

**Al Khaleej Insurance & Reinsurance Company Q.S.C.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2007**

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
AL KHALEEJ INSURANCE & REINSURANCE COMPANY Q.S.C.**

We have audited the accompanying financial statements of Al Khaleej Insurance & Reinsurance Company Q.S.C. (the "Company"), which comprise the balance sheet as at 31 December 2007 and the income statement, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements for the year ended December 31, 2006 were audited by other auditors whose report dated February 18, 2007 expressed an unqualified opinion on those financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2007 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on legal and other requirements**

Furthermore, in our opinion proper financial records have been kept by the company and the contents of the directors' report which relate to the financial statements are in agreement with the company's financial records, and the financial statements comply with the Qatar Commercial Companies' Law No. 5 of 2002 and the company's Articles of Association. We have obtained all the information and explanations we required for the purpose of our audit and are not aware of any violations of the above mentioned law or the Articles of Association having occurred during the year which might have had a material effect on the business of the company or on its financial position.

**January 20, 2008**

**Doha – Qatar**

**For Rodl & Partners  
Middle East**

**Saoud Abdullah  
Licensed No. (204)**

# Al Khaleej Insurance & Reinsurance Company Q.S.C.

## INCOME STATEMENT

Year Ended December 31, 2007

	<i>Notes</i>	<b>2007 QR</b>	<b>2006 QR</b>
Gross written premiums		252,301,553	209,155,106
Movement in unearned premiums		<u>(22,323,620)</u>	<u>(22,527,629)</u>
		<u>229,977,933</u>	<u>186,627,477</u>
Reinsurance premiums ceded		(137,418,428)	(123,750,640)
Movement in unearned premiums		<u>7,150,695</u>	<u>9,848,228</u>
		<u>(130,267,733)</u>	<u>(113,902,412)</u>
Net insurance premium revenue		99,710,200	72,725,065
Commissions received on ceded reinsurance		24,159,239	17,046,395
Claims incurred	4	(125,365,676)	(105,771,021)
Reinsurer's share of claims incurred	4	46,727,683	42,317,264
Commissions paid		<u>(6,762,538)</u>	<u>(2,711,368)</u>
<b>NET UNDERWRITING RESULTS</b>		<u>38,468,908</u>	<u>23,606,335</u>
Interest income		2,034,851	1,035,689
Dividend income		11,467,912	10,323,388
Net realized gains on available-for-sale investments	5	54,694,315	34,395,122
Rental income		4,836,000	4,288,300
Other income		<u>1,169,143</u>	<u>1,029,972</u>
<b>TOTAL INVESTMENT AND OTHER INCOME</b>		<u>74,202,221</u>	<u>51,072,471</u>
General and administrative expenses		(24,676,704)	(17,318,497)
Impairment of available-for-sale investments		-	(19,391,857)
Depreciation	6	<u>(1,576,602)</u>	<u>(1,488,775)</u>
		<u>(26,253,306)</u>	<u>(38,199,129)</u>
<b>PROFIT FOR THE YEAR BEFORE ALLOCATION TO TAKAFUL BRANCH POLICYHOLDERS</b>		86,417,823	36,479,677
Net surplus attributable to Takaful policyholders	21	<u>(2,998,956)</u>	<u>(911,212)</u>
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>	7	<u>83,418,867</u>	<u>35,568,465</u>
<b>BASIC EARNINGS PER SHARE</b>	7	<u>8.21</u>	<u>3.50</u>
<b>DILUTED EARNINGS PER SHARE</b>	7	<u>8.21</u>	<u>3.50</u>

The attached notes 1 to 26 form part of these financial statements.

# Al Khaleej Insurance & Reinsurance Company Q.S.C.

## BALANCE SHEET

At December 31, 2007

	<i>Notes</i>	<b>2007 QR</b>	<b>2006 QR</b>
<b>ASSETS</b>			
Cash and investments:			
Cash and cash equivalents		36,552,535	36,750,283
Time deposits		67,903,641	6,374,196
Available-for-sale financial investments	8	<u>458,468,286</u>	<u>491,662,621</u>
		<b><u>562,924,462</u></b>	<b><u>534,787,100</u></b>
Receivable arising from insurance contracts	9	50,267,855	39,395,730
Reinsurance balances receivable	10	12,018,995	5,206,023
Reinsurers' share of unexpired risk	17	47,036,211	47,868,664
Reinsurers' share of outstanding claims	18	57,053,037	34,779,525
Other receivables and prepayments	11	2,400,300	3,072,138
Investment properties	12	101,659,391	63,865,742
Property and equipment	13	8,585,031	9,470,096
Capital work-in-progress		<u>4,559,508</u>	<u>-</u>
		<b><u>283,580,328</u></b>	<b><u>203,657,918</u></b>
<b>TOTAL ASSETS</b>		<b><u><u>846,504,790</u></u></b>	<b><u><u>738,445,018</u></u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	14	101,640,000	101,640,000
Statutory reserve	15	71,200,000	26,404,018
General reserve	15	-	24,000,000
Cumulative changes in fair values		307,713,500	346,672,601
Retained earnings		20,898,124	27,859,239
Proposed dividends	16	26,328,000	30,492,000
Proposed issue of bonus shares	16	<u>40,656,000</u>	<u>-</u>
<b>Total equity</b>		<b><u>568,435,624</u></b>	<b><u>557,067,858</u></b>
<b>Liabilities</b>			
Liabilities arising from insurance contracts:			
Unexpired risk	17	97,792,227	83,272,389
Gross outstanding claims	18	87,230,963	63,299,519
Claims incurred but not reported	18	<u>8,751,809</u>	<u>3,879,984</u>
		<b><u>193,774,999</u></b>	<b><u>150,451,892</u></b>
Net surplus attributable to Takaful policyholders	21	<u>5,767,333</u>	<u>1,687,818</u>
Accounts payable and other liabilities	19	60,517,016	19,788,707
Reinsurance balance payable		15,367,653	7,593,566
Provision for employees' end of service benefits	20	<u>2,642,165</u>	<u>1,855,177</u>
		<b><u>78,526,834</u></b>	<b><u>29,237,450</u></b>
<b>Total liabilities</b>		<b><u>278,069,166</u></b>	<b><u>181,377,160</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u><u>846,504,790</u></u></b>	<b><u><u>738,445,018</u></u></b>

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Abdulla Bin Mohammed Jaber Al Thani      Abdulla Bin Ahmed Al Thani      Karam Ahmad Mahmoud  
Chairman      Deputy Chairman      Asst. General Manager

The attached notes 1 to 26 form part of these financial statements.

# Al Khaleej Insurance & Reinsurance Company Q.S.C.

## CASH FLOW STATEMENT

Year Ended December 31, 2007

	Note	2007 <i>QR</i>	2006 <i>QR</i>
<b>OPERATING ACTIVITIES</b>			
Profit for the year attributable to shareholders		<b>83,418,867</b>	<b>35,568,465</b>
Adjustments for:			
Movement in unearned premium (net)		15,352,291	12,456,542
Depreciation	6	1,576,602	1,488,775
Impairment of available-for-sale investments		-	19,391,857
Interest income		(2,034,851)	(1,035,689)
Gains on sale of available-for-sale investments		(48,000,493)	(34,395,122)
Dividend income		(11,467,912)	(10,323,388)
Rental income		(4,836,000)	(4,288,300)
Profit on sale of property and equipment		(64,000)	(25,816)
Provision for employees' end of service benefits	20	958,620	345,347
<b>Operating profit before changes in operating assets and Liabilities</b>		<b>34,903,124</b>	<b>19,182,671</b>
Receivables arising from insurance contracts		(10,872,125)	(11,026,470)
Reinsurance balances receivable		(6,812,972)	7,694,136
Reinsurers' share of outstanding claims		(22,273,512)	(17,428,944)
Other receivables and prepayments		671,838	248,114
Gross outstanding claims		23,931,444	32,126,150
Claims incurred but not reported		4,871,825	528,454
Accounts payable and other liabilities		40,728,309	4,037,347
Reinsurance balance payable		7,774,088	(1,030,769)
Net surplus attributable to Takaful policyholders		4,079,515	757,713
Employees' end of service benefits paid	20	(171,632)	(95,061)
<b>Net cash from operating activities</b>		<b>76,829,902</b>	<b>34,993,341</b>
<b>INVESTING ACTIVITIES</b>			
Net movement in investment securities		(5,764,766)	-
Capital work-in-progress		(4,559,508)	-
Purchase of available-for-sale investments		-	(99,258,048)
Proceeds from sale of available-for-sale investments		-	93,135,546
Purchase of investment properties	12	-	(50,760,322)
Purchase of property and equipment	13	(445,311)	(1,130,305)
Proceeds from sale of property and equipment		64,000	98,139
Purchase of investment properties		(38,039,876)	-
Time deposit with maturities in excess of 3 months		(15,657,893)	(244,399)
Interest income		2,034,851	1,035,689
Investment income		59,468,405	10,323,388
Rental income		4,836,000	4,288,300
<b>Net cash (used in) from investing activities</b>		<b>1,935,902</b>	<b>(42,512,012)</b>
<b>FINANCING ACTIVITIES</b>			
Distribution to Directors		(2,600,000)	(4,000,000)
Proposed dividend		10,164,000	-
Proposed issue of bonus shares		(40,656,000)	-
Payment of Zakat		-	(52,500)
<b>Net cash used in financing activities</b>		<b>(33,092,000)</b>	<b>(4,052,500)</b>
<b>(DECREASE)INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at 1 January		<b>36,750,283</b>	<b>48,321,454</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>82,424,087</b>	<b>36,750,283</b>

The attached notes 1 to 26 form part of these financial statements.

Al Khaleej Insurance & Reinsurance Company Q.S.C.

STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2007

	<i>Share capital QR</i>	<i>Statutory reserve QR</i>	<i>General reserve QR</i>	<i>Proposed dividends QR</i>	<i>Cumulative changes in fair values QR</i>	<i>Retained earnings QR</i>	<i>Proposed issue of bonus shares QR</i>	<i>Total QR</i>
Balance at 1 January 2007	101,640,000	26,404,018	24,000,000	30,492,000	346,672,601	27,859,239	-	557,067,858
Recognized gains and losses on available-for-sale investments during the year	-	-	-	-	(54,694,315)	-	-	(54,694,315)
Net movement in fair value of available-for-sale investments during the year	-	-	-	-	15,735,214	-	-	15,735,214
Total income and expense for the year recognized directly in equity	-	-	-	-	(38,959,101)	-	-	(38,959,101)
Profit for the year	-	-	-	-	-	83,418,867	-	83,418,867
Total income and expense for the year	-	-	-	-	(38,959,101)	83,418,867	-	44,459,767
Transfer to legal reserve (Note 15)	-	8,341,887	-	-	-	(8,341,887)	-	-
Distribution to directors paid	-	-	-	-	-	(2,600,000)	-	(2,600,000)
Proposed distribution to directors	-	-	-	6,000,000	-	(6,000,000)	-	-
Transfer to legal reserve (Note 15)	-	12,454,095	-	-	-	(12,454,095)	-	-
Dividend paid	-	-	-	(30,492,000)	-	-	-	(30,492,000)
Proposed dividends (Note 16)	-	-	-	20,328,000	-	(60,984,000)	40,656,000	-
Transfer from the general reserve to the legal reserve	-	24,000,000	(24,000,000)	-	-	-	-	-
<b>Balance at 31 December 2007</b>	<b>101,640,000</b>	<b>71,200,000</b>	<b>-</b>	<b>26,328,000</b>	<b>307,713,500</b>	<b>20,898,124</b>	<b>40,656,000</b>	<b>568,435,624</b>

The attached notes 1 to 26 form part of these financial statements.

# Al Khaleej Insurance & Reinsurance Company Q.S.C.

	<i>Share capital QR</i>	<i>Statutory reserve QR</i>	<i>General reserve QR</i>	<i>Proposed dividends QR</i>	<i>Cumulative changes in fair values QR</i>	<i>Retained earnings QR</i>	<i>Proposed issue of bonus shares QR</i>	<i>Total QR</i>
Balance at 1 January 2006	50,820,000	22,847,172	24,000,000	30,492,000	669,584,257	30,392,120	50,820,000	848,463,549
Recognized gains and losses on available-for-sale investments during the year	-	-	-	-	(86,732,354)	-	-	(86,732,354)
Transfer to income statement on impairment of available-for-sale investments during the year	-	-	-	-	19,391,857	-	-	19,391,857
Net movement in fair value of available-for-sale investments during the year	-	-	-	-	(255,571,159)	-	-	(255,571,159)
Total income and expense for the year recognised directly in equity	-	-	-	-	(322,911,656)	-	-	(322,911,656)
Profit for the year	-	-	-	-	-	35,568,465	-	35,568,465
Total income and expense for the year	-	-	-	-	(322,911,656)	35,568,465	-	(287,343,191)
Bonus shares issues for 2005 (Note 14)	50,820,000	-	-	-	-	-	(50,820,000)	-
Transfer to statutory reserve (Note 15)	-	3,556,846	-	-	-	(3,556,846)	-	-
Zakat paid	-	-	-	-	-	(52,500)	-	(52,500)
Distribution to Directors	-	-	-	-	-	(4,000,000)	-	(4,000,000)
Proposed cash dividends (Note 16)	-	-	-	30,492,000	-	(30,492,000)	-	-
<b>Balance at 31 December 2006</b>	<b>101,640,000</b>	<b>26,404,018</b>	<b>24,000,000</b>	<b>30,492,000</b>	<b>346,672,601</b>	<b>27,859,239</b>	<b>-</b>	<b>557,067,858</b>

The attached notes 1 to 26 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

### 1 ACTIVITIES

Al Khaleej Insurance & Reinsurance Company Q.S.C. (the "Company") is a Qatari shareholding company registered and incorporated in the State of Qatar under Emiri Decree No. 53 issued on 21 December 1978 and is engaged in the business of insurance, reinsurance and life insurance (Takaful) through the Islamic Takaful Branch.

During 2002, the Company established Islamic Takaful Insurance (the "Branch") to carry out insurance and reinsurance activities in accordance with Islamic Sharia'a principles on a non-usury basis in all areas of insurance.

The shareholders manage the participants' investment funds in the Islamic Takaful Insurance Branch as a Mudarib and share in the realized investments gains with the policyholders with following percentages:

70% share of shareholders,  
30% share of policyholders.

In case of net realized loss on investments in a certain year, the loss is fully borne by the policyholders as approved by the Sharia'a Supervisory Committee.

The surplus attributable to Takaful policyholders' fund in the Branch represents accumulated profit on policyholders' operations. Any surplus during the period is fully allocated to the policyholders. The Company only shares through the Mudarib fee and as disclosed under the significant accounting policies in the realised gains on investments attributable to policyholders.

The financial statements for the year ended 31 December 2007 include the results of the Company and its Branch.

The financial statements of Al Khaleej Insurance & Reinsurance Company Q.S.C. for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the directors on January 20, 2008

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements have been presented in Qatar Riyals which is functional and presentational currency of the Company.

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

#### **Significant accounting policies**

The accounting policies are consistent with those used in the previous year.

#### **IASB Standards and Interpretations issued but not adopted**

##### ***Amendments to IAS 1 – Capital Disclosures***

Amendments to IAS 1 *Presentation of Financial Statements* were issued by the IASB as *Capital Disclosures* in August 2005. They are required to be applied for periods beginning on or after 1 January 2007. When effective, these amendments will require disclosure of information enabling evaluation of the Company's objectives, policies and processes for managing capital.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***IFRS 7 Financial Instruments: Disclosures***

*IFRS 7 Financial Instruments: Disclosures* was issued by the IASB in August 2005, becoming effective for periods beginning on or after 1 January 2007. The new standard will require additional disclosure of the significance of financial instruments for the Company's financial position and performance and information about exposure to risks arising from financial instruments.

***IFRS 8 Operating Segments***

*IFRS 8 Operating Segments* was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the Company discloses information about its operating segments.

***IFRIC Interpretations***

During 2006 IFRIC issued the following interpretations:

- IFRIC Interpretation 8 *Scope of IFRS 2*
- IFRIC Interpretation 9 *Reassessment of Embedded Derivatives*
- IFRIC Interpretation 11 *IFRS 2 – Group and Treasury Share Transactions*

Management do not expect these interpretations to have a significant impact on the Company's financial statements when implemented in 2007.

**Premiums earned**

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of net premiums written relating to the unexpired period of coverage calculated at 40% of the net premium for all insurance classes except for marine cargo insurance which is calculated at 25%. The change in the provision for unearned premiums is taken to the income statement in order that revenue is recognised over the period of risk.

**Commissions earned and paid**

Commissions earned and paid are recognised at the time policies are written.

**Claims**

Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to income as incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the balance sheet date, whether reported or not. Provisions for reported claims not paid as at the balance sheet date are made on the basis of individual case estimates. In addition, a provision based on the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the balance sheet date.

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

**Liability adequacy test**

At each balance sheet date the Company assesses whether its recognized insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future claims flows, the entire deficiency is immediately recognized in income statement

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

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Reinsurance contracts held**

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

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

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

**Interest revenue**

Interest revenue is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**Rental revenue**

Rental income is recognised on a straight line basis based on the term of the contract.

**Dividend revenue**

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

**Cash and cash equivalents**

Cash and cash equivalents consists of cash in hand, bank balances and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

**Available-for-sale investments**

Available-for-sale investments are recognised and derecognised, on a trade date basis, when the Company becomes, or ceases to be, a party to the contractual provisions of the instrument.

Investments designated as available-for-sale investments are initially recorded at cost and subsequently measured at fair value, unless this cannot be reliably measured. Changes in fair value are reported as a separate component of equity. On derecognition or impairment the cumulative gain or loss previously reported in equity is included in the income statement for the period.

**Investment properties**

Land and building are considered as investment properties only when they are being held to earn rentals or capital appreciation or both.

Investment properties are carried at cost less accumulated depreciation calculated on a straight line basis over a period of 20 years. Land held under investment properties is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property and equipment**

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

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

Building	-	20 years
Furniture and fixtures	-	5 years
Computers	-	5 years
Vehicles	-	4 years
Other assets	-	5 years

The carrying amounts are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

**Impairment and uncollectibility of financial assets**

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

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;

**Derecognition of financial instruments**

The derecognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

**Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

**Employees' end of service benefits**

*End of service gratuity plan*

Under the Law No. 14 of 2005, the Company provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

*Pension plan*

Under Law No. 24 of 2002 on Retirement and Pension, the Company is required to make contributions to a Government fund scheme for Qatari employees calculated as a percentage of the Qatari employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Foreign currencies**

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

**Fair values**

For available-for-sale investments traded in active markets, fair value is determined by reference to quoted market bid price.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

**Judgements**

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

*Impairment of investments*

The Company treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. The Company treats "significant" generally as 20% and "prolonged" as greater than 12 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

*Insurance contracts*

Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. Such assumptions are determined as appropriate and prudent estimates at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals.

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

*Mortality and morbidity rates*

Mortality assumptions are based on past and industry experience. Assumptions are differentiated by sex, underwriting class and policy type. Morbidity assumptions are based on the English table A67-70 ultimate unadjusted.

For Takaful (life) insurance policies, increased mortality rates will lead to a larger number of claims and claims occurring sooner than anticipated, increasing the expenditure and reducing profits for the shareholders.

*Investment return*

The weighted average rate of return is derived based on assumptions consistent with the long term asset allocation strategy as set out in the product descriptions given to customers.

*Discount rate*

Discount rates relate to the time value of money. Discount rate assumptions are based on current observed rates in the market adjusted for default risk. The discount rate assumptions are varied depending on the assets assumed to back the life insurance provisions. The assumptions are revised at each reporting date.

An independent actuarial valuation of Takaful (life) insurance contracts is carried out on an annual basis.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**3 Estimation uncertainty**

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

*Provision for outstanding claims*

Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the balance sheet date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

*Reinsurance*

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

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**4 CLAIMS**

	<i>2007</i>			<i>2006</i>		
	<i>Gross</i>	<i>Reinsurers' share</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers' share</i>	<i>Net</i>
Claims incurred	96,562,407	(24,968,758)	71,593,649	73,116,417	(24,888,320)	48,228,097
Change in provision for outstanding Claims	<u>28,803,269</u>	<u>(21,758,925)</u>	<u>7,044,344</u>	<u>32,654,604</u>	<u>(17,428,944)</u>	<u>15,225,660</u>
Claims recorded in income statement	<u>125,365,676</u>	<u>(46,727,683)</u>	<u>78,637,993</u>	<u>105,771,021</u>	<u>(42,317,264)</u>	<u>63,453,757</u>

For the details of the movement in the provision for outstanding claims and related reinsurers' share, please refer Note 18.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**5 NET REALISED GAINS ON AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS**

	<i>2007</i> <i>QR</i>	<i>2006</i> <i>QR</i>
Equity securities		
- realised gains	54,786,151	34,401,509
- realised losses	<u>(91,836)</u>	<u>(6,387)</u>
	<b><u>54,694,315</u></b>	<b><u>34,395,122</u></b>

**6 PROFIT FOR THE YEAR**

The profit for the year is stated after charging:

	<i>2007</i> <i>QR</i>	<i>2006</i> <i>QR</i>
Salaries and benefits	<b><u>12,916,432</u></b>	<b><u>11,488,855</u></b>

The depreciation charge in the income statement has been allocated as follows:

	<i>2007</i> <i>QR</i>	<i>2006</i> <i>QR</i>
Property and equipment	1,330,602	1,242,995
Investment properties	<u>246,000</u>	<u>245,780</u>
	<b><u>1,576,602</u></b>	<b><u>1,488,775</u></b>

**7 EARNINGS PER SHARE**

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year. During the year ended December 2006, the Company issued bonus shares for the year 2005. Accordingly, the previously reported earnings per share have been restated for the effect of the bonus share issue made during the year.

	<i>2007</i> <i>QR</i>	<i>2006</i> <i>QR</i>
Profit for the year attributable to the shareholders	<u>83,418,867</u>	<u>35,568,465</u>
Weighted average number of shares	<u>10,164,000</u>	<u>10,164,000</u>
Earnings per share	<b><u>8.21</u></b>	<b><u>3.50</u></b>

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**7 EARNINGS PER SHARE (continued)**

The weighted average number of shares has been calculated as follows:

	2007 Nos.	2006 Nos.
Qualifying shares at beginning of the year	10,164,000	5,082,000
Effect of bonus shares issued	<u>-</u>	<u>5,082,000</u>
Weighted average number of shares at end of the year	<u><b>10,164,000</b></u>	<u><b>10,164,000</b></u>

There were no potentially dilutive shares outstanding at any time during the year. Therefore, the diluted earnings per share are equal to the basic earnings per share.

**8 AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS**

The carrying amounts of the Company's investments as at 31 December were as follows:

	2007 QR	2006 QR
<b>Quoted investments</b>		
Local equity shares	432,513,687	470,819,112
Foreign equity shares	6,519,326	4,616,720
Debt securities	2,784,600	2,710,100
<b>Unquoted investments</b>		
Local equity shares	6,149,487	2,795,000
Foreign equity shares	7,329,606	6,340,307
Managed investment portfolio	<u>3,171,580</u>	<u>4,381,382</u>
Balance at 31 December	<u><b>458,468,286</b></u>	<u><b>491,662,621</b></u>

Included under available-for-sale investments are unquoted equity investments and managed portfolios with a value of QR 16,650,673 (2006 : QR 13,516,689) which are carried at cost, less impairment, due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at a reliable fair value.

NOTES TO THE FINANCIAL STATEMENTS

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**9 RECEIVABLES ARISING FROM INSURANCE CONTRACTS**

	<i>2007</i> <i>QR</i>	<i>2006</i> <i>QR</i>
Due from companies	45,472,701	35,846,036
Due from individuals	1,931,719	891,945
Due from Government	2,171,682	1,995,495
Other receivables	<u>2,345,761</u>	<u>2,320,445</u>
	<b>51,921,863</b>	<b>41,053,921</b>
Less: Provision for doubtful debts	<u>(1,654,008)</u>	<u>(1,658,191)</u>
	<b><u>50,267,855</u></b>	<b><u>39,395,730</u></b>

All the above amounts due within twelve months of the balance sheet date.

**10 REINSURANCE BALANCES RECEIVABLE**

	<i>2007</i> <i>QR</i>	<i>2006</i> <i>QR</i>
Due from local reinsurers	11,346,830	3,813,764
Due from foreign reinsurers	<u>828,635</u>	<u>1,548,729</u>
	<b>12,175,465</b>	<b>5,362,493</b>
Less: Provision for doubtful debts	<u>(156,470)</u>	<u>(156,470)</u>
	<b><u>12,018,995</u></b>	<b><u>5,206,023</u></b>

The balance represents the amounts due from reinsurers relating to claims already paid by the Company and substantially all of the amounts are expected to be received within twelve months of the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**11 OTHER RECEIVABLES AND PREPAYMENTS**

	<i>2007</i> <i>QR</i>	<i>2006</i> <i>QR</i>
Accrued revenue	1,527,709	696,634
Prepaid expenses	132,355	657,750
Employee advances	311,617	877,331
Refundable deposits	96,000	22,000
Other	332,019	818,423
	<b><u>2,400,300</u></b>	<b><u>3,072,138</u></b>

**12 INVESTMENT PROPERTIES**

	<i>2007</i> <i>QR</i>	<i>2006</i> <i>QR</i>
Cost:		
Balance at 1 January	64,312,368	13,552,046
Additions	38,039,876	50,760,322
	<b><u>102,352,244</u></b>	<b><u>64,312,368</u></b>
Less: Accumulated depreciation	(692,853)	(446,626)
	<b><u>101,659,391</u></b>	<b><u>63,865,742</u></b>

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

13 PROPERTY AND EQUIPMENT

	<i>Land QR</i>	<i>Building QR</i>	<i>Furniture and fixtures QR</i>	<i>Computers QR</i>	<i>Vehicles QR</i>	<i>Other assets QR</i>	<i>Total QR</i>
Cost:							
At 1 January 2007	6,251,500	12,104,321	3,348,081	2,901,610	1,116,000	95,989	25,817,501
Additions during the year	-	-	243,512	82,025	120,000	-	445,537
Disposals	-	-	(5,822)	-	-	-	(5,822)
At 31 December 2007	<u>6,251,500</u>	<u>12,104,321</u>	<u>3,585,771</u>	<u>2,983,635</u>	<u>1,236,000</u>	<u>95,989</u>	<u>26,257,216</u>
Depreciation:							
At 1 January 2007	-	10,821,873	2,628,273	2,341,122	460,148	95,989	16,347,405
Depreciation charge for the year	-	606,332	257,087	241,154	226,029	-	1,330,602
Relating to disposals	-	-	(5,822)	-	-	-	(5,822)
At 31 December 2007	<u>-</u>	<u>11,428,205</u>	<u>2,879,538</u>	<u>2,582,276</u>	<u>686,177</u>	<u>95,989</u>	<u>17,672,185</u>
<b>Net book value 31 December 2007</b>	<b><u>6,251,500</u></b>	<b><u>676,116</u></b>	<b><u>706,233</u></b>	<b><u>401,359</u></b>	<b><u>549,823</u></b>	<b><u>-</u></b>	<b><u>8,585,031</u></b>
<b>Net book value 31 December 2006</b>	<b><u>6,251,500</u></b>	<b><u>1,282,448</u></b>	<b><u>719,808</u></b>	<b><u>560,488</u></b>	<b><u>655,852</u></b>	<b><u>-</u></b>	<b><u>9,470,096</u></b>

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**14 SHARE CAPITAL**

	<i>Authorised capital</i>	<i>Issued and fully paid up 2007</i>	<i>Issued and fully paid up 2006</i>
No. of shares of QR 10 each (Nos.)	<u>10,164,000</u>	<u>10,164,000</u>	<u>10,164,000</u>
Share capital of QR 10 each (QR)	<u>101,640,000</u>	<u>101,640,000</u>	<u>101,640,000</u>

**15 STATUTORY RESERVE**

As required by Qatar Commercial Companies Law No 5 of 2002 and the Company's articles of association, 10% of the net profit for the year has been transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital.

The Board of Directors proposed to the shareholders at the annual general meeting in 2008 to transfer the general reserve with amount QR 24,000,000 and QR 12,454,095 from the retained earnings to the legal reserve in the board of directors meeting dated in January 20, 2008.

**16 DIVIDEND PAID AND PROPOSED**

*Dividend proposed*

The Board of Directors has proposed cash dividends of OR 2 per share totalling OR 20,328,000 for the year 2007.

*Bonus share issued and proposed*

The Board of Directors has proposed bonus share 4,065,600 amounting to OR 40,656,000 for the year 2007.

During the year 2006, 5,082,000 bonus shares amounting to QR 50,820,000 relating to 2005 were issued

**17 RESERVE FOR UNEXPIRED RISK**

	<u>2007</u>			<u>2006</u>		
	<i>Reinsurers'</i>			<i>Reinsurers</i>		
	<i>Gross QR</i>	<i>share QR</i>	<i>Net QR</i>	<i>Gross QR</i>	<i>Share QR</i>	<i>Net QR</i>
Unearned premiums	92,194,871	(47,036,211)	45,158,660	80,488,485	(47,868,664)	32,619,821
Takaful policies Reserve	<u>5,597,356</u>	<u>-</u>	<u>5,597,356</u>	<u>2,783,904</u>	<u>-</u>	<u>2,783,904</u>
	<u><b>97,792,227</b></u>	<u><b>(47,036,211)</b></u>	<u><b>50,756,016</b></u>	<u><b>83,272,389</b></u>	<u><b>(47,868,664)</b></u>	<u><b>35,403,725</b></u>

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**18 OUTSTANDING CLAIMS**

The movement in the provision for outstanding claims and related reinsurers' share was as follows:

	<u>2007</u>			<u>2006</u>		
	<i>Gross QR</i>	<i>Reinsurers' share QR</i>	<i>Net QR</i>	<i>Gross QR</i>	<i>Reinsurers' share QR</i>	<i>Net QR</i>
At 1 January						
Claims incurred	63,299,519	(34,779,525)	28,519,994	31,173,369	(17,350,581)	13,822,788
Claims incurred but not reported	<u>3,879,984</u>	<u>-</u>	<u>3,879,984</u>	<u>3,351,530</u>	<u>-</u>	<u>3,351,530</u>
	67,179,503	(34,779,525)	32,399,978	34,524,899	(17,350,581)	17,174,318
Insurance claims paid in the year	(96,562,407)	24,968,758	(71,593,649)	(73,116,417)	24,888,320	(48,228,097)
Provided during the year	<u>125,365,676</u>	<u>(47,242,270)</u>	<u>78,123,406</u>	<u>105,771,021</u>	<u>(42,317,264)</u>	<u>63,453,757</u>
At 31 December	<u>95,982,772</u>	<u>(57,053,037)</u>	<u>38,929,735</u>	<u>67,179,503</u>	<u>(34,779,525)</u>	<u>32,399,978</u>

**Analysis of outstanding claims at 31 December**

	<u>2007</u>			<u>2006</u>		
	<i>Gross QR</i>	<i>Reinsurers' Share QR</i>	<i>Net QR</i>	<i>Gross QR</i>	<i>Reinsurers' share QR</i>	<i>Net QR</i>
Claims incurred	87,230,963	(57,053,037)	30,177,926	63,299,519	(34,779,525)	28,519,994
Claims incurred but not reported	<u>8,751,809</u>	<u>-</u>	<u>8,751,809</u>	<u>3,879,984</u>	<u>-</u>	<u>3,879,984</u>
	<u>95,982,772</u>	<u>(57,053,037)</u>	<u>38,929,735</u>	<u>67,179,503</u>	<u>(34,779,525)</u>	<u>32,399,978</u>

There are no material amounts for which amount and timing of claims payments is not resolved within one year of the balance sheet date. The amounts due from reinsurers are contractually due within a maximum of three months from the date of payment of the claims.

The Company estimates its insurance liabilities and reinsurance assets principally based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters generally estimate property claims.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**19 ACCOUNTS PAYABLE AND OTHER LIABILITIES**

	<i>2007</i> <i>QR</i>	<i>2006</i> <i>QR</i>
Due to companies	8,684,773	7,082,265
Premiums withheld from reinsurers	5,599,742	3,477,854
Other payables	46,139,301	9,228,588
Provision for Zakat	93,200	-
	<u><b>60,517,016</b></u>	<u><b>19,788,707</b></u>

**20 EMPLOYEES' END OF SERVICE BENEFITS**

Movements in the provision recognised in the balance sheet are as follows:

	<i>2007</i> <i>QR</i>	<i>2006</i> <i>QR</i>
Provision as at 1 January	1,855,177	1,604,891
Provided during the year	958,620	345,347
End of service benefits paid	(171,632)	(95,061)
	<u><b>2,642,165</b></u>	<u><b>1,855,177</b></u>
Provision as at 31 December		

**21 TAKAFUL POLICYHOLDERS' FUND**

Movements in the provision recognised in the balance sheet are as follows:

	<i>Policyholders</i> <i>fund</i> <i>QR</i>
Balance at 1 January 2006	<b>930,105</b>
Staff bonus paid	(152,043)
Surplus for the year	911,212
Net recognised gains on available-for-sale investments during the year	(300,285)
Net movement in fair value of available-for-sale investments during the year	(683,240)
Transfer to income statement on impairment of available-for-sale investments during the year	982,069
	<u><b>1,687,818</b></u>
<b>Balance as at 31 December 2006</b>	
Balance as at January 1, 2007	1,687,818
Surplus for the year, net	2,998,956
Net recognized gains on available-for-sale investments during the year	1,080,559
	<u><b>5,767,333</b></u>
<b>Balance as at December 31, 2007</b>	

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**22 RELATED PARTY TRANSACTIONS**

Related parties represent major shareholders, directors and key management personnel of the Company. Pricing policies and terms of these transactions are approved by the Company's management.

Transactions with related parties included in the income statement are as follows:

	2007		2006	
	Premiums	Claims	Premiums	Claims
	QR	QR	QR	QR
Major shareholders	1,038,246	232,417	833,958	28,329
Directors and key management personnel	222,688	211,053	91,902	152,963
	<b><u>1,260,934</u></b>	<b><u>443,470</u></b>	<b><u>925,860</u></b>	<b><u>181,292</u></b>

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

	2007		2006	
	Receivables	Claims and payables	Receivables	Claims and payables
	QR	QR	QR	QR
Major shareholders	1,926,828	-	2,066,435	-
Directors and key management personnel	123,901	14,620	296,134	5,970
	<b><u>2,050,729</u></b>	<b><u>14,620</u></b>	<b><u>2,362,569</u></b>	<b><u>5,970</u></b>

**Compensation of key management personnel**

The remuneration of directors and other members of key management during the year were as follows:

	2007	2006
	QR	QR
Short-term benefits	3,289,807	7,029,498
End of service and other benefits	<u>3,180,000</u>	<u>90,000</u>
	<b><u>6,469,807</u></b>	<b><u>7,119,498</u></b>

Included in short-term benefits for the year 2006 is an amount of QR 4 million in respect of Directors' remuneration for the year 2005. None is included for 2007.

**23 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments include deposits, cash, investment securities, receivables, payables, and certain other assets and liabilities.

The fair values of the financial assets and liabilities, with the exception of certain available-for-sale investments carried at cost (see Note 8), are not materially different from their carrying values.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**24 RISK MANAGEMENT**

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

***Insurance risk***

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

***Frequency and amounts of claims***

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

***Fire and general accident***

***Property***

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

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has reinsurance cover for such damage to limit losses for any individual claim to QR 300,000.

***Motor***

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years the Company has mainly underwritten comprehensive policies for owner/drivers over 21 years of age. Substantially all of the motor contracts relate to private individuals.

The blood money for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims.

***Marine***

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in total or partial loss of cargoes.

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Company has reinsurance to limit losses for any individual claim to QR 150,000.

***Reinsurance risk***

In common with other insurance companies, in order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsurance purposes. Such reinsurance arrangement provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess-of-loss reinsurance contracts.

NOTES TO THE FINANCIAL STATEMENTS

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**24 RISK MANAGEMENT (continued)**

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

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

The two largest reinsurers account for 85% of the maximum credit exposure at 31 December 2007. (2006: 55%).

***Financial risk***

The Company's principal instruments are available-for-sale investments, receivables arising from insurance and reinsurance contracts and cash and cash equivalents.

The Company does not enter into derivative transactions.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, market price risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below:

***Interest rate risk***

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Company is exposed to interest rate risk on certain of its investment securities and deposits. The Company limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash and investments are denominated.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**24 RISK MANAGEMENT (continued)**

Details of maturities of the major classes of financial assets as at 31 December are as follows:

**31 December 2006**

	<i>Less than 1 year QR</i>	<i>1 to 5 years QR</i>	<i>Over 5 years QR</i>	<i>Non-interest bearing items QR</i>	<i>Total QR</i>	<i>Effective interest rate (%)</i>
Available-for-sale financial investments	-	-	2,710,100	488,952,521	491,662,621	8.00%
Receivables arising from insurance contracts	-	-	-	39,395,730	39,395,730	
Reinsurance balances receivable	-	-	-	5,206,023	5,206,023	
Other receivables	-	-	-	3,072,138	3,072,138	
Time deposits	6,374,196	-	-	-	6,374,196	5.30%
Demand deposits	34,742,115	-	-	-	34,742,115	1.75%
Cash	-	-	-	2,008,168	2,008,168	
	<u>41,116,311</u>	<u>-</u>	<u>2,710,100</u>	<u>538,634,580</u>	<u>582,460,991</u>	

**31 December 2007**

	<i>Less than 1 year QR</i>	<i>1 to 5 years QR</i>	<i>Over 5 years QR</i>	<i>Non-interest bearing Items QR</i>	<i>Total QR</i>	<i>Effective interest rate %</i>
Available-for-sale financial investments	-	-	2,784,600	455,683,686	458,468,286	8.00%
Receivables arising from insurance contracts	-	-	-	50,267,855	50,267,855	
Reinsurance balances receivable	-	-	-	12,018,995	12,018,995	
Other receivables	-	-	-	2,400,300	2,400,300	
Time deposits	67,903,641	-	-	-	67,903,641	5.60%
Demand deposits	35,422,656	-	-	-	35,422,656	4.25%
Cash	-	-	-	1,129,879	1,129,879	
	<u>103,326,297</u>	<u>-</u>	<u>2,784,600</u>	<u>521,500,715</u>	<u>627,611,612</u>	

There is no significant difference between contractual reprising or maturity dates.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**24 RISK MANAGEMENT (continued)**

*Foreign currency risk*

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

Other than balances in United States Dollars, to which the Qatari Riyal is pegged, there are no significant foreign currency financial assets due in foreign currencies included under reinsurance balances receivable.

*Credit risk*

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

The Company seeks to limit its credit risk with respect to customers by monitoring outstanding receivables. Premiums and receivables comprise a large number of customers mainly within the State of Qatar. Three companies account for 26 % of the accounts receivables as of 31 December 2007 (2006: 16%). Two Reinsurance Company's account for 85 % of the reinsurance receivable as of 31 December 2007 (2006: 56%).

*Market price risk*

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The Company is exposed to equity price risk with respect to its investments.

The Company limits equity price risk by maintaining a diversified portfolio and by continuous monitoring of its investments.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with financial liabilities when they fall due.

Liquidity requirements are monitored on regular basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds are invested in local quoted securities.

The majority of time deposits held by the Company at the balance sheet date had original maturity periods not exceeding one year.

# Al Khaleej Insurance & Reinsurance Company Q.S.C.

## NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

### 25 SEGMENT INFORMATION

The Company operates in the general insurance and Islamic Takaful segments in the State of Qatar. For management purposes the Company is organised into five business segments, Marine and Aviation, Fire, General accident, Motor and Takaful (life insurance). These segments are the basis on which the Company reports its primary segment information. An analysis of the gross written premiums, net premiums, commission income, net claims paid, commission paid, movement in insurance reserves and net insurance revenue for the year ended 31 December 2007 for its main classes of business is disclosed below:

	<i>Marine</i>		<i>Fire</i>		<i>General Accident</i>		<i>Motor</i>		<i>Takaful (life)</i>		<i>Total</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>QR</i>	<i>QR</i>	<i>QR</i>	<i>QR</i>	<i>QR</i>	<i>QR</i>	<i>QR</i>	<i>QR</i>	<i>QR</i>	<i>QR</i>	<i>QR</i>	<i>QR</i>
<b>Revenues</b>												
Insurance premium revenue	15,679,176	16,802,488	22,569,460	23,268,564	108,263,839	91,735,059	96,670,127	72,821,418	9,118,951	4,527,577	252,301,553	209,155,106
Insurance premium ceded to reinsurers	(13,281,233)	(14,585,476)	(21,332,754)	(22,116,146)	(98,600,506)	(83,777,334)	(2,581,553)	(2,060,610)	(1,622,382)	(1,211,074)	(137,418,428)	(123,750,640)
Net insurance premium Revenue	2,397,943	2,217,012	1,236,706	1,152,418	9,663,333	7,957,725	94,088,574	70,760,808	7,496,569	3,316,503	114,883,125	85,404,466
Commission income	3,797,720	3,677,324	3,176,767	3,410,934	14,583,691	9,331,771	2,409,473	601,173	191,588	25,193	24,159,239	17,046,395
Total revenue	6,195,663	5,894,336	4,413,473	4,563,352	24,247,024	17,289,496	96,498,047	71,361,981	7,688,157	3,341,696	139,042,364	102,450,861
<b>Expenses</b>												
Claims paid	2,449,198	5,458,547	1,310,217	1,177,518	22,710,099	19,824,040	69,106,354	46,481,596	986,539	174,716	96,562,407	73,116,417
Reinsurer's share	(2,195,228)	(4,984,653)	(951,190)	(864,163)	(20,682,859)	(18,740,611)	(251,595)	(141,649)	(887,886)	(157,244)	(24,968,758)	(24,888,320)
Net claims	253,970	473,894	359,027	313,355	2,027,240	1,083,429	68,854,759	46,339,947	98,653	17,472	71,593,649	48,228,097
Commission paid	510,317	389,997	475,133	227,284	3,139,272	1,285,375	1,872,044	418,881	765,772	389,831	6,762,538	2,711,368
Total expenses	764,287	863,891	834,160	540,639	5,166,512	2,368,804	70,726,803	46,758,828	864,425	407,303	78,356,187	50,939,465
Movement in insurance Reserves	(3,451)	674,441	2,268,008	(3,984,821)	(1,035,733)	(1,308,826)	(17,872,368)	(21,420,556)	(5,573,725)	(1,865,299)	(22,217,269)	(27,905,061)
Net insurance revenue	5,427,925	5,704,886	5,847,321	37,892	18,044,779	13,611,866	7,898,876	3,182,597	1,250,007	1,069,094	38,468,908	23,606,335

As the Company's activities are performed on an integrated basis, a segmental analysis of assets and liabilities between these segments would not be meaningful.

# Al Khaleej Insurance & Reinsurance Company Q.S.C.

## NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

### 25 SEGMENT INFORMATION (continued)

Revenues, expenses, assets and liabilities of the Company and its Islamic Takaful Insurance branch are as follows:

	2007			2006		
	<i>Al Khaleej Insurance &amp; Reinsurance Co QR</i>	<i>Islamic Takaful Insurance Branch QR</i>	<i>Total QR</i>	<i>Al Khaleej Insurance &amp; Reinsurance Co QR</i>	<i>Islamic Takaful Insurance Branch QR</i>	<i>Total QR</i>
<b>Revenues</b>						
Insurance premium revenue	216,963,525	35,338,028	252,301,553	176,307,498	32,847,608	209,155,106
Insurance premium ceded to reinsurers	(120,277,728)	(17,140,700)	(137,418,428)	(104,032,458)	(19,718,182)	(123,750,640)
Net insurance premium revenue	96,685,797	18,197,328	114,883,125	72,275,040	13,129,426	85,404,466
Commission income	17,786,721	6,372,518	24,159,239	13,263,282	3,783,113	17,046,395
Total revenue	114,472,518	24,569,846	139,042,364	85,538,322	16,912,539	102,450,861
<b>Expenses</b>						
Claims paid	87,370,890	9,191,517	96,562,407	65,927,315	7,189,102	73,116,417
Reinsurer's share	(22,457,560)	(2,511,198)	(24,968,758)	(24,336,002)	(552,318)	(24,888,320)
Net claims	64,913,330	6,680,319	71,593,649	41,591,313	6,636,784	48,228,097
Commission paid	4,881,254	1,881,284	6,762,538	1,584,000	1,127,368	2,711,368
Total expenses	69,794,584	8,561,603	78,356,187	43,175,313	7,764,152	50,939,465
Movement in insurance reserves	(14,660,124)	(7,557,145)	(22,217,269)	(25,082,521)	(2,822,540)	(27,905,061)
<b>Net insurance revenue</b>	<b>30,017,810</b>	<b>8,451,098</b>	<b>38,468,908</b>	<b>17,280,488</b>	<b>6,325,847</b>	<b>23,606,335</b>
<b>Assets</b>						
Total assets after elimination	778,275,281	68,229,509	846,504,790	683,522,248	54,922,770	738,445,018
<b>Liabilities</b>						
Insurance funds	(174,372,896)	(19,402,103)	(193,774,999)	(133,397,066)	(17,054,826)	(150,451,892)
Net surplus attributable to Takaful Branch policyholders				-	(1,687,818)	(1,687,818)
Liabilities (other than insurance funds)	(70,767,866)	(13,433,101)	(84,200,967)	(22,439,061)	(6,798,389)	(29,237,450)
<b>Net assets</b>	<b>533,134,519</b>	<b>35,394,305</b>	<b>568,528,824</b>	<b>527,686,121</b>	<b>29,381,737</b>	<b>557,067,858</b>

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2007

**26 COMMITMENTS AND CONTINGENCIES**

***Guarantees***

At 31 December 2007 the Company had contingent liabilities in respect of tender guarantees and other guarantees from which it is anticipated that no material liabilities will arise, amounting to QR 602757 (2006: QR 551,338).

***Legal claims***

The Company, in common with the significant majority of insurers, is subject to litigation in the normal course of its business. The Company, based on independent legal advice, does not believe that the outcome of these court cases will have a material impact on the Company's income or financial condition.