Wethaq Takaful Insurance Company K.S.C. (Closed)

FINANCIAL STATEMENTS

31 DECEMBER 2006

BALANCE SHEET
At 31 December 2006

	Notes	*2006* *KD*	*2005* *KD*
ASSETS			
Bank balances and cash		**14,953**	56,381
Investments at fair value through income statement	6	**3,067,110**	2,331,765
Investments available for sale	7	**15,566,900**	5,845,726
Murabaha receivables	8	**1,577,879**	534,018
Due from policyholders	9	**6,635**	579,867
Other assets		**3,711**	3,645
TOTAL ASSETS		**20,237,188**	9,351,402
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	**11,025,000**	5,512,500
Share premium	10	**7,340,937**	312,500
Statutory reserve	11	**328,566**	308,359
Voluntary reserve	12	**328,566**	308,359
Cumulative changes in fair values		**565,912**	1,471,586
Retained earnings		**523,346**	1,205,438
Total equity		**20,112,327**	9,118,742
Liabilities			
Other liabilities		**124,861**	232,660
Total liabilities		**124,861**	232,660
TOTAL EQUITY AND LIABILITIES		**20,237,188**	9,351,402

Abdulla Yousef Al-Saif
Chairman

Nabil Ahmed Amin
Vice Chairman

The attached notes 1 to 16 form part of these financial statements.

INCOME STATEMENT

Year ended 31 December 2006

	Notes	***2006 KD***	*2005 KD*
Net investment income	3	**192,801**	1,006,883
Shareholders' share of insurance surplus	9	**26,350**	361,018
Murabaha profit		**67,975**	71,052
INCOME		**287,126**	1,438,953
Allowances and other benefits		**78,000**	77,000
General and administrative expenses		**7,058**	6,526
EXPENSES		**85,058**	83,526
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), DIRECTORS' FEES AND NATIONAL LABOUR SUPPORT TAX		**202,068**	1,355,427
Contribution to KFAS		**(1,819)**	(12,199)
Directors' fees	4	**(10,000)**	(60,000)
National Labour Support tax (NLST)		**(5,052)**	(28,692)
PROFIT FOR THE YEAR		**185,197**	1,254,536
BASIC AND DILUTED EARNINGS PER SHARE	5	**2.0 fils**	17. 7 fils

The attached notes 1 to 16 form part of these financial statements.

STATEMENT OF CASH FLOWS
Year ended 31 December 2006

	2006	*2005*
	KD	*KD*
OPERATING ACTIVITIES		
Profit for the year	**185,197**	1,254,536
Adjustments for:		
Net investment income	**(192,801)**	(1,006,883)
Murabaha profit	**(67,975)**	(71,052)
Shareholders' share of insurance surplus	**(26,350)**	(361,018)
	(101,929)	(184,417)
Changes in operating assets and liabilities:		
Other assets	**(1,563)**	(3,645)
Other liabilities	**(54,329)**	78,690
Net cash used in operating activities	**(157,821)**	(109,372)
INVESTING ACTIVITIES		
Net movements in murabaha receivables	**(1,043,861)**	1,301,590
Net sale (purchase) of investments at fair value through statement of income	**(1,115,512)**	331,852
Purchase of investments available for sale	**(11,904,216)**	(1,376,825)
Proceeds from sale of investments available for sale	**1,797,108**	-
Murabaha profit received	**67,975**	71,052
Dividends received	**54,725**	141,260
Amount received from investment manager	**-**	25,310
Net cash (used in) from investing activities	**(12,143,781)**	494,239
FINANCING ACTIVITIES		
Issuance of share capital	**11,714,062**	-
Net movement in policyholders' account	**599,582**	196,514
Dividend paid	**(53,470)**	(525,000)
Net cash from (used in) financing activities	**12,260,174**	(328,486)
(DECREASE) INCREASE IN BANK BALANCES AND CASH	**(41,428)**	56,381
Bank balances and cash at the beginning of the year	**56,381**	-
BANK BALANCES AND CASH AT THE END OF THE YEAR	**14,953**	56,381

The attached notes 1 to 16 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Share capital KD	*Share premium KD*	*Statutory reserve KD*	*Voluntary reserve KD*	*Cumulative changes in fair values KD*	*Retained earnings KD*	*Total equity KD*
At 1 January 2005	5,250,000	312,500	172,816	172,816	139,891	1,009,488	7,057,511
Investments available for sale:							
Valuation gain taken to equity	-	-	-	-	1,331,695	-	1,331,695
Net income recognised directly in equity	-	-	-	-	1,331,695	-	1,331,695
Profit for the year	-	-	-	-	-	1,254,536	1,254,536
Total recognised income for the year	-	-	-	-	1,331,695	1,254,536	2,586,231
Issuance of bonus shares	262,500	-	-	-	-	(262,500)	-
Dividend for 2004	-	-	-	-	-	(525,000)	(525,000)
Transfer to reserves	-	-	135,543	135,543	-	(271,086)	-
At 31 December 2005	5,512,500	312,500	308,359	308,359	1,471,586	1,205,438	9,118,742
At 1 January 2006	5,512,500	312,500	308,359	308,359	1,471,586	1,205,438	9,118,742
Investments available for sale:							
Valuation loss taken to equity	-	-	-	-	(251,565)	-	(251,565)
Transferred to income statement	-	-	-	-	(654,109)	-	(654,109)
Net loss recognised directly in equity	-	-	-	-	(905,674)	-	(905,674)
Profit for the year	-	-	-	-	-	185,197	185,197
Total recognised (loss) income for the year	-	-	-	-	(905,674)	185,197	(720,477)
Issuance of bonus shares (Note 10)	826,875	-	-	-	-	(826,875)	-
Increase in share capital (Note 10)	4,685,625	7,028,437	-	-	-	-	11,714,062
Transfer to reserves	-	-	20,207	20,207	-	(40,414)	-
At 31 December 2006	**11,025,000**	**7,340,937**	**328,566**	**328,566**	**565,912**	**523,346**	**20,112,327**

The attached notes 1 to 16 form part of these financial statements.

1 ACTIVITIES

The financial statements of Wethaq Takaful Insurance Company K.S.C. (Closed) (the company) for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the Board of Directors on 18 February 2007 and are issued subject to the approval of the Ordinary Annual General Assembly of the shareholders.

The company is a Kuwaiti Shareholding Company incorporated on 2 October 2000 and is registered under the Insurance Companies and Agents Law No. 24 of 1961 and its subsequent amendments. It is engaged in transacting co-operative insurance operations and all related activities, including reinsurance.

Takaful is an Islamic alternative to a conventional insurance and investment program, based on the mutual funds concept, where each policyholder will receive his share in the surplus arising from the insurance activities, in accordance with the company's articles of association and the approval of Fatwa and Shareea'a Supervisory Board.

The company conducts business on behalf of the policyholders and advances funds to the policyholders' operations as and when required. The shareholders are responsible for liabilities incurred by policyholders in the event the policyholders' fund is in deficit and the operations are liquidated. The company holds the physical custody and title of all assets related to the policyholders' and shareholders' operations however such assets and liabilities together with the results of policyholders' lines of business are disclosed in the notes.

The company maintains separate books of accounts for policyholders and shareholders. Income and expenses clearly attributable to either activity are recorded in the respective accounts. Management and the board of directors determine the basis of allocation of expenses from joint operations.

The company's registered head office is at P. O. Box 371, Safat 13004, Kuwait.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation:

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

The financial statements are presented in Kuwaiti Dinars.

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

Change in accounting policies:
The accounting policies used in the preparation of the financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2005.

International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretations Committee Interpretation (IFRIC) Interpretations issued but not adopted
The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the company:

IFRS 7 Financial Instruments: Disclosures

The application of IFRS 7, which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to financial instruments and associated risks.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates
The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The company has used judgement and estimates principally in, but not limited to, the determination of impairment provisions and valuation of unquoted investments.

Classification of financial assets and liabilities
Management decides on acquisition of financial assets whether they should be classified as financial assets carried at fair value through income statement or available for sale.

The company classifies financial assets as carried at fair value through income statement if they are acquired primarily for the purpose of short term profit making.

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

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.

Impairment of investments
The company treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement.

Revenue recognition
Income from murabaha and investment deposits is recognised on a time apportionment basis. Dividend income is recognised when the right to receive payment is established.

Shareholders' share of insurance surplus is determined based on the company's bye-laws and Takaful practices and is recognised in the income statement upon approval by the board of directors.

Investments
These are classified as follows:

- Investments at fair value through income statement
- Investments available for sale

All investments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instrument except for investments at fair value through income statement. Transaction costs in the case of investments at fair value through income statement are recognised in the statement of income immediately.

Investments at fair value through income statement
Investments are classified as investments at fair value through income statement if the fair value of the investment can be reliably measured and the management designates them as investments at fair value through income statement. After initial recognition investments at fair value through income statement are carried at fair value with all changes in fair value recognised in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

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. For investments at managed funds and managed portfolios, fair value is provided directly by the fund managers.

Murabaha receivables
Investments in murabaha are stated on the balance sheet at amounts due on maturity less that portion of the profit, which is attributable to the period after the balance sheet date.

Impairment and uncollectibility of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the income statement.

Impairment is determined 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 original 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.

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 statement of income except for available for sale equity investments which are recognized in the cumulative changes in fair values.

Payables
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Foreign currencies
Foreign currency transactions are recorded in Kuwaiti Dinars at the approximate 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 the rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the statement of income. Non-monetary assets denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates prevailing at the dates that values were determined. Any resultant gain or loss on non-monetary investments at fair value through statement of income are recognised in the statement of income and on non-monetary investments available for sale are recognised directly in equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

3 NET INVESTMENT INCOME

	2006	*2005*
	KD	*KD*
Dividend income	**54,725**	141,260
Realised and unrealised (loss) gain on investments at fair value through statement of income	**(380,167)**	865,623
Realised gain on investments available for sale	**519,740**	-
Others	**(1,497)**	-
	192,801	1,006,883

4 DIRECTORS' FEES

Directors' fees are subject to the approval of the Shareholders' General Assembly.

5 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is computed on the basis of profit for the year and the weighted average number of shares outstanding during the year as follows:

There are no dilutive potential ordinary shares.

	2006	*2005 (Restated)*
Profit for the year (KD)	**185,197**	1,254,536
Weighted average number of shares outstanding	**93,047,979**	71,012,652
Basic and diluted earnings per share (fils)	**2.0**	17.7

Earnings per share for 2005 have been restated for the bonus shares and the bonus element inherent in the rights issued in 2006 (Note 10).

6 INVESTMENTS AT FAIR VALUE THROUGH INCOME STATEMENT

Investments at fair value through income statement consist of managed portfolios with underlying investments in marketable securities.

7 INVESTMENTS AVAILABLE FOR SALE

	2006 KD	*2005 KD*
Quoted securities	**609,027**	2,107,682
Unquoted securities	**2,384,147**	1,520,679
Managed funds	**1,556,780**	2,217,365
Managed portfolios	**11,016,946**	-
	15,566,900	5,845,726

The investment in unquoted securities is carried at cost due to the unpredictable nature of future cash flows and 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.

8 MURABAHA RECEIVABLES

Murabaha receivables represent short-term receivables resulting from participations in murabaha deals. The maximum maturity of such participations is twelve months from date of origination of the deal.

Average profit rate attributable to deals during the year was 7.50% (2005: 6.3%) per annum.

9 DUE FROM POLICYHOLDERS

	2006	*2005*
	KD	*KD*
At 1 January	**579,867**	415,363
Shareholders' share of insurance surplus (Note 13)	**26,350**	361,018
Other movement in funds advanced to policyholders	**(599,582)**	(196,514)
	6,635	579,867

Shareholders' share of insurance surplus comprises 50% of the net surplus from insurance operations. Net surplus from insurance operations is shared equally between the shareholders and policyholders as stipulated in Article (48) of the company's bye-laws and is subject to the approval of the Shareholders' General Assembly.

Shareholder' share of insurance surplus for the year ended 2005 was approved in the Annual General Meeting held on 8 April 2006.

10 SHARE CAPITAL AND SHARE PREMIUM

	Authorised, issued and fully paid	
	2006	*2005*
	KD	*KD*
Shares of 100 fils each	**11,025,000**	5,512,500

During the year, the company increased its share capital from KD 5,512,500 to KD 11,025,000 through the following:

1) Issuance of 8,268,750 bonus shares of 100 fils each equivalent to 15% of paid-up share capital as at 31 December 2005.

   Bonus share and issuance of shares described above were approved by the Annual General Assembly held on 8 April 2006.

2) Issuance of 85% rights issued to existing share holders on register at the date of Annual General Assembly on 8 April 2006.

   46,856,250 new shares were issued for KD 0.250 per share representing par value of KD 0.100 per share and share premium of KD 0.150 per share.

11 STATUTORY RESERVE

In accordance with the Law of Commercial Companies and the company's articles of association, 10% of the profit for the year before contribution to KFAS, NLST and directors fees is transferred to statutory reserve. The company may resolve to discontinue such transfers when the reserve equals 50% of paid up share capital.

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

12 VOLUNTARY RESERVE

In accordance with the company's articles of association, 10% of the profit for the year before contribution to KFAS, NLST and directors fees has been transferred to the voluntary reserve. The reserve is freely distributable.

13 POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND

The significant accounting policies used in accounting for the insurance business are set out below. Policies used in accounting for other accounts and transactions are the same as those adopted by the company. The accounting policies are consistent with those used in the previous year.

Revenue recognition
Premium earned
Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premium represent the portion of net premium written relating to the unexpired period of coverage.

Policy issuance fees and policy acquisition cost
Policy issuance fees and policy acquisition cost are recognised at the time of recognition of the related premium.

Reinsurance
In the normal course of business, the Company cedes and assumes certain levels of risk in various areas of exposure with other insurance companies or reinsurers. Such reinsurance includes quota share, excess of loss, facultative and other forms of reinsurance on essentially all lines of business.

Claims
Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the company and those not reported at the balance sheet date.

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

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

The Company does not discount it's liability for unpaid claims as substantially all claims are expected to be paid in this one year of the balance sheet date.

Receivables
Accounts receivable are carried at amortised cost less impairment losses, if any.

13 POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND (continued)

Reserve for claims incurred but not reported (IBNR)
The reserve for claims incurred but not reported includes amounts reserved for claims incurred but not reported at the balance sheet date in addition to other contingencies and any differences that may arise. Provision based on management's judgement and the company's prior experience is maintained for the cost of settling claims incurred but not reported at the balance sheet date.

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

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:

Provision for outstanding claims and IBNR
Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainly and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The company generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

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

13 POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND (continued)

Year ended 31 December 2006

	Marine and Aviation KD	*General Accident KD*	*Fire KD*	*Life KD*	***Total KD***
Premium written	407,890	3,234,080	786,009	939,933	**5,367,912**
Reinsurance premiums ceded	(386,909)	(645,042)	(761,747)	(615,133)	**(2,408,831)**
	20,981	2,589,038	24,262	324,800	**2,959,081**
Movement in unearned premiums	(16,597)	1,141,303	(614)	-	**1,124,092**
Net premiums earned	4,384	3,730,341	23,648	324,800	**4,083,173**
Policy issuance fees and others	6,352	135,023	1,130	11,582	**154,087**
Reinsurance commission	71,248	100,551	49,125	112,538	**333,462**
Total revenues	81,984	3,965,915	73,903	448,920	**4,570,722**
Claims incurred	(6,483)	4,481,981	2,336	39,224	**4,517,058**
(Decrease) increase in provision for claims incurred but not reported	(2,013)	(1,180,625)	328	-	**(1,182,310)**
Life mathematical reserve	-	-	-	145,910	**145,910**
Policy acquisition costs	11,539	301,174	24,446	113,241	**450,400**
Other insurance expenses	5,394	107,045	32,206	90	**144,735**
Total expenses	8,437	3,709,575	59,316	298,465	**4,075,793**
Surplus from insurance operations	73,547	256,340	14,587	150,455	**494,929**
Allocation of general and administrative expenses	(80,255)	(636,328)	(154,653)	(184,938)	**(1,056,174)**
Net deficit from insurance operations	(6,708)	(379,988)	(140,066)	(34,483)	**(561,245)**
Investment income	46,652	369,892	89,898	107,503	**613,945**
Net surplus (deficit) from insurance operations	**39,944**	**(10,096)**	**(50,168)**	**73,020**	**52,700**
Shareholders' share of insurance surplus (Note 9)					**(26,350)**
Insurance surplus transferred to policyholders' fund					**26,350**

13 POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND (continued)

31 December 2005

	Marine and Aviation KD	*General Accident KD*	*Fire KD*	*Life KD*	*Total KD*
Premium written	487,477	6,360,486	764,010	-	7,611,973
Reinsurance premiums ceded	(467,068)	(777,246)	(700,907)	-	(1,945,221)
	20,409	5,583,240	63,103	-	5,666,752
Movement in unearned premiums	(14,981)	(467,801)	(18,943)	-	(501,725)
Net premiums earned	5,428	5,115,439	44,160	-	5,165,027
Policy issuance fees and others	16,371	172,215	1,169	-	189,755
Reinsurance commission	73,841	120,515	53,913	-	248,269
Total revenues	95,640	5,408,169	99,242	-	5,603,051
Claims incurred	8,160	2,845,416	9,087	-	2,862,663
Increase in provision for claims incurred but not reported	19,814	707,753	25,993	-	753,560
Policy acquisition costs	10,738	187,139	42,548	-	240,425
Other insurance expenses	15,267	473,602	16,172	-	505,041
Total expenses	53,979	4,213,910	93,800	-	4,361,689
Surplus from insurance operations	41,661	1,194,259	5,442	-	1,241,362
Allocation of general and administrative expenses	(75,674)	(987,379)	(118,603)	-	(1,181,656)
Net (deficit) surplus from insurance operations	(34,013)	206,880	(113,161)	-	59,706
Investment income	42,416	553,436	66,478	-	662,330
Net surplus (deficit) from insurance operations	8,403	760,316	(46,683)	-	722,036
Shareholders' share of insurance surplus (Note 9)					(361,018)
Insurance surplus transferred to policyholders' fund					361,018

13 POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND (continued)

POLICYHOLDERS' ASSETS AND LIABILITIES

	2006	*2005*
	Marine and Aviation, General Accident, Fire and Life	*Marine and Aviation, General Accident and Fire*
	KD	*KD*
Assets		
Bank balances and cash	**799,915**	841,999
Investment deposits	**2,046,000**	1,956,000
Investments at fair value through income statement	**1,463,761**	1,713,832
Investments available for sale	**970,157**	1,670,665
Murabaha receivables	**710,874**	2,323,057
Accounts receivable and prepayments	**1,707,212**	611,262
Premium receivable	**1,383,544**	1,209,282
Reinsurance recoverable on outstanding claims	**544,675**	779,953
Leasehold land	**277,750**	277,750
Furniture and equipment	**185,089**	129,627
	10,088,977	11,513,427
Liabilities		
Reinsurance balances payable	**1,439,426**	755,760
Unearned premiums	**1,304,274**	2,282,694
Outstanding claims reserve	**4,408,194**	2,908,523
Reserve for claims incurred but not reported	**656,753**	1,839,061
Reserve retained on reinsurance business	**123,746**	133,601
Premiums received in advance	**775,840**	1,577,830
Due to shareholders	**6,635**	579,867
Accounts payable and accruals	**866,086**	846,371
	9,580,954	10,923,707
Policyholders' fund	**508,023**	589,720
	10,088,977	11,513,427

CHANGES IN POLICYHOLDERS' FUND

	2006	*2005*
	KD	*KD*
At 1 January	**589,720**	266,071
Distribution to policyholders for 2005	**(108,047)**	(37,369)
Net surplus from insurance operations	**26,350**	361,018
	508,023	589,720

Investment deposits are held in Kuwait as security for the order of the Minister of Commerce and Industry in accordance with the Ministerial Order No. 27 of 1966 and its amendments.

13 POLICYHOLDERS' RESULT BY LINE OF BUSINESS AND FUND (continued)

Net surplus from insurance operations is available for distribution to the policyholders upon the approval of the shareholders' Annual General Assembly and the company's Fatwa and Shareea'a Supervisory Board.

Distribution to policy holders for 2005 were approved by the Annual General Meeting held on 8 April 2006.

14 RELATED PARTY TRANSACTIONS

These represent transactions made, in the ordinary course of business, with related parties i.e. directors and major shareholders and companies of which they are principal owners. Management approves prices and terms of these transactions.

Transactions with related parties included in the financial statements are as follows:

	2006	*2005*
	KD	*KD*
Shareholders		
Statement of income		
Murabaha profit	**67,975**	71,052
Allowances and other benefits	**60,000**	-
Dividend income	**50,000**	154,500
Balance sheet		
Investments at fair value through income statement	**2,580,388**	2,289,992
Murabaha receivables	**1,577,879**	534,018
Available for sale investments	**11,016,946**	2,217,365
Key management personnel compensation		
Short-term employee benefits	**53,000**	53,000
Termination benefits	**25,000**	-
Policyholders		
Statement of income		
Premium written	**104,341**	676,992
Investment (loss) income	**(79,484)**	61,097
Balance sheet		
Investments at fair value through statement of income	**1,152,214**	1,017,569
Available for sale investments	**787,500**	787,500
Murabaha receivables	**-**	1,519,620
Premium receivable	**5,903**	123,691
Key management personnel compensation		
Short-term employee benefits	**165,180**	180,214
Termination benefits	**45,726**	8,756

15 RISK MANAGEMENT

The risks faced by the company and the way these risks are mitigated by management are summarised below.

Insurance risk
Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims are more than expected.

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

Fire and accident
Property
For property insurance contracts the main risks are fire and business interruption. In recent years the company has only underwritten policies for properties containing fire detection equipment.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The company has reinsurance cover for such damage to limit losses for any individual claim to KD 2,400,000.

Motor
For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years the company has only underwritten comprehensive polices for owner/drivers over 21 years of age. The company does not have reinsurance cover to limit losses for any individual claim.

The level of court awards for deaths and to injured parties and the replacement costs of, and repairs to motor vehicles are the key factors that influence the level of claims.

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The company has reinsurance cover to limit losses for any individual claim to KD 1,000,000.

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

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

Reinsurance risk
In order to minimise financial exposure arising from large claims, the company, in the normal course of business, enters into agreements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth.

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

15 RISK MANAGEMENT (continued)

Reinsurance risk (continued)
Reinsurance ceded contracts do not relieve the company from its obligations to policyholders and as a result the company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

The five largest reinsurers account for 55% of the credit exposure at 31 December 2006 (2005: 45%).

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the company, the maximum credit risk exposure to the company is the carrying value as disclosed in the balance sheet.

Foreign currency risk
Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the company does not hedge foreign currency exposure.

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

Market price risk
Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The company is exposed to market risk with respect to its listed equity financial instruments.

The company limits market risk by maintaining a diversified portfolio and by monitoring of developments in equity markets. The majority of the company's equities are listed on the Kuwait stock exchange.

Equity price risk
Equity price risk arises from the change in fair values of equity investments. The Company manages this risk though diversification of investments in terms of geographical distribution and industry concentration.

16 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets include bank balances and cash, murabaha receivables, investments at fair value through statement of income, investments available for sale and certain other assets and liabilities.

The fair values of the financial assets and liabilities, with the exception of certain investments available for sale carried at cost (see note 7 and 13), are not materially different from their carrying values.