,636,854	21,194,726	22,574,153	43,768,879
Expenses:						
Claims incurred	249,803	1,156,633	8,357,576	9,764,012	9,826,534	19,590,546
Commission and discounts	322,034	837,801	2,546,865	3,706,700	820,902	4,527,602
Increase in life mathematical reserve	-	-	-	-	8,045,000	8,045,000
Increase in additional reserve	10,909	1,338	68,596	80,843	-	80,843
Maturity and cancellations of life insurance policies	-	-	-	-	599,588	599,588
General and administrative expenses	911,464	1,228,341	3,252,421	5,392,226	1,600,077	6,992,303
	1,494,210	3,224,113	14,225,458	18,943,781	20,892,101	39,835,882
Net under writing result by segment	536,012	303,537	1,411,396	2,250,945	1,682,052	3,932,997
OTHER INFORMATION						
Segment assets				39,131,117	10,065,480	49,196,597
Cash and investments				106,589,911	31,642,637	138,232,548
Total assets				145,721,028	41,708,117	187,429,145
Segment liabilities				67,771,912	41,373,425	109,145,337
Unallocated liabilities						4,247,998
Total liabilities						113,393,335
Depreciation				1,533,208	39,145	1,572,353
Capital expenditure				3,267,582	186,233	3,453,815

19 SEGMENT INFORMATION (continued)

b) Parent company stand alone information:

The Parent company operates in two segments, general risk insurance and life insurance; there are no inter-segment transactions. Following are the details of parent company stand alone for those two primary segments:

Year ended 31 December 2007:	*Marine and aviation* *KD*	*Property* *KD*	*Casualty and motor* *KD*	*Total general risk insurance* *KD*	*Life and medical* *KD*	*Total* *KD*
Revenue:						
Premiums written	3,832,699	4,859,726	12,500,155	21,192,580	15,329,125	36,521,705
Reinsurance premiums ceded	(3,082,643)	(4,439,360)	(4,006,227)	(11,528,230)	(2,735,907)	(14,264,137)
Net premiums written	750,056	420,366	8,493,928	9,664,350	12,593,218	22,257,568
Movement in unearned premiums	(44,000)	(23,000)	(233,000)	(300,000)	1,325,000	1,025,000
Net premiums earned	706,056	397,366	8,260,928	9,364,350	13,918,218	23,282,568
Commission received on ceded reinsurance	524,424	558,925	700,302	1,783,651	440,904	2,224,555
Policy issuance fees and other income	6,143	1,122	800,425	807,690	33,936	841,626
Net investment income from life insurance	-	-	-	-	2,383,867	2,383,867
	1,236,623	957,413	9,761,655	11,955,691	16,776,925	28,732,616
Expenses:						
Claims incurred	(5,549)	46,045	4,396,298	4,436,794	10,945,289	15,382,083
Commission and discounts	174,257	148,343	1,334,026	1,656,626	536,509	2,193,135
Increase in life mathematical reserve	-	-	-	-	1,195,000	1,195,000
Maturity and cancellations of life insurance policies	-	-	-	-	693,834	693,834
General and administrative expenses	748,195	685,447	2,629,162	4,062,804	1,603,701	5,666,505
	916,903	879,835	8,359,486	10,156,224	14,974,333	25,130,557
Segment result				1,799,467	1,802,592	3,602,059
OTHER INFORMATION						
Segment assets				45,754,067	3,847,465	49,601,532
Cash and investments				84,440,375	31,213,777	115,654,152
Total assets				130,194,442	35,061,242	165,255,684
Segment liabilities				37,034,767	34,179,338	71,214,105
Unallocated liabilities				6,588,595	881,904	7,470,499
Total liabilities				43,623,362	35,061,242	78,684,604
Depreciation				808,794	76,878	885,672
Capital expenditure				629,623	103,553	733,176

19 SEGMENT INFORMATION (continued)

b) Parent company stand alone information:

Year ended 31 December 2006:	*Marine and aviation KD*	*Property KD*	*Casualty and motor KD*	*Total general risk insurance KD*	*Life and medical KD*	*Total KD*
Revenue:						
Premiums written	3,495,935	4,943,109	13,566,762	22,005,806	27,502,711	49,508,517
Reinsurance premiums ceded	(2,907,650)	(4,578,020)	(5,343,296)	(12,828,966)	(7,688,790)	(20,517,756)
Net premiums written	588,285	365,089	8,223,466	9,176,840	19,813,921	28,990,761
Movement in unearned premiums	(15,400)	(12,000)	(417,500)	(444,900)	(400,000)	(844,900)
Net premiums earned	572,885	353,089	7,805,966	8,731,940	19,413,921	28,145,861
Commission received on ceded reinsurance	530,941	477,092	707,723	1,715,756	1,324,330	3,040,086
Policy issuance fees and other income	6,092	1,113	824,210	831,415	30,034	861,449
Net investment income from life insurance	-	-	-	-	1,431,495	1,431,495
	1,109,918	831,294	9,337,899	11,279,111	22,199,780	33,478,891
Expenses:						
Claims incurred	124,505	111,252	4,547,342	4,783,099	9,468,617	14,251,716
Commission and discounts	142,376	117,853	1,313,663	1,573,892	779,310	2,353,202
Increase in life mathematical reserve	-	-	-	-	8,045,000	8,045,000
Increase in additional reserve	-	-	-	-	-	-
Maturity and cancellations of life insurance policies	-	-	-	-	599,588	599,588
General and administrative expenses	571,598	515,031	1,972,004	3,058,633	1,499,312	4,557,945
	838,479	744,136	7,833,009	9,415,624	20,391,827	29,807,451
Segment result				1,863,487	1,807,953	3,671,440
OTHER INFORMATION						
Segment assets				35,034,414	11,260,453	46,294,867
Cash and investments				69,301,755	30,112,972	99,414,727
Total assets				104,336,169	41,373,425	145,709,594
Segment liabilities				39,630,305	40,698,540	80,328,845
Unallocated liabilities				4,140,416	674,885	4,815,301
Total liabilities				43,770,721	41,373,425	85,144,146
Depreciation				239,432	39,145	278,577
Capital expenditure				535,775	186,233	722,008

19 SEGMENT INFORMATION (continued)

c) Balance sheet of life department - parent company

Following is life department - parent company stand alone balance sheet:

	2007	*2006*
	KD	*KD*
ASSETS		
Property and equipment	**179,166**	152,491
Investments in associated companies	**-**	-
Intangible assets	**-**	-
Investments carried at fair value through income statement	**5,546,181**	3,590,565
Investments available for sale	**283,250**	-
Debt securities (loans)	**4,000,000**	3,830,000
Investments held to maturity	**-**	-
Investments in subsidiaries	**-**	-
Loans secured by life insurance policies	**438,165**	126,976
Premiums and insurance balances receivable	**3,817,147**	3,958,783
Reinsurance recoverable on outstanding claims	**4,551,874**	4,127,048
Property held for sale	**-**	-
Other assets	**2,470,668**	3,229,845
Cash and cash equivalents	**21,384,346**	22,692,407
General department current account	**(7,609,555)**	(334,692)
TOTAL ASSETS	**35,061,242**	41,373,423
LIABILITIES		
Liabilities arising from insurance contracts:		
Outstanding claims reserve (gross)	**11,275,354**	8,515,958
Unearned premiums reserve (net)	**1,125,000**	2,450,000
Life mathematical reserve (net)	**15,615,000**	14,420,000
Additional reserve (net)	**850,000**	850,000
Total liabilities arising from insurance contracts	**28,865,354**	26,235,958
Bank overdraft	-	-
Premiums received in advance	**1,500,000**	4,500,000
Accounts payable	**3,328,727**	6,485,767
Insurance and reinsurance companies	**485,257**	3,476,815
Other liabilities	**881,904**	674,883
TOTAL LIABILITIES	**35,061,242**	41,373,423

20 STATUTORY GUARANTEES

The following amounts are held in Kuwait as security for the order of the Minister of Commerce and Industry in accordance with the Ministerial Decree No. 27 of 1966 and its amendments:

	2007	*2006*
	KD	*KD*
Current accounts and deposits at banks	**18,282,487**	9,849,442
Loans secured by life insurance policies	**126,976**	87,269
	18,409,463	9,936,711

The foreign deposits held outside the State of Kuwait as security for the subsidiary companies' activities amounted to KD 15,915.

21 CONTINGENT LIABILITIES

At the balance sheet date, the Group is contingently liable in respect of letters of guarantee and other guarantees amounting to KD 3,316,903 (2006: KD 3,434,838).

A subsidiary's records (Fajr) for the year 2002 were subject to a review by the tax authorities during 2006 and resulted in an additional tax assessment of around KD 16,500 that was sent to the company and paid in 2007. The company's records were not reviewed by the social security authorities (NSSF) for the period from 1 May 2004 to date. The result of such review, if any, cannot presently be determined.

A subsidiary's records (Fajr) for the years from 2003 to 2006 have not been reviewed by the Department of Income Tax in Lebanon. The ultimate outcome of any tax or social security review that may take place cannot be presently determined.

Because of the nature of its business, the parent company is involved in a number of legal suits. The parent company's lawyer was unable to assess the outcome of certain legal cases due to the uncertainties related to the outcome of these cases.

22 COMMITMENTS

At the balance sheet date, the Group had future commitments with respect to investments that amounted to approximately KD 185,750 (2006: KD 349,000).

23 RISK MANAGEMENT

(a) Governance framework

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

The Group is establishing a risk management function with clear terms of reference from the Parent 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 Group policy framework including risk profiles for the Group, risk management, control and business conduct standards for the Group's operations.

23 RISK MANAGEMENT (continued)

(b) Regulatory framework

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

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

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 Group'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 Group 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 Group 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 Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group 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 contracts and risk of non life insurance contracts as follows:

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts

Life insurance contracts offered by the Group include whole life insurance, term insurance, unitized pensions (Misk individual policies), pure endowment pensions, group life and disability, credit life (banks), group medical including third party administration (TPA), preferred global health and Balsam.

Whole life and 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. Under unitized pensions, a percentage of the premium is applied towards the purchase of accumulation units in one or more of the linked funds. 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 Group have minimum maturity values subject to certain conditions being satisfied.

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

The main risks that the Group 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 Group as life business mainly written in Gulf countries.

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

The Group'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 Group 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 Group to pursue third parties for payment of some or all costs. The Group 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 Group.

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 Group 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.

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

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

	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*
Whole life insurance	25,000	19,000	6,000	25,000	19,000	6,000
Term insurance	6,258,316	6,206,954	51,362	3,204,515	3,178,429	26,086
Pure endowment	3,910,039	2,226,746	1,683,293	3,981,843	2,182,255	1,799,588
Group life and disability	1,493,073	1,230,954	262,119	699,654	462,137	237,517
Group medical including TPA (through external institution)	1,170,405	-	1,170,405	982,405	-	982,405
Credit life (Banks)	15,406,022	8,746,318	6,659,704	20,603,437	13,484,020	7,119,417
Preferred global health	54,805	-	54,805	122,060	51,521	70,539
Balsam	142,862	-	142,862	-	-	-
Misk individual policies	5,225,149	3,955,854	1,269,295	2,181,988	879,736	1,302,252
Total life insurance contract	**33,685,671**	**22,385,826**	**11,299,845**	**31,800,902**	**20,257,098**	**11,543,804**
Unitised pensions (Misk individual policies)	4,317,943	-	4,317,943	2,876,196	-	2,876,196
Total investments contracts	**4,317,943**	-	**4,317,943**	**2,876,196**	-	**2,876,196**
Total life insurance and investment contracts	**38,003,614**	**22,385,826**	**15,617,788**	**34,677,098**	**20,257,098**	**14,420,000**
Other life insurance contract liabilities	**36,907,185**	**27,397,557**	**9,509,628**	**36,795,496**	**25,625,053**	**11,170,443**

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

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

	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	**33,682,883**	**22,385,826**	**11,297,057**	31,800,902	20,257,098	11,543,804
Other Countries	**2,788**	**-**	**2,788**	-	-	-
Total	**33,685,671**	**22,385,826**	**11,299,845**	31,800,902	20,257,098	11,543,804

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	**1,185,270**	**-**	**1,185,270**	1,129,379	-	1,129,379
Europe	**3,132,673**	**-**	**3,132,673**	1,746,817	-	1,746,817
Total	**4,317,943**	**-**	**4,317,943**	2,876,196	-	2,876,196

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 Group'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.

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(1) Life insurance contracts (continued)

• ***Longevity***
Assumptions are based on standard industry and national tables, adjusted when appropriate to reflect the Group'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.

• 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 Group'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 Group'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.

23 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 Group 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**	A49/52	**4.5%**	4.5%	**N/A**	N/A	**5%**	5%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Non guaranteed terms	**A49/52**	A49/52	**N/A**	N/A	**N/A**	N/A	**5%**	5%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Life term assurance:												
Males	**49**	49	**5%**	5%	**N/A**	N/A	**5%**	5%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%
Females	**52**	52	**5%**	5%	**N/A**	N/A	**5%**	5%	**5% of AP+1% of SA**	5% of AP+1% of SA	**3%**	3%

23 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%	Covered by contingency reserve of KD 764,711		N/A
Expenses	+10%			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

	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%	Covered by contingency reserve of KD 660,374		N/A
Expenses	+10%			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%	Covered by contingency reserve of KD 764,711		N/A
Expenses	+10%			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

	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%	Covered by contingency reserve of KD 660,374		N/A
Expenses	+10%			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

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(2) Non-life insurance contracts

The Group principally issues the following types of general insurance contracts: marine and aviation, property, motor, and general accidents. 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 Group to multiple insurance risks. The Group 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 Group, 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 Group. The Group 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 Group.

The Group 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 Group’s risk appetite as decided by management.

23 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*** *Reinsurer's share of liabilities KD*	***2007*** *Net liabilities KD*	*2006 Gross liabilities KD*	*2006 Reinsurer's share of liabilities KD*	*2006 Net liabilities KD*
Marine and Aviation	5,657,659	3,923,543	1,734,116	5,775,026	4,097,654	1,677,372
Property	8,447,091	7,195,279	1,251,812	9,997,841	8,822,254	1,175,587
Motor	18,827,731	2,228,363	16,599,368	15,347,744	1,774,719	13,573,025
General Accidents	15,974,599	6,680,092	9,294,507	13,869,807	6,866,454	7,003,353
Total	**48,907,080**	**20,027,277**	**28,879,803**	44,990,418	21,561,081	23,429,337

The geographical concentration of the Group'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*** *Reinsurer's share of liabilities KD*	***2007*** *Net liabilities KD*	*2006 Gross liabilities KD*	*2006 Reinsurer's share of liabilities KD*	*2006 Net liabilities KD*
Kuwait	27,699,720	12,010,144	15,689,576	27,946,761	14,168,506	13,828,255
GCC countries	10,590,417	5,178,119	5,412,298	10,281,539	5,537,594	4,743,945
Middle East & North Africa	10,616,943	2,839,014	7,777,929	6,712,118	1,854,981	4,857,137
Total	**48,907,080**	**20,027,277**	**28,879,803**	**44,990,418**	**21,561,081**	**23,429,337**

23 RISK MANAGEMENT (continued)

(c) Insurance risk (continued)

(2) Non-life insurance contracts (continued)

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

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

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

31 December 2007	*Change in assumption*	*Impact on gross liabilities KD*	*Impact on net liabilities KD*	*Impact on profit KD*
Average claim cost	+10%	4,426,327	2,222,490	(1,291,680)
Average number of claim	+10%	2,520	2,016	(896,420)
Average claim settlement paid	Reduce from 18 months to 12 months	8,410,884	4,233,019	N/A

31 December 2006	*Change in assumption*	*Impact on gross liabilities KD*	*Impact on net liabilities KD*	*Impact on profit KD*
Average claim cost	+10%	3,394,697	1,184,109	(984,465)
Average number of claim	+10%	1,973	1,579	(687,495)
Average claim settlement paid	Reduce from 18 months to 12 months	9,175,756	4,272,278	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 Group is developing its policies and procedures to enhance the Group's mitigation of credit risk exposures.

- A Group credit risk policy setting out the assessment and determination of what constitutes credit risk for the Group. 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.

23 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*	*Unit linked* *KD*	***Total*** ***KD***
Debt securities (loans)	300,000	4,000,000	-	**4,300,000**
Investments held to maturity	4,325,851	-	405,634	**4,731,485**
Loans secured by life insurance policies	-	438,165	-	**438,165**
Reinsurance recoverable on outstanding claims	16,773,151	5,451,753	-	**22,224,904**
Policyholders account receivables (gross)	18,566,549	2,594,316	-	**21,160,865**
Reinsurance account receivable (gross)	3,273,889	1,222,831	884,842	**5,381,562**
Cash and cash equivalents	28,242,400	23,737,233	5,140,374	**57,120,007**
Total credit risk exposure	**71,481,840**	**37,444,298**	**6,430,850**	**115,356,988**

Exposure credit risk by classifying financial assets according to type of insurance	31 December 2006			
	General *KD*	*Life* *KD*	*Unit linked* *KD*	*Total* *KD*
Debt securities (loans)	283,466	5,232,689	-	5,516,155
Investments held to maturity	1,142,169	-	389,667	1,531,836
Loans secured by life insurance policies	-	126,976	-	126,976
Reinsurance recoverable on outstanding claims	10,836,948	4,968,932	-	15,805,880
Policyholders account receivables (gross)	15,257,873	3,382,702	479	18,641,054
Reinsurance account receivable (gross)	2,724,811	576,082	443,688	3,744,581
Cash and cash equivalents	15,283,566	24,842,932	5,660,579	45,787,077
Total credit risk exposure	45,528,833	39,130,313	6,494,413	91,153,559

23 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(1) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the financial assets 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						
Debt securities (loans)	-	-	1,000,000	3,300,000	-	4,300,000
Investments held to maturity	-	3,114,196	275,912	492,782	848,595	4,731,485
Loans secured by life insurance policies	-	-	-	-	438,165	438,165
Policyholders accounts receivable	-	-	40,427	193,963	20,926,475	21,160,865
Reinsurance account receivable	252,953	556,764	504,467	1,740,235	2,327,143	5,381,562
Reinsurance recoverable on outstanding claims	1,160,890	3,051,849	3,637,083	10,985,355	3,389,727	22,224,904
Cash and cash equivalents	33,025	4,342,365	33,189,510	17,023,689	2,531,418	57,120,007
Total credit risk exposure	**1,446,868**	**11,065,174**	**38,647,399**	**33,736,024**	**30,461,523**	**115,356,988**

Not rated are classified as follows using internal credit rating.

	Neither past due nor impaired			
	High grade ***2007*** ***KD***	***Standard grade*** ***2007*** ***KD***	***Past due or impaired*** ***2007*** ***KD***	***Total*** ***2007*** ***KD***
31 December 2007				
Debt security loan				
Investment held to maturity	848,595	**-**	**-**	**848,595**
Loan secured by life insurance policy	-	438,165	**-**	**438,165**
Policyholders accounts receivable (gross)	-	18,106,727	2,819,748	**20,926,475**
Reinsurance accounts receivable (gross)	-	1,545,522	781,621	**2,327,113**
Reinsurance recoverable on outstanding claims	3,389,727	-	-	**3,389,727**
Cash and cash equivalents	2,531,418	-	-	**2,531,418**
	6,769,740	20,090,414	3,601,369	**30,461,523**

23 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(1) Credit risk (continued)

The table below provides information regarding the credit risk exposure at the financial as per at 31 December 2006 by classifying assets:

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						
Debt securities (loans)	-	-	1,000,000	3,130,000	1,386,155	5,516,155
Investments held to maturity	-	129,036	144,939	517,723	740,138	1,531,836
Loans secured by life insurance policies	-	-	-	-	126,976	126,976
Policyholders accounts receivable	-	-	-	128,307	18,512,747	18,641,054
Reinsurance accounts receivable	-	171,037	336,160	1,896,234	1,340,150	3,743,581
Reinsurance recoverable on outstanding claims	1,129,004	2,606,889	3,875,227	7,722,807	471,953	15,805,880
Cash and cash equivalents	21,446	3,399,771	25,128,734	12,642,389	4,594,737	45,787,077
Total credit risk exposure	1,150,450	6,306,733	30,485,060	26,037,460	27,172,856	91,152,559

Not rated are classifies as follows using internal credit rating.

	Neither past due nor impaired			
	High grade *2007* *KD*	*Standard grade* *2007* *KD*	*Past due or impaired* *2007* *KD*	*Total* *2007* *KD*
31 December 2006				
Debt security loan	1,386,155	-	-	**1,386,155**
Investment held to maturity	740,138	-	-	**740,138**
Loan secured by life insurance policy	126,976	-	-	**126,976**
Policyholders accounts receivable (gross)	**-**	15,601,567	2,911,180	**18,512,747**
Reinsurance accounts receivable (gross)	**-**	535,095	805,055	**1,340,150**
Reinsurance recoverable on outstanding claims	471,953	**-**	-	**471,953**
Cash and cash equivalents	4,594,737	**-**	-	**4,594,737**
	7,319,959	16,136,662	3,716,235	**27,172,856**

23 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(1) Credit risk (continued)

The following table represents the aging analysis of financial assets:

31 December 2007:	Neither past due nor impaired *KD*	< 30 days *KD*	30 - 60 days *KD*	60 - 90 days *KD*	90 - 120 days *KD*	> 120 days *KD*	*Total* *KD*
Policyholders accounts receivable	908,784	3,496,374	6,096,359	2,276,640	2,091,594	6,291,114	**21,160,865**
Reinsurance receivables	574,643	313,745	762,459	355,398	221,020	3,154,297	**5,381,562**
Total	1,483,427	3,810,119	6,858,818	2,632,038	2,312,614	9,445,411	**26,542,427**

31 December 2006:	Neither past due nor impaired *KD*	< 30 days *KD*	30 - 60 days *KD*	60 - 90 days *KD*	90 - 120 days *KD*	> 120 days *KD*	*Total* *KD*
Policyholders accounts receivable	563,995	3,801,178	4,901,719	1,737,344	1,200,504	6,436,314	18,641,054
Reinsurance receivables	271,145	366,295	131,210	170,840	62,197	2,741,894	3,743,581
Total	835,140	4,167,473	5,032,929	1,908,184	1,262,701	9,178,208	22,384,635

23 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 Group has sufficient liquidity and, therefore, does not resort to borrowings in the normal course of business.

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

The table below summarises the maturity of the liabilities of the Group based on remaining undiscounted contractual obligations for 31 December 2007. As the Group does not have any interest bearing liabilities (except bank overdraft), the figures below agree directly to the balance sheet amounts.

	Up to 1 month KD	*Within 1-3 months KD*	*Within 3-12 months KD*	*Within 1-5 years KD*	*Within 5-10 years KD*	*Total KD*
Liabilities						
Outstanding claims reserve (gross)	1,415,950	7,499,165	16,876,505	17,024,979	1,446,672	**44,263,271**
Unearned premium reserve (net)	395,200	2,531,872	7,565,608	2,794,323	-	**13,287,003**
Life mathematical reserve	305,200	600,500	594,300	1,002,788	13,115,000	**15,617,788**
Additional reserve	-	-	495,476	68,585	2,500,000	**3,064,061**
Bank overdraft	-	-	7,624,080	264,558	-	**7,888,638**
Premiums received in advance	583,894	-	100,000	2,053,013	-	**2,736,907**
Insurance and reinsurance payable	1,177,112	9,581,896	11,220,892	3,518,772	8,716	**25,507,388**
Other liabilities	879,949	2,453,762	5,376,885	1,906,156	393,994	**11,010,746**
	4,757,305	22,667,195	49,853,746	28,633,174	17,464,382	**123,375,802**

23 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(2) Liquidity risk (continued)

The table below summarises the maturity of the liabilities of the Group based on remaining undiscounted contractual obligations for 31 December 2006. As the Group does not have any interest bearing liabilities (except bank overdraft), the figures below agree directly to the balance sheet amounts.

	Up to 1 month	*Within 1-3 months*	*Within 3-12 months*	*Within 1-5 years*	*Within 5-10 years*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*	*KD*
Liabilities						
Outstanding claims reserve (gross)	890,385	8,171,867	8,358,628	14,969,001	1,557,090	33,946,971
Unearned premium reserve (net)	4,995,813	1,747,048	3,617,683	3,140,620	-	13,501,164
Life mathematical reserve	310,802	621,600	567,600	1,220,100	11,699,900	14,420,000
Additional reserve	-	-	457,525	-	2,500,000	2,957,525
Bank overdraft	-	-	8,726,980	-	-	8,726,980
Premiums received in advance	730,258	289,176	3,090,000	1,658,321	-	5,767,755
Insurance and reinsurance payable	1,028,163	8,856,499	14,317,507	3,086,338	11,883	27,300,390
Other liabilities	659,142	873,294	3,609,122	895,741	735,251	6,772,550
	8,614,563	20,559,484	42,745,045	24,970,121	16,504,124	113,393,335

23 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(3) Market risk

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

Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The Group is developing its policies and procedures to enhance the Group's mitigation of market 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 Group's principal transactions are carried out in KD and its exposure to foreign exchange risk arise primarily with respect to US dollar, Euro, Pound sterling, Bahraini dinar and Egyptian pound.

The Group'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 Group through financial instruments.

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

23 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2007:	*Local currency KD equivalent*	*USD KD equivalent*	*BD KD equivalent*	*EGP KD equivalent*	*Euro KD equivalent*	*GBP KD equivalent*	*Other KD equivalent*	*Total KD*
ASSETS								
Property and equipment	2,839,639	-	407,818	869,615	-	-	2,074,601	6,191,673
Investments in associated companies	752,241	-	-	-	-	-	3,298,429	4,050,680
Intangible assets	-	-	-	-	-	-	2,725,109	2,725,109
Investments carried at fair value thorough income statement	6,574,087	2,414,647	4,743,209	1,109,992	1,164,391	127,464	6,695,831	22,829,621
Investments available for sale	58,368,871	2,125,960	-	-	172,861	-	245,798	60,913,490
Debt securities (loans)	4,300,000	-	-	-	-	-	-	4,300,000
Investments held to maturity	-	2,111,317	-	2,620,168	-	-	-	4,731,485
Loans secured by insurance policies	438,165	-	-	-	-	-	-	438,165
Premium and insurance balance receivable	8,178,924	2,069,001	2,950,926	1,919,213	173,813	12,688	7,656,523	22,961,088
Reinsurers recoverable on outstanding claims	12,170,674	3,375,810	2,700,149	798,632	-	-	3,179,639	22,224,904
Property held for sale	-	-	213,077	78,172	-	-	-	291,249
Other assets	4,696,106	10,030	348,938	263,517	-	-	1,046,284	6,364,875
Cash and cash equivalents	33,539,523	7,387,832	15,280,780	2,177,286	350,000	33,084	6,260,140	65,008,645
Total Assets	**131,858,230**	**19,494,597**	**26,624,897**	**9,836,595**	**1,861,065**	**173,236**	**33,182,364**	**223,030,984**

23 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2007	*Local currency KD equivalent*	*USD KD equivalent*	*BD KD equivalent*	*EGP KD equivalent*	*Euro KD equivalent*	*GBP KD equivalent*	*Other KD equivalent*	*Total KD*
LIABILITIES								
Technical reserves								
Outstanding claims reserve (gross)	25,322,154	4,852,525	4,312,116	2,107,524	-	-	7,668,952	44,263,271
Unearned premium reserve (net)	5,506,000	-	1,832,049	2,432,209	-	-	3,516,745	13,287,003
Life mathematical reserve	15,560,195	54,805	-	-	-	-	2,788	15,617,788
Additional reserve	2,500,000	-	-	495,476	-	-	68,585	3,064,061
Total liabilities arising from insurance contracts	48,888,349	4,907,330	6,144,165	5,035,209	-	-	11,257,070	76,232,123
Bank overdraft	7,624,080	-	-	-	-	-	264,558	7,888,638
Premiums received in advance	1,901,032	-	120,974	-	-	-	714,901	2,736,907
Policyholders' and agencies payable	8,095,897	84,721	1,647,616	-	13,856	675	3,165,095	13,007,860
Insurance and reinsurance payable	2,454,296	4,396,645	1,491,403	1,245,053	8,527	13,991	2,889,613	12,499,528
Other liabilities	6,562,999	82,980	277,566	1,682,344	13,852	175	2,390,830	11,010,746
Total liabilities	**75,526,653**	**9,471,676**	**9,681,724**	**7,962,606**	**36,235**	**14,841**	**20,682,067**	**123,375,802**

The Group has no significant concentration of currency risk.

23 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2006 ASSETS	*Local currency KD equivalent*	*USD KD equivalent*	*BD KD equivalent*	*EGP KD equivalent*	*Euro KD equivalent*	*GBP KD equivalent*	*Other KD equivalent*	*Total KD*
Property and equipment	1,677,752	47,893	833,809	1,223,702	-	-	1,882,903	5,666,059
Investments in associated companies	961,302	-	-	-	-	-	20,369	981,671
Intangible assets	-	-	-	-	-	-	2,699,664	2,699,664
Investments carried at fair value through income statement	9,073,609	961,010	-	255,000	169,487	-	1,746,817	12,205,923
Investments available for sale	51,980,729	2,068,615	7,493,460	548,066	-	-	77,585	62,168,455
Debt securities (loans)	4,936,155	580,000	-	-	-	-	-	5,516,155
Investments held to maturity	-	-	813,804	718,032	-	-	-	1,531,836
Loans secured by life insurance policies	126,976	-	-	-	-	-	-	126,976
Premiums and insurance balances receivable	9,177,522	2,061,121	4,243,199	1,723,306	89,482	22,754	1,351,016	18,668,400
Reinsurance recoverable on outstanding claims	13,799,048	839,209	-	863,816	-	-	303,807	15,805,880
Property held for sale	1,314,451	-	-	-	-	-	-	1,314,451
Cash and cash equivalents	25,487,940	3,461,662	15,570,548	2,762,733	340,155	10,023	6,880,996	54,514,057
Other assets	3,049,717	689,433	415,123	1,703,816	-	-	371,529	6,229,618
Total assets	121,585,201	10,708,943	29,369,943	9,798,471	599,124	32,777	15,334,686	187,429,145

23 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

31 December 2006 LIABILITIES	*Local currency KD equivalent*	*USD KD equivalent*	*BD KD equivalent*	*EGP KD equivalent*	*Euro KD equivalent*	*GBP KD equivalent*	*Other KD equivalent*	*Total KD*
Liabilities arising from insurance contracts:								
Outstanding claims reserve (gross)	24,433,416	1,412,023	5,610,883	1,564,915	-	-	925,734	33,946,971
Unearned premiums reserve (net)	6,531,000	395,653	2,687,750	1,730,763	-	-	2,155,998	13,501,164
Life mathematical reserve (net)	14,321,540	70,539	-	-	-	-	27,921	14,420,000
Additional reserve (net)	2,450,369	-	-	457,525	-	-	49,631	2,957,525
Total liabilities arising from insurance contracts	47,736,325	1,878,215	8,298,633	3,753,203	-	-	3,159,284	64,825,660
Bank Overdraft	8,282,994	-	-	-	-	-	443,986	8,726,980
Premiums received in advance	4,748,321	-	731,380	-	-	-	288,054	5,767,755
Policyholders and agencies payable	7,347,990	633,512	2,282,455	1,086,277	-	-	3,348,491	14,698,725
Insurance and reinsurance payable	6,480,177	2,380,294	2,092,306	1,298,711	85,795	12,782	251,600	12,601,665
Other liabilities	3,789,015	349,825	1,440,788	77,587	-	-	1,115,335	6,772,550
Total liabilities	78,384,822	5,241,846	14,845,562	6,215,778	85,795	12,782	8,606,750	113,393,335

23 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 (due to changes in fair value of currency sensitive monetary assets and liabilities).

The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

		2007	*2006*
	Change in variables	***Impact on profit KD***	*Impact on profit KD*
USD	5%	**458,746**	488,951
GBP	5%	**(47)**	(659)
EURO	5%	**(8,081)**	8,674
EGP	5%	**39,712**	31,078
USD	-5%	**(458,746)**	(488,951)
GBP	-5%	**47**	659
EURO	-5%	**8,081**	(8,674)
EGP	-5%	**(39,712)**	(31,078)

(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 Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group'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 Group 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. 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.

23 RISK MANAGEMENT (continued)

(d) Financial risks (continued)

(3) Market risk (continued)

(ii) Interest rate risk (continued)

Currency	**2007** *Change in variables*	**2007** *Impact on profit KD*	2006 *Change in variables*	2006 *Impact on profit before tax KD*
GBP	5%	-	(5%)	-
USD	5%	53,649	(5%)	50,908
EURO	5%	-	(5%)	84
OTHERS	5%	104,117	(5%)	4,7338
GBP	(5%)	-	(5%)	-
USD	(5%)	(53,649)	(5%)	(50,908)
EURO	(5%)	-	(5%)	(84)
OTHERS	(5%)	(104,117)	(5%)	(47,338)

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

(iii) Equity price risk
The Group is exposed to equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through statement of income (including trading securities) or available for sale investments.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group management.

The equity price risk sensitivity is determined on the following assumptions:

	2007 **%**	2006 %
Kuwait market	**3%**	4%
Rest of GCC market	**17%**	10%
MENA market	**7%**	12%
Other international markets	**12%**	10%

The above percentages have been determined based on basis of the average market movements over a 90 days period from October to December 2006 and 2007. The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. The analysis reflects the impact of positive changes to equity prices in accordance with the above-mentioned equity price risk sensitivity assumptions.

	Profit for the year **2007 KD**	Profit for the year 2006 KD	Equity **2007 KD**	Equity 2006 KD
Investment carried at fair value through income statement	**1,204,046**	1,283,054	**-**	-
Investments available-for-sale	**-**	-	**1,829,109**	2,407,129

23 RISK MANAGEMENT (continued)

Financial risk (continued)

(3) Market risk (continued)

iii) Equity price risk (continued)

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

31 December 2007	*GCC*	*Middle East & North Africa*	*Europe*	*America*	*Others*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*	*KD*
Investments in associated companies	752,241	3,298,439	-	-	-	**4,050,680**
Investments carried at fair value through income statements	17,061,201	-	3,389,834	2,378,586	-	**22,829,621**
Investments available for sale	60,616,688	39,641	257,161	-	-	**60,913,490**
Debt securities (loans)	4,300,000	-	-	-	-	**4,300,000**
Investments held to maturity	62,735	2,753,466	907,230	-	1,008,054	**4,731,485**
Time and call deposits	45,636,977	11,254,656	96,106	404,017	-	**57,391,756**
	128,429,842	**17,346,202**	**4,650,331**	**2,782,603**	**1,008,054**	**154,217,032**
31 December 2006						
Investments in associated companies	981,671	-	-	-	-	981,671
Investments carried at fair value through income statements	4,967,622	3,121,109	4,117,192	-	-	12,205,923
Investments available for sale	50,948,526	9,303,625	1,916,304	-	-	62,168,455
Debt securities	5,516,155	-	-	-	-	5,516,155
Time and call deposits	30,624,723	8,901,108	6,403,411	573,538	-	46,502,780
	93,038,697	21,325,842	12,436,907	573,538	-	127,374,984

24 RELATED PARTY TRANSACTIONS

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

	2007		2006	
	Premiums	***Claims***	*Premiums*	*Claims*
	KD	***KD***	*KD*	*KD*
Ultimate parent company	**78,985**	**1,447**	33,844	3,755
Directors and key management personnel	**651,678**	**224,980**	548,852	313,191
Other related parties	**3,236,540**	**1,048,005**	2,115,117	531,850
	3,967,203	**1,274,432**	2,697,813	848,796

24 RELATED PARTY TRANSACTIONS (continued)

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

	2007		*2006*	
	Amounts owed by related parties KD	***Amounts owed to related parties KD***	*Amounts owed by related parties KD*	*Amounts owed to related parties KD*
Ultimate parent company	**41,025**	**-**	-	172,609
Directors and key management personnel	**251,334**	**23,271**	205,330	-
Other related parties	**1,238,212**	**9,175**	709,528	645,965
	1,530,571	**32,446**	914,858	818,574

The Group has also engaged with related parties in its investment activities as follows:

a) Most of the Group's investment transactions are made through portfolios managed by a related company. The results of these transactions amounted to KD 31,819,806 (2006: KD 3,131,746) and the portfolios include shares in Kuwait Projects Company Holding and other related companies.

b) The Group holds certain deposits and call accounts with a related party. The Group also holds bonds issued by the ultimate parent company and other related entity amounting to KD 2,610,000 (2006: KD 2,630,000).

c) Loan granted to an associate amounted to KD 1,402,689. This loan is repayable on demand. The interest rate is calculated based on prevailing discount rate of the Central Bank of Kuwait.

d) During the year, one of the subsidiary companies paid commissions amounting to KD 61,438 to a related party broker.

Key management personnel compensation

	2007 KD	*2006 KD*
Salaries and other short term benefits	**705,236**	621,308
Employees' end of service benefits	**1,285,620**	679,944
	1,990,856	1,301,252

25 SUBSIDIARY COMPANIES

The consolidated financial statements include the following subsidiaries:

Company	Country of incorporation	% ownership		Nature of operation
		2007	2006	
Saudi Pearl Insurance Co. Limited (SPI)	Bahrain	**100%**	100%	General risk and life insurance
Fajr Al Gulf Insurance and Reinsurance Co. SAL	Lebanon	**51%**	51%	General risk and life insurance and reinsurance
Arab Misr Insurance Group Company (S.A.E.)	Egypt	**85.37%**	54.33%	General risk insurance
Syrian Kuwait Insurance Company (S.S.C.)	Syria	**44.39%**	44.39%	General risk and life insurance
Bahrain Kuwaiti Insurance Company (B.S.C.)	Bahrain	**50.22%**	42.30%	General risk insurance

26 ACQUISITION AND FORMATION OF SUBSIDIARIES

Saudi Pearl Insurance Company Limited E.C. (S.A.)
The company is under a transitory period where a new company is being established named Buruj Cooperative Insurance where all the insurance business will be shifted to the new formed company. The parent will own a 22.5% equity interest in the new company.

Bahrain Kuwait Insurance Company B.S.C.
During the year, the parent company acquired additional equity interest in Bahrain Kuwait Insurance Company B.S.C. for KD 1,934,898. Accordingly the equity interest increased to 50.22% as at 31 December 2007. The parent company is able to exercise control over Bahrain Kuwait Insurance Company B.S.C. through board representations.

Arab Misr Insurance Group
During the year, the parent company acquired additional equity interest in Arab Misr Insurance Group for KD 920,941. Accordingly the equity interest increased to 85.337% as at 31 December 2007 (2006: 54.33%).

Takaful Insurance Department
The parent company has established a new insurance units named Takaful Insurance for life and non life insurance and will be specialised in Islamic insurance products. The new formed units will commence operations in 2008 once obtaining the necessarily licensing and certification from the Kuwait authorities.

Gulf Insurance for Life Company K.S.C. (Closed)
During 2007, the parent company established a new life and health entity in Kuwait where it has equity interest of 98.60%. GIC life and health will start its operations as a separate legal entity in 2008 once obtaining the necessary licensing and certification from the Kuwait authorities.

27 PROPOSED CASH DIVIDENDS AND BOARD OF DIRECTORS' REMUNERATION

The board of directors of the parent company have proposed cash dividends for the year ended 31 December 2007, representing 100 fils per share and bonus shares at 50% (50 shares to each 100 shares) of outstanding shares excluding treasury shares to the parent company's shareholders on records as of the date of the general assembly. This proposal is subject to the approval of the general assembly meeting of the shareholders of the parent company.

At the annual general meeting held on 18 March 2007, cash dividend of 55 fils per share amounting to KD 5,809,650 and directors'' remuneration of KD 80,000 for the year 2006 were approved and paid subsequent to that.