

**BAHRAIN KUWAIT INSURANCE
COMPANY BSC**

**ANNUAL REPORT
2003**

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Bahrain Kuwait Insurance Company BSC

GENERAL INFORMATION

HEAD OFFICE

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Telefax : (+973) 17530799
E-mail : bkicbah@batelco.com.bh
Website : www.bkic.com

Commercial registration : 4745

SALMABAD BRANCH

1390, Road 426
Salmabad 704
Manama, Kingdom of Bahrain

PO Box : 10166
Telephone : (+973) 17875000
Telefax : (+973) 17875050
E-mail : bkicbah@batelco.com.bh
Website : www.bkic.com

Commercial registration : 4745

KUWAIT OFFICE

BBK Building - Floors 5 and 6,
Ahmed Al-Jaber Street
Al Sharq
State of Kuwait

PO Box : 26728, Safat 13128
Telephone : (+965) 885511
Telefax : (+965) 2468545, 2462169
E-mail : bkickt@ncc.moc.kw

Commercial registration: 30713

Licence: 23

PRINCIPAL BANKERS

Bank of Bahrain & Kuwait (Bahrain & Kuwait)
National Bank of Bahrain
Ahli United Bank
Burgan Bank, Kuwait

AUDITORS

Bahrain: KPMG
Kuwait: KPMG Al Nisf & Partners

DIRECTORS AND MANAGEMENT

BOARD OF DIRECTORS

Ali Ben Yousuf Fakhro	-	Chairman
Tewfic A.S.H. Al-Gharabally	-	Vice-Chairman
Issa Ahmed Al-Khalaf	-	Director
Abdulla Hassan Buhindi	-	Director
Ahmed Ebrahim Al-Asfoor	-	Director
Hassan Mohamed Zainal-Abedin	-	Director
Tariq Mohamed Abdul-Salaam	-	Director
Suhail Mohammed Hajee	-	Director
Ebrahim Khalid Al-Duhaim	-	Director

EXECUTIVE COMMITTEE

Abdulla Hassan Buhindi	-	Chairman
Tewfic A.S.H. Al-Gharabally	-	Vice-Chairman
Suhail Mohammed Hajee	-	Member
Tariq Mohamed Abdul-Salaam	-	Member

AUDIT COMMITTEE

Hassan Mohamed Zainal-Abedin	-	Chairman
Issa Ahmed Al-Khalaf	-	Vice-Chairman
Ebrahim Khalid Al-Duhaim	-	Member

GENERAL MANAGEMENT

Ebrahim Al-Rayes	-	Group General Manager
K. Gopi Rao	-	General Manager
K. K. Kamath	-	Assistant General Manager – Finance and Administration
Ahmed Yousif Al-Ammadi	-	Assistant General Manager – Marketing
Fatima A. Karim	-	Assistant General Manager – Personal Lines

Kuwait office:

Abdulla Rabia Mohammed	-	Acting General Manager
K Saigopal	-	Deputy General Manager

**REPORT OF THE CHAIRMAN TO THE SHAREHOLDERS
for the year ended 31 December 2003**

Dear Shareholders,

It is my great pleasure to present to you this Annual Report of your Company for the year ending 31 December 2003.

There is no doubt that the year under review was a challenging one for our region. It started off with the clouds of war hanging over our northern neighbours. As a result of that the business climate was uncertain for the first few months. Later in the year, some opportunities for growth in business were seen and the stability in the Kingdom of Bahrain and the State of Kuwait contributed to overall business growth that benefited insurance companies as well. Many new projects and buoyant stock markets in our two countries have contributed to our profitability, details of which are in this Report.

During 2003 your Company has progressed to a higher level in terms of shareholder value. Bahrain Kuwait Insurance, in addition to being listed on the Bahrain Stock Exchange, from October 2003 is listed on the Kuwait Stock Exchange as well. As a result of the trading of our shares in Kuwait, our share price has increased from 372 Bahrain fils in October to 450 Bahrain fils at the end of December 2003. This increased our market capitalisation from BD 14.75 million at the end of 2002 to BD 22.5 million at the end of 2003, an impressive increase of 52.5 %. I take this opportunity to welcome the many new investors who have joined the family of satisfied shareholders of our Company.

The Company's gross premium income has increased from BD 16.6 million in 2002 to BD 18 million in 2003, a healthy increase of 8.4%. Our investment income went up by 21.5% from BD 869,735 to BD 1,056,479. The net profit for 2003 was BD 1,337,080 compared to BD 1,206,651 which is an increase of 10.8%.

During the year under review an amount of BD 103,323 was paid to Directors towards remuneration, travel expenses and allowances.

The total distributable profit for the year amounted to BD 1,412,624. Your Board of Directors propose distribution of dividend @ 20% of the paid up capital and propose the following appropriations subject to shareholders approval in the General Assembly.

	Bahraini Dinars
Statutory Reserve	150,000
General Reserve	50,000
Proposed Dividend (20% of the paid-up capital)	1,000,000
Directors' Remuneration	65,000
Donations	15,000
Retained Earnings	132,624
Total	1,412,624

During 2003 there were a number of changes in the Company's executive management. A senior member resigned from the Board making way for a younger member to step in and steer the activities of the company. At the Management level, competent staff within the organisation replaced those who left the Company to pursue alternative career opportunities.

I would like to thank those members who have left the Company for their valuable guidance and services rendered. At the same time, I am glad to note that these changes have had no negative impact on the company's operations.

**REPORT OF THE CHAIRMAN TO THE SHAREHOLDERS
for the year ended 31 December 2003**

On behalf of the Board of Directors I would like to express my sincere thanks and appreciation to the management and staff for their dedication and good work.

I would like to acknowledge with gratitude, the support given to our Company by the Bahrain Monetary Agency headed by the Governor, His Excellency Shaikh Ahmed Bin Mohammed Al-Khalifa and the assistance provided by the Ministry of Commerce and Industry in the State of Kuwait headed by the Minister, His Excellency Mr. Abdulla Abdul Rahman Al Taweel.

I am also thankful and grateful to His Majesty King Hamad bin Isa Al-Khalifa, and the Government of the Kingdom of Bahrain and His Highness Shaikh Jaber Al-Ahmed Al-Jaber Al-Sabah, Amir of the State of Kuwait and his government for their continued support and assistance to the Company.

Ali Ben Yousuf Fakhro
Chairman of the Board of Directors
7 March 2004

REPORT OF THE AUDITORS TO THE SHAREHOLDERS
Bahrain Kuwait Insurance Company BSC
Manama, Kingdom of Bahrain

7 March 2004

We have audited the financial statements of Bahrain Kuwait Insurance Company BSC as at, and for the year ended, 31 December 2003 set out on pages 7 to 24.

Respective responsibilities of directors and auditors

These financial statements are the responsibility of the directors of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bahrain Kuwait Insurance Company BSC as at 31 December 2003 and the results of its operations, the changes in its shareholders' equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Other regulatory matters

In addition, in our opinion, the Company has maintained proper accounting records and the financial statements are in agreement therewith. We have reviewed the accompanying report of the Chairman of the board of directors and confirm that the information contained therein is consistent with the financial statements. To the best of our knowledge and belief, no violations of the Bahrain Commercial Companies Law 2001, the Bahrain Insurance Law 1987, or the terms of the Company's memorandum and articles of association have occurred during the year that might have had a material adverse effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

Bahrain Kuwait Insurance Company BSC

BALANCE SHEET

as at 31 December 2003

Bahraini dinars

	Notes	2003	2002
ASSETS			
Cash and cash equivalents	2,21	8,374,123	6,190,682
Statutory deposits	4	1,765,190	1,463,980
Receivables	2		
Policyholders {net of impairment provision BD 162,368 (2002: BD 101,178)}		2,717,414	2,309,869
Reinsurance companies	13	1,551,531	1,484,423
Others		662,429	636,900
Outstanding claims recoverable from reinsurers	13,14	9,916,712	15,751,552
Investments	2,5,17,18,19	9,927,306	9,646,049
Land and buildings:	2, 6		
Investment property	6	616,721	697,922
For operational purposes	6	450,648	488,454
Furniture, equipment and vehicles	7	396,457	460,335
Other assets	8	46,410	92,826
TOTAL ASSETS		36,424,941	39,222,992
LIABILITIES			
Insurance reserves			
Outstanding claims	2,9	13,342,860	18,509,610
Unearned premiums and commission	2,10	3,622,248	3,004,368
Payables and accrued liabilities			
Reinsurance companies		1,613,701	1,553,093
Advance claim recoveries		171,963	164,206
Unclaimed dividends from previous years		65,807	51,203
Others	11	2,794,718	2,468,127
TOTAL LIABILITIES		21,611,297	25,750,607
SHAREHOLDERS' EQUITY			
Share capital	1	5,000,000	5,000,000
Share premium		4,361,700	4,361,700
Statutory reserve	3	1,950,000	1,805,000
General reserve	3	1,100,000	1,050,000
Investments fair value reserve	2	989,320	(34,266)
Retained earnings		1,412,624	1,289,951
TOTAL SHAREHOLDERS' EQUITY		14,813,644	13,472,385
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		36,424,941	39,222,992

Ali Ben Yousuf Fakhro
Chairman

Tewfic A.S.H. Al-Gharabally
Vice-Chairman

Ebrahim Al-Rayes
Group General Manager

The Board of Directors approved the financial statements consisting of pages 7 to 24 on 7 March 2004.

INCOME STATEMENT
for the year ended 31 December 2003

Bahraini dinars

	Notes	2003	2002
Gross premiums	2,12,14	18,045,078	16,646,720
Reinsurance cessions	2,13	(12,977,771)	(12,594,521)
Retained premiums	14	5,067,307	4,052,199
Unearned premiums adjustment	2	(425,266)	(348,790)
Net premiums earned in the year	14	4,642,041	3,703,409
Gross claims paid	2	(11,140,868)	(11,479,761)
Reinsurance and other recoveries	2	8,635,342	9,397,746
Outstanding claims adjustment – gross	2	5,166,752	(4,991,336)
Outstanding claims adjustment – reinsurance	2	(5,834,840)	4,660,875
Net claims incurred	14	(3,173,614)	(2,412,476)
General and administrative expenses	2,20	(2,183,657)	(1,969,042)
Net commission income	2	951,517	914,554
Policy and other fees		266,465	90,437
Underwriting profit for the year	14	502,752	326,882
Investment income	15	1,056,479	869,735
Other income / (expenses)	16	(222,151)	10,034
NET PROFIT FOR THE YEAR		1,337,080	1,206,651
Earnings per share	3	27 fils	24 fils

Ali Ben Yousuf Fakhro
Chairman

Tewfic A.S.H. Al-Gharabally
Vice-Chairman

Ebrahim Al-Rayes
Group General Manager

The financial statements consist of pages 7 to 24.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the year ended 31 December 2003

Bahraini dinars

2003	Share capital	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total shareholders' equity
Balance as at 1 January 2003	5,000,000	4,361,700	1,805,000	1,050,000	(34,266)	1,289,951	13,472,385
Transfer to statutory reserve (2002)	-	-	145,000	-	-	(145,000)	-
Transfer to general reserve (2002)	-	-	-	50,000	-	(50,000)	-
Dividend declared (2002)	-	-	-	-	-	(875,000)	(875,000)
Directors' remuneration paid (2002)	-	-	-	-	-	(50,000)	(50,000)
Charity paid (2002)	-	-	-	-	-	(15,000)	(15,000)
Transfer to income statement of fair value gains on disposal/impairment	-	-	-	-	(297,567)	(79,407)	(376,974)
Fair value changes on investments	-	-	-	-	1,321,153	-	1,321,153
Net profit for the year	-	-	-	-	-	1,337,080	1,337,080
Balance as at 31 December 2003	5,000,000	4,361,700	1,950,000	1,100,000	989,320	1,412,624	14,813,644

2002	Share capital	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total shareholders' equity
Balance as at 1 January 2002	5,000,000	4,361,700	1,700,000	1,050,000	30,697	1,000,956	13,143,353
Transfer to statutory reserve (2001)	-	-	105,000	-	-	(105,000)	-
Dividend declared (2001)	-	-	-	-	-	(750,000)	(750,000)
Directors' remuneration paid (2001)	-	-	-	-	-	(45,000)	(45,000)
Charity paid (2001)	-	-	-	-	-	(10,000)	(10,000)
Transfer to income statement of fair value gains on disposal	-	-	-	-	-	(7,656)	(7,656)
Fair value changes on investments	-	-	-	-	(64,963)	-	(64,963)
Net profit for the year	-	-	-	-	-	1,206,651	1,206,651
Balance as at 31 December 2002	5,000,000	4,361,700	1,805,000	1,050,000	(34,266)	1,289,951	13,472,385

STATEMENT OF CASH FLOWS
for the year ended 31 December 2003

Bahraini dinars

	2003	2002
INSURANCE ACTIVITIES		
Premiums received net of commission	17,749,203	16,801,180
Paid to insurance and reinsurance companies	(11,996,522)	(11,805,167)
Claims paid	(10,955,443)	(11,403,086)
Claims recovered	8,643,099	9,448,544
General and administrative expenses paid	(1,573,798)	(1,581,519)
Interest and other expenses	(262,966)	(35,893)
Increase in statutory deposits	(301,210)	(199,476)
Cash flows from insurance activities	1,302,363	1,224,583
INVESTING ACTIVITIES		
Dividends and interest received	550,135	510,546
Proceeds from sale of investments	1,933,950	1,738,640
Payments for investments purchased	(748,809)	(2,014,849)
Rents received	75,944	101,079
Capital expenditure on fixed assets	(107,047)	(271,729)
Proceeds from sale of fixed assets	37,301	36,889
Cash flows from investing activities	1,741,474	100,576
FINANCING ACTIVITIES		
Dividends paid	(860,396)	(821,733)
Cash flows used in financing activities	(860,396)	(821,733)
TOTAL CASH FLOWS DURING THE YEAR	2,183,441	503,426
CASH AND CASH EQUIVALENTS at beginning of the year	6,190,682	5,687,256
CASH AND CASH EQUIVALENTS at 31 December	8,374,123	6,190,682
CASH AND CASH EQUIVALENTS		
Cash and bank current accounts	3,302,214	2,425,319
Short-term deposits	5,071,909	3,765,363
Total per balance sheet	8,374,123	6,190,682

The financial statements consist of pages 7 to 24.

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to the 2003 financial statements

Bahraini dinars

1 STATUS AND OPERATIONS

Bahrain Kuwait Insurance Company BSC, which was formed pursuant to Amiri Decree 3 of 1975, conducts primary general insurance business through its head office in the Kingdom of Bahrain and a branch office in Kuwait.

Authorised share capital

60 million shares of 100 fils each

2003	2002
6,000,000	6,000,000

Issued and fully paid share capital (50 million shares of 100 fils each)

Bahraini shareholders - 50 percent

Kuwaiti shareholders - 50 percent

Al-Ahlia Insurance Company KSC

Gulf Insurance Company KSC

Kuwait Insurance Company SAK

Kuwait Re-insurance Company KSC

Warba Insurance Company SAK

Other

2,500,000	2,500,000
444,000	500,000
500,000	500,000
493,000	500,000
500,000	500,000
500,000	500,000
63,000	-
5,000,000	5,000,000

Related parties

The Kuwaiti shareholding insurance companies, which are each represented on the Board of Directors, operate in the Kuwait insurance market in direct competition with the Company. Similarly, the Chairman of the Board is also a director of another insurance company operating in Bahrain. Various directors have interests in customers of the Company. All transactions with such related parties are conducted on a normal commercial basis. The significant transactions and balances with related parties, mainly arising on account of inward and outward co-insurance, are shown below:

	2003		2002	
	Transactions	Balances	Transactions	Balances
Al-Ahlia Insurance Company KSC	353,786 (Dr) 311,005 (Cr)	295,190 (Dr)	344,744 (Dr) 188,333 (Cr)	252,410 (Dr)
Gulf Insurance Company KSC	1,730,207 (Dr) 1,772,441 (Cr)	144,026 (Dr)	508,958 (Dr) 438,930 (Cr)	186,260 (Dr)
Kuwait Insurance Company SAK	257,464 (Dr) 245,967 (Cr)	199,854 (Dr)	4,056,146 (Dr) 4,071,388 (Cr)	188,358 (Dr)
Kuwait Reinsurance Company KSC	100,964 (Dr) 115,886 (Cr)	42,912 (Cr)	39,569 (Dr) 68,637 (Cr)	27,990 (Cr)
Warba Insurance Company SAK	2,324,281 (Dr) 2,336,186 (Cr)	48,624 (Dr)	2,517,150 (Dr) 2,484,557 (Cr)	60,529 (Dr)

2 SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board.

The financial statements are prepared on the historical cost basis, except that available-for-sale investments are stated at their fair values.

The following accounting policies have been consistently applied by the Company:

NOTES

to the 2003 financial statements

Bahraini dinars

2 *Significant accounting policies (continued)*

CONSOLIDATION AND TRANSLATION

Kuwait office: The income, expenses, assets and liabilities of the Kuwait office are fully consolidated.

Foreign currency: The financial statements of the Kuwait office have been translated from Kuwaiti dinars to Bahraini dinars as follows:

- Assets and liabilities at closing rate – KD 1 = BD 1.279 (2002: BD 1.258)
- Income and expenses at average rate for the year – KD 1 = BD 1.264 (2002: BD 1.238)

Monetary assets and liabilities denominated in foreign currencies are translated at rates ruling at the balance sheet date. Non-monetary assets and liabilities are translated at rates ruling at the date of the transaction. Transactions during the year are translated at approximate prevailing rates. Exchange gains and losses are taken to current results.

INSURANCE OPERATIONS

Gross premiums represent the total business written in the year, including premiums on annual policies covering part or all of the year and also all instalments of premium booked in the year in respect of longer term policies covering subsequent years. In addition, gross premiums include certain premiums derived from local inward business under coinsurance arrangements.

Unearned premiums at the balance sheet date are calculated on retained premiums :

- by the 24th method for all annual policies, except for marine cargo business. Similarly, for policies covering periods longer than one year, the premiums are spread evenly over the period covered.
- at 25 percent of annual retained premiums for marine cargo business. This approximation method is used because marine cargo policies cover variable periods shorter than one year.

Commissions received are matched with premiums earned, which results in an element of deferred commission being carried forward at balance sheet date.

Acquisition costs (included under general and administrative expenses) consist of commission paid and expenses incurred in marketing, issuing policies and arranging reinsurance, plus the related portion of general and administrative overheads, less commission received which is intended to cover the acquisition costs of the premiums ceded to reinsurers.

Acquisition costs are deferred in the same proportions as unearned premiums, in line with the matching concept.

Claims settled in the year are charged to results, net of reinsurance and other recoveries. At the year-end, provision is made for all outstanding claims, including claims incurred but not reported.

The provision for outstanding claims is based on estimates of the loss which will eventually be payable on each unpaid claim, established by management in the light of available information and on past experience and modified for changes in current conditions, increased exposure, rising claims cost and the severity and frequency of recent claims as appropriate.

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to the 2003 financial statements

Bahraini dinars

2 Significant accounting policies (continued)

Outstanding claims from prior years are reviewed periodically and adjusted in the light of current circumstances.

Policyholders' receivables: Policyholders' receivables are stated at their cost less any impairment losses.

INVESTMENT ACTIVITIES

Investments

(i) Classification

Held-to-maturity (HTM) investments are financial assets with fixed or determinable payments and fixed maturity, which the Company has the intent and ability to hold to maturity.

Available-for-sale (AFS) investments are financial assets that are not held for trading purposes or held-to-maturity. These constitute quoted and unquoted equity instruments and investments in managed funds.

(ii) Recognition

HTM and AFS investments are initially recorded at cost, including transaction costs.

(iii) Subsequent measurement

HTM investments are stated at their amortised cost less impairment losses.

AFS investments are stated at their fair value, with any resultant gain or loss transferred to an investments fair value reserve. In the event of sale or impairment, the cumulative gains or losses recognised in shareholders' equity are included in the net profit or loss for the year.

Purchase and sale of AFS and HTM investments are accounted for on the trade date. Impairment losses for investments are included in investment income.

Interest and rent income are recognised on accrual basis.

Dividends are recognised as income when declared by the investee companies.

GENERAL

Investment property, which comprises let-out portion of buildings, is carried at cost less depreciation and impairment losses.

Land and buildings held for operational purposes are carried at cost and cost less accumulated depreciation and impairment losses.

NOTES

to the 2003 financial statements

Bahraini dinars

2 *Significant accounting policies (continued)*

Depreciation on buildings (whether held as investment property or for operational purposes) is provided on cost by the straight-line method at annual rates intended to write-off the cost over their expected useful lives of 25 years. Depreciation on investment property is included under investment income and that on buildings held for operational purposes is included under general and administration expenses.

Furniture, equipment and vehicles (used in insurance operations or for administrative purposes and not intended for sale in the ordinary course of business) are carried at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on cost by the straight-line method at annual rates, which are intended to write off the cost of the assets over their estimated useful lives. The cost of additions and major improvements are capitalised. Gain or loss on sale of these assets is taken to the income statement.

Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. All impairment losses are recognised in the income statement.

Cash and cash equivalents comprise cash in hand and at bank and short-term deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Investments fair value reserve represents the unrealised gain or loss on year-end fair valuation of AFS investments. In the event of sale or impairment, the cumulative gains or losses recognised under investments fair value reserve are included in the net profit or loss for the year.

Provisions are recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3 PROFIT APPROPRIATIONS AND RESERVES

The directors propose a cash dividend of 20 fils per 100 fils share from the 2003 profits (2002: cash dividend 17.5 fils). These and other appropriations mentioned below are subject to the shareholders' approval at the annual general meeting:

	2003	2002
Statutory reserve	150,000	145,000
General reserve	50,000	50,000
Proposed dividend	1,000,000	875,000
Directors' remuneration	65,000	50,000
Charity	15,000	15,000
	1,280,000	1,135,000

NOTES

to the 2003 financial statements

Bahraini dinars

3 *Profit appropriations and reserves (continued)*

	2003	2002
Net profit for the year	1,337,080	1,206,651
Weighted average of number of shares outstanding	50,000,000	50,000,000
Earnings per 100 fils share	27 fils	24 fils
Proposed cash dividend per 100 fils share	20 fils	17.5 fils
Net asset value per 100 fils share	296 fils	269 fils
Share price per Bahrain Stock Exchange at 31 December	450 fils	295 fils
Price to earnings ratio at 31 December	16.7 times	12.2 times
Total market capitalisation at 31 December	22,500,000	14,750,000

The earning per share has been computed on the basis of net profit of BD 1,337,080 for the year divided by the weighted average number of shares outstanding for the year.

Statutory reserve: The Bahrain Insurance Law 1987 requires appropriation of 10 percent of net profit to the statutory reserve until the reserve equals the paid up share capital. The reserve cannot be utilised for purposes of distribution, except in such circumstances as stipulated in the Bahrain Commercial Companies Law 2001.

Share premium: The share premium is not available for distributions but can be used to issue bonus shares.

General reserve: Appropriations are made as proposed by the directors and approved by the shareholders. It represents retained earnings and is available for distribution should it be required in the future.

Directors' remuneration and charity: Appropriations are made as proposed by the directors and subsequently approved by the shareholders. These are recognised as a liability in the period in which they are declared.

Dividends are recognised as a liability in the period when they are declared.

4 STATUTORY DEPOSITS

	2003	2002
Bahrain	125,000	125,000
Kuwait	1,640,190	1,338,980
Total per balance sheet	1,765,190	1,463,980

Bahrain: Under the Bahrain Insurance Law 1987, all insurance companies operating in Bahrain must maintain deposits with designated national banks. Such deposits, which depend on the nature of insurance activities, cannot be withdrawn except with the prior approval of the regulatory authorities.

Kuwait: Deposits are required to be placed with Kuwaiti banks in compliance with the regulations of the Kuwait Ministry of Commerce and Industry. The deposits, which are based on prior year gross premiums (of the office) are of a revolving nature.

NOTES

to the 2003 financial statements

Bahraini dinars

4 Statutory deposits (continued)

A statutory deposit of KD 828,502 (BD 1,059,654) {2002: KD 634,372 (BD 798,040)} is pledged as security for a regulatory guarantee issued by the bank in favour of the Kuwait Ministry of Commerce and Industry. In addition to the above deposit, the Kuwait office is also maintaining a deposit of KD 453,898 (BD 580,536) {2002: KD 430,000 (BD 540,940)} with a local bank for insurance policies issued through one of its customers. This amount has also been included under other miscellaneous liabilities (refer note 11) since the deposit is refundable to the customer upon discontinuation of the existing arrangement.

5 INVESTMENTS

Available-for-sale investments

Investments in listed companies {net of impairment provision
BD 116,413 (2002: nil)}
Investments in closed companies {net of impairment provision:
BD 378,000; (2002: BD 378,000)}
Capital guaranteed managed funds
Other managed funds
TOTAL

2003	2002
2,351,341	2,815,891
223,530	223,530
418,949	458,010
4,503,028	3,750,091
7,496,848	7,247,522

Held-to-maturity investments

Bonds:
Floating rate
Fixed rate
TOTAL

717,625	559,400
1,712,833	1,839,127
2,430,458	2,398,527

At 31 December

9,927,306	9,646,049
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Effective interest rates (average during the year):

Floating rate bonds
Fixed rate bonds

3.10%	2.88%
5.77%	5.77%

6 LAND AND BUILDINGS

Investment property
BKIC house (Bahrain):

Cost
Less: Accumulated depreciation

2003	2002
2,216,756	2,216,756
(1,600,035)	(1,518,834)
616,721	697,922

At 31 December

Land and buildings (for operational purposes)- Bahrain:

Cost
Less: Accumulated depreciation

2003	2002
1,105,589	1,105,589
(654,941)	(617,135)
450,648	488,454

At 31 December

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6 *Land and buildings (continued)*

Investment property represents the let-out portion of BKIC house. The fair value of the investment property was approximately BD 1,818,000 which has been determined by a professional property valuer.

7 OTHER FIXED ASSETS

	2003	2002
Furniture, equipment and others	324,537	390,939
Motor vehicles	71,920	69,396
Net book value per balance sheet	396,457	460,335

Geographical distribution

	2003	2002
Bahrain	256,079	281,964
Kuwait	140,378	178,371
Total per balance sheet	396,457	460,335

8 OTHER ASSETS

	2003	2002
Net book value of footbridge as at 1 January	92,826	139,242
Charge to income statement	(46,416)	(46,416)
Net book value per balance sheet	46,410	92,826

Other assets represent expenditure incurred by the Company on a footbridge that has been donated to the Bahrain Government. As per the contract with Bahrain Government, the Company is permitted to use its name on the footbridge for a period of twenty years until the year 2018. As a policy, the Company will amortise this expenditure by 31 December 2004.

9 OUTSTANDING CLAIMS

	2003	2002
Incurred in 2003	1,784,425	-
2002	3,434,998	1,600,040
2001	4,214,018	10,793,206
2000	936,224	2,582,903
1999	600,685	869,485
1998	771,917	821,451
1997	414,094	484,838
Before 1997	1,186,499	1,357,687
Total per balance sheet	13,342,860	18,509,610

Bahrain Kuwait Insurance Company BSC

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10 UNEARNED PREMIUMS AND COMMISSION

Minimum unearned premium reserve required by the Bahrain Insurance Law (percentage of retained premiums)

2003	2002
1,701,169	1,509,097

Unearned premium reserve
Premiums received in advance
Unearned commissions

2,213,901	1,788,634
896,629	728,201
511,718	487,533
3,622,248	3,004,368

Total per balance sheet

11 PAYABLES AND ACCRUED LIABILITIES – OTHER

Garages, spare parts suppliers and others
Provision for leave pay and leaving indemnities
Premium reserve deposits
Accrued expenses
Other miscellaneous liabilities (refer note 4)

2003	2002
550,720	365,296
351,099	311,493
232,567	157,719
66,063	83,086
1,594,269	1,550,533
2,794,718	2,468,127

Total per balance sheet

Retirement benefits cost: The Company employed 65 Bahrainis and 23 expatriates in its Bahrain office and 2 Bahrainis, 6 Kuwaitis and 40 expatriates in its Kuwait office at 31 December 2003.

Pension rights (and other social benefits) for **Bahraini employees** are covered by the General Organisation for Social Insurance scheme to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Company's contributions in respect of Bahraini employees for 2003 amounted to BD 47,873 (2002: BD 44,355).

Expatriate employees on limited-term contracts are entitled to leaving indemnities payable under the Bahrain and Kuwait Labour Laws, based on length of service and final remuneration. The liability, which is unfunded, is provided for on the basis of the notional cost had all employees left at the balance sheet date.

Provision for employee leaving indemnities

At beginning of year
Charge for the year
Paid during the year

2003	2002
256,982	218,306
59,664	43,949
(20,648)	(5,273)
295,998	256,982

Provision at 31 December

12 GROSS PREMIUMS

Direct – lead by the Company, net of refunds
Lead by other insurance companies – company's share

2003	2002
15,676,544	14,181,299
2,368,534	2,465,421
18,045,078	16,646,720

Gross premiums per income statement

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to the 2003 financial statements

Bahraini dinars

12 *Gross premiums (continued)*

	2003	2002
Geographical distribution		
Bahrain	9,752,829	8,285,984
Kuwait	8,292,249	8,360,736
Gross premiums per income statement	18,045,078	16,646,720

13 REINSURANCE

In line with the objective to provide first-class security to clients and continued profitability to shareholders, the Company adopts a conservative philosophy on underwriting of risks and in arranging its reinsurance programmes. Reinsurance is effected through proportional, non-proportional and facultative placements based on the Company's net retention policy, treaty limits, nature and size of risks.

The reinsurance programmes are reviewed annually to take into account the changing pattern of the business environment. The Company's net retention is determined in line with its financial strength so as to maximise returns from such reinsurance arrangements. The annual review also takes into account the panel of reinsurers and their security ratings.

The Company's panel of reinsurers to whom business is ceded comprise leading names in the international reinsurance market in Europe and companies of good standing in the Middle East.

14 SEGMENTAL INFORMATION

(a) Primary disclosures

The classification of classes of insured risks for departmental purposes is as follows:

- Fire and general** : fire, general accident and engineering, medical, group life and special contingency
- Marine and aviation** : marine cargo, marine hull and aviation
- Motor** : motor third party and motor comprehensive

2003	Fire and general	Marine and aviation	Motor	2003 Total
Gross premiums	10,983,035	2,075,689	4,986,354	18,045,078
Premiums retained	1,780,137	297,607	2,989,563	5,067,307
Premiums earned	1,706,467	296,353	2,639,221	4,642,041
Net claims incurred	1,178,171	86,644	1,908,799	3,173,614
Underwriting profit	206,302	138,088	158,362	502,752
Assets	8,259,945	505,216	1,151,551	9,916,712
Liabilities	9,439,486	534,698	3,368,676	13,342,860

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Bahraini dinars

14 Segmental information (continued)

2003

Unallocated corporate assets	16,580,923
Unallocated corporate liabilities	8,268,437
Capital expenditure during the year	107,047
Depreciation during the year	233,191

2002

	Fire and general	Marine and aviation	Motor	2002 Total
Gross premiums	11,356,227	1,470,391	3,820,102	16,646,720
Premiums retained	1,506,202	291,656	2,254,341	4,052,199
Premiums earned	1,371,551	284,077	2,047,781	3,703,409
Net claims incurred	926,154	71,991	1,414,331	2,412,476
Underwriting profit	161,212	110,097	55,573	326,882
Assets	13,553,658	1,354,297	843,597	15,751,552
Liabilities	14,555,100	1,392,519	2,561,992	18,509,611

2002

Unallocated corporate assets	13,825,391
Unallocated corporate liabilities	7,240,996
Capital expenditure during the year	271,729
Depreciation during the year	236,121

(b) Secondary disclosures

2003

	Bahrain	Kuwait	Total 2003
Cash and cash equivalents	6,808,853	1,565,270	8,374,123
Statutory deposits	125,000	1,640,190	1,765,190
Receivables			
Policyholders	1,264,153	1,453,261	2,717,414
Reinsurance companies	701,765	849,766	1,551,531
Others	578,747	83,682	662,429
Outstanding claims recoverable from reinsurers	4,217,877	5,698,835	9,916,712
Investments	9,927,306	-	9,927,306
Land and buildings	1,067,369	-	1,067,369
Furniture, equipment , vehicles and other assets	302,490	140,377	442,867

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to the 2002 financial statements

Bahraini dinars

14 Segmental information- secondary disclosures (continued)

2002	Bahrain	Kuwait	Total 2002
Cash and cash equivalents	4,632,872	1,557,810	6,190,682
Statutory deposits	125,000	1,338,980	1,463,980
Receivables			
Policyholders	1,116,942	1,192,927	2,309,869
Reinsurance companies	445,858	1,038,565	1,484,423
Others	526,971	109,928	636,899
Outstanding claims recoverable from reinsurers	6,760,275	8,991,277	15,751,552
Investments	9,646,049	-	9,646,049
Land and buildings	1,186,376	-	1,186,376
Furniture, equipment, vehicles and other assets	374,790	178,371	553,161

15 INVESTMENT INCOME

	2003	2002
Dividends received	399,824	352,757
Interest income	262,118	252,331
Profit on sale of investments	638,633	395,763
Advisory fees	(10,355)	(13,840)
Net income from investment property	7,672	7,724
Provision for impairment of investments	(116,413)	-
	1,181,479	994,735
Investment management expenses	(125,000)	(125,000)
Total net investment income	1,056,479	869,735

16 OTHER (EXPENSES)/ INCOME

	2003	2002
Interest expense	(7,737)	(10,093)
Foreign exchange difference	71,053	61,895
Provision for doubtful receivables	(141,629)	(17,262)
Profit on sale of assets	9,615	3,223
Miscellaneous expenses	(153,453)	(27,729)
Total net other (expenses)/ income	(222,151)	10,034

17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Company include cash and cash equivalents, deposits, investments and receivables.

Financial liabilities of the Company include payable and accrued liabilities (to policyholders, insurance and reinsurance companies and other parties) and dividends payable.

Accounting policies for financial assets and liabilities are set out in note 2.

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Bahraini dinars

17 Financial instruments and risk management (continued)

The risks involved with financial instruments and the Company's approach to managing such risks are discussed below:

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company has deposits and investments in currencies other than Bahraini dinars and United States dollars. The dinar is effectively pegged to the dollar, thus currency rate risks occur only in respect of other currencies. The Company does not hedge against such currency risks.

The table below summarises the exposure to currency risk excluding assets and liabilities arising from insurance and reinsurance contracts.

NET OPEN POSITIONS (in Bahraini dinar equivalents)

Kuwaiti dinars (Bahrain exposure)
US dollars
Other currencies

2003	2002
2,297,975	1,677,626
6,017,968	5,475,264
657,271	707,626
8,973,214	7,860,516

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Company's short-term deposits are at fixed interest rates and mature within one year. Investments in bonds consists of both fixed rate and floating rate instruments.

Effective interest rates : The effective interest rate for a fixed rate Instrument carried at cost is the historical rate.

Cash equivalents and deposits (fixed rate instruments)

2003	2002
1.0% - 3.5%	1.3% - 3.5%

The effective interest rates on bonds are disclosed in note 5.

The Company does not use any derivative financial instruments to hedge its interest rate risk.

Market risk

Market 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 investments (listed and unlisted shares, bonds and managed funds). The geographical concentration of the Company's investments is set out in note 18.

The Company limits market risk by maintaining a diversified portfolio, proactively monitoring the key factors that affect stock and bond market movements and periodically analysing the operating and financial performance of investees.

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to the 2003 financial statements

Bahraini dinars

17 Financial instruments and risk management (continued)

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.

Cash is placed with national banks. Credit risk on receivables is limited to (local) policyholders, which are carried net of impairment losses, and to insurance and reinsurance companies.

The Company manages credit risk with respect to receivables from policyholders by monitoring in accordance with defined policies and procedures.

Management seeks to minimise credit risk with respect to insurance and reinsurance companies by only ceding business to companies with good credit ratings in the London, European and Middle East reinsurance markets.

The Company manages credit risk on its investments by ensuring that investments are only made in counter-parties that have a good credit rating.

Liquidity risk

Liquidity risk, also referred to as funding 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 rigorously monitor liquidity requirements on a daily basis and ensures that sufficient funds are available. The Company has sufficient liquidity and, therefore, does not resort to borrowings in the normal course of business. Should there be a need, given its gearing, the Company has the ability to raise funds from banks at short notice. The maturity profile of the Company's investments is set out in note 19.

Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The fair value of the Company's cash, receivables and payables are not materially different from their carrying values.

18 GEOGRAPHICAL CONCENTRATION OF INVESTMENTS

Bahrain
Other GCC countries
Asia
Europe
International

2003	2002
3,647,339	4,044,044
2,409,534	2,033,956
48,522	25,943
457,069	457,069
3,364,842	3,085,037
9,927,306	9,646,049

Total per balance sheet

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to the 2003 financial statements

Bahraini dinars

19 MATURITY PROFILE OF INVESTMENTS

	Less than 1 year	1 - 5 years	More than 5 years	No maturity	2003 Total
Listed companies	-	-	-	2,351,341	2,351,341
Closed companies	-	-	-	223,530	223,530
Other managed funds	-	536,171	309,466	3,657,391	4,503,028
Capital guaranteed managed funds	-	180,508	96,148	142,293	418,949
Bonds	46,995	2,090,738	292,725	-	2,430,458
Total per balance sheet	46,995	2,807,417	698,339	6,374,555	9,927,306

2002	195,969	2,540,121	484,605	6,425,354	9,646,049
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20 GENERAL AND ADMINISTRATIVE EXPENSES

	2003	2002
Employee related costs	1,540,016	1,293,650
Depreciation	233,191	236,121
Other operating expenses	410,450	439,271
Total general and administrative expenses	2,183,657	1,969,042

21 CONTINGENT LIABILITIES

Contingent liabilities exist at the balance sheet date in respect of bank guarantees issued in the normal course of business amounting to BD 1,662,126 (2002: BD 1,394,877), against which there is a blocked bank deposit of BD 1,643,437 (2002: BD 1,342,077).

22 COMPARATIVE FIGURES

The comparative figures for the previous year have been reclassified, where necessary, in order to conform to the current year's presentation. Such reclassifications do not affect the previously reported net profit, net assets or shareholders' equity.