

Oman Insurance Company
(Public Shareholding Company)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
OMAN INSURANCE COMPANY (PSC)****Report on the Financial Statements**

We have audited the accompanying financial statements of Oman Insurance Company (PSC), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated statement of income, cash flow and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 and the applicable provisions of the articles of association of Oman Insurance Company (PSC), the UAE Commercial Companies Law of 1984 (as amended) and the UAE Federal Law No. (6) of 2007. 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.

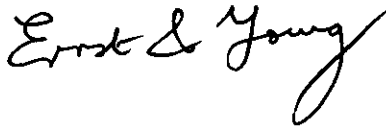
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company 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 Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended), UAE Federal Law No. (6) of 2007 and the articles of association of Oman Insurance Company (PSC); proper books of account have been kept by Oman Insurance Company (PSC), and the contents of the report of the Board of Directors relating to these financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended), UAE Federal Law No. (6) of 2007, or of the articles of association of Oman Insurance Company (PSC) have occurred during the year which would have had a material effect on the business of Oman Insurance Company (PSC) or on its financial position.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Signed by:
Edward B. Quinlan
Partner
Registration No. 93

3 February 2009
Dubai

Oman Insurance Company (PSC)

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 AED'000	2007 AED'000
UNDERWRITING INCOME			
Gross premiums		2,135,467	1,514,115
Movement in provision for unearned premiums		(222,656)	(142,286)
Insurance premium revenue	3	1,912,811	1,371,829
Reinsurers' share of premium	3	(916,349)	(665,339)
Net insurance premium revenue		996,462	706,490
Commission income		160,388	117,039
Other income		10,689	7,791
		<u>1,167,539</u>	<u>831,320</u>
UNDERWRITING EXPENSES			
Claims	4	1,141,724	862,192
Reinsurers' share of claims	4	(600,117)	(491,406)
Commissions paid		206,909	145,772
Excess of loss reinsurance premiums		36,860	24,255
Policies surrendered and maturities paid		2,587	2,007
General and administration expenses relating to underwriting activities		125,640	94,420
		<u>913,603</u>	<u>637,240</u>
UNDERWRITING PROFIT BEFORE MOVEMENTS IN LIFE ASSURANCE FUND			
		253,936	194,080
INCREASE IN LIFE ASSURANCE FUND	26(b)	(33,828)	(18,277)
NET UNDERWRITING INCOME		<u>220,108</u>	<u>175,803</u>
INVESTMENT INCOME			
Realised (loss) gains - net	6	(61,955)	262,098
Unrealised fair value gains - net	7	116,295	175,367
Other investment income	8	77,208	80,153
Impairment of available for sale securities		(35,012)	-
Investment expenses - finance costs		(37,236)	(43,954)
		<u>59,300</u>	<u>473,664</u>
OTHER INCOME AND EXPENSES			
General and administration expenses not allocated		(25,617)	(17,006)
Interest expense		(4,065)	(4,299)
Other income		513	2,942
		<u>(29,169)</u>	<u>(18,363)</u>
PROFIT FOR THE YEAR	9	<u>250,239</u>	<u>631,104</u>
Basic earnings per share (AED)	11	<u>0.62</u>	<u>1.61</u>

The attached notes 1 to 38 form part of these consolidated financial statements.

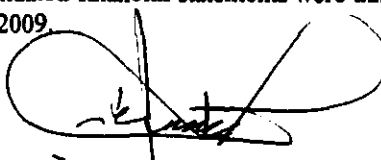
Oman Insurance Company (PSC)

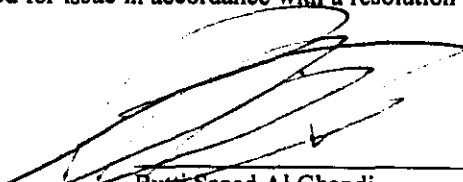
CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 AED'000	2007 AED'000
ASSETS			
Office equipment and vehicles	12	20,631	10,018
Investment properties	13	721,237	493,940
Advances for investment properties		159,646	-
Financial investments			
At fair value through profit or loss	14	298,023	455,080
Available for sale	15	1,488,646	2,172,983
Reinsurance assets	26	919,975	704,665
Insurance receivables	16	781,567	448,002
Prepayments and other assets	17	74,688	43,840
Statutory deposits	18	25,938	22,573
Cash and cash equivalents	19	463,174	337,244
TOTAL ASSETS		4,953,525	4,688,345
EQUITY AND LIABILITIES			
Equity			
Share capital	20	381,713	282,750
Statutory reserve	21	157,160	132,136
Cumulative changes in fair values of securities		(320,208)	520,478
Strategic reserve	22	303,750	303,750
General reserve	23	630,990	571,930
Contingency reserve	24	61	-
Retained earnings		315,577	354,340
Proposed dividend – cash	25	190,857	98,963
Proposed dividend – scrip	25	-	98,963
Total equity		1,659,900	2,363,310
Liabilities			
Insurance contract liabilities	26	1,722,457	1,221,559
Financial liabilities			
Borrowings	27	770,693	555,872
Other financial liabilities	28	165,108	133,502
Insurance payables	29	503,870	320,274
Trade and other payables	30	131,497	93,828
Total liabilities		3,293,625	2,325,035
TOTAL EQUITY AND LIABILITIES		4,953,525	4,688,345

The consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 3 February, 2009.


H.E. Mattar Humaid Al Tayer
Chairman


Butti Saeed Al Ghandi
Vice Chairman

The attached notes 1 to 38 form part of these consolidated financial statements.

Oman Insurance Company (PSC)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 AED'000	2007 AED'000
OPERATING ACTIVITIES			
Profit for the year		250,239	631,104
Adjustments for:			
Depreciation	12	5,011	2,419
Unrealised gain on investment properties	7	(153,967)	(150,573)
Gain on sale of financial investments, available-for-sale	6	(92,700)	(169,470)
Gain on sale of investment properties	6	(57,739)	(15,423)
Gain on sale of office equipment and vehicles		(12)	-
		(49,168)	298,057
Changes in operating assets and liabilities:			
Financial investments at fair value through profit or loss		157,057	(195,077)
Reinsurance assets		(215,310)	(251,988)
Insurance receivables		(333,565)	(115,035)
Prepayments and other assets		(30,848)	(22,673)
Insurance contract liabilities		500,898	394,942
Insurance payables		183,596	72,799
Trade and other payables		37,669	38,216
Net cash from operating activities		250,329	219,241
INVESTING ACTIVITIES			
Purchase of office equipment and vehicles	12	(15,812)	(8,272)
Proceeds from sale of office equipment and vehicles		200	7
Financial investments, available-for-sale		(63,649)	108,406
Statutory deposits		(3,365)	(13,673)
Proceeds from sale of investments properties		128,356	47,224
Advances paid for purchase of investment properties		(159,646)	(12,688)
Purchase of investment properties		(143,947)	(15,770)
Net cash (used in) from investing activities		(257,863)	105,234
FINANCING ACTIVITIES			
Dividend paid		(98,963)	(85,312)
Directors' fees		(14,000)	(15,800)
Borrowings, other than bank overdrafts		155,010	73,440
Other financial liabilities		31,606	22,307
Zakat		-	(2,000)
Net cash from (used in) financing activities		73,653	(7,365)
INCREASE IN CASH AND CASH EQUIVALENTS			
		66,119	317,110
Cash and cash equivalents at 1 January		293,362	(23,748)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	19	359,481	293,362

The attached notes 1 to 38 form part of these consolidated financial statements.

Oman Insurance Company (PSC)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Notes	Share capital AED'000	Statutory reserve AED'000	Cumulative changes in fair values AED'000	Strategic reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Retained earnings AED'000	Proposed dividends AED'000	Total AED'000
Balance at 1 January 2007		243,750	69,025	109,121	253,750	414,154	-	212,286	121,875	1,423,961
Increase in fair value of available for sale securities		-	-	580,827	-	-	-	-	-	580,827
Net realised gain transfer to the income statement on sale of available for sale securities		-	-	(169,470)	-	-	-	-	-	(169,470)
Total income and expense recognised directly in equity		-	-	411,357	-	-	-	-	-	411,357
Profit for the year		-	-	-	-	-	-	631,104	-	631,104
Total income for the year		-	-	411,357	-	-	-	631,104	-	1,042,461
Transfer to statutory reserve	21	-	63,111	-	-	-	-	(63,111)	-	-
Directors' fees		-	-	-	-	-	-	(15,800)	-	(15,800)
Zakat		-	-	-	-	-	-	(2,000)	-	(2,000)
Transfer to general reserve	23	-	-	-	-	157,776	-	(157,776)	-	-
Cash dividend paid		-	-	-	-	-	-	-	(85,312)	(85,312)
Scrip dividend		39,000	-	-	-	-	-	(2,437)	(36,563)	-
Proposed scrip dividend	25	-	-	-	-	-	-	(98,963)	98,963	-
Proposed cash dividend	25	-	-	-	-	-	-	(98,963)	98,963	-
Transfer to strategic reserve	22	-	-	-	50,000	-	-	(50,000)	-	-
Balance at 31 December 2007		282,750	132,136	520,478	303,750	571,930	-	354,340	197,926	2,363,310
		(Note 20)	(Note 21)		(Note 22)	(Note 23)	(Note 24)		(Note 25)	

The attached notes 1 to 38 form part of these consolidated financial statements.

Oman Insurance Company (PSC)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Notes	Share capital AED '000	Statutory reserve AED '000	Cumulative changes in fair values AED '000	Strategic reserve AED '000	General reserve AED '000	Contingency reserve AED '000	Retained earnings AED '000	Proposed dividends AED '000	Total AED '000
Balance at 1 January 2008		282,750	132,136	520,478	303,750	571,930	-	354,340	197,926	2,363,310
Decrease in fair value of available for sale securities		-	-	(898,284)	-	-	-	-	-	(898,284)
Impairment loss on available for sale securities		-	-	(35,102)	-	-	-	-	-	(35,102)
Net realised loss transfer to the income statement on sale of available for sale securities		-	-	92,700	-	-	-	-	-	92,700
Total income and expense recognised directly in equity		-	-	(840,686)	-	-	-	-	-	(840,686)
Profit for the year		-	-	-	-	-	-	250,239	-	250,239
Total income and expense for the year		-	-	(840,686)	-	-	-	250,239	-	(590,447)
Transfer to statutory reserve	21	-	25,024	-	-	-	-	(25,024)	-	-
Directors' fees		-	-	-	-	-	-	(14,000)	-	(14,000)
Transfer to general reserve	23	-	-	-	-	59,060	-	(59,060)	-	-
Transfer to contingency reserve	24	-	-	-	-	-	61	(61)	-	-
Cash dividend paid	25	-	-	-	-	-	-	-	(98,963)	(98,963)
Scrip dividend	25	98,963	-	-	-	-	-	-	(98,963)	-
Proposed cash dividend	25	-	-	-	-	-	-	(190,857)	190,857	-
Balance at 31 December 2008		381,713	157,160	(320,208)	303,750	630,990	61	315,577	190,857	1,659,900
		(Note 20)	(Note 21)		(Note 22)	(Note 23)	(Note 24)		(Note 25)	

The attached notes 1 to 38 form part of these consolidated financial statements.

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

1 ACTIVITIES

Oman Insurance Company (PSC), which was established by an Amiri Decree issued by His Highness The Ruler of Dubai, is a public shareholding company and is registered under Federal Law No. 8 of 1984 (as amended) relating to commercial companies in the UAE. The Company is a subsidiary of MashreqBank (PSC) incorporated in the Emirate of Dubai. The Company's registered head office is at P O Box 5209, Dubai, United Arab Emirates.

The Company mainly issues short term insurance contracts in connection with property, motor and marine risks (collectively known as general insurance) and medical, group life and personal accident risks (included within life assurance). The Company has a small portfolio of life assurance contracts. The Company also invests its funds in investment securities and properties.

During the current year, the Company commenced operation at its Oman (Muscat) branch. The Company also obtained a licence to open a branch in Qatar (Doha), however, the branch had not commenced operations as of the year end.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of investment properties and those financial instruments that have been measured at fair value.

The consolidated financial statements have been presented in UAE Dirhams and all values are rounded to the nearest thousand (AED 000) except when otherwise indicated.

The Company presents its balance sheet broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current), presented in the notes.

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 will not be offset in the income statement unless required or permitted by any accounting standard or interpretation.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and applicable requirements of UAE Law.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December. The financial statements of the subsidiary are prepared for the same reporting year as the parent company, using consistent accounting policies.

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

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date that such control ceases.

The extent of shareholding in, and the principal activities of the subsidiary company are as follows:

<i>Subsidiary Company</i>	<i>Country of incorporation</i>	<i>Percentage shareholding</i>	<i>Principal activities</i>
Equator Trading Enterprises LLC	U.A.E.	100%	The subsidiary was formed on 25 December 2005 with a paid up capital of AED 3,000,000. The subsidiary primarily trades in quoted securities in the UAE.

2 ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING ESTIMATES

The accounting policies are consistent with those used in the previous year. The accounting estimates used in the preparation of these financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2007 except for change in the basis of calculation of additional reserve noted below.

Calculation of additional reserve for marine class of business

With effect from 1 January 2008, Management have decided not to provide for the shortfall in unearned premiums calculated by reference to 1/8th method and unearned premiums for marine class of business calculated at 25% in accordance with UAE Federal Law No.6 of 2007.

As a result of the change, profit for the year is higher by AED 13,215 thousand and additional reserve at 31 December 2008 is lower by AED 13,215 thousand.

2.3 ACCOUNTING STANDARDS ISSUED BUT NOT ADOPTED

The Company has not adopted new standards, interpretations and amendments to existing standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods.

Adoption of these standards or interpretations will not have any significant effects on the financial performance or position of the Company. The following standards or interpretations may be relevant to the Company.

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.

IAS 1 Presentation of Financial Statements

A revised IAS 1 *Presentation of Financial Statements* was issued in September 2007 and becomes effective for the annual periods commencing on or after 1 January 2009. The application of the Standard will result in amendments to the presentation of financial statements.

IAS 40 Investment Properties

The change in the standard allows companies to carry investment properties under construction at fair value. The Company does not currently have any investment property under construction.

2 ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Premiums earned

Premiums on general insurance policies are accounted for on the date of writing of policies except premium income on marine cargo policies which is accounted for on the expected date of voyage. Premiums are adjusted for unearned premium.

Premiums on life assurance policies are accounted for on the date of writing of policies and on subsequent due dates.

Commissions earned

Commissions earned are recognised at the time policies are written.

Other investment income

- (i) Interest income is recognised on a time proportion basis.
- (ii) Dividend income is accounted for when the right to receive payment is established.

Realised gains and losses

Realised gains and losses recorded in the income statement on investments include gains and losses on financial assets and on investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

Trade and settlement date accounting

All "regular way" purchases and sale of financial assets are recognised on the "trade date", i.e. the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Claims

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries are charged to income as incurred. Provision for incurred but not reported claims is included within additional reserve.

The Company generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. Any difference between the provisions at the balance sheet date and settlements and provisions for the following year is included in the underwriting account for that year.

Policy acquisition costs

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are charged to the income statement when incurred.

Leases

The Company has no finance leases. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Liability adequacy test

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

General and administration expenses

Direct expenses of general insurance business are charged to respective departmental revenue accounts. Indirect expenses of the general insurance business are allocated to departmental revenue accounts on the basis of net retained premiums of each department. Other administration expenses are charged to the income statement.

Income tax

Taxation is provided for in accordance with Omani fiscal regulations.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the balance sheet date.

Deferred income tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Foreign currency translation

The presentation currency is UAE Dirhams (AED). This is also the functional currency of the Parent Company and its subsidiary. 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 that are 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 when gains or losses are recognised directly in equity, the gain or loss is then recognised net of the exchange component in equity.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Product classification

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

2 ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Office equipment and vehicles

Office equipment and vehicles are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

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

Furniture and equipment	over 3 to 5 years
Motor vehicles	over 5 years

The assets' residual values, useful lives and method of depreciation are reviewed and adjusted if appropriate at each financial year end. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognised in the income statement as an expense.

An item of office equipment and vehicles is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Fair value is determined by open market values based on valuations performed by independent surveyors and consultant or broker's quotes.

Fair value of financial instruments

The fair value of financial instruments 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. If quoted market prices are not available, reference can also be made to broker or dealer price quotations.

The fair value of floating rate and overnight deposits with credit institutions is their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the balance sheet date.

2 ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

The Company classifies its investments into financial assets at fair value through profit or loss and available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as at fair value through profit or loss, as the Company's strategy is to manage financial investments acquired to cover its insurance and investments contract liabilities (including shareholders' funds), on the same bases, being fair value. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) are passively managed and/or carried at amortised cost.

All regular way purchases and sales of financial assets are recognised on the trade date ie the date the Company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss, has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gain and loss are recognised in the income statement.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or which are not classified in financial assets at fair value through profit or loss. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value gains and losses are 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 fair value gains and losses previously reported in equity is transferred to the income statement.

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

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.

2 ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance 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.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income.

Ceded reinsurance arrangements do not relieve the Company 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 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.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Insurance receivables

Provision is made against insurance receivables as soon as they are considered doubtful of recovery.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less in the balance sheet.

For the purpose of the consolidated cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Insurance contract liabilities

(i) Unearned premium reserve

At the end of each year a proportion of net retained premiums of the general insurance, medical and group life business is provided to cover portions of risks which have not expired at the balance sheet date. The reserves are calculated in accordance with Federal Law No. 9 of 1984 relating to insurance companies at 40% of annual premiums earned net of reinsurance for all classes of insurance except marine which is calculated at 25%. Unearned premium reserves for medical and group life business are calculated on a time proportion basis.

(ii) Additional reserve

A provision is made for the estimated excess of potential claims over unearned premiums, for claims incurred but not reported at the balance sheet date and for potential shortfall in unearned premium reserve.

The reserves represent the management's best estimates on the basis of:

- a) claims reported during the year
- b) delay in reporting these claims
- c) shortfall in unearned premium reserve by reference to 1/8th method, except marine class of business.

2 ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance contract liabilities (continued)

(iii) Life assurance fund

The fund is determined by independent actuarial valuation of future policy benefits. Actuarial assumptions include a margin for adverse deviation and generally vary by type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience. Adjustments to the balance of the fund are effected by charges or credits to income.

(iv) Outstanding claims

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the balance sheet date. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when the contract expires, is discharged or is cancelled.

Borrowings

Borrowings and loans are initially recognised at fair value, net of issue costs and any discount or premium on settlement. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest rate method.

Borrowing costs are recognised as an expense when incurred.

Payables

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

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.

Employees' end of service benefits

The Company provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' 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.

With respect to its national employees, the Company makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

2 ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 on the amounts recognised in the financial statements:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through income statement or available for sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular that the Company has the intention and ability to hold these to maturity.

The Company classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

The Company classifies investments as fair value through income statement if management evaluates their performance on a fair value basis.

All other investments are classified as available for sale.

Impairment of equity investments

The Company treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists giving due consideration to other factors, including normal volatility in share prices for quoted equities and the future cash flows and the discount factors for unquoted equities.

Additional reserve

The management, based on past experience, uses 1/8th method to assess potential shortfall in unearned premium reserve, except marine class of business.

Life assurance fund

Mortality and withdrawal rate assumptions used in actuarial valuation of life fund are based on experience.

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:

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same ;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

2 ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provision for outstanding claims, whether reported or not

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 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.

Impairment losses on insurance receivables

The Company reviews its insurance receivables on a regular basis to assess whether a provision for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

In addition to specific provisions against individually significant insurance receivables, the Company also makes a collective impairment provision against insurance receivables which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for insurance receivables within each grade and is adjusted to reflect current economic changes.

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.

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

3 NET INSURANCE PREMIUM REVENUE

Year 2008

	<i>General Insurance</i>			<i>Life Assurance</i>			<i>Total</i>		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>
	<i>AED'000</i>	<i>share</i>	<i>AED'000</i>	<i>AED'000</i>	<i>share</i>	<i>AED'000</i>	<i>AED'000</i>	<i>share</i>	<i>AED'000</i>
Insurance contracts premium receivable	1,620,574	(759,766)	860,808	514,893	(257,531)	257,362	2,135,467	(1,017,297)	1,118,170
Movement in provision for unearned premiums	(161,786)	70,959	(90,827)	(60,870)	29,989	(30,881)	(222,656)	100,948	(121,708)
Insurance premium revenue	<u>1,458,788</u>	<u>(688,807)</u>	<u>769,981</u>	<u>454,023</u>	<u>(227,542)</u>	<u>226,481</u>	<u>1,912,811</u>	<u>(916,349)</u>	<u>996,462</u>
Unearned premium as of 31 December	<u>601,936</u>	<u>(273,878)</u>	<u>328,058</u>	<u>144,540</u>	<u>(73,195)</u>	<u>71,345</u>	<u>746,476</u>	<u>(347,073)</u>	<u>399,403</u>

Year 2007

	<i>General Insurance</i>			<i>Life Assurance</i>			<i>Total</i>		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>
	<i>AED'000</i>	<i>share</i>	<i>AED'000</i>	<i>AED'000</i>	<i>share</i>	<i>AED'000</i>	<i>AED'000</i>	<i>share</i>	<i>AED'000</i>
Insurance contracts premium receivable	1,174,412	(558,422)	615,990	339,703	(184,931)	154,772	1,514,115	(743,353)	770,762
Movement in provision for unearned premiums	(110,684)	54,052	(56,632)	(31,602)	23,962	(7,640)	(142,286)	78,014	(64,272)
Insurance premium revenue	<u>1,063,728</u>	<u>(504,370)</u>	<u>559,358</u>	<u>308,101</u>	<u>(160,969)</u>	<u>147,132</u>	<u>1,371,829</u>	<u>(665,339)</u>	<u>706,490</u>
Unearned premium as of 31 December	<u>440,151</u>	<u>(202,919)</u>	<u>237,232</u>	<u>83,669</u>	<u>(43,206)</u>	<u>40,463</u>	<u>523,820</u>	<u>(246,125)</u>	<u>277,695</u>

Insurance contracts premium receivable includes AED 52,781 thousand (2007: AED 42,497 thousand) of reinsurance premium accepted.

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4 CLAIMS

Year 2008

	<i>General Insurance</i>			<i>Life Assurance</i>			<i>Total</i>		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>
	<i>AED'000</i>	<i>share</i>	<i>AED'000</i>	<i>AED'000</i>	<i>share</i>	<i>AED'000</i>	<i>AED'000</i>	<i>share</i>	<i>AED'000</i>
Claims paid	655,924	(324,054)	331,870	241,387	(161,702)	79,685	897,311	(485,756)	411,555
Changes in provision for outstanding claims	171,537	(88,698)	82,839	40,876	(25,663)	15,213	212,413	(114,361)	98,052
Movement in additional reserves (note 24(a))	32,000	-	32,000	-	-	-	32,000	-	32,000
	859,461	(412,752)	446,709	282,263	(187,365)	94,898	1,141,724	(600,117)	541,607

Year 2007

	<i>General Insurance</i>			<i>Life Assurance</i>			<i>Total</i>		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>
	<i>AED'000</i>	<i>share</i>	<i>AED'000</i>	<i>AED'000</i>	<i>share</i>	<i>AED'000</i>	<i>AED'000</i>	<i>share</i>	<i>AED'000</i>
Claims paid	485,054	(226,091)	258,963	142,759	(91,341)	51,418	627,813	(317,432)	310,381
Changes in provision for outstanding claims	192,224	(157,266)	34,958	23,155	(16,708)	6,447	215,379	(173,974)	41,405
Movement in additional reserves (note 24(a))	16,000	-	16,000	3,000	-	3,000	19,000	-	19,000
	693,278	(383,357)	309,921	168,914	(108,049)	60,865	862,192	(491,406)	370,786

For details of the movement in the provision for outstanding claims and the related reinsurers' share, refer note 26(c).

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5 SEGMENTAL INFORMATION

Primary segment information

For management purposes the Company is organised into three business segments, general insurance, life assurance and investment. The general insurance segment comprises property, motor and marine risks. The life assurance segment includes life, medical, group life and personal accident risks. Investment comprises investment, deposits with banks and cash management for the Company's own account. These segments are the basis on which the Company reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Segmental information is presented below:

	<i>General insurance</i>		<i>Life assurance</i>		<i>Total</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
UNDERWRITING INCOME						
Insurance premium revenue	1,458,788	1,063,728	454,023	308,101	1,912,811	1,371,829
Insurance premium ceded to reinsurers	(688,808)	(504,370)	(227,541)	(160,969)	(916,349)	(665,339)
Net insurance premiums revenue	769,980	559,358	226,482	147,132	996,462	706,490
Commission income	154,225	116,766	6,163	273	160,388	117,039
Other income	5,888	3,009	4,801	4,782	10,689	7,791
TOTAL INCOME	930,093	679,133	237,446	152,187	1,167,539	831,320
UNDERWRITING EXPENSES						
Claims	859,461	693,278	282,263	168,914	1,141,724	862,192
Reinsurers' share of claims	(412,752)	(383,357)	(187,365)	(108,049)	(600,117)	(491,406)
Net claims incurred	446,709	309,921	94,898	60,865	541,607	370,786
Commission expenses	174,881	127,597	32,028	18,175	206,909	145,772
Policies surrendered and maturities paid	-	-	2,587	2,007	2,587	2,007
General and administration	96,304	74,239	29,336	20,181	125,640	94,420
Insurer's share of excess of loss premium	36,860	24,255	-	-	36,860	24,255
TOTAL EXPENSES	754,754	536,012	158,849	101,228	913,603	637,240
PROFIT BEFORE MOVEMENTS IN LIFE ASSURANCE FUND	175,339	143,121	78,597	50,959	253,936	194,080
INCREASE IN LIFE ASSURANCE FUND (Note 26(c))		-	(33,828)	(18,277)	(33,828)	(18,277)
NET UNDERWRITING INCOME	175,339	143,121	44,769	32,682	220,108	175,803
Investment						
TOTAL INVESTMENT INCOME					59,300	473,664
Unallocated other income and expenses					(29,169)	(18,363)
PROFIT FOR THE YEAR					250,239	631,104

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5 SEGMENTAL INFORMATION (continued)

OTHER INFORMATION

	<i>General insurance</i>		<i>Life assurance</i>		<i>Investment</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>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Segment assets	2,052,382	1,370,243	233,590	196,099	2,667,553	3,122,003	4,953,525	4,688,345
Segment liabilities	2,373,204	1,491,113	149,728	252,674	770,693	581,248	3,293,625	2,325,035
Capital expenditure	14,970	6,681	842	1,591	-	-	15,812	8,272
Depreciation	4,031	1,936	980	483	-	-	5,011	2,419

Secondary segment information

For operational and management reporting purposes, the Company is organised as one geographical segment. Consequently, no secondary segment information is required to be provided.

6 REALISED (LOSSES) GAINS

	<i>2008</i>	<i>2007</i>
	<i>AED'000</i>	<i>AED'000</i>
Investment Properties		
Net realised gains	57,739	15,423
Financial assets available-for-sale		
Net realised gains on equity	92,700	169,470
Financial assets at fair value through profit or loss		
Net realised (losses) gains on held for trading equity	(212,394)	77,205
Total realised (losses) gains	(61,955)	262,098

7 UNREALISED FAIR VALUE GAINS AND LOSSES

	<i>2008</i>	<i>2007</i>
	<i>AED'000</i>	<i>AED'000</i>
Fair value gains on investment properties	153,967	150,573
Fair value (losses) gains on financial assets at fair value through profit or loss (held for trading purposes)	(21,409)	32,121
Fair value losses on financial assets at fair value through profit or loss (designated upon initial recognition)	(16,263)	(7,327)
Total fair value (losses) gains on financial assets at fair value through profit or loss	(37,672)	24,794
Total fair value gains	116,295	175,367

Oman Insurance Company (PSC)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 December 2008

8 OTHER INVESTMENT INCOME

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Financial assets at fair value through profit or loss (held for trading purposes)		
Dividend income	5,475	3,802
Financial assets at fair value through profit for loss (designated upon initial recognition)		
Interest income	12,984	14,178
Held-to-maturity financial assets interest income	-	386
Available-for-sale financial assets		
Dividend income	48,173	51,741
Cash and cash equivalents interest income	10,018	10,046
Statutory deposits - interest income	558	-
	<u>77,208</u>	<u>80,153</u>

9 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Staff costs	<u>90,899</u>	<u>68,873</u>
Rental costs – operating leases	<u>8,838</u>	<u>7,984</u>

10 INCOME TAX

Oman Branch of the company has incurred an accounting loss during the period. Therefore, the applicable tax rate is nil. The average effective tax rate cannot be determined in view of the accounting loss for the period.

The Branch has estimated taxation losses available for offset against future taxable profits. Since the Branch is in the start up phase and the Company is uncertain as to the future performance, no deferred tax asset was accounted for in the financial statements.

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Estimated tax losses available to 31 December 2013	<u>(1,658)</u>	<u>-</u>

11 EARNINGS PER SHARE

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	<i>2008</i>	<i>2007</i>
Profit for the year, net of directors' fees (AED'000)	<u>236,239</u>	<u>615,304</u>
Weighted average number of shares outstanding during the year	<u>381,713,000</u>	<u>381,713,000</u>
Basic earnings per share (AED)	<u>0.62</u>	<u>1.61</u>

The weighted average number of shares outstanding as reported for all the years have been adjusted for the effect of bonus shares issued during the year

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

12 OFFICE EQUIPMENT AND VEHICLES

	<i>Furniture and equipment AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Capital work in progress AED'000</i>	<i>Total AED'000</i>
Cost:				
At 1 January 2008	29,025	551	1,218	30,794
Additions	12,267	588	2,957	15,812
Disposals	-	(360)	-	(360)
At 31 December 2008	41,292	779	4,175	46,246
Depreciation:				
At 1 January 2008	20,576	200	-	20,776
Provided during the year	4,906	105	-	5,011
Disposals	-	(172)	-	(172)
At 31 December 2008	25,482	133	-	25,615
Net carrying amount:				
At 31 December 2008	15,810	646	4,175	20,631
	<i>Furniture and equipment AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Capital work in progress AED'000</i>	<i>Total AED'000</i>
Cost:				
At 1 January 2007	21,200	314	1,036	22,550
Additions	7,825	265	182	8,272
Disposals	-	(28)	-	(28)
At 31 December 2007	29,025	551	1,218	30,794
Depreciation:				
At 1 January 2007	18,283	95	-	18,378
Provided during the year	2,293	126	-	2,419
Disposals	-	(21)	-	(21)
At 31 December 2007	20,576	200	-	20,776
Net carrying amount:				
At 31 December 2007	8,449	351	1,218	10,018

13 INVESTMENT PROPERTIES

	<i>2008 AED'000</i>	<i>2007 AED'000</i>
Freehold land	721,237	440,849
50% interest in freehold land owned under joint ownership	-	53,091
	721,237	493,940

Investment properties are stated at fair value, which has been determined based on valuations performed by Hamptons International as at 18 December 2008. Hamptons International is an industry specialist in valuing these types of investment properties. Fair values represents the amounts at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of the valuation, in accordance with the standards issued by the Royal Institution of Chartered Surveyors and have been estimated by Hamptons based on available market evidence. Valuations are performed on a periodic basis, at least annually, and the fair value gains and losses are recorded within the income statement.

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

14 FINANCIAL ASSETS AT FAIR VALUES THROUGH PROFIT OR LOSS

	2008 AED'000	2007 AED'000
<i>a) Held for trading securities</i>		
Shares – quoted	-	270,654
<i>b) Designated upon initial recognition</i>		
Structured investment - unquoted	199,132	146,890
Bank deposits with maturity over 3 months - unquoted	98,891	37,536
	<u>298,023</u>	<u>184,426</u>
	<u>298,023</u>	<u>455,080</u>

Maturity dates for structured notes and bank deposits range between 3 to 10 years. However, the issuers of the notes have options to call back the notes on earlier dates. The principal amounts are guaranteed on maturity or on exercise of the options. The returns on these notes are based mainly on movements in USD LIBOR or share prices of a basket of shares. Certain structured notes and bank deposits with carrying value of AED 2,148 thousand at 31 December 2008 (2007: AED 15,000 thousand) are subject to lien in respect of guarantees and overdraft facilities.

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2008 AED'000	2007 AED'000
Shares and mutual funds – quoted	1,167,901	1,932,531
Shares – unquoted (net of provision for impairment)	320,745	240,452
	<u>1,488,646</u>	<u>2,172,983</u>

The movements in provision for impairment in unquoted available for sale securities were as follows:

	2008 AED'000	2007 AED'000
At 1 January	833	833
Provision made during the year	-	-
At 31 December	<u>833</u>	<u>833</u>

Unquoted shares are carried at cost, less impairment in value, due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value.

Quoted shares with carrying value of AED 164,716 thousand at 31 December 2008 (2007: AED 225,702 thousand) were registered in the name of certain shareholders / directors of the Company and third parties who have confirmed that they are holding those shares in trust on behalf of the Company.

On 13 October 2008 the International Accounting Standards Board revised IAS39 to permit, inter alia, reclassification in limited circumstances from trading assets to other categories, in particular, to 'available for sale'. The financial consequence of this reclassification is that the reclassified assets are held at their fair value from the date of transfer and marked to market to equity rather than the income statement and tested for impairment. The Company identified AED 137,534 thousand of eligible assets and reclassified them in accordance with the revised standard to available for sale. The change in market value of the investment from the beginning of the year to the date of reclassification was a loss of AED 89,774 thousand. This was charged to the income statement.

If this reclassification had not been made, the Company's profit for the year would have been lower by AED 44,996 thousand. This amount is now reflected in equity.

Oman Insurance Company (PSC)

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16 INSURANCE RECEIVABLES

	2008 AED'000	2007 AED'000
Premiums and insurance companies' balances receivable	720,527	423,760
Due from re-insurance companies in respect of settled claims	61,040	24,242
	<u>781,567</u>	<u>448,002</u>

All of the above amounts are due within twelve month of the balance sheet date. The reinsurers' shares of claims not paid by the Company at the balance sheet date are disclosed in note 24.

The amounts due from reinsurers are normally settled on a quarterly basis.

As at 31 December 2008, premiums and insurance companies' balances receivable at nominal value of AED 19,412 thousand (2007: AED 19,137 thousand) were impaired. Movements in the allowance for impairment of receivables were as follows:

	2008 AED'000	2007 AED'000
At 1 January	19,137	16,479
Charge for the year	1,287	2,688
Bad debts recovered	(1,012)	-
Unused amounts reversed	-	(30)
At 31 December	<u>19,412</u>	<u>19,137</u>

17 PREPAYMENTS AND OTHER ASSETS

	2008 AED'000	2007 AED'000
Accrued income	16,458	12,692
Prepayments	25,982	26,411
Staff debtors and advances	4,476	3,926
Other receivables	27,772	811
	<u>74,688</u>	<u>43,840</u>

18 STATUTORY DEPOSITS

	2008 AED'000	2007 AED'000
Bank Deposits:		
a) amounts that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with Article 41 of Federal Law No. 9 of 2007	10,000	7,500
b) amounts held under lien for trade licences	1,400	1,400
c) amount under lien with Capital Market Authority, Sultanate of Oman towards license of Muscat Branch	13,538	13,673
b) amounts held under DAFZA office	1,000	-
	<u>25,938</u>	<u>22,573</u>

19 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following balance sheet amounts:

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Deposits with banks maturing within three months	399,409	299,716
Bank balances and cash	63,765	37,528
	<u>463,174</u>	<u>337,244</u>

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as above, net of outstanding bank overdrafts (note 27).

Certain deposits with carrying value of AED 82,795 thousand at 31 December 2008 (2007: AED 82,795 thousand) are subject to lien in respect of guarantees and overdraft facilities.

20 SHARE CAPITAL

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Issued and fully paid 381,712,500 shares of AED 1 each (2007: – 282,750,000 shares of AED 1 each)	<u>381,713</u>	<u>282,750</u>

At the extraordinary general meeting held on 23 January 1999, the shareholders of the Company authorised the Board of Directors to change the name of the Company. The Board of Directors has agreed not to implement this change until a suitable new name for the Company has been identified.

At the annual general meeting held on 18 February 2008, the shareholders approved the scrip dividend of 35 shares for every 100 shares held. Accordingly, the number of shares increased to 381,713,000. Legal formalities for registration of the scrip dividend were completed during the year.

21 STATUTORY RESERVE

In accordance with the Commercial Companies Law 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 statutory reserve is equal to 50% of the paid up share capital. The reserve is not available for distribution except in the circumstances stipulated by the law.

22 STRATEGIC RESERVE

The strategic reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the Company at an ordinary general meeting, on the recommendation of the Board of Directors. No transfers have been made to the strategic reserve during the year.

23 GENERAL RESERVE

Annual transfers to the general reserve are made at the rate of 25% of the profit less directors' fees for the year. The reserve is freely available for distribution.

Oman Insurance Company (PSC)

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24 CONTINGENCY RESERVE

In accordance with Article 20 (2) (c) amended by Royal Decree No. 35/95 of the Oman Insurance Companies Law 1979 and in accordance with the Capital Market Authority's letter, CMA 4952/2005 dated 22 November 2005, 10% of the net outstanding claims at the balance sheet date is transferred from retained earnings to a contingency reserve. In case of insufficient retained earnings or accumulated loss position, the transfer is adjusted against the head office current account balance. The reserve is not available for distribution.

25 PROPOSED DIVIDENDS

	2008 AED'000	2007 AED'000
Declared and paid:		
Cash dividend for 2007 of AED 0.35 per share of AED 1 each (2007: AED 0.35 per share of AED 1 each)	98,963	85,312
Scrip dividend of AED 0.35 per share of AED 1 each (2007: AED 0.16 per share of AED 1 each)	98,963	39,000
	<u>197,926</u>	<u>124,312</u>
Proposed for approval at Annual General Meeting:		
Cash dividend of AED 0.50 per share of AED 1 each (2007: Scrip dividend of AED 0.35 per share of AED 1 each)	190,857	98,963
(2007: Cash dividend AED 0.35 per share of AED 1 each)	-	98,963
	<u>190,857</u>	<u>197,926</u>

26 INSURANCE CONTRACT LIABILITIES

	Gross		Reinsurers' share		Net	
	2008 AED'000	2007 AED'000	2008 AED'000	2007 AED'000	2008 AED'000	2007 AED'000
Unearned premium reserve (Note 3)	746,476	523,820	(347,073)	(246,125)	399,403	277,695
Additional Reserve (Note 26(a))	83,750	51,750	-	-	83,750	51,750
Life Assurance Fund (Note 26(b))	76,715	42,887	-	-	76,715	42,887
Outstanding Claims (Note 26 (c))	815,516	603,102	(572,902)	(458,540)	242,614	144,562
	<u>1,722,457</u>	<u>1,221,559</u>	<u>(919,975)</u>	<u>704,665</u>	<u>802,482</u>	<u>516,894</u>

26 (a) Additional Reserve

	General Insurance AED'000	Life Assurance AED'000	Total AED'000
At 1 January 2007	27,750	5,000	32,750
Increase (Note 4)	16,000	3,000	19,000
At 31 December 2007	43,750	8,000	51,750
Increase (Note 4)	32,000	-	32,000
31 December 2008	<u>75,750</u>	<u>8,000</u>	<u>83,750</u>

Oman Insurance Company (PSC)

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26 INSURANCE CONTRACT LIABILITIES (continued)

26 (b) Life Assurance Fund

	<i>AED'000</i>
1 January 2007	24,610
Increase	18,277
31 December 2007	42,887
Increase	33,828
31 December 2008	<u>76,715</u>

The balance at 31 December 2008 includes AED 10,719 thousand (2007: AED 5,662 thousand) in respect of Group Life policies, which normally covers the risk for not more than twelve months.

26 (c) Outstanding Claims

	<i>General AED'000</i>	<i>Life AED'000</i>	<i>Total AED'000</i>
At 1 January 2007:			
Outstanding claims	376,127	11,596	387,723
Due from reinsurers	(278,125)	(6,441)	(284,566)
	<u>98,002</u>	<u>5,155</u>	<u>103,157</u>
Net Increase (Note 4)	<u>34,958</u>	<u>6,447</u>	<u>41,405</u>
At 31 December 2007:			
Outstanding claims	568,351	34,751	603,102
Due from reinsurers	(435,391)	(23,149)	(458,540)
	<u>132,960</u>	<u>11,602</u>	<u>144,562</u>
Net Increase (Note 4)	<u>82,839</u>	<u>15,213</u>	<u>98,052</u>
At 31 December 2008:			
Outstanding claims	739,889	75,627	815,516
Due from reinsurers	(524,090)	(48,812)	(572,902)
	<u>215,799</u>	<u>26,815</u>	<u>242,614</u>

Oman Insurance Company (PSC)

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26 INSURANCE CONTRACT LIABILITIES (continued)

Claims Development Table

The following table reflects the development of the gross outstanding claims of the general insurance at the end of each year together with cumulative payments subsequent to the year of accident:

Underwriting year

	<i>Before</i> 2005 AED'000	2005 AED'000	2006 AED'000	2007 AED'000	2008 AED'000	Total AED'000
Estimate of cumulative claims - Gross:						
Accident year	80,157	162,483	243,421	359,801	464,796	
One year later	67,558	177,409	304,726	421,226		
Two years later	58,369	182,726	289,399	-		
Three years later	52,621	174,744	-			
Current estimate of cumulative claims	52,621	174,744	289,399	421,226	464,796	1,402,786
Cumulative payments to date - Gross	(33,656)	(138,428)	(219,732)	(271,082)	-	(662,898)
Total cumulative claims recognized in balance sheet - Gross	18,965	36,316	69,667	150,144	464,796	739,888

Underwriting year

	<i>Before</i> 2005 AED'000	2005 AED'000	2006 AED'000	2007 AED'000	2008 AED'000	Total AED'000
Estimate of cumulative claims - Net:						
Accident year	19,170	51,312	63,424	84,171	135,726	
One year later	16,157	56,025	79,398	103,334	-	
Two years later	13,959	57,705	79,404	-	-	
Three years later	12,584	57,184	-	-	-	
Current estimate of cumulative claims	12,584	57,184	79,404	103,334	135,726	388,232
Cumulative payments to date - Net	(8,049)	(43,715)	(57,252)	(63,417)	-	(172,433)
Total cumulative claims recognized in balance sheet - Net	4,535	13,469	22,152	39,917	135,726	215,799

The above table does not include claims intimated and settled in the same year.

Oman Insurance Company (PSC)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 December 2008

27 BORROWINGS

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Term Loans	667,000	511,990
Bank overdrafts	103,693	43,882
	<u>770,693</u>	<u>555,872</u>

Term loans are unsecured and are repayable within six months of drawdown. The loans are normally rolled over for additional similar periods. Refer to note 14 for the details of security in respect of bank overdrafts and other facilities.

28 OTHER FINANCIAL LIABILITIES

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Amounts held under reinsurance treaties	165,108	108,126
Amounts payable for purchase of investment property	-	25,376
	<u>165,108</u>	<u>133,502</u>

29 INSURANCE PAYABLES

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Reinsurance balances payable	266,128	152,345
Premiums collected in advance	113,613	86,114
Other insurance payables (reclassified supplier balance to other payable)	124,129	81,815
	<u>503,870</u>	<u>320,274</u>

30 TRADE AND OTHER PAYABLES

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Accruals for staff costs	43,487	32,033
Employees' end of service benefits (Note 31)	30,625	19,557
Unit linked liabilities	552	-
Other payables and accruals	56,833	42,238
	<u>131,497</u>	<u>93,828</u>

Oman Insurance Company (PSC)

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At 31 December 2008

31 EMPLOYEES' END OF SERVICE BENEFITS

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

	2008 AED'000	2007 AED'000
Provision as at 1 January	19,557	16,854
Provided during the year	12,050	3,275
End of service benefits paid	(982)	(572)
Provision as at 31 December (Note 30)	<u>30,625</u>	<u>19,557</u>

An actuarial valuation has not been performed as the net impact of discount rates and future increases in benefits is not likely to be material.

32 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. The pricing policies and terms of these transactions are approved by the Company's management.

The significant balances outstanding at 31 December in respect of related parties included in the consolidated financial statements are as follows:

	2008 AED'000	2007 AED'000
<i>Affiliates of major shareholders:</i>		
Cash and cash equivalents	222,409	205,099
Statutory deposits	12,400	8,900
Structured Investments (note 14)	2,148	14,293
Premium receivable (note 16)	52,394	27,991
Amounts due to related parties	3,201	1,391
Amounts due from related parties	9,855	-

Outstanding balances at the year-end arose in the normal course of business. For the year ended 31 December 2008, the Company has not recorded any impairment of amounts owed by related parties (2007: nil).

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2008 AED'000	2007 AED'000
<i>Affiliates of major shareholders/ directors:</i>		
Premiums	141,346	187,612
Claims	91,525	140,429
Interest expenses	513	695
Commission paid	8,303	5,442
Rent paid	755	863
Investment – shares purchased	676,124	-
Investment – properties purchased	73,331	-
Investment – properties sold	128,356	-
Investment – shares sold	685,979	-
Advance for investment properties	62,186	-

32 RELATED PARTY TRANSACTIONS (continued)

Compensation of the key management personnel is as follows:

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Short term employee benefits	6,816	9,235
End of service benefits	1,355	400
Total compensation paid to key management personnel	<u>8,171</u>	<u>9,635</u>

33 DIRECTORS' FEES

Directors' fees payable in accordance with the Articles of Association of the Company, have been included as an appropriation of profit for the year in accordance with the interpretation of the Commercial Companies Law of 1984 (as amended) by the Ministry of Economy.

34 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets include cash and cash equivalents, statutory deposits, financial investments (at fair value through profit or loss and available for sale), insurance receivables, payables, borrowings, other financial liabilities and certain other assets and liabilities.

The fair values of the financial assets and liabilities, with the exception of unquoted investments in shares carried at cost (Note 15), are not materially different from their carrying values.

35 RISK MANAGEMENT**(a) Governance framework**

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Company's risk management function is carried out by the board of directors, with its associated committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to the General Manager and senior managers.

The board of directors meets regularly to approve any commercial, regulatory and organisational decisions. The General Manager under the authority delegated from the board of directors defines the Company's risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

(b) Capital management framework

The primary objective of the Company's capital management is to comply with the regulatory requirements in the UAE and to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company fully complied with the externally imposed capital requirements and no changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007.

35 RISK MANAGEMENT (continued)

(c) Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders and monitor them 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 the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural 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 (eg capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

(d) Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Company manages these positions to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

The General Manager actively monitors the ALM to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance contracts.

The General Manager regularly monitors the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance liabilities.

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

36A Insurance risk

The principal risk the Company 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 Company 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. The Company has a small portfolio of life assurance contracts.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly property, motor, marine, medical, group life and personal accident 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.

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 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 AED 1,000,000.

35 RISK MANAGEMENT (continued)

35A Insurance risk (continued)

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. The Company has reinsurance cover for such claims to limit losses for any individual claim to AED 500,000.

The level of court awards 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 the 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 AED 735,000.

Medical, group life and personal accident

Medical insurance is designed to compensate the contract holders for medical costs. Group life and personal accident insurance entitles the contract holders or their beneficiaries to specified amounts in case of death or permanent or partial disability.

For medical insurance, the main risks are illness and related healthcare costs. For group life and personal accident the main risks are claims from death and permanent or partial disability. The Company generally does not offer medical insurance to walk-in customers. Medical, group life and personal accident insurance are generally offered to corporate customers with large population to be covered under the policy.

Geographical concentration of risks

The insurance risk arising from insurance contracts is concentrated mainly in the United Arab Emirates. The geographical concentration of risks is similar to last year.

Reinsurance risk

In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Company, in the normal course of business, enters into arrangements 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 minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. The Company deals with reinsurers approved by the Board of Directors.

The five largest reinsurers account for 49% of amounts due from reinsurance companies at 31 December 2008 (2007: 64%). The maximum theoretical credit risk exposure in this connection is mainly in Europe.

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35 RISK MANAGEMENT (continued)

35B Financial risk

The Company's principal financial instruments are financial investments (at fair value through profit or loss and available for sale), receivables arising from insurance and reinsurance contracts, statutory deposits and cash and cash equivalents. With the exception of the Company's structured notes, which is accounted for as financial investments at fair value through profit or loss, it does not enter into any derivative transactions.

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

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 exposure to credit risk to the Company is the carrying value as disclosed in the balance sheet.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- The Company only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company's available for sale investments and at fair value through profit or loss investments are managed by the General Manager in accordance with the guidance of the investment committee and the supervision of the Board of Directors.
- The Company's bank balances are maintained with a range of international and local banks in accordance with limits set by the management.

The table below shows the maximum exposure to credit risk for the components of the balance sheet:

	Notes	2008 AED'000	2007 AED'000
Financial investments			
At fair value through profit or loss	14	298,023	455,080
Available for sale	15	1,488,646	2,172,983
Reinsurance assets	26	919,975	704,665
Insurance receivables	16	781,567	448,002
Other receivables (excluding prepayments)	17	48,708	17,429
Statutory deposits	18	25,938	22,573
Cash and cash equivalents	19	463,174	337,244
TOTAL CREDIT RISK EXPOSURE		4,026,031	4,157,976

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes.

Insurance receivables comprise a large number of customers and insurance companies mainly within the United Arab Emirates. Reinsurance receivables are from the reinsurance companies based mainly in Europe.

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

35 RISK MANAGEMENT (continued)

35B Financial risk (continued)

Credit risk (continued)

The Company's financial position can be analysed by the following geographical regions:

	2008			2007		
	<i>Assets</i>	<i>Liabilities and equity</i>	<i>Contingent liabilities and commitments</i>	<i>Assets</i>	<i>Liabilities and equity</i>	<i>Contingent liabilities and commitments</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
United Arab Emirates	3,490,556	4,182,612	26,098	3,620,692	4,152,082	21,169
Other Middle East countries	156,636	60,556	-	90,471	13,450	-
Europe	1,178,777	672,892	-	899,813	512,834	-
Rest of the world	127,556	37,465	-	77,369	9,979	-
Total	<u>4,953,525</u>	<u>4,953,525</u>	<u>26,098</u>	<u>4,688,345</u>	<u>4,688,345</u>	<u>21,169</u>

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties.

31 December 2008

	<i>High grade</i>	<i>Standard grade</i>	<i>Sub-standard grade</i>	<i>Past due and impaired</i>	<i>Total</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Financial investments					
At fair value through profit or loss	298,023	-	-	-	298,023
Available for sale	1,167,901	320,745	-	833	1,489,479
Reinsurance assets	919,975	-	-	-	919,975
Insurance receivables	781,567	-	-	19,412	800,979
Other receivables (excluding prepayments)	48,708	-	-	-	48,708
Statutory deposits	25,938	-	-	-	25,938
Cash and cash equivalents	463,174	-	-	-	463,174
	<u>3,705,286</u>	<u>320,745</u>	<u>-</u>	<u>20,245</u>	<u>4,046,276</u>
Less: Impairment provision					(20,245)
					<u>4,026,031</u>

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

35 RISK MANAGEMENT (continued)

35B Financial risk (continued)

Credit risk (continued)

31 December 2007

	<i>High grade AED'000</i>	<i>Standard grade AED'000</i>	<i>Sub-standard grade AED'000</i>	<i>Past due and impaired AED'000</i>	<i>Total AED'000</i>
Financial investments					
At fair value through profit or loss	455,080	-	-	-	455,080
Available for sale	1,931,698	241,285	-	833	2,173,816
Reinsurance assets	704,665	-	-	-	704,665
Insurance receivables	448,002	-	-	19,137	467,139
Other receivables (excluding prepayments)	17,429	-	-	-	17,429
Statutory deposits	22,573	-	-	-	22,573
Cash and cash equivalents	337,244	-	-	-	337,244
	<u>3,916,691</u>	<u>241,285</u>	<u>-</u>	<u>19,970</u>	<u>4,177,946</u>
Less: Impairment provision					(19,970)
					<u>4,157,976</u>

The following table provides an age analysis of insurance receivables arising from insurance and reinsurance contracts.

	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>	<i>Unimpaired</i>		
	<i>Upto 120 days AED'000</i>	<i>120 to 180 days AED'000</i>	<i>Above 180 days AED'000</i>	<i>Total AED'000</i>	<i>Past due and impaired AED'000</i>
					<i>Total AED'000</i>
31 December 2008	560,502	87,397	153,080	800,979	(19,412)
31 December 2007	326,797	77,799	62,543	467,139	(19,137)

The Company generally provides credit facility up to 120 days. When the management is confident of recovery, no provision is recorded for amounts overdue for more than 180 days and such amounts are not classified as past due and impaired.

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

35 RISK MANAGEMENT (continued)

35B Financial risk (continued)

Geographical Risk

The Company's investments and cash and cash equivalents have been analysed by the following geographical regions:

	United Arab Emirates		Other middle East countries		Rest of the world		Total	
	2008 AED'000	2007 AED'000	2008 AED'000	2007 AED'000	2008 AED'000	2007 AED'000	2008 AED'000	2007 AED'000
Financial Assets Fair value through profit or loss								
a) Held for trading securities								
Shares - quoted	-	269,940	-	714	-	-	-	270,654
b) Designated upon initial Recognition:								
-Structured investments								
Unquoted	-	-	-	-	199,132	146,890	199,132	146,890
-Bank Deposits with maturity over three months – unquoted	70,034	19,034	713	18,502	28,144	-	98,891	37,536
	70,034	19,034	713	18,502	227,276	146,890	298,023	184,426
	70,034	288,974	713	19,216	227,276	146,890	298,023	455,080
Available for Sale financial assets								
Shares and Mutual funds								
-Quoted	1,056,191	1,858,779	39,081	29,746	72,629	44,006	1,167,901	1,932,531
-Unquoted	241,671	141,005	37,555	36,499	41,519	62,948	320,745	240,452
	1,297,862	1,999,784	76,636	66,245	114,148	106,954	1,488,646	2,172,983
Cash and cash equivalents								
-Deposits with banks maturing within 3 months	380,157	294,616	6,892	-	12,360	5,100	399,409	299,716
-Bank balance and cash	61,296	37,291	2,469	237	-	-	63,765	37,528
Cash and bank balances	441,453	331,907	9,361	237	12,360	5,100	463,174	337,244
-Bank Overdraft	(103,693)	(43,882)	-	-	-	-	(103,693)	(43,882)
Cash and cash equivalents	337,760	288,025	9,361	237	12,360	5,100	359,481	293,362

Liquidity risk

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

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

35 RISK MANAGEMENT (continued)

35B Financial risk (continued)

The table below summarises the maturity of the assets and liabilities of the Company:

	31 December 2008				31 December 2007			
	<i>Less than one year AED'000</i>	<i>More than one year AED'000</i>	<i>No Term AED'000</i>	<i>Total AED'000</i>	<i>Less than one year AED'000</i>	<i>More than one year AED'000</i>	<i>No Term AED'000</i>	<i>Total AED'000</i>
ASSETS								
Office equipment and vehicles	-	20,631	-	20,631	-	10,018	-	10,018
Investment properties	-	-	721,237	721,237	-	-	493,940	493,940
Advances paid for investment in properties	159,646	-	-	159,646				
Financial investments								
At fair value through profit or loss	26,431	271,592	-	298,023	19,034	165,392	270,654	455,080
Available for sale	-	-	1,488,646	1,488,646	-	-	2,172,983	2,172,983
Reinsurance assets	919,975	-	-	919,975	704,665	-	-	704,665
Insurance receivables	781,567	-	-	781,567	448,002	-	-	448,002
Prepayments and accrued income	74,688	-	-	74,688	43,840	-	-	43,840
Statutory deposits	25,938	-	-	25,938	22,573	-	-	22,573
Cash and cash equivalents	463,174	-	-	463,174	337,244	-	-	337,244
TOTAL ASSETS	2,451,419	292,223	2,209,883	4,953,525	1,575,358	175,410	2,937,577	4,688,345
EQUITY AND LIABILITIES								
Equity								
Share capital	-	-	381,713	381,713	-	-	282,750	282,750
Statutory reserve	-	-	157,160	157,160	-	-	132,136	132,136
Cumulative changes in fair values of securities	-	-	(320,208)	(320,208)	-	-	520,478	520,478
Strategic reserve	-	-	303,750	303,750	-	-	303,750	303,750
General reserve	-	-	630,990	630,990	-	-	571,930	571,930
Contingency reserve	-	-	61	61	-	-	-	-
Retained earnings	-	-	315,577	315,577	-	-	354,340	354,340
Proposed dividends	190,857	-	-	190,857	98,963	-	98,963	197,926
Total equity	190,857	-	1,469,043	1,659,900	98,963	-	2,264,347	2,363,310
Liabilities								
Insurance contract liabilities	1,722,457	-	-	1,722,457	1,221,559	-	-	1,221,559
Financial liabilities								
Borrowings	770,693	-	-	770,693	511,990	43,882	-	555,872
Other financial liabilities	165,108	-	-	165,108	133,502	-	-	133,502
Insurance payables	503,870	-	-	503,870	320,274	-	-	320,274
Trade and other payables	131,497	-	-	131,497	93,828	-	-	93,828
Total liabilities	3,293,625	-	-	3,293,625	2,281,153	43,882	-	2,325,035
TOTAL EQUITY AND LIABILITIES	3,484,482	-	1,469,043	4,953,525	2,380,116	43,882	2,264,347	4,688,345

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

35 RISK MANAGEMENT (continued)

35B Financial risk (continued)

The table below summarises the maturity of the financial assets and financial liabilities of the Company based on remaining discounted contractual obligations including interest receivable and interest payable.

31 December 2008

	<i>Balance Sheet Amount AED'00</i>	<i>Less than 1 year AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>No maturity date AED'000</i>	<i>Total AED'000</i>
Financial investments at fair value						
through profit or loss	298,023	27,224	246,700	77,339	-	351,263
Available for sale	1,488,646	-	-	-	1,488,646	1,488,646
Reinsurance assets	919,975	919,975	-	-	-	919,975
Insurance receivables	781,567	781,567	-	-	-	781,567
Other receivables (excluding prepayments)	48,708	48,708	-	-	-	48,708
Statutory deposits	25,938	-	29,829	-	-	29,829
Cash and cash equivalents	463,174	475,156	-	-	-	475,156
Total financial assets	4,026,031	2,252,630	276,529	77,339	1,488,646	4,095,144
Insurance contract liabilities	1,722,457	1,722,457	-	-	-	1,722,457
Financial liabilities						
Borrowings	770,693	691,972	116,250	-	-	808,222
Other financial liabilities	165,108	165,108	-	-	-	165,108
Insurance payables	503,870	503,870	-	-	-	503,870
Trade and other payables	131,497	131,497	-	-	-	131,497
Total financial liabilities	3,293,625	3,214,904	116,250	-	-	3,331,154

31 December 2007

	<i>Balance Sheet Amount AED'00</i>	<i>Less than 1 year AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>No maturity date AED'000</i>	<i>Total AED'000</i>
Financial investments at fair value						
through profit or loss	455,080	19,486	109,905	92,257	270,654	492,302
Available for sale	2,172,983	-	-	-	2,172,983	2,172,983
Reinsurance assets	704,665	704,665	-	-	-	704,665
Insurance receivables	448,002	448,002	-	-	-	448,002
Other receivables (excluding prepayments)	17,429	17,429	-	-	-	17,429
Statutory deposits	22,573	-	25,254	-	-	25,254
Cash and cash equivalents	337,244	344,362	-	-	-	344,362
Total financial assets	4,157,976	1,533,944	135,159	92,257	2,443,637	4,204,997
Insurance contract liabilities	1,221,559	1,221,559	-	-	-	1,221,559
Financial liabilities						
Borrowings	555,872	528,630	50,464	-	-	579,094
Other financial liabilities	133,502	133,502	-	-	-	133,502
Insurance payables	320,274	320,274	-	-	-	320,274
Trade and other payables	93,828	93,828	-	-	-	93,828
Total financial liabilities	2,325,035	2,297,793	50,464	-	-	2,348,257

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

35 RISK MANAGEMENT (continued)

35B Financial risk (continued)

MARKET RISK

Market risk arises from fluctuations in foreign exchange rates, interest rates and equity prices. The value of risk that may be accepted by the Company is monitored on a regular basis by the General Manager.

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 investments amounting to AED 428,800 thousand denominated in United States Dollars, to which the UAE Dirham has been pegged for several years, the Company does not have any other foreign currency balances.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The Company is exposed to interest rate risk on certain of its investments and cash and cash equivalents. The Company limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash and interest bearing investments and borrowings are denominated.

Details of maturities of the major classes of interest bearing financial instruments as at 31 December are as follows:

31 December 2008

	<i>Less than 1 years AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Total AED'000</i>	<i>Effective interest rate</i>
Time deposits	425,840	70,255	28,143	524,238	5.5% to 6.5%
Structured Investments	-	168,375	30,757	199,132	3% to 10%
Bank overdrafts	(103,693)	-	-	(103,693)	5% to 6%
Term loans	(567,000)	(100,000)	-	(667,000)	5% to 8%
	<u>(244,853)</u>	<u>138,630</u>	<u>58,900</u>	<u>(47,323)</u>	

31 December 2007

	<i>Less than 1 years AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Total AED'000</i>	<i>Effective interest rate</i>
Time deposits	341,323	-	18,502	359,825	4% to 5.5%
Structured Investments	-	94,542	52,348	146,890	3% to 10%
Bank overdrafts	-	(43,882)	-	(43,882)	5.5% to 6.5%
Term loans	(511,990)	-	-	(511,990)	6% to 7%
	<u>(170,667)</u>	<u>50,660</u>	<u>70,850</u>	<u>(49,157)</u>	

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

35 RISK MANAGEMENT (continued)***Interest rate risk (continued)***

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

The sensitivity of the statement of income 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 before taxation for the year AED'000</i>
2008	+25	1,311
	-50	(2,621)
2007	+25	900
	-50	(1,799)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Company's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2008) and on income statement due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	2008			2007		
	<i>Change in equity price %</i>	<i>Effect on equity AED'000</i>	<i>Effect on income statement AED'000</i>	<i>Change in equity price %</i>	<i>Effect on equity AED'000</i>	<i>Effect on income statement AED'000</i>
All investments – (Mainly Dubai Financial Market and Abu Dhabi Stock Market)	10	116,790	19,913	10	193,253	41,754

OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.