

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

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2008

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Al Khaleej Insurance & Reinsurance Company Q.S.C. (the "Company") and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated statement of income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements of the Group as of 31 December 2007 were audited by another auditor, whose reports dated 20 January 2008, expressed an unqualified audit opinion on those statements.

Board of Directors Responsibility for the Financial Statements

The Board of Directors 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 the directors, 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008 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 regulatory requirements

Furthermore, in our opinion proper financial records have been kept by the Group and the contents of the directors' report which relate to the financial statements are in agreement with the Group'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.

Firas Qoussous
Ernst & Young
Registration Auditor No. 236

Date: XX February 2009
Doha

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

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2008

	<i>Notes</i>	<i>2008</i> <i>QR</i>	<i>2007</i> <i>QR</i>
Gross premiums	26	267,276,723	252,301,553
Reinsurers' share of gross premiums	26	(148,856,704)	(137,418,428)
Net premiums	26	118,420,019	114,883,125
Change in unexpired risk reserve		(6,162,379)	(15,172,925)
Earned insurance premiums		112,257,640	99,710,200
Commissions received on ceded reinsurance	26	27,291,373	24,159,239
Claims incurred	4	(94,023,340)	(125,365,676)
Reinsurers' share of claims incurred	4	8,549,283	46,727,683
Commissions paid		(8,570,539)	(6,762,538)
NET UNDERWRITING RESULTS		45,504,417	38,468,908
Interest income		1,499,289	2,034,851
Dividend income		22,386,770	11,467,912
Net realised gains on available for sale investments	5	79,202,899	54,694,315
Gain on sale of investment properties		14,719,058	-
Rental income		5,596,488	4,836,000
Other income		972,095	1,169,143
TOTAL INVESTMENT AND OTHER INCOME		124,376,599	74,202,221
General and administrative expenses		(38,306,660)	(30,676,704)
Impairment of available-for-sale investments	8	(40,218,615)	-
Depreciation	6	(1,384,966)	(1,576,602)
TOTAL EXPENSES		(79,910,241)	(32,253,306)
PROFIT FOR THE YEAR BEFORE ALLOCATION TO TAKAFUL POLICYHOLDERS		89,970,775	80,417,823
Net surplus attributable to Takaful policyholders	22	(2,955,485)	(2,998,956)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		87,015,290	77,418,867
Basic/Diluted Earnings Per Share	7	6.12	5.44

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

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

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	<i>Notes</i>	2008 QR	2007 QR
ASSETS			
Cash and Cash equivalents		51,068,244	82,424,087
Time deposits		100,000	22,032,089
Available for sale investments	8	338,707,192	458,468,286
Investment in an associate	9	21,454,007	-
Receivable arising from insurance contracts	10	61,115,922	50,267,855
Reinsurance balances receivable	11	8,847,939	12,018,995
Reinsurers' share of unexpired risks	18	56,823,861	53,124,173
Reinsurers' share of outstanding claims	19	20,446,064	57,053,037
Other receivable and prepayments	12	3,387,029	2,400,300
Investment properties	13	162,634,288	101,659,391
Property and equipment	14	9,038,948	8,585,031
Capital work-in-progress		11,345,440	4,559,508
TOTAL ASSETS		<u>744,968,934</u>	<u>852,592,752</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	15	142,296,000	101,640,000
Statutory reserve	16	71,711,531	71,200,000
General reserve		48,971	-
Proposed cash dividends	17	42,688,800	20,328,000
Proposed issue of bonus shares		-	40,656,000
Cumulative changes in fair value		153,618,492	307,713,500
Retained earnings		64,530,942	20,898,124
Total equity		<u>474,894,736</u>	<u>562,435,624</u>
LIABILITIES			
Liabilities arising from insurance contracts:			
Unexpired risk	18	113,191,328	103,880,189
Gross outstanding claims	19	51,463,824	87,230,963
Claims incurred but not reported	19	13,447,235	8,751,809
		<u>178,102,387</u>	<u>199,862,961</u>
Surplus of takaful operations	22	8,722,818	5,767,333
Accounts payable and other liabilities	20	51,564,687	66,517,016
Reinsurance balance payable		27,577,535	15,367,653
Provision for employees' end of service benefits	21	4,106,771	2,642,165
		<u>83,248,993</u>	<u>84,526,834</u>
Total liabilities		<u>270,074,198</u>	<u>290,157,128</u>
EQUITY AND LIABILITIES		<u>744,968,934</u>	<u>852,592,752</u>

Abdulla Bin Mohammed Jaber Al Thani
Chairman

Abdullah Bin Ahmed Al Thani
Deputy Chairman

Karam Ahmad Mahmoud
Asst. General Manager

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

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

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 <i>QR</i>	2007 <i>QR</i>
OPERATING ACTIVITIES			
Profit attributable to shareholders		87,015,290	77,418,867
Adjustments for:			
Movement in unearned premium		5,611,451	15,352,291
Depreciation	6	1,384,966	1,576,602
Impairment of available-for-sale investments	8	40,218,615	-
Interest income		(1,499,289)	(2,034,851)
Gain on available-for-sale investments	5	(79,202,899)	(48,000,493)
Dividend income		(22,386,770)	(11,467,912)
Rental income		(5,596,488)	(4,836,000)
Profit on sale of property and equipment		(4,025)	(64,000)
Profit on sale of investment properties		(14,719,058)	-
Provision for employee's terminal benefits	21	1,464,606	958,620
Operating profit before changes in operating assets and liabilities		12,286,399	28,903,124
Receivables arising from insurance contracts		(10,848,067)	(10,872,125)
Reinsurance balance receivable		3,171,056	(6,812,972)
Reinsurers' share of outstanding claims		36,606,973	(22,273,512)
Other receivables and prepayments		(986,729)	671,838
Gross outstanding claims		(35,767,139)	23,931,444
Claims incurred but not reported		4,695,426	4,871,825
Accounts payable and other liabilities		(14,952,329)	46,728,309
Reinsurance balance payable		12,209,882	7,774,088
Net surplus attributable to Takaful policyholders		2,955,485	4,079,515
Employees' end of service benefits paid		-	(171,632)
Net cash from operating activities		9,370,957	76,829,902
INVESTING ACTIVITIES			
Net movement in investment securities		4,650,370	(5,764,766)
Capital work-in-progress		(6,785,932)	(4,559,508)
Dividend income		22,386,770	-
Proceeds from sale of investment property		79,895,224	-
Purchase of investment properties	13	(126,710,780)	(38,039,876)
Purchase of property and equipment	14	(1,288,377)	(445,311)
Proceeds from sale of property and equipment		13,236	64,000
Time deposit with maturities in excess of 3 months		21,932,089	(15,657,893)
Investment in associate		(21,454,007)	-
Interest income		1,499,289	2,034,851
Investment income		-	59,468,405
Rental income		5,596,488	4,836,000
Net cash from investing activities		(20,265,630)	1,935,902
FINANCING ACTIVITIES			
Distribution to Directors		-	(2,600,000)
Dividend paid		(20,328,000)	-
Proposed dividends		-	10,164,000
Proceeds from sale of fractional shares arising from bonus share issue		48,971	-
Proposed issue of bonus shares		-	(40,656,000)
Payment of Zakat		(182,141)	-
Net cash used in financing activities		(20,461,170)	(33,092,000)
INCREASE IN CASH AND CASH EQUIVALENTS		(31,355,843)	45,673,804
Cash and cash equivalents at 1 January		82,424,087	36,750,283
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		51,068,244	82,424,087

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	<i>Share capital QR</i>	<i>Statutory reserve QR</i>	<i>General reserve QR</i>	<i>Proposed cash dividends QR</i>	<i>Proposed issue of bonus shares QR</i>	<i>Cumulative changes in fair values QR</i>	<i>Retained earnings QR</i>	<i>Total QR</i>
Balance at 1 January 2008	101,640,000	71,200,000	-	20,328,000	40,656,000	307,713,500	20,898,124	562,435,624
Recognised gains and losses on available-for-sale investments during the year	-	-	-	-	-	(40,218,615)	-	(40,218,615)
Net movement in fair value of available-for-sale investments during the year	-	-	-	-	-	(113,876,393)	-	(113,876,393)
Total income and expense for the year recognised directly in equity	-	-	-	-	-	(154,095,008)	-	(154,095,008)
Profit for the year	-	-	-	-	-	-	87,015,290	87,015,290
Total income and expense for the year	-	-	-	-	-	(154,095,008)	87,015,290	(67,079,718)
Transfer to legal reserve	-	511,531	-	-	-	-	(511,531)	-
Bonus shares issued for 2007 (note 15)	40,656,000	-	-	-	(40,656,000)	-	-	-
Gain on sale of fractional shares arising from bonus share issue	-	-	48,971	-	-	-	-	48,971
Cash dividends	-	-	-	(20,328,000)	-	-	-	(20,328,000)
Proposed dividend (Note 17)	-	-	-	42,688,800	-	-	(42,688,800)	-
Zakat paid	-	-	-	-	-	-	(182,141)	(182,141)
Balance at 31 December 2008	142,296,000	71,711,531	48,971	42,688,800	-	153,618,492	64,530,942	474,894,736

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2008

	<i>Share capital QR</i>	<i>Statutory reserve QR</i>	<i>General reserve QR</i>	<i>Proposed dividends QR</i>	<i>Proposed issue of bonus shares QR</i>	<i>Cumulative changes in fair values QR</i>	<i>Retained earnings 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
Recognised gains and losses on available-for-sale investments during the year	-	-	-	-	-	(54,694,315)	-	(54,694,315)
Transfer to income statement on impairment of available-for-sale investments during the year	-	-	-	-	-	-	-	-
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 recognised directly in equity	-	-	-	-	-	(38,959,101)	-	(38,959,101)
Profit for the year	-	-	-	-	-	-	77,418,867	77,418,867
Total income and expense for the year	-	-	-	-	-	(38,959,101)	77,418,867	38,459,766
Transfer to legal reserve	-	8,341,887	-	-	-	-	(8,341,887)	-
Distributions paid to directors	-	-	-	-	-	-	(2,600,000)	(2,600,000)
Transfer to legal reserve	-	12,454,095	-	-	-	-	(12,454,095)	-
Dividend paid	-	-	-	(30,492,000)	-	-	-	(30,492,000)
Proposed dividend (Note 16)	-	-	-	20,328,000	40,656,000	-	(60,984,000)	-
Transfer from general reserve to legal reserve	-	24,000,000	(24,000,000)	-	-	-	-	-
Balance at 31 December 2007	101,640,000	71,200,000	-	20,328,000	40,656,000	307,713,500	20,898,124	562,435,624

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

1 LEGAL STATUS AND PRINCIPAL 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. The Company and its subsidiaries (the "Group") are engaged in the business of insurance, reinsurance, life insurance (Takaful) and real estate investment.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, all of these have 31 December year end. The subsidiaries are:

<i>Name of subsidiary</i>	<i>Ownership</i>	<i>Country of incorporation</i>	<i>Principal activities</i>
Qatar Takaful Company (QTC)	100% (2007 - Company's Branch)	Qatar	Primarily engaged in activities in accordance with Islamic Sharia'a principles on a non usury basis in all areas of insurance.
Methaq Holding Company (MHC)	100% (2007 – nil)	Qatar	Primarily engaged in real estate investments.

The shareholders manage the participants' investment funds in QTC as a Mudarib and share in the realized gains with the policyholders' with following percentages:

- 70% share of shareholders;
- 30% share of policyholders.

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

The consolidated financial statements of Al Khaleej Insurance & Reinsurance Company Q.S.C. for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the directors on XX January 2009.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 31 December 2008. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

IASB standards and interpretations issued but not adopted

The following IASB Standards and Interpretation have been issued but are not yet mandatory and have not yet been adopted by the Group.

- IFRS 8 - *Operating Segments (effective for financial years commencing from 1 January 2009)*
- IAS 23 - *Borrowing Costs (Revised) effective for financial years commencing from 1 January 2009*

The application of the above standards and interpretations is not expected to have a material impact on the financial statements of the Group.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

Premiums earned

Premiums are taken into income over the terms of the policies to which they relate. 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%.

Commissions received and paid

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

Claims

Claims incurred 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, but not settled as at the balance sheet date, are made on the 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 Group 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 Group does not discount its liability for unpaid claims as substantially all claims are expected to be paid within 12 months of the balance sheet date.

Reinsurance

The Group enters into agreements with other parties for reinsurance purposes, in order to minimize financial exposure from large claims, in the normal course of business for all of its business classes. Reinsurance contract assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measureable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance (continued)

Reinsurance contract liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

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

Interest income

Interest income is recognised as the interest accrues using the effective interest method.

Rental income

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

Dividend income

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

Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents consists of cash on hand, bank balances and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Available-for-sale investment

Available-for-sale investments are initially recognised at cost, being the fair value of the consideration given and including incremental acquisition charges.

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.

After initial recognition, the investments classified as “available for sale” are measured at fair value unless fair value cannot be reliably measured, with unrealised gains or losses reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in equity is transferred to the income statement for the period.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments classified at available-for-sale are reversed through the income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the income statement.

Investment in associates

The Group's investments in associates are accounted for under the equity method of accounting. These are entities over the Group exercises significant influence and which are neither subsidiaries nor joint ventures. Investments in associates are carried in the balance sheet at cost, plus post acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The income statement reflects the Group's share of the results of its associates.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate.

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 CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

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 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 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;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Derecognition of financial instruments

Financial assets

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

Financial liabilities

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

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of income unless required or permitted by any accounting standard or interpretation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits

End of service gratuity plans

Under the Law No. 14 of 2004, the Group provides end of service benefits to its 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.

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities, denominated in foreign currencies, are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the income statement except when it relates to items where gains or losses are recognised directly in equity, where the gain or loss is then recognised net of the exchange component in equity.

Fair values

The fair value of financial investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities at the close of business on the balance sheet date.

For financial instruments where there is no active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same and/or discounted cash flow analysis. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument.

If the fair value can not be measured reliably, these financial instruments are measured at cost.

Comparative information

Certain figures of the previous year have been reclassified to conform to the presentation for the current year.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Impairment of investments

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

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for outstanding claims

Considerable judgement by management is required in the estimation of amounts due to contract holders and third parties 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 Group is exposed to disputes with, and possibility of defaults by, its reinsurers. The Group monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

Unearned premium reserve

The Group's estimate of the unearned premium reserve is based on current insurance industry practices in Qatar, the Ministry of Economy and Trade directives, and other analysis. The Company monitors its premium growth periodically and ascertain that difference between the estimated calculated based on 40% of the net premium for all insurance except for marine cargo insurance which is calculated at 25% is not materially different had the Company calculated the reserve on an actual basis.

Takaful contracts

Material judgement is required in determining the liabilities and in the choice of assumptions relating to takaful contracts. Such judgements 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 large number of claims and claims occurring sooner than anticipated, increasing the expenditure and reducing the 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 the customers.

Discount rate

Discount rate 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 asset assumed to back the life insurance provisions. The assumptions are revised at each reporting date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of accounts receivable

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the balance sheet date, trade accounts receivable were QR 61,115,922. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the income statement.

Useful life of asset

The Company's estimate of useful economic lives of its property and equipment takes into account the renovation frequency of the asset and the future plans of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

4 CLAIMS INCURRED

	<i>2008</i>			<i>2007</i>		
	<i>Gross</i>	<i>Reinsurers' share</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers' share</i>	<i>Net</i>
Claims paid	125,095,053	(45,156,256)	79,938,797	96,562,407	(24,968,758)	71,593,649
Changes in provision for outstanding claims	(31,071,713)	36,606,973	5,535,260	28,803,269	(21,758,925)	7,044,344
Claims recorded in income statement	<u>94,023,340</u>	<u>(8,549,283)</u>	<u>85,474,057</u>	<u>125,365,676</u>	<u>(46,727,683)</u>	<u>78,637,993</u>

For the details of the movement in the provision for outstanding claims and related reinsurers' share, please refer to Note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

5 NET REALISED GAINS ON SALE OF AVAILABLE-FOR-SALE INVESTMENTS

	<i>2008</i> <i>QR</i>	<i>2007</i> <i>QR</i>
Realised gain on sale of available for sale investments	80,015,027	54,786,151
Realised losses	(812,128)	(91,836)
	<u>79,202,899</u>	<u>54,694,315</u>

6 PROFIT FOR THE YEAR

The profit for the year is stated after charging:

	<i>2008</i> <i>QR</i>	<i>2007</i> <i>QR</i>
Salaries and Benefits	<u>17,349,080</u>	<u>12,916,432</u>
Board of Directors' remuneration	<u>6,600,000</u>	<u>6,000,000</u>

The Board of Directors proposed the distribution of QR 6,600,000 as remuneration to the Board members for the year 2008 (2007: QR 6,000,000). The above mentioned remuneration is included under general and administrative expenses in the consolidated income statement.

The Board of Directors remuneration for 2007 was restated as it was previously included as an appropriation of profit in the statement of changes in equity.

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

	<i>2008</i> <i>QR</i>	<i>2007</i> <i>QR</i>
Property and equipment	825,249	1,330,602
Investment properties	<u>559,717</u>	<u>246,000</u>
	<u>1,384,966</u>	<u>1,576,602</u>

7 EARNING 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 current year, the Company issued bonus shares for the year 2007. Accordingly, the previously reported earnings per share have been restated for the effect of the bonus share issue made during the year.

	<i>2008</i>	<i>2007</i>
Profit for the year attributable to the shareholders (QR)	<u>87,015,290</u>	<u>77,418,867</u>
Weighted Average number of shares (i)	<u>14,229,600</u>	<u>14,229,600</u>
Basic earnings per share (QR)	<u>6.12</u>	<u>5.44</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

7 EARNING PER SHARE (Continued)

Notes:

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

	2008	2007
	Number	Number
Qualifying shares at 1 January	10,164,000	10,164,000
Effect of bonus shares issued	4,065,600	4,065,600
Weighted average number of share at 31 December	14,229,600	14,229,600

(ii) 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 Group's investments as at 31 December were as follows:

	2008	2007
	QR	QR
Quoted Investments		
Local Equity share	290,247,635	432,513,687
Foreign equity shares	3,790,106	6,519,326
Debt securities	2,784,600	2,784,600
Unquoted investments		
Local equity shares	27,591,487	6,149,487
Foreign equity shares	11,121,784	7,329,606
Managed investment portfolio	3,171,580	3,171,580
	338,707,192	458,468,286

Included under available-for-sale investments are unquoted equity investments and managed portfolios with a value of QR 41,884,851 (2007 : QR 16,650,673) 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.

The Group recognized an impairment loss on its available for sale investments amounting to QR 40,218,615 (2007: QR nil) during the year.

9 INVESTMENT IN AN ASSOCIATE

During the year, the Group acquired an investment in an associate.

	<i>Country of incorporation</i>	2008	<i>Ownership</i>	2007
Bahrain National Life	Bahrain	25%	-	-

The associate company is primarily engaged life insurance business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

10 RECEIVABLES ARISING FROM INSURANCE CONTRACTS

	<i>2008</i> <i>QR</i>	<i>2007</i> <i>QR</i>
Due from companies	48,987,295	43,818,693
Due from individuals	2,035,322	1,931,719
Due from Government	4,354,892	2,171,682
Others	5,738,413	2,345,761
	<u>61,115,922</u>	<u>50,267,855</u>

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

11 REINSURANCE BALANCES RECEIVABLE

	<i>2008</i> <i>QR</i>	<i>2007</i> <i>QR</i>
Due from local reinsurers	6,481,694	11,190,360
Due from foreign reinsurers	2,366,245	828,635
	<u>8,847,939</u>	<u>12,018,995</u>

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

12 OTHER RECEIVABLES AND PREPAYMENTS

	<i>2008</i> <i>QR</i>	<i>2007</i> <i>QR</i>
Refundable deposits	901,990	96,000
Employee Advances	513,857	311,617
Prepaid Expenses	207,408	132,355
Accrued Revenue	-	1,527,709
Other	1,763,774	332,619
	<u>3,387,029</u>	<u>2,400,300</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

13 INVESTMENT PROPERTIES

	<i>2008</i> <i>QR</i>	<i>2007</i> <i>QR</i>
Cost		
At 1 January	102,352,244	64,312,368
Additions	126,710,780	38,039,876
Disposals	<u>(65,176,166)</u>	<u>-</u>
	163,886,858	102,352,244
Less: Accumulated depreciation	<u>(1,252,570)</u>	<u>(692,853)</u>
	<u>162,634,288</u>	<u>101,659,391</u>

As at 31 December 2008, the fair value of investment properties as determined by the management was QR 163,886,858 (2007: QR 102,352,244)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

14 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 2008	6,251,500	12,104,321	3,585,771	2,983,635	1,236,000	95,989	26,257,216
Additions	-	-	920,144	213,233	155,000	-	1,288,377
Disposals	-	-	(3,828)	(101,335)	(127,000)	-	(232,163)
At 31 December 2008	<u>6,251,500</u>	<u>12,104,321</u>	<u>4,502,087</u>	<u>3,095,533</u>	<u>1,264,000</u>	<u>95,989</u>	<u>27,313,430</u>
Depreciation:							
At 1 January 2008	-	11,428,205	2,879,538	2,582,276	686,177	95,989	17,672,185
Provided during the year	-	129,228	260,355	207,705	227,961	-	825,249
Disposals	-	-	(1,850)	(94,102)	(127,000)	-	(222,952)
At 31 December 2008	<u>-</u>	<u>11,557,433</u>	<u>3,138,043</u>	<u>2,695,879</u>	<u>787,138</u>	<u>95,989</u>	<u>18,274,482</u>
Net carrying amount							
At 31 December 2008	<u>6,251,500</u>	<u>546,888</u>	<u>1,364,044</u>	<u>399,654</u>	<u>476,862</u>	<u>-</u>	<u>9,038,948</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

14 PROPERTY AND EQUIPMENT (continued)

	<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	-	-	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
Provided during 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>
Net carrying amount							
At 31 December 2007	<u>6,251,500</u>	<u>676,116</u>	<u>706,233</u>	<u>401,359</u>	<u>549,823</u>	<u>-</u>	<u>8,585,031</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

15 SHARE CAPITAL

	<i>Authorised capital</i>	<i>Issued and fully paid up 2008</i>	<i>Issued and fully paid up 2007</i>
Share capital of QR 10 each (QR)	<u>142,296,000</u>	<u>142,296,000</u>	<u>101,640,000</u>
No. of shares of QR 10 each (Nos.)	<u>14,229,600</u>	<u>14,229,600</u>	<u>10,164,000</u>

During the year, 4,065,600 bonus shares amounting to QR 40,656,000 relating to 2007 were issued.

16 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 should be transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. This reserve is not available for distribution except in circumstances stipulated in the Companies law.

17 DIVIDENDS

The Board of Directors decided in its meeting held on 12 January 2009 to propose to the forthcoming General Assembly to approve the distribution of cash dividends for the year 2008 of QR 3 per share totalling QR 42,688,800 (2007: QR 2 per share totalling to QR 20,328,000).

18 RESERVE FOR UNEXPIRED RISK

	<u>2008</u>			<u>2007</u>		
	<i>Gross QR</i>	<i>Reinsurers' share QR</i>	<i>Net QR</i>	<i>Gross QR</i>	<i>Share QR</i>	<i>Net QR</i>
Unearned premiums	101,894,390	(56,823,861)	45,070,529	98,282,833	(53,124,173)	45,158,660
Takaful Policies Reserve	<u>11,296,938</u>	<u>-</u>	<u>11,296,938</u>	<u>5,597,356</u>	<u>-</u>	<u>5,597,356</u>
	<u>113,191,328</u>	<u>(56,823,861)</u>	<u>56,367,467</u>	<u>103,880,189</u>	<u>(53,124,173)</u>	<u>50,756,016</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

19 OUTSTANDING CLAIMS

The movement in the provision for outstanding claims and related re insurers' share was as follows

	2008			2007		
	<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	87,230,963	(57,053,037)	30,177,926	63,299,519	(34,779,525)	28,519,994
Claims incurred but not reported	8,751,809	-	8,751,809	3,879,984	-	3,879,984
	95,982,772	(57,053,037)	38,929,735	67,179,503	(34,779,525)	32,399,978
Insurance claims paid in the year	(125,095,053)	45,156,256	(79,938,797)	(96,562,407)	24,968,758	(71,593,649)
Incurred during the year	94,023,340	(8,549,283)	85,474,057	125,365,676	(47,242,270)	78,123,406
At 31 December	<u>64,911,059</u>	<u>(20,446,064)</u>	<u>44,464,995</u>	<u>95,982,772</u>	<u>(57,053,037)</u>	<u>38,929,735</u>

Analysis of outstanding claims at 31 December

	2008			2007		
	<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 outstanding	51,463,824	(20,446,064)	31,017,760	87,230,963	(57,053,037)	30,177,926
Claims incurred but not reported	13,447,235	-	13,447,235	8,751,809	-	8,751,809
At 31 December	<u>64,911,059</u>	<u>(20,446,064)</u>	<u>44,464,995</u>	<u>95,982,772</u>	<u>(57,053,037)</u>	<u>38,929,735</u>

There are no material amounts for which amount and timing of claims payments is not resolved with 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 of arbitration decisions are estimated individually. Independent loss adjusters generally estimate property claims.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

20 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	<i>2008</i> <i>QR</i>	<i>2007</i> <i>QR</i>
Due to companies	7,060,494	8,684,773
Premiums withheld from reinsurers	8,181,182	5,599,742
Other payables	36,323,011	52,139,301
Provision for Zakat	-	93,200
	<u>51,564,687</u>	<u>66,517,016</u>

21 EMPLOYEES' END OF SERVICE BENEFITS

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

	<i>2008</i> <i>QR</i>	<i>2007</i> <i>QR</i>
Provision as at 1 January	2,642,165	1,855,177
Provided during the year	1,464,606	958,620
End of service benefits paid	-	(171,632)
Provision as at 31 December	<u>4,106,771</u>	<u>2,642,165</u>

22 TAKAFUL POLICYHOLDERS' FUND

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

	<i>Policyholders</i> <i>fund</i> <i>QR</i>
Balance at 1 January 2007	1,687,818
Surplus for the year	2,998,956
Net recognised gains on available for sale investment during the year	<u>1,080,559</u>
Balance as at 31 December 2007	<u>5,767,333</u>
Balance at 1 January 2008	5,767,333
Surplus for the year	<u>2,955,485</u>
Balance as at 31 December 2008	<u>8,722,818</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

23 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:

	<u>2008</u>		<u>2007</u>	
	<i>Premiums</i>	<i>Claims</i>	<i>Premiums</i>	<i>Claims</i>
	<i>QR</i>	<i>QR</i>	<i>QR</i>	<i>QR</i>
Major shareholders	1,064,183	171,781	1,038,246	232,417
Directors and key management personnel	<u>624,671</u>	<u>11,375</u>	<u>222,688</u>	<u>211,053</u>
	<u>1,688,854</u>	<u>183,156</u>	<u>1,260,934</u>	<u>443,470</u>

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

	<u>2008</u>		<u>2007</u>	
	<i>Receivables</i>	<i>Claims and payables</i>	<i>Receivables</i>	<i>Claims and payables</i>
	<i>QR</i>	<i>QR</i>	<i>QR</i>	<i>QR</i>
Major shareholders	2,180,845	-	1,926,828	-
Directors and key management personnel	<u>304,057</u>	<u>166,584</u>	<u>123,901</u>	<u>14,620</u>
	<u>2,484,902</u>	<u>166,584</u>	<u>2,050,729</u>	<u>14,620</u>

Balances due to and from related parties are reported on a net basis as the Company has the legal right to set off these amounts and intends to settle on a net basis.

Compensation of key management personnel

The remuneration of directors during the year were as follows:

	<u>2008</u>	<u>2007</u>
	<i>QR</i>	<i>QR</i>
Board of directors remuneration	6,600,000	6,000,000
Short-term benefits	5,491,213	3,289,807
End of service and other benefits	<u>-</u>	<u>3,180,000</u>
	<u>12,091,213</u>	<u>12,469,807</u>

24 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 CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

25 RISK MANAGEMENT

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

Insurance risk

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Group underwrites mainly fire and general accident, motor and marine and aviation 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

Property insurance is designed to compensate contract holders for damage suffered to properties or for the value of property lost. Contract holders could also receive compensation for the loss of earnings caused by the inability to use the insured properties.

For property insurance contracts the main risks are fire and business interruption. In recent years the Group 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 (2007 : QR 300,000) during the year.

Motor

Motor insurance is designed to compensate contract holders for damage suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for the fire or theft of their vehicles.

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 Company has reinsurance cover to limit losses for any individual claim to QR 200,000 (2007: QR 200,000) during the year.

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 mainly reinsurance to limit losses for any individual claim to QR 150,000 (2007: QR 150,000) during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

25 RISK MANAGEMENT (continued)

Insurance risk (continued)

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 arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess-of-loss reinsurance contracts.

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

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 reinsurer account for 45% of the maximum credit exposure at 31 December 2008 (2007: 85%).

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:

Regulatory framework risk

Regulators are primarily interested in protecting the rights of the policyholders and monitor these rights closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic disasters.

The operations of the Company are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

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 is no significant foreign currency financial asset due in foreign currencies included under reinsurance balances receivable.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rate will affect future profitability or the fair value 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 interest bearing investments are denominated.

The following table demonstrates the sensitivity of the income statement to reasonably possible changes in interest rate, with all other variables held constant.

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At 31 December 2008

25 RISK MANAGEMENT (continued)

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the Company's profit for the year, based on the floating rate financial assets and financial liabilities held at 31 December 2008.

	<i>Increase/decrease in basis points</i>	<i>Effect on profit for the year QR</i>
2008	+25	80,493
	-50	(160,986)
2007	+25	180,645
	-50	(361,290)

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 Group, the maximum credit risk exposure to the Group is the carrying value as disclosed in the balance sheet.

The Group 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 2008 (2007: 26%). Two reinsurance companies account for 45% of the reinsurance receivable as of 31 December 2008 (2007: 56%).

The Group manages credit risk on its investments by ensuring that investments are only made in counter-parties that have a good credit rating. The Group does not have an internal credit rating of counter-parties and considers all counter-parties to be of the same credit quality.

The table below shows the maximum exposure to credit for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting.

	<i>2008 QR</i>	<i>2007 QR</i>
Cash and cash equivalents	50,785,974	104,309,521
Available for sale investments	2,784,600	2,784,600
Reinsurance contract assets	86,117,864	116,108,243
Receivable arising from insurance contracts and other receivable	64,502,951	52,668,155
	<u>204,191,389</u>	<u>275,870,519</u>

The following table provides an age analysis of unimpaired financial assets as at 31 December:

	<i>Total QR</i>	<i>Neither past due nor impaired QR</i>	<i>Past due but not impaired</i>			
			<i>< 4 months QR</i>	<i>5 – 8 months QR</i>	<i>9 – 12 months QR</i>	<i>>12 months QR</i>
2008	204,191,389	167,460,799	12,793,056	11,111,558	6,992,436	5,833,540

Unimpaired financial assets are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over financial assets and all are, therefore, unsecured.

Liquidity risk

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

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At 31 December 2008

25 RISK MANAGEMENT (continued)

Liquidity risk (continued)

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 Group at the balance sheet date had original maturity periods not exceeding one year.

The table below summarized in QR, the maturity profile of the financial liabilities of the Group based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

	<i>31 December 2008</i>			<i>31 December 2007</i>				
	<i>Less than one year QR</i>	<i>More than one year QR</i>	<i>No term QR</i>	<i>Total QR</i>	<i>Less than one year QR</i>	<i>More than one year QR</i>	<i>No term QR</i>	<i>Total QR</i>
Liabilities arising from insurance contracts	101,894,390	-	76,207,997	178,102,387	95,834,181	-	104,028,780	199,862,961
Reinsurance balance payable	27,577,535	-	-	27,577,535	15,367,653	-	-	15,367,653
Provisions, insurance and other payables	64,394,276	-	-	64,394,276	74,926,514	-	-	74,926,514
	193,866,201	-	76,207,997	270,074,198	186,128,348	-	104,028,780	290,157,128

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At 31 December 2008

25 RISK MANAGEMENT (continued)

Equity 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 Group's equity price risk exposure relates to financial assets whose value will fluctuate as a result of changes in market prices.

The Group limits equity price risk by maintaining a diversified portfolio and by continuous monitoring of its investments. The majority of the Group's equity investments comprise securities quoted on the Doha Securities Market.

A 5% change in the prices of equities, with all other variables held constant, would impact equity by QR 14,841,117 (2007: QR 22,090,881). There would be no impact on the income statement as all equity Investments are classified as "available for sale".

Capital management

Capital requirements are set and regulated by the Qatar Commercial Companies Law and Doha Securities Market. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends to shareholders or issue capital securities.

The Company fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its objectives, policies and processes from the previous year.

The Company monitors capital on the basis of the carrying amount of equity less cash and bank balances as follows:

	<i>2008</i>	<i>2007</i>
	<i>QR</i>	<i>QR</i>
Total equity	474,894,736	562,435,624
Cash and bank balances	(51,168,244)	(104,456,176)
	<u>423,726,492</u>	<u>457,979,448</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

26 SEGMENT INFORMATION

Primary Segment information

The Group operates in the general insurance and Islamic Takaful segments in the State of Qatar. For management purposes, the Group is organised into five business segments, Marine and aviation, Fire, General accidents, Motor, and Takaful (Life Insurance). These segments are the basis on which the Group reports its primary segment information. Other operations of the Group comprise investment and cash management for the Group's own account. There are no transactions between segments. An analysis of the gross written premiums, net premiums, commission income, net claims paid, commission paid, movement in insurance reserves and net underwriting results for the year ended 31 December 2008 for its main classes of business is disclosed below:

	<i>Marine and aviation</i>		<i>Fire</i>		<i>General Accident</i>		<i>Motor</i>		<i>Takaful (life)</i>		<i>Total</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</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>
Revenues												
Insurance premium revenue	18,394,027	15,679,176	23,611,759	22,569,460	112,272,876	108,263,839	104,869,413	96,670,127	8,128,648	9,118,951	267,276,723	252,301,553
Insurance premium ceded to reinsurers share of gross premiums	(16,096,154)	(13,281,233)	(22,798,168)	(21,332,754)	(100,403,448)	(98,600,506)	(6,904,312)	(2,581,553)	(2,654,622)	(1,622,382)	(148,856,704)	(137,418,428)
Net premium	2,297,873	2,397,943	813,591	1,236,706	11,869,428	9,663,333	97,965,101	94,088,574	5,474,026	7,496,569	118,420,019	114,883,125
Commission income	5,175,269	3,797,720	3,960,014	3,176,767	15,356,007	14,583,691	2,797,615	2,409,473	2,468	191,588	27,291,373	24,159,239
Total revenue	7,473,142	6,195,663	4,773,605	4,413,473	27,225,435	24,247,024	100,762,716	96,498,047	5,476,494	7,688,157	145,711,392	139,042,364
Expenses												
Claims paid	2,762,282	2,449,198	13,986,739	1,310,217	31,359,281	22,710,099	75,625,582	69,106,354	1,361,169	986,539	125,095,053	96,562,407
Reinsurer's share of claims	(2,280,399)	(2,195,228)	(12,072,245)	(951,190)	(29,353,364)	(20,682,859)	(261,701)	(251,595)	(1,188,547)	(887,886)	(45,212,651)	(24,968,758)
Net claims	481,883	253,970	1,914,494	359,027	2,005,917	2,027,240	75,363,881	68,854,759	172,622	98,653	79,938,797	71,593,649
Commission paid	505,066	510,317	678,367	475,133	2,901,357	3,139,272	3,885,600	1,872,044	600,149	765,772	8,570,539	6,762,538
Total expenses	986,949	764,287	2,592,861	834,160	4,907,274	5,166,512	79,249,481	70,726,803	772,771	864,425	88,509,336	78,356,187
Movement in insurance reserves												
Reserves	7,654	(3,451)	2,100,648	2,268,008	(1,883,379)	(1,035,733)	(8,051,527)	(17,872,368)	(3,871,035)	(5,573,725)	(11,697,639)	(22,217,269)
Net underwriting results												
results	6,493,847	5,427,925	4,281,392	5,847,321	20,434,782	18,044,779	13,461,708	7,898,876	832,688	1,250,007	45,504,417	38,468,908

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.

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27 COMMITMENTS AND CONTINGENCIES

Guarantees

At 31 December 2008 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 389,246 (2007: 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.