Global Research Equities

Kuwait

Kuwait Insurance Company

Well Placed...

June 2009

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Global Investment House

Global Investment House KSCC
Sharq, **Global** Tower
P.O. Box 28807 Safat
13149 Kuwait
Tel: (965) 2295 1000
Fax: (965) 2295 1005
Email: research@global.com.kw
http://www.globalinv.net

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from the Bloomberg page GLOH
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Faisal Hasan, CFA
Head of Research
fhasan@global.com.kw
Phone No:(965) 22951270

Vishal Shah
Financial Analyst
vshah@global.com.kw
Phone No:(965) 22951298

Kuwait Insurance Company

Tickers:
KINS.KW (Reuters)
KINS KK (Bloomberg)

Listing:
Kuwait Stock Exchange

Hold

Fair Value:
KD0.384

CMP:
KD0.360 (As on June 10, 2009)

Investment Summary

- **Kuwait Insurance Company (KIC)**, established in 1960, is the first national company in Kuwait and the first insurance company in the Arabian Gulf States (GCC). It has stood as one of the leaders in the Kuwait insurance industry.

- KIC's portfolio is well spread out across various classes. Apart from the competitive advantages in usual classes like fire, accident, engineering, liabilities, marine, aviation, motor and life, it holds the most prominent position in niche classes like professional indemnity- engineers, architects, lawyers, accountants as well as medical malpractice; besides financial institution risks.

- KIC is an undisputed leader amongst the conventional players in non-life business in Kuwait. KIC leads in non-life business outpacing the other conventional players. KIC retains its position at first place by significant difference of premiums of KD2.3mn as compared to other players like Gulf Insurance, Warba Insurance and Al-Ahleia Insurance company in the last three years.

- Kuwait Insurance Company reported de-growth of 1%, 2% and 78% for Gross written premiums, net premiums earned and net income in 2008 as compared to 2007. The company has reported lower growth on account of weak macro-economic demand and global financial crisis eroding the value of investment portfolio.

- In Q109 the company has witnessed a net loss of KD5.9mn, due to provisioning of KD12.3mn on the unrealized loss on the available for sale portfolio. The company had total investment portfolio of KD61.5mn during 2008 which is now KD48.4mn in Q109. The sharp fall in equity markets and global meltdown has led to equity price erosion.

- KIC has seen an upsurge in gross written premiums contribution from fire segment at 14% in 2008 from 10% in 2006 as compared to other segments. The life segment reported de-growth since there were significant regulatory changes. Firstly medical insurance underwriting has been assured by the government since the beginning of 2008. Also underwriting of credit life insurance has been banned in Kuwait.

- Kuwait Insurance Company is the oldest player in the Kuwait insurance industry. The company has built up strong reserves and brand name over the last five decades. The company has sustained its second position after Gulf Insurance Company in the insurance

industry. KIC only has presence in Kuwait but Gulf Insurance is diversified in the GCC region making company as a market leader.

- The outlook for the insurance industry in Kuwait remains buoyant as the population remains untapped to serve with few players and lesser awareness. The takaful insurance companies are witnessing a significantly higher growth than the conventional players due to Shariah compliant products. KIC has setup a takaful unit to serve its clients. Kuwait population is underserved as out of 3.4mn around 1.1mn have the potential to opt for insurance and with 24 players having capital of approximately KD500mn and total premium size of approximately KD200mn highlights that the market is undertapepd.

- We remain positive on earnings outlook for Kuwait Insurance Company. The company has enough reserves to cushion any downside for its investment portfolio. We expect KIC to be one of the leaders in Kuwait insurance industry with strong networth, experienced management and better reach to its clients.

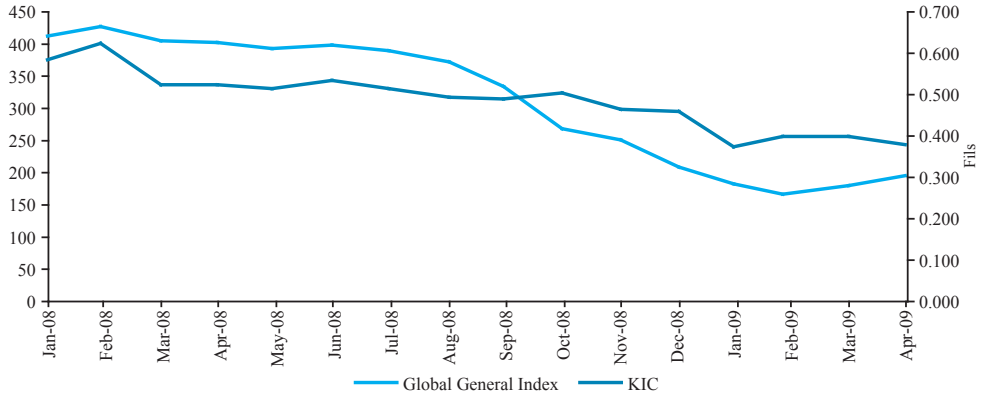
- At the CMP of 360fils (As on 10th June'09) the stock trades at 32.6x and 1.26x FY09E P/E and P/BV and 19.9x and 1.03x FY10E P/E and P/BV. Using the Embedded Value Method and Price to book method we arrive at a price target of 384fils per share indicating a premium of 6.7% to the current market price. We recommend a "**HOLD**" on the stock.

Table 01: Investment Indicators

Price as on 10th June'09 (KD)	Shares in Issue (Mn)	Market Capitalisation (KD Mn)		52 Week Hi-Low (KD)	
0.360	19.4	69.8		0.530/0.350	
Year	Net Profit (KD Mn)	EPS (Fils)	BVPS (KD)	P/E (x)	P/BV (x)
2010 (F)	3.5	18.1	350.2	19.9	1.03
2009 (F)	2.1	11.0	284.8	32.6	1.26
2008 (A)	2.9	15.2	242.0	30.0	1.88
2007 (A)	13.3	68.5	453.1	8.5	1.28

*Source : Company Reports, **Global** Research*
Note: Historical P/E and P/BV are taken as at year end trading prices for Kuwait Insurance Company. Latest market price taken as 10th June'09 for calculating P/E and P/BV for 2009-10 F.

Chart 01 : Share Price Performance



*Source: **Global** Research*

Company Profile

Kuwait Insurance Company (KIC), established in 1960, is the first national company in Kuwait and the first insurance company in the Arabian Gulf States (GCC). It has acted as catalyst to Kuwait insurance industry, to guide and nurture the insurance sector growth and development. The company has been present for five decades in Kuwait and changed the outlook for the insurance market in Kuwait.

KIC's major asset is the technical skill of its key personnel. They have vast experience in handling major Oil & Energy sectors insurance programme. The employee turnover is negligible, the long association of its key personnel with the company provides unrivalled accumulated experience and expertise.

Table 02: Board of Directors

Name	Position
Mohammed Saleh Youssef Behbehani	Chairman
Suleiman Khaled Al Ghunaim	Vice Chairman
Fouad Abdulrahman Al Bahar	Director
Manaf Mohamed Ahmad Al Hamad	Director
Ali Morad Behbehani	Director
Jassim Mustafa Boodai	Director
Talal Mohammed Reda Behbehani	Director

*Source: Company Reports, **Global** Research*

The top management of the company have vast experience in the field. The company is being majorly owned by the Behbehani & group. The directors of the company have been working closely with the other employees to formulate strategies since inception.

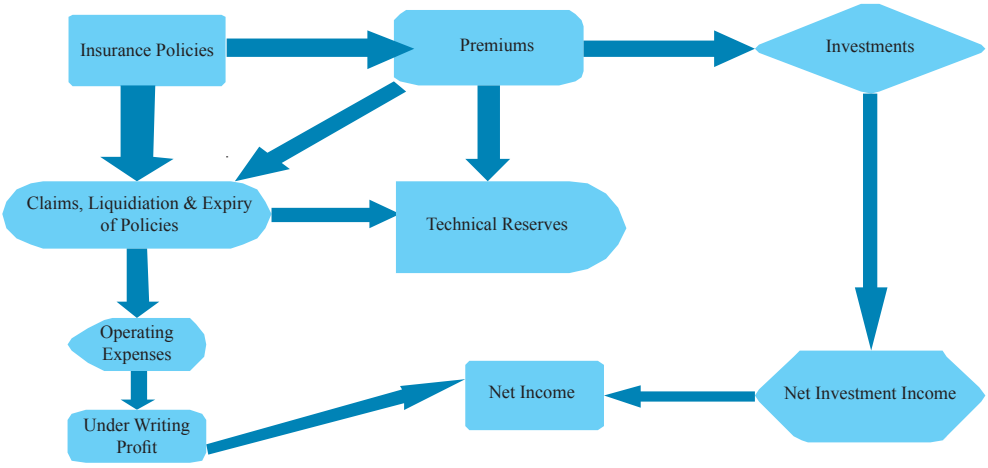
Table 03: Management

Name	Position
Dr Ali Hamad Al Bahar	General Manager
Eng. Ahmad S. Al Bahar	Deputy General Manager
Mohammed Awad Qoton	AGM, Finance & Administration
Oommen John	AGM, Reinsurance
Adel Bourislee	AGM, Motor
Department Managers:	
Najeeb Mouasher	Fire and General Accident
PK Xavier	Fire & General Accident
Youssef Abboushi	Fire & General Accident
C.K.Tandel	Non Marine Claims
Iman Dashti	Life
Rezq Al Sammak	Investment
Tarek Tallah	Accounts
Mazen Hammad	Marine Cargo
Nolasco Fernandes	Marine Hull
Mazen Awaida	Motor
Afeef Diab	Human Resources

*Source : Company Reports, **Global** Research*

The middle management of the company has expertise for their respective domains. The managers carry vast experience and are highly qualified. They are associated with the company since long-time. The working culture in the company is open and dyanmic resulting in lower attrition rate as compared in the industry.

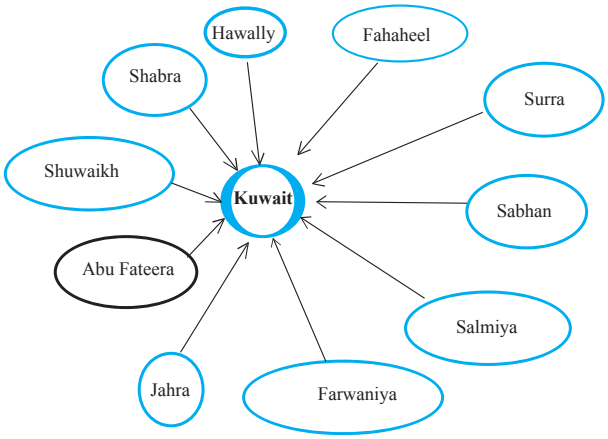
Chart 02: Business Model



*Source: Company Reports, **Global** Research*

The insurance flow diagram for the conventional players is simple but a risky model. The premiums are collected in cash and invested in equities and debt. The company earns market related returns on the equity and yields on debt portfolio as per the interest rate movement. The company has to make provisions for future claims, liquidation and expiry of the policies. The underwriting and technical profit is calculated before including net investment income. The takaful model is different from the conventional insurance model.

Chart 03: KIC' Strategic Presence



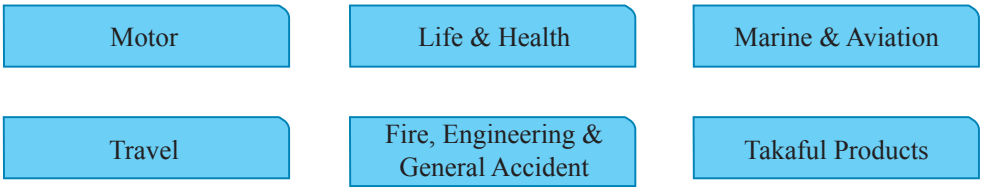
*Source : Company Report, **Global** Research*

Kuwait Insurance Company is having strong presence in Kuwait. The company has 11 branches in Kuwait and it is in the process of opening the twelfth branch at Abu Fateera in Kuwait, the one highlighted differently.

The company has been pre-dominantly a leader in underwriting premiums for the oil sector for over 30 years. They were the pioneers in arranging various exclusive insurance programmes for the oil sector. KIC also leads insurance programmes for megasize projects, especially in the water and power sector.

The corporate and international clients receive special consideration as KIC's top management is directly involved to ensure operational control to address their specific requirements and provide prompt and distinguished service.

Chart 04: Insurance Products



*Source: Company Reports & **Global** Research*

The company is an old conventional player in the insurance industry in Kuwait offering products for life and non-life segments. The company is a market leader for non-life segment. The motor segment is almost 30% of total non-life market premiums in Kuwait and KIC contributes around 31% of its total non-life premiums.

KIC's presence in Kuwait since 1960 has helped the company in building up strong reserves and a better platform to grow as compared to other players in the industry. In the earlier days, with no existence of non-life policies the company has build up a strong relationships with its clients. The company has also built up international corporate client portfolio with big names.

Table 04 : Liquidity of Stock

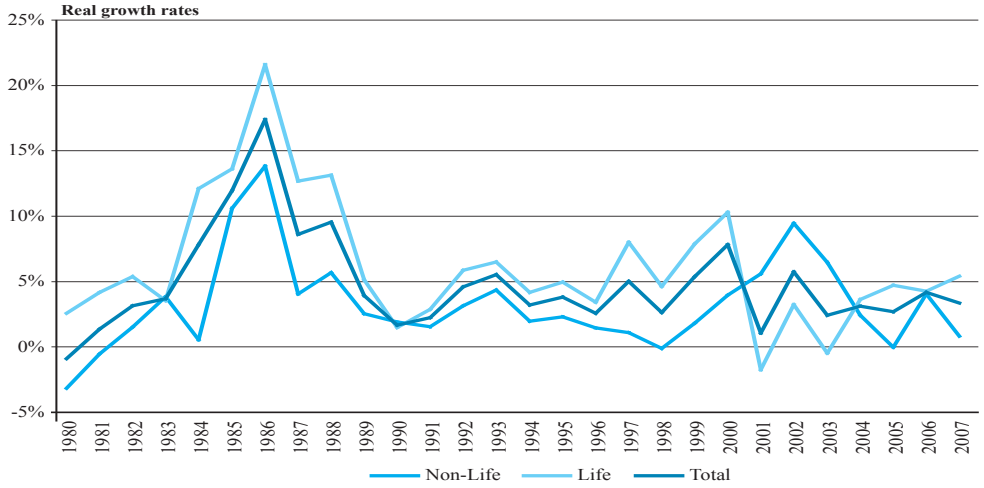
Year	Avg. Daily Volumes	Avg. Daily Value Traded (KD)	Closing Price	M.Cap (KDmn)
2006	40532	24319	600	116.4
2007	18500	10730	580	112.5
2008	24437	11119	455	88.3
2009*	27885	10038	360	69.9

**Note: Latest closing price as on 10th June 09.*
Source: Bloomberg

Insurance : A Global Perspective

The world insurance premiums grew 3.3% in real terms in 2007, reaching US$4,152.2bn. This growth was primarily driven by the Life & Health business in industrialized and emerging markets and to a lesser extent by the non-life businesses in the emerging markets.

Chart 05: Global premium growth 1980 - 2007



Source : Swiss Re

Despite a macroeconomic environment characterised by marginally slower economic growth and rising inflation, Life & Health insurance continued to expand in 2007 with world Life & Health insurance premiums increasing by 5.4% annually to US$ 2,476.2bn. Sales of retirement and other wealth accumulation products spurred growth in the industrialised economies. Life & Health insurance in the emerging markets was fuelled by strong economic performance and catch-up potential.

Global non-life premium growth slowed to 0.7% in real terms, totalling US$ 1,675.9bn in 2007. Non-life premium growth continued to follow divergent trends in the industrialised and the emerging markets. While premium volume retreated in the industrialised markets, growth slowed marginally in the emerging markets. Though downward pressure on premium rates continued in some countries, overall technical results were favourable and profitability remained sound.

Table 05: Total Business

Total businesses	Premium Volume (In mns of US$) 2007	2006	Change (in%) inflation adjusted 2007	2006	Share of World Market (%) 2007	Premiums in % of GDP 2007	Premiums per capita (in US$) 2007
America	**1,420,534.0**	**1,333,784.0**	**2.7**	**3.0**	**34.2**	**7.6**	**1,576.7**
North America	1,330,674.0	1,262,060.0	2.1	2.6	32.1	8.7	3,986.6
Latin America and Caribbean	89,860.0	71,725.0	11.8	11.5	2.2	2.6	158.4
Europe	**1,764,047.0**	**1,489,118.0**	**6.4**	**6.5**	**42.5**	**8.3**	**2,057.0**
Western Europe	1,689,405.0	1,432,119.0	6.1	6.3	40.7	9.2	3,296.1
Central and Eastern Europe	74,642.0	56,999.0	13.3	11.8	1.8	2.8	229.5
Asia	**844,929.0**	**778,616.0**	**4.9**	**1.1**	**20.4**	**6.2**	**211.8**
Japan & newly industrialized Asian economies	640,562.0	622,556.0	1.8	(2.0)	15.4	10.4	3,017.2
South and East Asia	180,761.0	136,574.0	17.6	16.8	4.4	3.1	52.2
Middle East and Central Asia	23,606.0	19,486.0	12.2	14.5	0.6	1.5	76.7
Oceania	68,889.0	58,238.0	4.0	2.1	1.7	6.6	2,061.7
Africa	53,810.0	51,127.0	1.0	19.9	1.3	4.4	55.9
World	4,152,210.0	3,710,883.0	4.6	4.1	100.0	7.6	621.4
Industrialized Countries	3,730,167.0	3,376,106.0	3.8	3.2	89.8	9.3	3,654.3
Emerging Markets	422,043.0	334,777.0	12.8	15.5	10.2	2.8	74.1
OECD	3,669,564.0	3,323,539.0	3.5	3.1	88.4	8.8	3,011.9
G7	2,933,386.0	2,689,510.0	3.2	1.9	70.7	9.5	3,965.3
EU, 15 Countries	1,610,161.0	1,360,587.0	6.3	6.5	38.8	9.6	3,860.9
EU, 27 Countries	1,650,022.0	1,391,254.0	6.4	6.6	39.7	9.2	3,136.8
Nafta	1,348,530.0	1,277,238.0	2.3	2.7	32.5	8.4	3,062.6
ASEAN	41,166.0	34,465.0	9.8	6.6	1.0	3.2	78.3

Source : Swiss Re

As it can be inferred from the above chart the premiums as a % to GDP is the lowest in the Middle East as compared to the other regions in the world. The insurance market it at its nascent stage and has the potential to grow as compared to other countries in the world.

Table 06: Total Life & Health Business

Life & Health Business Total businesses	Premium Volume (In mns of US$) 2007	Change (in%) inflation adjusted 2006	Share of World Market (%) 2007	Premiums in % of GDP 2006	Premiums per capita (in US$) 2007	Premium Volume (In mns of US$) 2007	Change (in%) inflation adjusted 2007
America	**660,896.0**	**600,430.0**	**6.2**	**4.0**	**26.9**	**3.5**	**733.6**
North America	624,558.0	571,352.0	5.9	3.5	25.2	4.1	1,871.1
Latin America & Caribbean	36,338.0	29,079.0	11.6	15.0	1.5	1.1	64.1
Europe	**1,114,090.0**	**915,075.0**	**9.5**	**6.7**	**45.0**	**5.3**	**1,315.3**
Western Europe	1,095,994.0	901,832.0	9.4	6.5	44.3	6.1	2,169.5
Central & Eastern Europe	18,096.0	13,242.0	17.2	19.2	0.7	0.7	55.6
Asia	**627,758.0**	**579,761.0**	**4.8**	**(0.2)**	**25.4**	**4.6**	**157.7**
Japan & newly industrialized Asian economies	493,764.0	480,191.0	1.9	(3.1)	19.9	8.0	2,332.6
South and East Asia	128,033.0	94,660.0	19.4	18.2	5.2	2.2	37.0
Middle East and Central Asia	5,961.0	4,910.0	11.9	7.7	0.2	0.4	19.4
Oceania	35,807.0	29,175.0	7.9	6.2	1.5	3.4	1,071.4
Africa	37,661.0	36,782.0	(1.0)	25.4	1.5	3.1	39.1
World	2,476,212.0	2,161,224.0	7.1	4.2	100.0	4.6	370.6
Industrialized Countries	2,253,296.0	1,985,234.0	6.5	3.1	91.0	5.6	2,218.8
Emerging Markets	222,916.0	175,991.0	13.6	19.1	9.0	1.5	39.2
OECD	2,183,791.0	1,927,630.0	6.1	3.0	88.2	5.3	1,801.9
G7	1,758,743.0	1,566,262.0	6.0	2.8	71.0	5.8	2,407.9
EU, 15 Countries	1,053,269.0	863,016.0	9.6	6.8	42.5	6.4	2,566.8
EU, 27 Countries	1,070,506.0	875,716.0	9.7	7.0	43.2	6.1	2,066.7
Nafta	632,211.0	578,164.0	5.9	3.7	25.5	3.9	1,435.8
ASEAN	26,762.0	21,964.0	12.2	10.7	1.1	2.2	53.3

Source : Swiss Re

In the Middle East region the premiums to per capita income ratio is the lowest as compared to other regions in the world. Although the Life & Health business is gaining its dominance post the takaful launch, which is gaining more importance and awareness for Life & Health insurance.

The Life & Health business has gained popularity since the takaful product is launched in GCC countries, which is shariah compliant. As can be inferred from the table above there is potential to tap in the Life & Health insurance segment.

Table 07: Total Non-life Business

Non-life business Total businesses	Premium Volume (In mns of US$) 2007	Change (in%) inflation adjusted 2006	Share of World Market (%) 2007	Premiums in % of GDP 2006	Premiums per capita (in US$) 2007	Premium Volume (In mns of US$) 2007	Change (in%) inflation adjusted 2007
America	**759,637.0**	**733,354.0**	**(0.2)**	**2.2**	**45.3**	**4.1**	**843.2**
North America	706,116.0	690,708.0	(1.0)	1.8	42.1	4.6	2,115.5
Latin America & Caribbean	53,522.0	42,646.0	11.9	9.3	3.2	1.6	94.4
Europe	**649,957.0**	**574,043.0**	**1.5**	**6.1**	**38.8**	**3.0**	**741.7**
Western Europe	593,411.0	530,287.0	0.7	5.9	35.4	3.2	1,126.7
Central and Eastern Europe	56,546.0	43,757.0	12.1	9.6	3.4	2.1	173.9
Asia	**217,171.0**	**198,855.0**	**5.0**	**5.2**	**13.0**	**1.6**	**54.1**
Japan & newly industrialized Asian economies	146,798.0	142,365.0	1.8	2.1	8.8	2.4	684.7
South and East Asia	52,728.0	41,914.0	13.4	13.9	3.2	0.9	15.2
Middle East & Central Asia	17,645.0	14,576.0	12.3	17.1	1.1	1.1	57.4
Oceania	33,082.0	29,062.0	0.1	(1.7)	2.0	3.2	990.2
Africa	16,150.0	14,344.0	7.1	5.9	1.0	1.3	16.8
World	1,675,998.0	1,549,658.0	1.2	4.0	100.0	3.1	250.8
Industrialized Countries	1,476,871.0	1,390,872.0	(0.1)	3.2	88.1	3.6	1,435.5
Emerging Markets	199,127.0	158,786.0	11.9	11.3	11.9	1.3	35.0
OECD	1,485,773.0	1,395,909.0	-	3.3	88.7	3.5	1,210.0
G7	1,174,643.0	1,123,248.0	(0.7)	0.7	70.1	3.7	1,557.4
EU, 15 Countries	556,892.0	497,571.0	0.6	6.0	33.2	3.2	1,294.0
EU, 27 Countries	579,516.0	515,538.0	0.8	6.0	34.6	3.1	1,070.1
Nafta	716,319.0	699,073.0	(0.7)	1.8	42.7	4.4	1,626.8
ASEAN	14,404.0	12,501.0	5.7	0.2	0.9	1.0	25.0

Source : Swiss Re

The non-life premiums are growing faster as compared to Life & Health premiums in the Middle East and have better penetration rate. In 2007, East & Central Asia and Middle East had a 12.3% share of the World market.

Table 08: Insurance Density

Premium Per Capita US$	Life & Health Insurance 2007	Non-life Insurance 2007	Life & Health Insurance 2006	Non-life Insurance 2006
Industrialised Markets	2218.1	1434.1	1969.4	1365.8
Emerging Markets	39.1	34.9	31.2	28.3
South and East Asia	37.2	15.2	27.7	12.2
Latin America	63.4	94.2	51.3	76.4
Eastern Europe	56.1	173.5	40.5	134
Africa	39.1	16.8	39.4	15.3
Middle East	19.4	57.5	16.2	48.3

Source: Swiss Re

The insurance density is highest in the industrialized markets as the economies are more developed as compared to the Middle East and North Africa region. The developed world has remarkably higher density owing to better awareness and many players in the insurance

industry willing to set up their businesses as compared to other regions. The non-life segment is growing on a higher base and at the same pace as compared to the Life & Health segment.

Table 09: Insurance Penetration

Premiums as a % to GDP	Life & Health Insurance 2007	Non-life Insurance 2007	Life & Health Insurance 2006	Non-life Insurance 2006
Industrialised Markets	5.6%	3.6%	5.4%	3.7%
Emerging Markets	1.5%	1.3%	1.4%	1.3%
South and East Asia	2.2%	0.9%	2.0%	0.9%
Latin America	1.0%	1.6%	1.0%	1.4%
Eastern Europe	0.7%	2.1%	0.6%	2.0%
Africa	3.0%	1.3%	3.4%	1.3%
Middle East	0.1%	1.0%	0.1%	0.9%

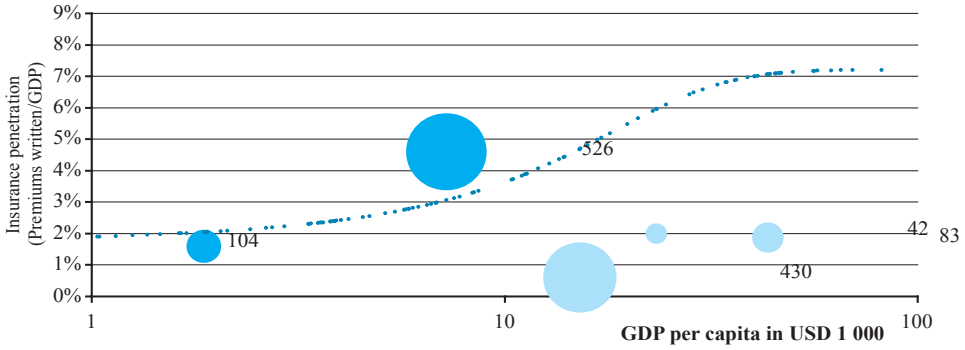
Source: Swiss Re

The contribution of insurance sector as a percentage to GDP is lowest in the Middle East. This reflects room to increase the penetration, but the concern lies as the Middle East economies rely heavily on oil revenues as compared to other countries which are well diversified. Also the number of insurance players offering insurance products are limited in Middle East since the regulator restricts from granting new licenses with easy approvals. Kuwait is an exception since there are already 22 licenses for a small market so the competition is intense.

GCC Insurance market

Insurance is one of the cornerstones of the modern-day financial services sector. In addition to its traditional role of managing risk, the insurance sector promotes long-term savings and serves as a conduit to channel funds from policyholders to investment opportunities, including mortgage lending.

Chart 06 : GCC Insurance per capita to GDP



*Source: Company Reports & **Global** Research*

GCC Insurance Market potential

The Islamic population is primarily concentrated in the Middle East, Northern Africa and South and East Asia. About 300mn muslims live as minorities in other countries, with the largest number of muslims living in India (157mn :13%), China (40mn:3%) and Ethiopia (40mn). Given their fast-growing economies and insurance sectors, India and China are potential markets for Islamic insurance going forward.

Islamic countries accounted for US$3,462.2bn (22%) of emerging market GDP in 2007. This is equivalent to an average GDP per capita for emerging countries (US$2,700). In 2007, 11% of emerging market insurance premiums were written in Islamic countries (US$45bn), indicating a low level of insurance penetration compared to that of the emerging markets.

Insurance penetration, particularly in Life & Health insurance is low in Islamic countries. Premiums written amounted to just 1.3% of GDP in 2007, versus 2.8% of GDP in the emerging markets. While economic growth has been solid in most Islamic countries since the turn of the century, the insurance sector has lagged. One reason for the low penetration is that conventional insurance is not compatible with Islamic faith. In order to grow the insurance market in Islamic countries, it is important to understand the different Islamic insurance models along with their unique challenges and opportunities.

Insurance under Islam

The Quran is the ultimate source of all Islamic principles that were revealed to the prophet Mohammed by Allah, supplemented by the sayings and actions of the prophet (sunnah). These two sources are the roots of Islamic belief, which lay out general principles on how a Muslim should lead his/her Life & Health, albeit not all aspects of Life & Health.

Muslims conducts their lives according to the Islamic principles laid out in shariah. Consequently, all transactions must be shariah- compliant, including the type of insurance coverage purchased. The following must be avoided:

1. Riba : Payment/receipt of interest.

2. Maisir : Excessive risk-taking.

3. Gharar: Uncertainty and unclear terms in contracts.

4. Haram: Investment in anything unacceptable- eg pork, alcohol, gambling and pornography.

Wide spectrum of Islamic insurance models

Given the varying interpretations of Islamic law, different insurance models have emerged. The models considered include non-profit mutual insurance and models that closely resemble conventional insurance, with funds invested in shariah-compliant assets.

In this surrounding, a distinction is made between Islamic insurance and takaful. While Islamic insurance refers to all concepts of Islamic insurance, takaful refers specifically to insurance models that use segregated funds for policyholders and shareholders.

Kuwait Insurance Sector

Deregulation spurts growth

Kuwait has one of the strongest fiscal positions among GCC nations and is benefitting from its ninth straight budget surplus in FY07-08. Despite the government steadily increasing expenditure, revenues have generally outpaced spending and surpluses have resulted in a large buildup in net foreign assets.

Insurance is increasingly understood as a social and economic necessity in the Middle east. The field of providers is fragmented and industry structures are heterogeneous across MENA countries. Mandatory insurance schemes for health and motor coverage are leading drivers of premium growth. Kuwait is a relatively better place as compared to other countries, as it is situated in a region that is blessed with a lack of natural disasters, sparing companies the possibility of paying heavy claims on disasters such as floods etc.

Fragmented Insurance Industry:

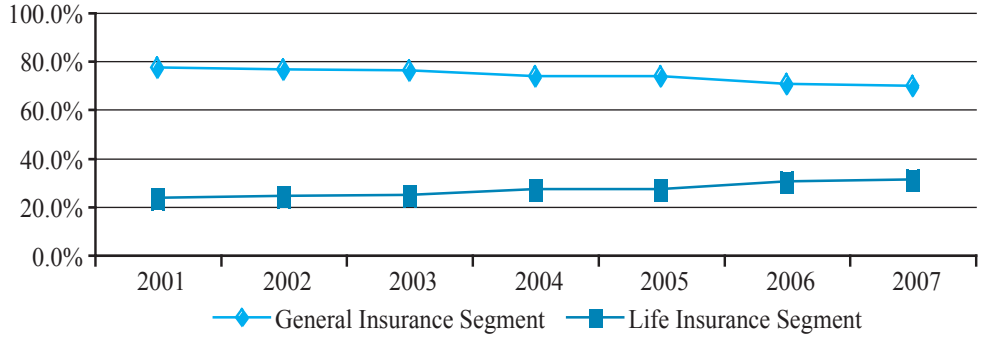
The rise in the number of companies offering Islamic insurance, known as Takaful, is sparking growth. Takaful companies follow Islamic law, or 'Sharia', which bans conventional insurance products. The Gulf Takaful market premiums is currently growing at a rate of about 40% a year, compared to a world average premium growth of 2.5%.

Table 10: Insurance penetration

	Kuwait
Life as a % of GDP	0.2%
Non-Life as a % of GDP	0.4%
GWP as a % of GDP	0.6%
Premiums US$Mn-2007	613
GDP US$ Mn	102167
Insurance KD Mns	178
GDP KD Mns	27464
% penetration	0.6%

*Source : **Global** Research*

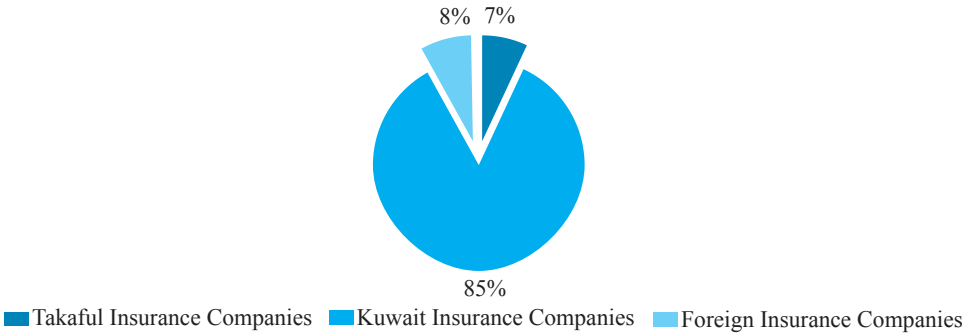
Chart 07: Life & Non Life Premiums in Kuwait



Source : Insurance Department, Ministry of Commerce & Industry

The life insurance segment over a period of time has been gaining awareness as can be depicted from the chart-1. Overall the share of general insurance segment has been higher as compared to life insurance segment.

Chart 08: Composition of Kuwait Insurance Market



Source : Insurance Department, Ministry of Commerce & Industry

As can be depicted from the chart-17, the composition of Takaful companies is at 7% with the major domination by Kuwait Insurance companies. We believe that Takaful market will continue to grow at a higher pace as compared to life insurance market.

Paradigm Shift

Products from non-life sector constitute the main source of growth in the industry, and perceptions of life insurance are changing. Sector premiums are expected to increase substantially.

Overview of Kuwait's Insurance Sector

Table 11: Growth of Insurance Sector

KWDmn	2005	2006	2007
Non-Life Premiums	110	127	128
% change		15%	1%
Life Premiums	43	50	50
% change		16%	0%
Total Premiums	153	177	178
% change		16%	1%

Source : Ministry of Commerce & Industry

Total premiums in the Kuwaiti market came to a total of KD177mn ($622.4mn) in 2006 and KD178mn in 2007 with the majority being written by local companies. Premiums grew by 16% YoY in 2006.

Key Drivers to Life insurance in Kuwait

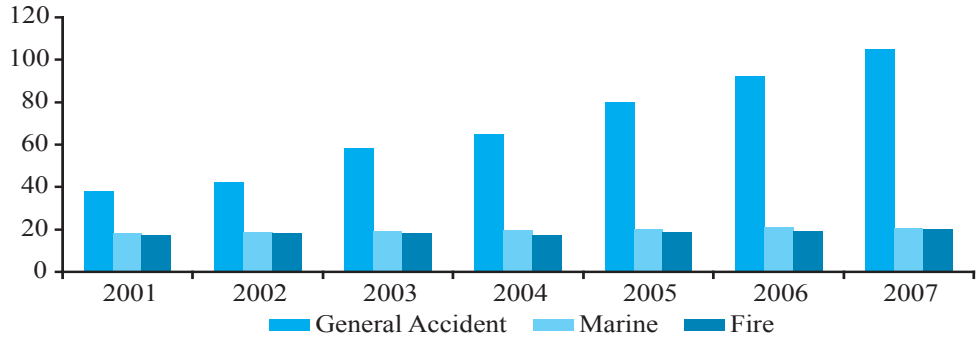
Kuwait has a high per capita GDP, due to lower population and higher expatriates ratio, the country has not seen a rapid growth in life insurance industry.Life insurance was believed to be Un-Islamic when it was introduced but the perception has changed for Kuwaiti nationals

over the years and they have started opting for life insurance policies.Higher GDP growth and higher contribution from non-oil revenues has helped the insurance industry to penetrate faster.

Key Drivers to Non-Life Insurance in Kuwait

The boom across the sectors in the last three years and higher oil prices has led to a budget surplus for the government. The government has been spending money on its Infrastructure and other sectors to diversify its reliance on oil revenues. The corporates have sketched huge expansion plans to mop up its business growth and profitability, which has helped in driving the insurance premiums. Hiring of expatriates by corporates has helped insurance companies to raise its premiums in volumes .Cars available on easy installments with lower interest rates has led to higher car sales and in turn helped the insurance companies.

Chart 09: Non-Life Insurance- Direct premium (in KD mn)



Source : Insurance Department, Ministry of Commerce & Industry

Reinsurance

A Reinsurance company is an insurance company that assumes all or part of an insurance policy written by a primary insurance firm. The purpose of reinsurance is to relieve the primary insurer from heavy liabilities. There are two forms of reinsurance, namely treaty and facultative.

Treaty Reinsurance

Treaty reinsurance is when a primary insurer and reinsurer agree in advance that the primary insurer will transfer risks to the reinsurer in accordance with the terms and conditions of the reinsurance treaty. The duration of the treaty is usually a year or longer. Different treaties may be drawn between insurance companies and reinsurers such as excess of loss, quotas share, stop loss or aggregate excess of loss, surplus, and total cover treaties.

Facultative Reinsurance

Unlike treaty reinsurance, facultative reinsurance is non-obligatory. The primary insurer is not obliged to cede the business and the reinsurer is not obliged to accept the risk. Facultative reinsurance agreements are individually underwritten and are common for large limit risks.

Kuwait Reinsurance Market

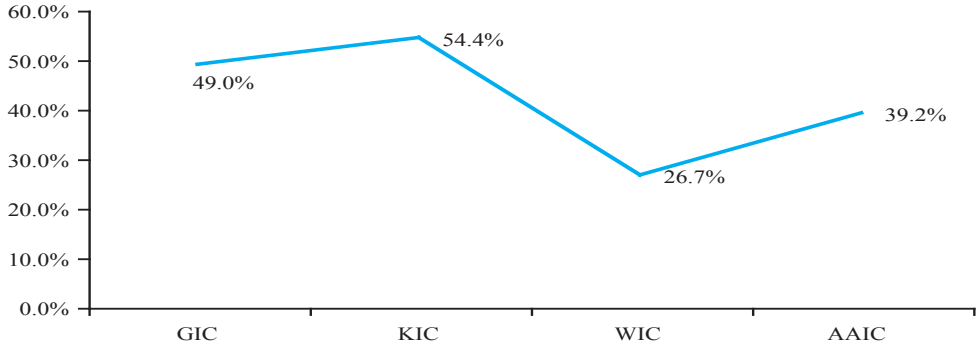
Reinsurance companies have reported robust growth in the last two years. The top four insurance companies have been able to maintain a retention ratio of around 50% on their books. Since the oil prices have been rising in 2007 and corporates have been expanding their balance sheet, the insurance companies have seen a surge in premiums underwriting, but to transfer the risks they have been reinsuring their portfolios with the reinsurance companies.

Takaful

Takaful is a system based on the principle of mutual assistance (ta'awun) and voluntary contribution (tabarru), where the risk is shared collectively and voluntarily by a group of participants. Through payment of a voluntary donation and the clear definition of the type of loss, uncertainty and excessive risk taking are removed from the contract. Takaful has been practiced for centuries as a system of risk sharing.

Peer Comparison Analysis

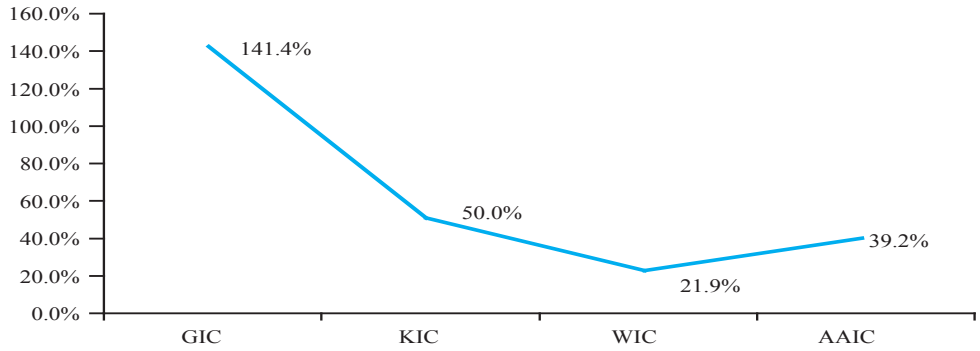
Chart 10 : FY08 Retention Ratio



*Source : Company Reports, **Global** Research*

The retention ratio is relatively higher for KIC as compared to its peers. The ratio stands at 54.4% in FY08 higher than Gulf Insurance Company at 49.0% in the same period. KIC is competitively placed in the industry and has enough expertise to face the competition in the Kuwait insurance market. The dropping retention rate is also due to large policies being reinsured upto 95% of total premiums.

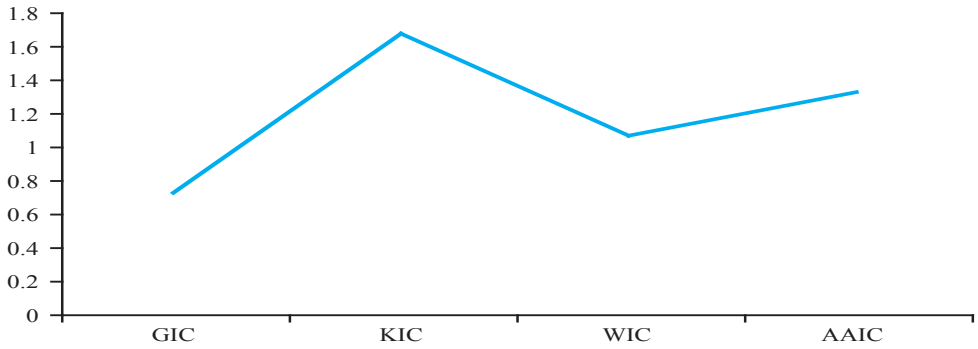
Chart 11: Claims to Equity Capital Ratio



*Source : Company Reports, **Global** Research*

The insurance companies debit the P&L on account of claims incurred. The companies also make an estimate for the claims arising in the future. Gulf Insurance Company has highest ratio as claims to equity due to its presence across Gulf countries. The size of GIC and KIC is almost the same but pan GCC presence helps GIC in diversifying its risk and potential to grow.

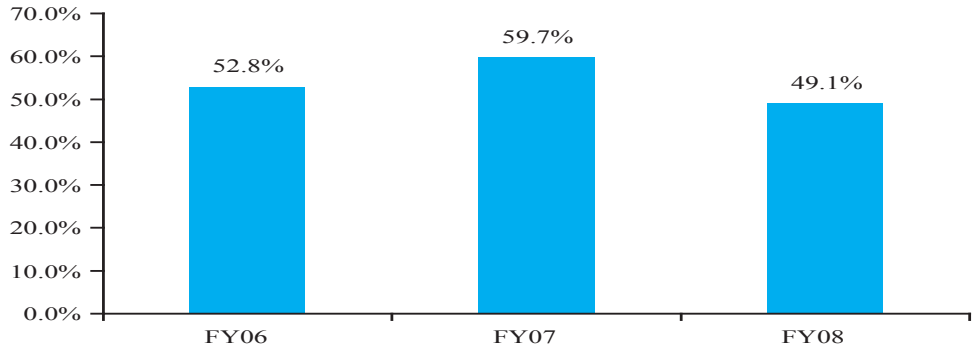
Chart 12 : FY08 Financial Leverage



*Source : Company Reports, **Global** Research*

KIC is levered heavily as compared to its peers in the industry. The leverage indicates that the company has taken enough steps to cushion any kind of unprecedented claims during the normal course of the business. The flip side indicates higher financial costs to employ the short term funds for generating returns.

Chart 13: Reducing Exposure to Investments for KIC

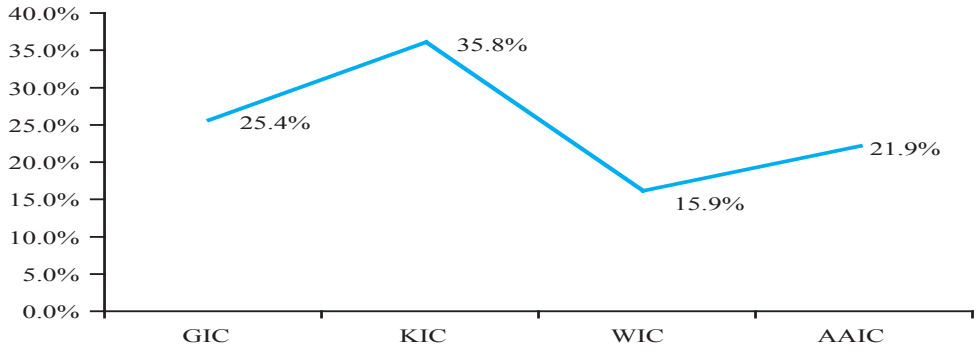


*Source: Company Reports, **Global** Research*

The company has sold of its risky investments and has booked a loss. The investments as a percentage to total assets has reduced from 59.7% in 2007 to 49.1% in 2008. The reason for reduction in investments was due to global financial crisis and sharp fall in equity prices below its fair values. KIC being an insurance company has exposure to investments but due to fall in equity markets the company had to make provisions through P&L and write off losses by reducing from fair value reserve and also reducing the investments.

The company is in a comfortable position since the markets across the globe has moved up after a deep fall. Any further fall in equity markets can lead to additional provisions and erosion in value of the Available for sale portfolio. According to our understanding the tough days are behind and markets had discounted the worst and expects recovery in earnings for the companies as demand picks up.

Chart 14: Claims to Gross Written Premiums

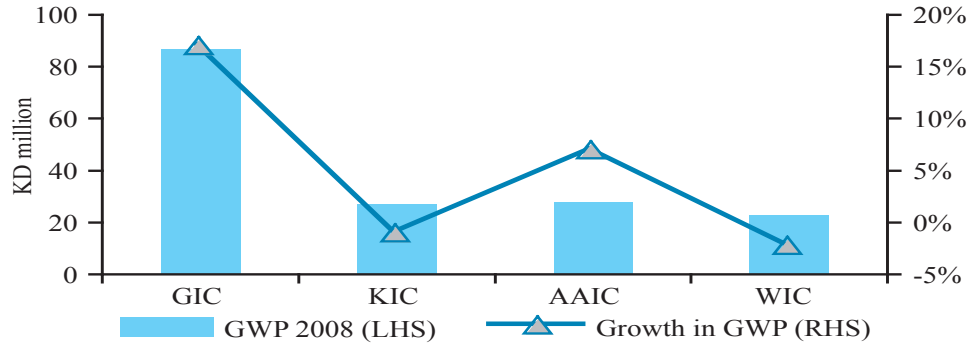


*Source : Company Reports, **Global** Research*

The claims to GWP ratio is higher for Kuwait Insurance Company as the company reported de-growth in overall gross written premiums. The claims have reported de-growth of 22.9% in 2008 as compared to 2007 but due to 1.1% de-growth in premiums in 2008 as compared to 2007 the ratio looks higher for the Kuwait Insurance Company.

The claims have gone down faster as compared to the gross written premiums, indicating the strong risk management capability of the team. The claims have grown in the region due to global financial crisis and also the policies have been liquidated or have lapsed on occasion of incapability to pay premiums. Insurers globally are facing tough time to fight the crisis and with Swine Flu victims the companies are finding ways to adapt risk modeling for life policies. The outrage of new disease has put the insurance companies to adopt stringent provisioning and risk based approach.

Chart 15: 2008 GWP growth YoY



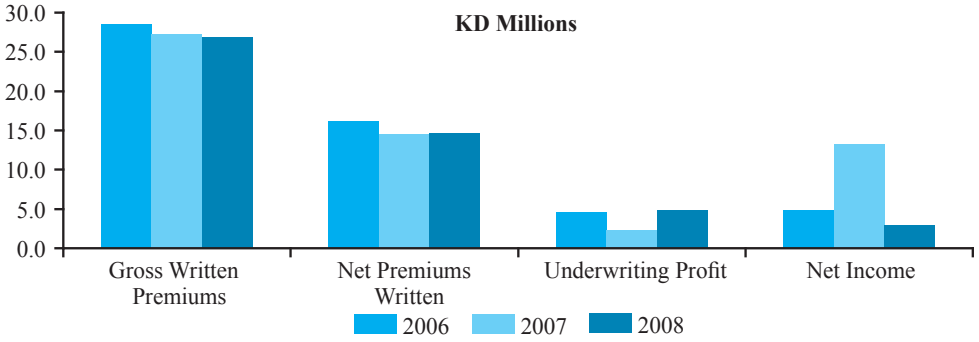
*Source: Company Reports, **Global** Research*

KIC has reported de-growth in gross written premiums, the de-growth was due to regulatory changes and also overall lower demand for insurance policies. GIC and Al-Aheia posted growth in gross written premiums since GIC's pan GCC presence resulted in diversification. We believe KIC's dominating presence in Kuwait insurance market is not enough to grow at a higher pace as compared to Gulf Insurance Company.

KIC Analysis of 2008 Results

Kuwait Insurance Company (KIC) has reported a two year CAGR 2006-2008 de-growth of 2.9%, 4.9% and 22.1% in gross written premiums, net written premiums and net income. The company has reported de-growth on the gross premiums since the insurance sector has witnessed regulatory changes. In beginning of 2008 the medical insurance underwriting has been assured by the government earlier being underwritten by the insurance companies in Kuwait. Also the underwriting of insurance on credit life has been banned in Kuwait.

Chart 16 : Profitability Analysis



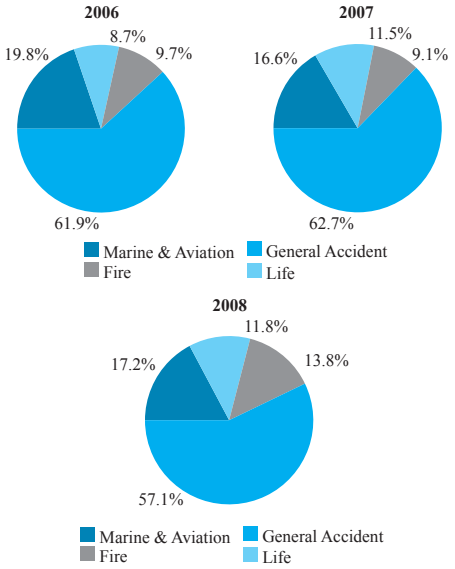
*Source : Company Reports, **Global** Research*

The company has reported 49.6% growth in fire segment in 2008 as compared to 2007. The higher growth was despite the weaker macro demand and delay in expansion of projects to capitalize on lower project costs. The falling retention rate from 56.7% in 2006 to 54.4% in 2008 led to de-growth in net premiums written. The company reported lower retention rate owing to most of the large policy premiums accounting for major share of gross premiums share have been mostly reinsured.

The company has reported a two year CAGR decline in net income from 2006-2008. The company witnessed a lower profit due to global financial crisis and meltdown in equity markets it resulted in erosion of equities in available for sale portfolio, the company made provisions of KD1.1mn in 2008 resulting in significant decline in profits.

KIC had more than KD18mn worth investments made locally in Kuwaiti markets i.e. 33.3% of the total KD54mn. The company had invested KD44mn in GCC and overseas markets. The global financial crisis led to deep correction of the equity markets resulting to stock prices trading below fair values and even in some cases below face values. This resulted in writing off the losses and aggressive provisioning for KIC and resulted in lower profits for the company. We believe that this recession has witnessed a deepest correction and it is an exceptional year.

Chart 17 : Segmental Premiums Mix



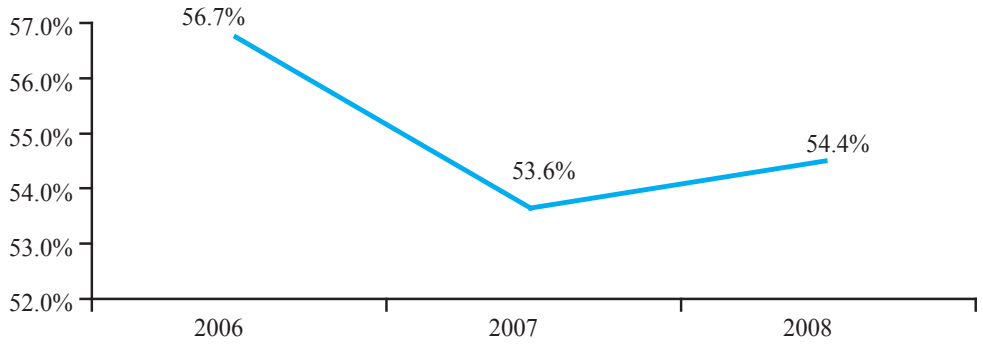
*Source: Company Reports, **Global** Research*

KIC has witnessed a change in premiums mix of the last three years period. The fire segment has seen a rise in contribution from 9.7% in 2006 to 13.8% in 2008. The Marine & Aviation has grown from 8.7% in 2006 to 11.8% in 2008. The company has not reported growth in other segments infact life segments has reported de-growth due to regulatory changes. Firstly in the beginning of 2008, the medical insurance underwriting is assured by the government. Also underwriting of insurance on credit life has been banned in Kuwait.

The company has seen a shift in premium mix mainly due to changing dynamics of business. The awareness of takaful products introduced by the takaful insurance companies has taken away major premium share from the conventional insurance companies. KIC's focus on the Fire and General Accident segment has helped the company to retain its market share.

KIC only has presence in Kuwait unlike Gulf Insurance Company having pan-GCC presence. KIC has 11 branches in Kuwait and is in the phase of opening the 12th branch. The company offers takaful products to its clients in need from its own takaful unit. The company has kept its focus on the Kuwait insurance market as there is enough potential left to be untapped.

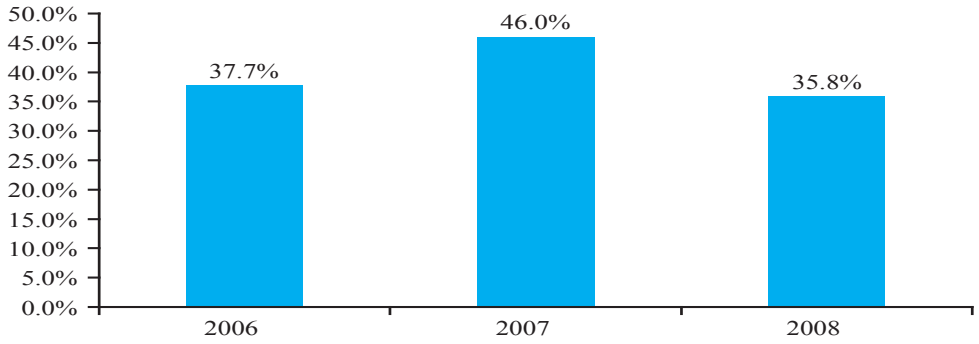
Chart 18: Retention Rate



*Source : Company Reports, **Global** Research*

The retention ratio has seen a decline in 2007 to 53.6% from 56.7% in 2006, but the ratio improved marginally to 54.4% in 2008 mainly due to de-growth in gross premiums written in 2008 as compared to 2007 coupled with less number of policies contributing majorly to gross premiums having been reinsured by more than 95%.

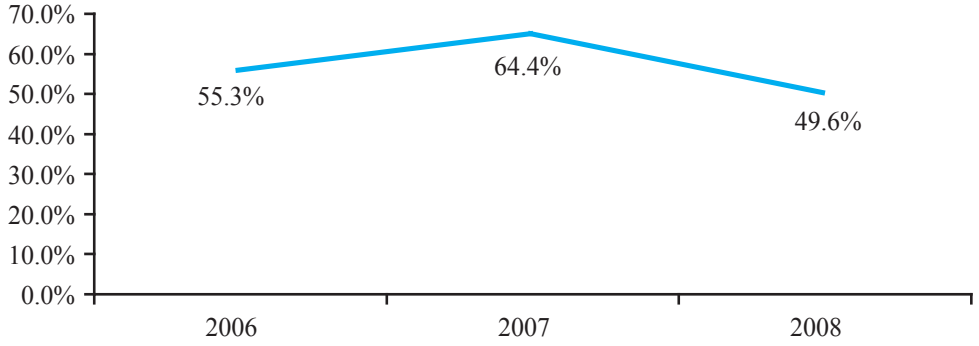
Chart 19:Claims to Gross Written Premiums



*Source : Company Reports, **Global** Research*

The claims as a percentage to gross written premiums have reduced in 2008 as compared to 2007. In 2006 the claims were at 37.7% of total gross written premiums dropping to 35.8% in 2008, and a sharp reduction from 46.0% in 2007. The sharp reduction in claims YoY was due to better risk management and adequate reserves cushioning the claims.

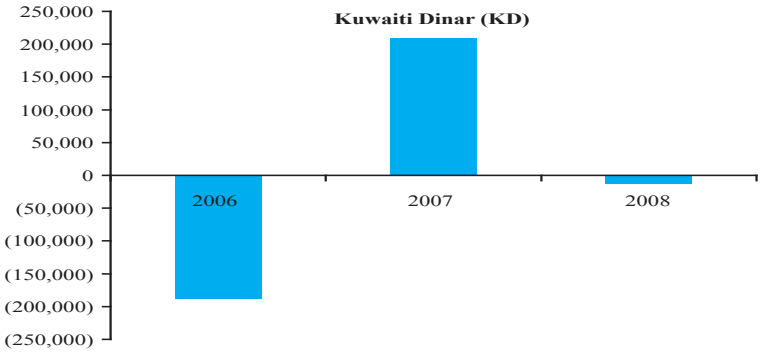
Chart 20: Claims to Equity Capital



*Source : Company Reports, **Global** Research*

The underwriting profit of the company depends on claims incurred. The company has witnessed a lower claims to equity ratio at 49.6% in 2008 as compared to 55.3% in 2006. The claims being uncertain and non-recurring can take a hit on the equity. We believe the company is well placed to cushion any increase in claims.

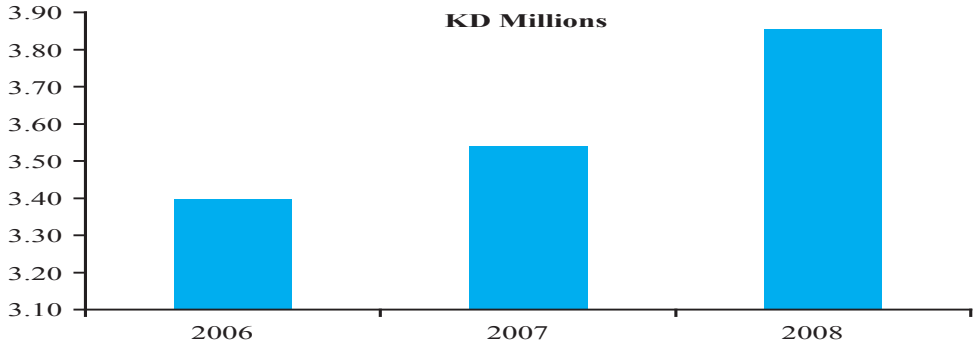
Chart 21: Net Commission Received



*Source : Company Reports, **Global** Research*

The net commission income has remained volatile as company has reinsured its major policies as a percentage of its reinsurance. The commission payments have been higher since that is worked on the basis of percentage of gross premiums. The company will witness a volatile performance as retention remains lower due to reinsurance being higher for large single policies.

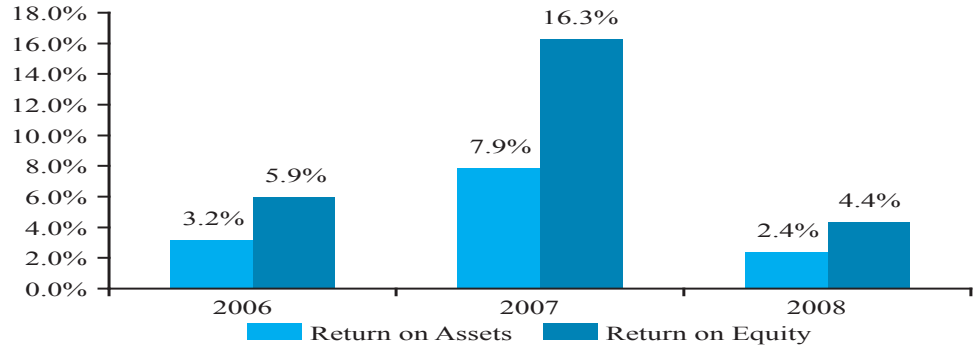
Chart 22:General & Administrative Expenses



*Source : Company Reports, **Global** Research*

The company employs approximately 230 people in Kuwait. In the current crisis with weak macroeconomic demand and mounting investment losses the company has not cut the workforce. This indicates the company is in good health with strong liquid cash.

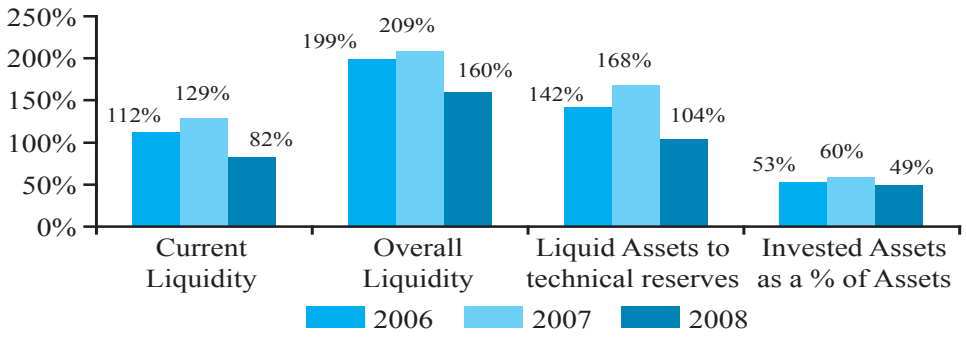
Chart 23 : Return on Assets & Equity



*Source : Company Reports, **Global** Research*

The company delivered lower return on assets and equity in 2008 at 2.4% and 4.4% as compared to 7.9% and 16.3% in 2007. This was due to lower growth in gross premiums coupled with higher provisioning of KD1.1mn in on the available for sale portfolio in 2008. The net commission payout was higher as the retention rate goes up and due to most of the motor insurance was underwritten by third party liability.

Chart 24: Liquidity Ratios



*Source : Company Reports, **Global** Research*

The liquidity for the company remains intact and is sufficient to cushion any downside in the business. KIC's presence in the business more than five decades has helped the company to build up its networth. The company has taken steps to reduce its investments from 60% in 2007 to 49% in 2008 as a percentage to total assets.

KIC Undisputed Leader in Non-life

Kuwait Insurance Company is undisputed leader in non-life business as compared with the other conventional players in the Kuwait insurance industry. KIC has retained its first place in the Kuwait market by considerable difference in non-life premiums as compare to other conventional players.

Table 12: Non-life Comparison

	2006				2007				2008			
KD (Millions)	**KIC**	**GIC**	**AIC**	**WIC**	**KIC**	**GIC**	**AIC**	**WIC**	**KIC**	**GIC**	**AIC**	**WIC**
Marine & Aviation	2.3	3.1	4.2	1.6	2.9	3.4	4.3	2.0	2.9	3.7	4.9	1.9
Fire	2.6	4.7	2.6	3.2	2.3	4.4	2.6	3.6	3.6	5.0	2.4	3.6
General Accident	8.9	6.3	3.5	11.8	8.5	5.0	3.2	7.5	7.0	6.1	3.9	8.2
Motor	6.9	4.4	2.0	4.6	6.8	4.7	2.3	4.7	6.4	5.4	2.1	3.8
TPL (Third Party liability)	1.8	2.5	1.8	1.5	1.6	2.6	1.7	1.4	1.9	2.3	1.9	1.2
Non-Life	22.5	21.0	14.1	22.7	22.2	20.0	14.2	19.2	21.8	22.6	15.1	18.7

Note: GIC- Gulf Insurance Company, KIC- Kuwait Insurance Company, AIC-Al-Ahleia Insurance Company and WIC-Warba Insurance Company
Source : Ministry of Commerce.

As it can be seen from the above table KIC has been an undisputed leader in the non-life business. Although for 2008 GIC leads KIC by marginal difference we believe considering KIC's presence only in Kuwait the performance in the non-life business is remarkable.

KIC has sustained its leadership in the Kuwait non-life market amongst the conventional insurance players. KIC has been leading the motor segment since last two years as compared with other players.

We believe KIC will continue to do well despite the tough business environment and report a robust performance in the non-life segment. The strength of the company is in non-life business due to its strong and established relationships with the international and local clients.

First Quarter 2009 results

In Q109 the company has witnessed a net loss of KD5.9mn, due to provision of KD12.3mn on the unrealized loss on the available for sale portfolio. The company had total investment portfolio of KD61.5mn as at 2008 which is now KD48.4mn in Q109. The sharp fall in equity markets and global meltdown has led to equity price erosion.

The company has witnessed lower claims in Q109 at KD0.4mn as compared to KD0.7mn in Q108. This was mainly due to lower growth in the life segment and with regulatory changes and overall lower demand for conventional life insurance policies. The company has also reported higher expiry settlement in Q109 but lower policy liquidations indicating strength of the company and relationships with its clients.
The company has made an impairment provision of KD12.3mn of which KD9.2mn is due to transfer from investment fair valuation reserve and balance is change in the value of the portfolio. The year 2008 is an exceptional year as the recession and the correction in the markets has been the deepest across the globe hammering the networth of the companies and raising queries on its going concern.

The retention rate has increased in Q109 to 60.6% as compared to 57.6% in the same period last year. The reason for improvement in retention ratio was due to lesser growth and improving risk taking capability of the company. The company reports KD4.1mn underwriting profit in Q109 after deducting the general expenses but before including the investment income.

The company made a loss in Q109 mainly on account of provisions on the AFS portfolio of KD12.3mn. KIC has booked investment income of KD2.1mn in the same period but due to the accounting reporting format any significant or prolong decline in the value of the Available for sale portfolio has to made debiting the P&L but vice-versa is ruled out of accounting. Any increase in the AFS portfolio the investment fair valuation reserve has to be increased to the same extent to set off the effect by increasing the investments on the assets side.

Outlook

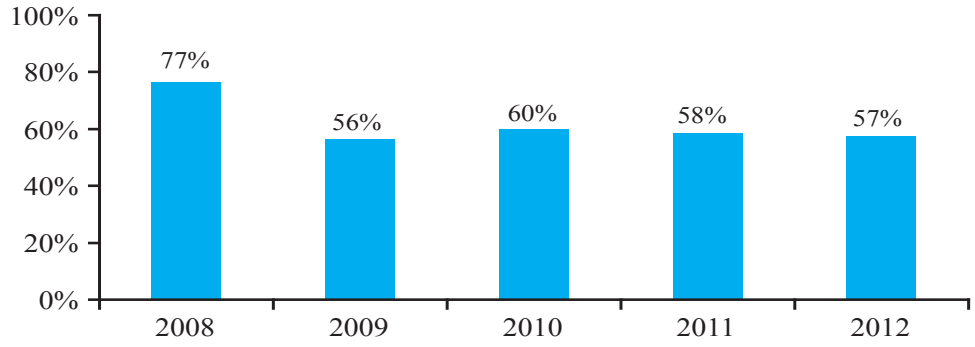
Highlighting the momentum of the growing economy and real demand in the economy. We believe that Insurance companies will benefit from the growing GDP and higher per capita GDP income levels of nationals and expatriates. We remain positive on the outlook for the insurance industry supported by ongoing development & GDP ongoing growth. We expect mergers of small insurance companies, focusing on Takaful Insurance and Reinsurance might support their performance.

Also corporates are expanding their operations and they have been opting to reduce their risks towards any loss on assets. The insurance companies have been working in consortium to underwrite bigger policies as the risk can be distributed in their books.

We believe Insurance companies focusing on core business and with better risk management will be able to drive their revenue growth and make technical profits from underwriting policies.

We expect KIC to report CAGR four year growth of 3.6%, 5.6% and 29.1% for gross written premiums, net premiums earned and net income in 2008-12E. We are anticipating gross written premiums growth since company is only present in Kuwait and since it's a competitive market the urge to diversify remains needful.

Chart 25: Combined Ratio

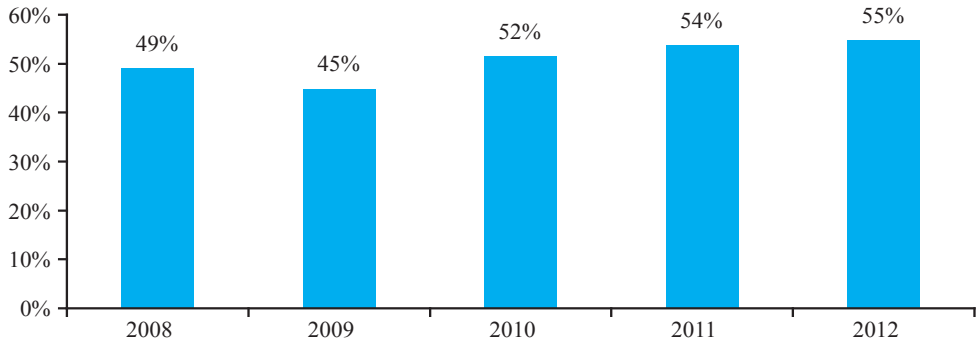


*Source : Company Reports, **Global** Research*

The combined ratio is a sum of the loss and expense ratio, we expect the ratio to come down going ahead as we expect the retention rate to improve, the claims to reduce and overall reduction in general and administrative expenses as the company is not willing to open any branches except Abu Fateera which is already accounted in the numbers.

There is a urge for Kuwait Insurance Company to diversify its operations outside Kuwait as it has become a competitive market. The emergence of takaful players has taken away market share of the conventional insurance players.

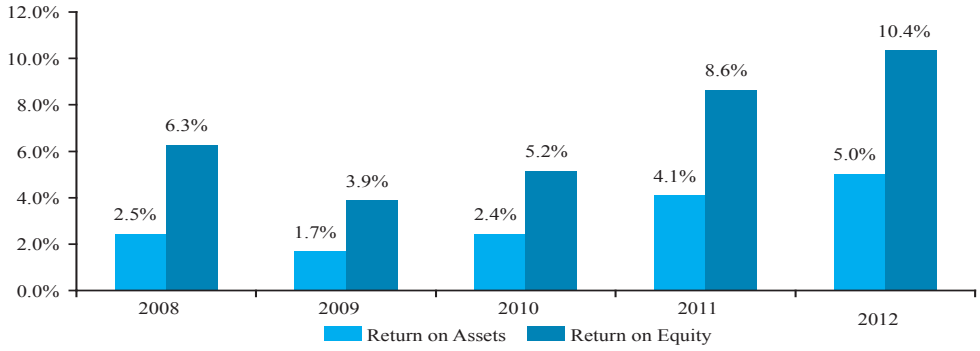
Chart 26: Investments / Total Assets



*Source: Company Reports, **Global** Research*

The company has taken steps to downsize its risky investment portfolio. We expect the company to reduce the exposure of total investments to total assets from 49% in 2008 to 44% in 2009E, this will reduce the risk and help the company in focusing on its core business.

Chart 27: Return on Assets and Equity



*Source: Company Reports, **Global** Research*

We expect higher returns on assets and equity post 2008, as the worst is over we believe the company is in a better position to report higher returns. We expect RoA to be at 4.9% in 2012E as compared to 2.5% in 2008. We expect RoE to be at 11.2% in 2012E as compared to 6.3% in 2008. We remain positive on the company's earnings outlook and expect KIC to report better performance over coming years. This year has been a exceptional year and any correction in the stock price should be a investment opportunity.

Valuations

We believe that statutory cash flow accounting does little to show how an insurance company's management creates economic value. It looks at the past performance rather than the future potential. For valuation purposes past performance is just one of the indicators, as the insurance company would have to work in a very dynamic and ever changing scenarios.

Various research houses use different methodologies to value an insurance company, as its operations assume significant difference from other brick & mortar or services sector.

We use Embedded Value method recognized worldwide to value insurance companies. Embedded Value (EV) comprises net asset value, and the estimated value of current in-force business only for the Life & Health insurance segment, because it is relatively too low for the non-life insurance companies. Life & Health companies sell long-term contracts from which the company will derive profits in the future, in turn building up a profitable book of in-force business.

The fair value is based on comparing the company's Return on Equity with its cost of capital to generate an appropriate embedded value projected forward by twelve months.
Fair value per share = (Embedded Value Method)*(Return on Equity/Cost of Capital)

We have also used the P/BV valuation method, the industry has historical P/BV of 1.0x so we have assigned a industry multiple for the insurance companies at 1.3x to the 2009E book value. We assign EVM 80% weight and P/BV 20% weight and the target price is arrived.

Table 13: Embedded value

	2008	Cost of Capital	
Shareholder's Funds (KD)	46,953,023	Cost of Equity	12.50%
Dividend		Justified RoE	20.0%
Goodwill	-		
Net Asset Value (KD)	46,953,023		
Inforce Value	74,074		
Net Asset plus in-force value (KD)	47,027,097		
Number of shares	19,404,000		
Embedded Value per share (Fils)	242		
Fair value per share using (fils)	388		

*Source : **Global** Research*

Table 14: Price to Book Method

Amounts in Fils	2009	2010	2011	2012
BVPS	284.8	292.8	328.9	375.5
Industry P/BV (x)	1.3			
Target price based on Industry P/BV	370.2			

*Source : **Global** Research*

As per P/BV method the target price is 370.2 fils indicating 2.8% premium to the current market price. The target price is arrived by calculating the weighted average sector P/BV as at 10th June'09. The closing equity prices of the insurance companies are taken as at 10th

June'09 and Book value as on 10th June'09. The weighted average sector P/BV comes to 1.3 which we have taken for our calculations for P/BV method.

Table15: Weighted Average P/BV Method

Insurance Sector	P/BV as of 10/6/2009
Kuwait Insurance Co.	1.75
Gulf Insurance Co.	1.36
Al-Ahlia Insurance Co.	1.10
Warba Insurance Co.	1.09
Kuwait Re-Insurance Co.	0.74
1st Takaful Insurance	3.88
Wethaq Takaful Insurance	0.66
Sector Total/ Weighted Average	**1.30**

*Source : **Global** Research*

Table16: Fair Value

	Amount in Fils	Premium to CMP (%)	Weight (%)	Weighted Fair Value per share (Fils)
Fair value based on Embedded Value method	388	7.7%	80%	310
Fair value based on P/B valuation	370	2.8%	20%	74
Total Weighted Average Fair Value per share		**6.7%**		**384**

*Source: **Global** Research*

At the CMP of 360fils (As on 10th June'09) the stock trades at 32.6x and 1.26x FY09E P/E and P/BV and 19.9x and 1.03x FY10E P/E and P/BV. Using the Embedded Value Method and Price to book method we arrive at a price target of 384fils per share indicating a premium of 6.7% to the current market price. We recommend a "**HOLD**" on the stock.

Balance Sheet

	Kuwait Insurance Company						
Amounts Kuwaiti Dinar	**2006 A**	**2007 A**	**2008 A**	**2009 (F)**	**2010 (F)**	**2011 (F)**	**2012 (F)**
Cash and cash equivalents	5,492,478	3,853,215	2,920,308	7,496,348	6,756,009	6,962,106	6,991,166
Fixed deposits with banks	29,104,685	27,571,276	24,071,967	24,553,406	22,098,066	19,888,259	20,683,790
Trade and other receivables	8,619,893	9,299,577	10,362,971	12,228,306	12,839,721	13,610,104	14,290,610
Reinsurance companies share of reserve for outstanding claims	17,846,405	17,838,139	17,375,135	20,850,162	21,892,670	22,987,304	23,906,796
Due from insurance and reinsurance companies	7,667,844	6,355,732	6,221,401	6,532,471	6,859,095	7,202,049	7,562,152
Investments	80,326,005	100,770,929	61,434,098	60,771,938	77,875,906	85,563,496	92,772,338
loans secured by life insurance policies	237,843	547,440	401,823	301,367	150,684	-	-
Investment properties	135,187	135,187	135,187	135,187	135,187	135,187	135,187
Property and equipment	2,563,722	2,431,287	2,295,252	2,543,385	2,509,865	2,794,725	3,084,191
Total Assets	**151,994,062**	**168,802,782**	**125,218,142**	**135,412,570**	**151,117,201**	**159,143,231**	**169,426,228**
Liabilities							
Technical reserves	60,591,606	62,332,270	61,728,123	62,962,685	64,851,566	67,445,629	70,143,454
Due to insurance and reinsurance companies	7,767,560	8,542,072	8,650,948	8,910,476	9,623,315	10,104,480	10,609,704
Trade and other payables	8,065,583	7,564,230	7,886,048	8,280,350	8,694,368	9,129,086	9,585,541
Due to banks	-	2,447,197	-	-	-	-	-
Total Liabilities	**76,424,749**	**80,885,769**	**78,265,119**	**80,153,512**	**83,169,248**	**86,679,195**	**90,338,699**
Equity							
Issued and fully paid up capital	19,404,000	19,404,000	19,404,000	19,404,000	19,404,000	19,404,000	19,404,000
Statutory reserve	9,702,000	9,702,000	9,702,000	9,702,000	9,702,000	9,702,000	9,702,000
Voluntary reserve	17,500,000	17,500,000	17,500,000	17,500,000	17,500,000	17,500,000	17,500,000
Retained earnings	25,064,336	26,714,674	16,078,200	17,578,278	20,032,921	24,418,100	30,148,834
Investment fair valuation reserve	3,898,977	14,596,339	(15,731,177)	(8,925,220)	1,309,032	1,439,935	2,332,695
Total Equity	**75,569,313**	**87,917,013**	**46,953,023**	**55,259,058**	**67,947,953**	**72,464,036**	**79,087,529**
Total Equity and Liabilities	**151,994,062**	**168,802,782**	**125,218,142**	**135,412,570**	**151,117,201**	**159,143,231**	**169,426,228**

Source : Company Reports, ***Global*** *Research*

Income Statement

	Kuwait Insurance Company						
(Amounts Kuwaiti Dinar)	**2006A**	**2007A**	**2008A**	**2009 (F)**	**2010 (F)**	**2011 (F)**	**2012 (F)**
Revenue							
Gross premium revenue	28,505,492	27,168,592	26,871,094	27,251,310	28,232,358	29,643,976	30,915,862
Premium ceded for reinsurers	(12,344,913)	(12,609,648)	(12,242,359)	(12,263,090)	(12,422,237)	(12,746,909)	(12,675,504)
Net premium revenue	**16,160,579**	**14,558,944**	**14,628,735**	**14,988,221**	**15,810,120**	**16,897,066**	**18,240,359**
Change in reserve for unexpired risks	(180,719)	511,951	80,490	84,515	67,612	70,992	74,542
Premiums earned	**15,979,860**	**15,070,895**	**14,709,225**	**15,072,735**	**15,877,732**	**16,968,058**	**18,314,901**
Commission earned	2,114,021	2,310,366	2,222,639	2,309,593	2,400,518	2,495,584	2,594,968
Net income from investments	4,362,984	15,275,428	3,287,974	1,393,943	2,679,841	3,364,942	3,617,586
Other income	1,022,661	1,015,548	665,800	699,090	734,045	770,747	809,284
Total	**23,479,526**	**33,672,237**	**20,885,638**	**19,475,362**	**21,692,135**	**23,599,331**	**25,336,738**
Expenses							
Net incurred claims	(10,734,684)	(12,489,550)	(9,630,129)	(7,761,600)	(8,731,800)	(9,119,880)	(9,702,000)
Change in in reserve for life fund	(775,305)	(421,676)	1,341,832	231,485	471,611	737,923	1,029,517
Life-insurance - Expiry settlement	(545,618)	(948,778)	(1,950,670)	(1,250,020)	(1,037,545)	(983,898)	(926,566)
Life insurance - policies liquidated	(156,949)	(176,957)	(257,161)	(231,636)	(239,975)	(352,763)	(315,342)
Commissions paid	(2,302,176)	(2,100,801)	(2,235,496)	(2,279,097)	(2,324,679)	(2,394,419)	(2,454,280)
General & Adminstrative expenses	(3,398,214)	(3,539,676)	(3,855,534)	(3,057,855)	(3,176,666)	(3,297,789)	(3,405,544)
Finance Expenses	(245,017)	(43,911)	-	-	-	-	-
Depreciation	(280,102)	(155,132)	(152,289)	(169,168)	(177,627)	(195,389)	(238,809)
Profit adjusting depreciation	**5,321,563**	**13,950,888**	**4,298,480**	**5,126,639**	**6,653,082**	**8,188,505**	**9,562,524**
Total	(18,438,065)	(19,876,481)	(16,739,447)	(14,517,891)	(15,216,680)	(15,606,215)	(16,013,023)
Profit before provisions	**5,041,461**	**13,795,756**	**4,146,191**	**4,957,470**	**6,475,455**	**7,993,116**	**9,323,715**
Impairment of investments	-	-	(1,075,122)	(2,677,566)	(2,781,693)	(1,439,935)	(777,565)
Profit before taxes & Mgmt remuneration	**5,041,461**	**13,795,756**	**3,071,069**	**2,279,904**	**3,693,762**	**6,553,180**	**8,546,150**
KFAS	(50,415)	(137,958)	(30,711)	(22,799)	(36,938)	(65,532)	(85,461)
BoD remuneration	(56,000)	(56,000)	(56,000)	(56,000)	(56,000)	(56,000)	(56,000)
National labour support tax	(82,354)	(301,784)	(27,166)	(50,158)	(81,263)	(144,170)	(188,015)
Zakat tax	-	(7,276)	(10,866)	(7,980)	(12,928)	(22,936)	(29,912)
Net Profit for the year	**4,852,692**	**13,292,738**	**2,946,326**	**2,142,968**	**3,506,633**	**6,264,542**	**8,186,762**
P&L Appropriation A/C							
Opening Balance of Retained Earnings	**33,794,444**	**25,064,336**	**26,714,674**	**16,078,200**	**17,578,278**	**20,032,921**	**24,418,100**
Net Profit for the year	4,852,692	13,292,738	2,946,326	2,142,968	3,506,633	6,264,542	8,186,762
Dividend Paid	(13,582,800)	(11,642,400)	(13,582,800)	(642,890)	(1,051,990)	(1,879,363)	(2,456,028)
Closing Balance of Retained Earnings	**25,064,336**	**26,714,674**	**16,078,200**	**17,578,278**	**20,032,921**	**24,418,100**	**30,148,834**

*Source : Company Reports, **Global** Research*

Cash Flow Statement

(Amounts Kuwaiti Dinar)	Kuwait Insurance Company						
Cash flow from operating activities	**2006 A**	**2007 A**	**2008 A**	**2009 (F)**	**2010 (F)**	**2011 (F)**	**2012 (F)**
Net profit for the year	4,852,692	13,292,738	2,946,326	5,126,639	6,653,082	8,188,505	9,562,524
Adjustments for:							
Net income from investments	(4,362,984)	(15,275,428)	(3,287,974)	-	-	-	-
Depreciation	280,102	155,132	152,289	(169,168)	(177,627)	(195,389)	(238,809)
Staff Terminal benefits	161,492	111,406	140,073				
Provision for impairment	-	-	1,075,122	(2,677,566)	(2,781,693)	(1,439,935)	(777,565)
Finance expenses	245,017	43,911	54,979				
Operating loss before working capital changes	1,176,319	(1,672,241)	1,080,815	2,279,904	3,693,762	6,553,180	8,546,150
Investments at fair value through profit or loss	15,106,369	2,446,401	1,062,440	6,805,957	10,234,252	130,903	892,760
Due from insurance & reinsurance companies	1,275,513	1,312,112	134,331	(311,070)	(326,624)	(342,955)	(360,102)
Trade and other receivables	353,285	(679,684)	(1,063,396)	(1,865,335)	(611,415)	(770,383)	(680,505)
Reinsurance receivables	-	-	-	(3,475,027)	(1,042,508)	(1,094,634)	(919,492)
Technical reserves	269,005	1,748,930	(141,141)	1,234,562	1,888,881	2,594,063	2,697,825
Due to insurance and reinsurance companies	(62,057)	774,512	108,876	259,528	712,838	481,166	505,224
Trade and other payables	(1,429,710)	(461,106)	661,903	394,302	414,018	434,718	456,454
Due to Banks	(2,657,025)	2,447,197	-	-	-	-	-
Cash from operating activities	**14,031,699**	**5,916,121**	**1,843,828**	**5,322,823**	**14,963,203**	**7,986,059**	**11,138,313**
Payment of staff terminal benefits	(24,840)	(52,862)	(25,767)	-	-	-	-
Payment of KFAS	(243,460)	(50,415)	(137,958)	(22,799)	(36,938)	(65,532)	(85,461)
Payment of NLST	(565,529)	(82,354)	(301,784)	(50,158)	(81,263)	(144,170)	(188,015)
Payment of Zakat Tax	-	-	(7,276)	(7,980)	(12,928)	(22,936)	(29,912)
Payment of Board of directors remuneration	(63,000)	(56,000)	(56,000)	(56,000)	(56,000)	(56,000)	(56,000)
Net cash from operating activities	**13,134,870**	**5,674,490**	**1,315,043**	**5,185,887**	**14,776,074**	**7,697,421**	**10,778,925**
Cash flows from investing activities							
Purchase of property and equipment	(80,550)	(22,697)	(9,854)	(248,133)	33,520	(284,861)	(289,466)
repayments of loans secured by life insurance policies	(37,722)	(309,597)	(145,617)	100,456	150,684	150,684	-
Net AFS	(7,536,912)	(1,457,054)	5,075,967	662,160	(17,103,968)	(7,687,591)	(7,208,841)
Fixed deposits with banks	(4,542,836)	1,533,409	3,499,309	(481,439)	2,455,341	2,209,807	(795,530)
Dividend received	2,889,076	3,152,618	3,371,399	-	-	-	-
Interest received	2,051,252	1,385,901	1,705,961	-	-	-	-
Net cash used from investing activities	**(7,257,692)**	**4,282,580**	**13,497,165**	**33,043**	**(14,464,423)**	**(5,611,961)**	**(8,293,837)**
Cash flows from financing activities							
Payment of finance expenses	(245,017)	(43,911)	(54,979)	-	-	-	-
Dividend paid to shareholders	(13,590,683)	(11,552,422)	(13,534,173)	(642,890)	(1,051,990)	(1,879,363)	(2,456,028)
Net paid to banks	-	-	(2,447,197)	-	-	-	-
Net cash used in financing activities	(13,835,700)	(11,596,333)	(16,036,349)	(642,890)	(1,051,990)	(1,879,363)	(2,456,028)
Net increase in cash and cash equivalents	**(7,958,522)**	**(1,639,263)**	**(932,907)**	**4,576,040**	**(740,339)**	**206,097**	**29,059**
Cash and cash equivalents at beginning of the year	13,451,000	5,492,478	3,853,215	2,920,308	7,496,348	6,756,009	6,962,106
Cash and cash equivalents at end of year	**5,492,478**	**3,853,215**	**2,920,308**	**7,496,348**	**6,756,009**	**6,962,106**	**6,991,166**

*Source : Company Reports, **Global** Research*

Fact Sheet

	Kuwait Insurance Company						
	2006 A	2007 A	2008 A	2009 (F)	2010 (F)	2011 (F)	2012 (F)
Company Fundamentals (KD Millions)							
- Gross premiums written (GPW)	28.5	27.2	26.9	27.3	28.2	29.6	30.9
- Net premiums written (NPW)	16.2	14.6	14.6	15.0	15.8	16.9	18.2
- Net premium earned (NPE)	16.0	15.1	14.7	15.1	15.9	17.0	18.3
- Net commission earned/ (paid)	(0.2)	0.2	(0.0)	0.0	0.1	0.1	0.1
- Net Claims Paid (Net Losses Incurred)	10.7	12.5	9.6	7.8	8.7	9.1	9.7
- Cash & Invested assets	85.8	104.6	64.4	68.3	84.6	92.5	99.8
- Technical Reserves	60.6	62.3	61.7	63.0	64.9	67.4	70.1
- Total Assets	152.0	168.8	125.2	135.4	151.1	159.1	169.4
- Shareholders' funds	75.6	87.9	47.0	55.3	67.9	72.5	79.1
- Underwriting Profit	4.6	2.3	4.9	6.8	7.1	8.1	9.4
- Net Income	4.9	13.3	2.9	2.1	3.5	6.3	8.2
Liquidity Ratio's							
- Overall Liquidity	199%	209%	160%	169%	182%	184%	188%
- Liquid Assets to technical reserves	142%	168%	104%	108%	131%	137%	142%
- Invested Assets as a % of Assets	53%	60%	49%	45%	52%	54%	55%
Profitability Analysis							
- Combined Ratio	75%	91%	77%	56%	60%	58%	57%
- Retention rate	56.7%	53.6%	54.4%	55%	56%	57%	59%
- Loss Ratio	67%	83%	65%	51%	55%	54%	53%
- Expense Ratio	8%	8%	11%	5%	5%	5%	4%
- Net Investment Income Ratio	27%	105%	22%	9%	17%	20%	20%
- Net Operating Ratio	48%	-14%	54%	47%	43%	39%	38%
- Net Income to NPW	30%	91%	20%	14%	22%	37%	45%
- Change in PHS	0.0%	14.0%	-87.2%	15.0%	18.7%	6.2%	8.4%
- Net income after taxes to avg. Total Assets	0.0%	5.7%	5.5%	2.0%	2.0%	3.1%	4.4%
- Return on avg. Shareholders' equity (ROE)	5.9%	16.3%	4.4%	4.2%	5.7%	8.9%	10.8%
Capitalisation/ Leverage Tests							
- GPW to Policyholders' Surplus (PHS)	0.38	0.31	0.57	0.49	0.42	0.41	0.39
- NPW to PHS	0.21	0.17	0.31	0.27	0.23	0.23	0.23
- Technical Reserves to PHS	0.80	0.71	1.31	1.14	0.95	0.93	0.89
- Technical Reserves to GPW	2.13	2.29	2.30	2.31	2.30	2.28	2.27
- Technical Reserves & PHS/ NPW	8.43	10.32	7.43	7.89	8.40	8.28	8.18
- Financial leverage (current liability to total Capital)	1.01	0.92	1.67	1.45	1.22	1.20	1.14
Ratio's Used for Valuation							
- EPS (fils)	25.0	68.5	15.2	11.0	18.1	32.3	42.2
- Book Value Per Share (fils)	389.5	453.1	242.0	284.8	350.2	373.4	407.6
-P/E	24.0	8.5	30.0	32.6	19.9	11.2	8.5
-P/BV	1.5	1.3	1.9	1.3	1.0	1.0	0.9
-Market Capitalisation (KDmn)	116.4	112.5	88.3	69.9	69.9	69.9	69.9
-Current Market Price	600	580	455	360	360	360	360

*Source : Company Reports, **Global** Research*

Note: Historical P/E and P/BV are taken as at year end trading prices for Kuwait Insurance Company. Latest market price taken as 10th June'09 for calculating P/E and P/BV for 2009-12 F.

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Disclosure Checklist

Company	Recommendation	Tickers	Price	Disclosure
Kuwait Insurance Company	Hold	KINS.KW (Reuters) KINS KK (Bloomberg)	KD0.360	1,10

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Global Rating	Definition
Buy	Fair value of the stock is >10% from the current market price
Hold	Fair value of the stock is between +10% and -10% from the current market price
Reduce	Fair value of the stock is between -10% and -20% from the current market price
Sell	Fair value of the stock is < -20% from the current market price

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Global Research

Global Investment House
Tel: (965) 2295 1000 - Fax: (965) 2295 1299
research@global.com.kw
www.globalinv.net