Arab Insurance Group (B.S.C.)

Report of the Board of Directors and Consolidated Financial Statements for the year ended 31 December 2008

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REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

The Directors of the Arab Insurance Group (B.S.C.) (Arig) are pleased to present the Company's 28th Annual Report and Consolidated Financial Statements for the year ended 31 December 2008.

FINANCIAL RESULTS

The Directors are pleased to report that during the year under review, the reinsurance portfolio grew by 12% to US$ 280.7 million (2007: US$ 250.0 million). After the successful integration of the new Life book and release of excess pipeline premium reserves, which significantly boosted Gross Premium Written (GWP) in 2007, the Company continued to experience solid growth across most lines. The increase in Life business at 19% year-on-year outstripped that of the Non-Life accounts, which grew at 11% over the high 2007 levels.

The Technical Result for the Company before investment income and operational expenses produced US$ 9.6 million (2007: -3.0 million); however, the absence of positive investment income for the reporting period turned technical profits into an overall underwriting loss of US$ -15.9 million (2007: 0.3 million). Over the year, Arig's loss ratio improved to 76.1% (2007: 81.6%) and combined ratio to 101.8% (2007: 106.3%) on net premiums. The Company set up additional prudence reserves for its growing Life portfolio as added security for long-term policies. These additional funds have inflated the 2008 loss ratio in Life, though it is expected that these will gradually be released as the underlying Life policies mature.

The Group recorded a combined net loss of US$ 28.6 million in 2008 (2007: profit of US$ 23.7 million) due to write-downs on invested assets as a result of the dramatic decline in the global equity markets. The loss represents 10.6% of the Group's average shareholders' equity. Though the Company neither held troubled assets nor did it have direct exposure to failed financial institutions, it could not completely escape losses from its equity portfolio. Damage was contained through reduced equity holdings and the continued weighting of funds in short-term instruments. Invested assets stood at US$ 678.5 million at the end of 2008 (2007: US$ 711.7 million).

MARKET CONDITIONS

According to industry estimates[1], 2008 produced combined underwriting losses of US$ 50 billion for the global insurance community, making it one of the costliest years in history. Yet not the liabilities but the assets held by companies have been grabbing headlines around the world. Hardly a day passes without the news of yet another well-known industry name developing a dire need for fresh capital. The distress of highly reputed brands in the banking world highlights deficiencies in risk management that have baffled politicians, regulators and the general public alike. Most insurers, on the other hand, seem to have learned from past experience and upgraded their risk management to avoid lop-sided exposures and insufficient capitalization – even though differences between markets and companies do exist.

Still, insurers certainly have been bearing some of the brunt: almost all companies suffered from mark-to-market write-downs on their assets. Across the industry it is estimated to have lost an average of 15% of their shareholders' equities (10-15% for Property & Casualty companies, 15-20% for Life insurers)[2].

Coming out of a period that produced extraordinary yields, the recent reduction in available risk capital has affected solvencies but so far not lead to an acute shortage in capacities. That would dramatically change if large loss events were to occur in 2009. There is general consent that, unlike in the situation following 9/11 or hurricane Katrina, raising post-event capital may prove extremely challenging. With insurers' position being overcast by depressed underwriting results, negative investment yields and capital constraints, the stage appears set for markets to return to a "back to basics" policy that would allow the industry to improve its Terms of Trade in an effort to increase profitability from the liability side of balance sheets.

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[1] Source: Swiss Re

[2] Swiss Re Economic Research & Consulting: Special Report, 9 December 2008;
Guy Carpenter: Global Reinsurance Review, January 2009

THE ARIG POSITION

As has been the case for most members of the insurance industry, the Company's 2008 financial results were affected by the dramatic decline in regional and global equity portfolios. Following its philosophy for maintaining transparency and consistent accounting policies, the Group decided not to re-classify any of its investments as it would be permitted under IFRS rules. Mark-to-market correction of the equity investments held by the Company impacted investment results with a US$ 26.1 million loss, equivalent to 9.7% of average shareholders equity, but still better than the calculated industry average for composite insurers[3]. Despite the negative result, the Board of Directors is extremely pleased to ascertain shareholders and clients that the correction in asset values has in no way impacted the financial fundamentals of Arig with solvency remaining at over 180%[4]. The Company's very strong capital position, in the past occasionally opined as a drag on ROE performance, is placing the Company into a privileged position. As Arig does not need to sell assets or replenish capital, it has retained the ability to hold affected equities at liberty until markets reverse.

Two years before the current crisis started to take its course, the Company enhanced its Enterprise Risk Management procedures. As part of this continuous exercise, which is supported through the most sophisticated risk modeling currently applied by leading markets, Arig identifies all risks the company is possibly exposed to in the course of its operation. Not only reinsurance exposures are considered but also operational, political or market risks, just to name some of the key categories. Each identified risk type is defined by its likely frequency over time and the financial impact that individual losses are expected to develop. Finally, worst-case scenarios are generated as they would be expected to occur up to a probability of 1 in 200 years. The total capital required to support the scenario of greatest stress is assumed to be the *Economic Capital* - i.e. the working capital required to prudently run the Company based on all its current risk exposures[5].

This information is of significant value when comparing Arig's available Shareholders Fund of US$ 239.6 million against the calculated Economic Capital of US$ 92.1 million required for our Company's reinsurance operations, which reflects a comfortable excess that will prove to be of significant value to Arig's security minded clients.

The Board is pleased to advise the shareholders that TNI Market Research Publication, Abu Dhabi has chosen Arig as the top company amongst all listed companies in the GCC based on various parameters and identified Arig as a proactive and transparent firm and as a natural regional disclosure champion.

OUTLOOK

The Company retains an optimistic view on its core business interest - reinsurance - for the coming 12 to 24 months as capital conscious buyers are expected to increase their demand for cover. Compared to the situation 12 months ago, there is significantly less alternative capacity available today. We are expecting prices to harden, particularly for programs with catastrophe exposure. Recent renewals have produced improved terms especially across markets that had operated below technical pricing requirements. In other territories with better track record, terms either mildly appreciated or kept stable.

Arig's clients are being challenged by a serious shortfall in their investment yield coupled with hardening reinsurance markets. There is a clear need to increase margins from original rates charged to the original insureds. After years of softening markets, this will benefit pro rata treaty reinsurers such as Arig. Even though the picture will vary between markets, the bottom line is that conditions are swinging in reinsurers' favor, and especially those that still have surplus capital available to support new business.

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[3] ditto

[4] Available shareholders funds excluding interest held in subsidiaries compared against Arig's Economic Capital

[5] Internal Capital Assessment modeling is supported by an internationally reputed, independent actuarial consultancy based in the U.K.

Arig has seen its competitive position strengthen further and the Company believes that considering the state of the market cycle, it should be well placed to grow its technical bottom line. Global market leaders' presence has been reducing - not only due to tighter underwriting but also because of a change in our clients' approach that seems to favor increasing syndication of reinsurance portfolios. None of the 2008 class of reinsurers in the region has so far developed sufficient momentum to get noticed. Subsequently Arig has been strengthening its share in its markets at increasingly attractive terms.

Some vagaries remain. No one is in a position to foresee with any degree of certainty what could yet become the deepest recession since the 1930ies. Some of the effects we are expecting to occur are a rise in fraudulent claims, slowdown in construction and transport activities as well as reducing growth in the Life sector, where certain products are tied to the volume of mortgages taken out by home builders in the region. However as previous economic crises have shown, the mainstay of the Company's Property and Casualty book should remain largely unaffected. Utilizing opportunities arising from new market developments, Arig is currently working to enhance its business model in the continuing effort to optimize technical returns. Its comfortable and stable financial position enables the Company to look at new attractive options, which the Board will report on as they materialize.

For 2009, the Company expects the continuation of the positive trend in its technical results. While financial markets may have some way to go until the tide turns, there is little doubt that any improvement should add significant momentum to Arig's bottom line where the effect of reversing valuation would be met by growing profits from underwriting insurance risk. Supported by improving Terms of Trade reinsurers should then be able to expect one of their strongest years in recent history. Realistically, we would not expect this to happen before 2010.

ACKNOWLEDGEMENTS

At the general assembly meeting of the shareholders in March 2008, the Board of Directors was reconstituted for a new three year term. Dr. Omar Ellafi Al-Hossomi and Mr. Ali Ibrahim Kajoor stepped down from the Board and were replaced by Mr. Fathi Emhimed El Hagi and Mr. Majed Ali A Omran Al Shamsi. The Directors take this opportunity to express their deep appreciation for the wise counsel and support provided by Dr. Hossomi and Mr. Kajoor during their terms of office and welcome Mr. Hagi and Mr. Shamsi to the Board.

The Directors express their gratitude to His Majesty the King, His Highness the Prime Minister and His Highness the Crown Prince for their wise leadership and encouragement for the insurance sector of the Kingdom of Bahrain. The Directors also extend their thanks and appreciation to our business partners, clients, shareholders, and regulators for their unwavering support and cooperation throughout the year and hope to further strengthen these relationships in the years ahead.

The Directors also take this opportunity to record their appreciation and gratitude to the management team and all the staff of the Company for their sincere efforts, commitment and loyalty.

On behalf of the Board of Directors

Khalid Ali Al Bustani
Chairman

12 February 2009

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Arab Insurance Group (B.S.C.)
Manama, Kingdom of Bahrain

12 February 2009

Report on the consolidated financial statements

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

Responsibility of the board of directors for the consolidated financial statements

The board of directors of the Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In addition, in our opinion, the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the directors and confirm that the information contained therein is consistent with the financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the Insurance Regulations set out in Volume 3 of the Insurance Rulebook issued by the Central Bank of Bahrain or the terms of the Company's memorandum and articles of association having occurred during the year that might have had a material effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008

(In thousands of U.S. Dollars)

	Note	2008	2007
ASSETS			
Cash and cash equivalents	5	**402,949**	386,293
Investments	6	**271,948**	319,366
Accrued income	8	**102,867**	73,154
Insurance receivables	9	**63,646**	56,354
Insurance deposits	10	**62,341**	54,945
Deferred policy acquisition costs		**20,296**	17,212
Reinsurers' share of technical provisions	11	**67,577**	75,755
Other assets	12	**19,851**	26,680
Takaful participants' assets	13	**42,160**	29,694
Fixed assets	14	**26,126**	10,355
		1,079,761	1,049,808
LIABILITIES			
Technical provisions	15	**592,312**	534,859
Insurance payables	18	**34,922**	32,589
Borrowings	19	**68,384**	45,802
Other liabilities	20	**46,449**	43,702
Takaful fund and participants' liabilities	13	**42,160**	29,694
		784,227	686,646
EQUITY			
Shareholders' equity	21		
Share capital		**220,000**	220,000
Treasury stock		**(7,889)**	(6,548)
Reserves		**33,045**	44,974
(Accumulated deficit) retained earnings		**(5,577)**	40,012
		239,579	298,438
Minority interests	22	55,955	64,724
		295,534	363,162
		1,079,761	1,049,808

These consolidated financial statements were approved by the Board of Directors on 12 February 2009 and signed by:

Khalid A. Al Bustani	Khalid J. Bin Kalban	Yassir Albaharna
Chairman	Vice Chairman	Chief Executive Officer

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2008

(In thousands of U.S. Dollars)

	Note		2008	2007
Gross premiums written			**280,694**	249,968
Net earned premiums			**255,042**	210,759
Claims and related expenses			**(194,072)**	(172,006)
Policy acquisition costs			**(51,385)**	(41,752)
Investment (loss) income attributable to insurance funds	25		**(7,588)**	19,542
Operating expenses	26		**(17,864)**	(16,273)
Underwriting result	23		**(15,867)**	270
Investment (loss) income attributable to shareholders' funds	25		**(18,541)**	34,151
Operating expenses - non-underwriting activities	26		**(14,530)**	(12,897)
Borrowing cost			**(2,151)**	(3,079)
Other income	27		**20,901**	14,668
Other expenses and provisions	28		**(3,104)**	(3,442)
(Loss) profit for the year			**(33,292)**	29,671
Net loss (profit) attributable to minority interests			**4,724**	(6,016)
Net (loss) profit attributable to shareholders			**(28,568)**	23,655
(Loss) earnings per share attributable to shareholders:	29	US$	(0.13)	0.11

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Accumulated deficit	Shareholders' equity	Minority interests	Total equity
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2007	220,000	(6,548)	23,813	13,213	7,948	44,974	40,012	298,438	64,724	363,162
Changes on remeasurement of available for sale assets	-	-	-	(10,110)	-	(10,110)	-	(10,110)	(598)	(10,708)
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	(1,455)	-	(1,455)	(437)	(1,892)	(163)	(2,055)
Transfer of net depreciation on revalued property	-	-	-	-	(364)	(364)	364	-	-	-
Net loss recognised directly in equity	-	-	-	(11,565)	(364)	(11,929)	(73)	(12,002)	(761)	(12,763)
Net loss for the year	-	-	-	-	-	-	(28,568)	(28,568)	(4,724)	(33,292)
Total recognised loss	-	-	-	(11,565)	(364)	(11,929)	(28,641)	(40,570)	(5,485)	(46,055)
Purchase of treasury shares	-	(1,341)	-	-	-	-	-	(1,341)	-	(1,341)
Dividends paid	-	-	-	-	-	-	(15,922)	(15,922)	-	(15,922)
Directors' remuneration paid	-	-	-	-	-	-	(1,026)	(1,026)	-	(1,026)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(3,284)	(3,284)
Balances at 31 December 2008	220,000	(7,889)	23,813	1,648	7,584	33,045	(5,577)	239,579	55,955	295,534
Parent company balances at 31 December 2008 (note 38)	220,000	(7,889)	23,747	2,423	7,584	33,754	(6,286)	239,579	-	239,579

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	Shareholders' equity	Minority interests	Total Equity
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2006	220,000	(4,293)	21,414	7,456	7,872	36,742	40,947	293,396	58,964	352,360
Revaluation of property	-	-	-	-	431	431	-	431	-	431
Changes on remeasurement of available for sale assets	-	-	-	6,020	-	6,020	-	6,020	84	6,104
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	(263)	-	(263)	(1)	(264)	-	(264)
Transfer of net depreciation on revalued property	-	-	-	-	(355)	(355)	355	-	-	-
Net income recognised directly in equity	-	-	-	5,757	76	5,833	354	6,187	84	6,271
Net profit for the year	-	-	-	-	-	-	23,655	23,655	6,016	29,671
Total recognised income	-	-	-	5,757	76	5,833	24,009	29,842	6,100	35,942
Purchase of treasury shares	-	(2,255)	-	-	-	-	-	(2,255)	-	(2,255)
Dividends paid	-	-	-	-	-	-	(21,465)	(21,465)	-	(21,465)
Directors' remuneration paid	-	-	-	-	-	-	(1,080)	(1,080)	-	(1,080)
Transfer to legal reserves	-	-	2,399	-	-	2,399	(2,399)	-	-	-
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(340)	(340)
Balances at 31 December 2007	220,000	(6,548)	23,813	13,213	7,948	44,974	40,012	298,438	64,724	363,162
Parent company balances at 31 December 2007 (note 38)	220,000	(6,548)	23,747	13,096	7,948	44,791	40,195	298,438	-	298,438

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008

(In thousands of U.S. Dollars)

	Note	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Premiums received		247,141	297,178
Reinsurance premiums paid		(11,487)	(14,760)
Claims paid		(203,290)	(257,446)
Reinsurance receipts in respect of claims		8,443	14,083
Interest received		16,993	19,673
Dividends received		1,851	1,854
Investment income received		4,325	13,086
Operating expenses paid		(27,700)	(26,227)
Interest paid		(2,275)	(3,206)
Other income/expenses, net		7,168	2,098
Insurance deposits paid		(7,936)	(3,891)
Purchase of trading investments		(207,727)	(243,932)
Sale of trading investments		223,000	260,633
Directors' remuneration paid		(1,026)	(1,080)
Net cash provided by operating activities	34	47,480	58,063
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of portfolio		-	6,621
Maturity/sale of investments		90,716	76,025
Purchase of investments		(123,124)	(39,368)
Interest received		6,544	7,447
Dividend received		1,595	369
Investment income received		1,127	1,914
Collateralised cash deposits (paid) received		(584)	263
Purchase of fixed assets		(13,554)	(1,009)
Purchase of intangible assets		(281)	(108)
Net cash (used in) provided by investing activities		(37,561)	52,154
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		(15,507)	(21,747)
Purchase of treasury stock		(1,341)	(2,255)
Net borrowings		22,706	(10,127)
Net cash provided by (used in) financing activities		5,858	(34,129)
Net increase in cash and cash equivalents		15,777	76,088
Effect of exchange rate on cash and cash equivalents		879	5,664
Cash and cash equivalents, beginning of year		386,293	304,541
Cash and cash equivalents, end of year		402,949	386,293

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1. INCORPORATION AND PRINCIPAL ACTIVITY

Arab Insurance Group (B.S.C.) (the "Company", "parent company") is an international insurance company registered as a Bahraini Shareholding Company having its registered office at Arig House, Manama, Kingdom of Bahrain. The parent company and its subsidiaries (the "Group") are involved in provision of general (non-life) and life reinsurance and related service activities.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued by the International Accounting Standards Board and are consistent with prevailing practice within the insurance industry.

The Group's financial statements are presented in U.S. Dollars, which is its functional currency as its share capital and a significant proportion of its business, assets and liabilities are denominated in that currency.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of land and building, investment property and certain investment assets.

Comparative figures have been reclassified, where necessary, to conform to the current year's presentation.

The following relevant new/amended IFRS standards and interpretations have been issued, which are not yet mandatory and have not been adopted by the Group in preparing these consolidated financial statements:

- IFRS 2 - Share Based Payments - clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions and prescribes accounting treatment for non-vesting conditions and cancellations, effective 1 January 2009.

- IFRS 3 - Business Combinations - changes in accounting for business combinations that will impact the amount of goodwill recognized and the reported results in the period of acquisition and future reported results, effective 1 July 2009.

- IFRS 8 - Operating Segments - require disclosures about its operating segments including the description determination and revenue from these segments, effective 1 January 2009.

- IAS 1 - Presentation of Financial Statements - amendment primarily requires reporting owner changes in equity and comprehensive income, effective 1 January 2009.

- IAS 23 - Borrowing Costs - Removes the option to expense borrowing costs, effective 1 January 2009.

- IAS 27 - Consolidated and Separate Financial Statements - requires accounting for changes in ownership interest in subsidiary that occur without loss of control to be recognised as an equity transaction, effective 1 July 2009.

The adoption of the above standard and interpretations, is not expected to have a material impact on the financial statements

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

The significant accounting policies of the Group are as follows:

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the parent company and all of its subsidiaries made up to 31 December 2008.

Subsidiaries are defined as companies that are controlled by the Group, namely companies in which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities, and thus generally includes all companies in which the Group owns more than 50% of the voting shares. The purchase method is used to account for acquisitions.

All intra-group transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated on consolidation. Where necessary, the accounts of subsidiaries have been restated to ensure consistency with the accounting policies adopted by the Group.

The Company's subsidiary, Takaful Re Limited, is an Operator of Islamic Reinsurance business. In accordance with applicable Shari'a principles, participants' (policyholders') funds are maintained distinct from the Operator's (shareholders') funds. Accordingly, the participants' assets and liabilities including the fund balance are shown separately as 'takaful participants' assets' and 'takaful fund and participants' liabilities' respectively in the Consolidated Balance Sheet. Takaful Participants' Fund Accounts comprising of Balance Sheet and Statement of Participants' Revenue is set out in note 13.

A listing of the principal subsidiaries is set out in note 36. In the parent company, these investments are accounted under IAS 39, Financial Instruments: Recognition and Measurement.

INVESTMENTS

Investment securities are classified as 'at fair value through profit or loss' which includes financial assets held for trading and those designated at fair value on initial recognition, 'available for sale', 'held to maturity' or 'loans and receivables'. Management determines the appropriate classification of investments at the time of purchase.

Securities are classified as at fair value through profit or loss if they are acquired for the purpose of generating a profit from short-term fluctuations in price or if so designated by management. Investments with fixed or determinable payments and fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity. Non-derivative financial instruments with fixed or determinable payments and that are not quoted in an active market are categorised as loans and receivables. Securities intended to be held for an indefinite period of time and those that are not classified as at fair value through profit or loss, held to maturity or loans and receivables, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available for sale.

All purchases and sales of investments are recognised at the settlement date. All investment assets are recognised initially at cost. After initial recognition, investments are valued using principles described below.

Investments at fair value through profit or loss and investments available for sale are carried at fair value. Held to maturity investments and loans and receivables are carried at amortised cost, less any adjustment necessary for impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

The fair value of publicly traded investments is based on quoted market values at the balance sheet date. Fair values of other investments are estimated at realisable values. Where it is not possible to estimate the fair value, the asset is carried at cost less impairment, if any. Property values are based on recent valuations carried out by qualified professional valuers in accordance with recognised valuation principles.

PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

A provision is made in respect of a financial asset that is impaired if its carrying amount is greater than its estimated recoverable amount.

Provisions for assets carried at amortised cost are calculated as the difference between the carrying amount of the assets and the present value of expected future cash flows discounted at their original effective interest rate. By comparison, the recoverable amount of an instrument carried at cost is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

In the case of available for sale financial assets, the Group assesses at each balance sheet date whether there is an objective evidence of impairment of such assets. If any such evidence exists, the impairment is recognised in income. Impairment recognised is not reversed subsequently except in case of debt instruments.

INVESTMENT IN ASSOCIATED COMPANIES

Investments in associated companies are accounted for using the equity method. Associated companies are defined as those companies over which the Group is able to exercise significant influence, being the power to participate in the financial and operating policy decisions of the company, but not the power to control such policy decisions. Generally, these are companies in which the Group owns 20% to 50% of the voting shares.

INSURANCE RECEIVABLES

Insurance receivables are carried at anticipated realisable values after provision for impairment. A provision for impairment based on sliding scale rates applied on the aged balance of receivables is established when there is evidence that the Group will not be able to collect all amounts due according to the terms of the receivables. Bad debts are written off during the year in which they are identified. The identification of bad debts is based on an analysis of the financial position of the counter party.

INSURANCE DEPOSITS

Insurance deposits comprise premium and claim deposits with cedants in accordance with policy terms and are carried at anticipated realisable values after provision for impairment. A provision for impairment based on sliding scale rates applied on the aged balance of deposits is established when there is evidence that the Group will not be able to collect all amounts due according to the terms of the deposits. Irrecoverable deposits are written off during the year in which they are identified. Irrecoverable deposits are identified on an analysis of the financial position of the counter party.

INTANGIBLE ASSETS

Expenditure on software, patents, present value of future profits on acquisition of portfolio and licenses are capitalised and amortised using the straight line basis over their expected useful lives, not exceeding a period of 5 years.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Costs associated with developing computer software programmes are recognised as an expense when incurred. However, costs that are clearly associated with an identifiable and unique product, which will be controlled by the Group and has a probable benefit exceeding the costs beyond one year, are recognised as intangible assets. Costs include staff costs of the development team and an appropriate portion of relevant overheads.

Expenditure, which enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. The carrying amount of intangible assets is reviewed annually and adjusted for impairment where it is considered necessary.

GOODWILL

Goodwill represents excess of cost of an acquisition over the fair value of the identifiable net assets at the date of acquisition. After initial recognition, goodwill is carried at cost less accumulated impairment. At each balance sheet date the Group performs an analysis to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount and the resultant loss is recognised as an expense in the income statement.

FIXED ASSETS AND RELATED DEPRECIATION

Fixed assets are stated at cost less accumulated depreciation except for land and building which are stated at fair value based on valuation by independent external valuers, less accumulated depreciation on buildings. On revaluation, any increase in the carrying amount of the asset is carried in the shareholders' equity as Property Revaluation Reserve and any decrease is recognised as an expense, except to the extent that it reverse decreases or increases previously recognised through income or shareholders' equity. The balance in the Property Revaluation Reserve is transferred directly to Retained Earnings on sale of property and realization of surplus. Further, the difference between depreciation based on the revalued carrying amounts and the depreciation based on original cost of the property is transferred directly from Property Revaluation Reserve to Retained Earnings.

The cost of additions and major improvements are capitalised; maintenance and repairs are charged to expense as incurred. Gains or losses on disposal are reflected in other income. Depreciation is provided on straight-line basis over the expected useful lives of the assets, which are as follows:

Building	40	years
Electrical and mechanical	20	years
Information systems, furniture, equipment and others	3-5	years

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Employee entitlements are recognised when they accrue to employees, with a provision being carried for the estimated liability as a result of services rendered upto the balance sheet date.

POST EMPLOYMENT OBLIGATIONS

The Group operates a number of defined benefit plans for its employees.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

For defined benefit plans, the accounting cost is charged to the income statement so as to spread it over the expected service lives of employees. The accounting costs under these plans are measured as the present value of the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability.

EMPLOYEE SHARE SCHEME

The Group operates a cash settled, share-based compensation scheme. The fair value of the employee services received in exchange for virtual shares is recognised as an expense.

The total amount to be expensed is spread over the financial year to which the award pertains (Scheme year) and the vesting period of two years from the end of Scheme year in the proportion 60:20:20.

At each balance sheet date, the liability is revalued with reference to the book value of the virtual shares allocated and the impact of the revaluation is recognised in the income statement with a corresponding adjustment to the liability.

TREASURY STOCK

Treasury stock representing shares purchased by the parent company or its consolidated subsidiaries are carried at cost with the exception of holdings as on the date of capital reduction, 4 July 2002, which are carried at nominal value. All treasury stock is presented as a deduction from shareholders' equity and gains and losses from sale of these shares are presented as a change in shareholders' equity.

RECOGNITION OF UNDERWRITING RESULT

Insurance business is accounted for in a manner consistent with prevailing practice within the insurance industry, more specifically, on an annual accounting basis. Specific accounting policies relating to individual items of insurance revenues and costs and technical provisions are explained below for each relevant item.

PREMIUMS

Gross premiums written comprise the total premiums in relation to contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years. It includes an estimate of pipeline premiums, being those premiums written but not reported to the Group at the balance sheet date. Pipeline premiums are reported as accrued insurance premiums.

Premiums, net of reinsurance, are taken to income over the terms of the related contracts or policies. Unearned premiums are those proportions of the premiums accounted for, which relate to periods of risk that extend beyond the end of the financial year; they are calculated based on a time apportionment basis. A provision for unexpired risks is made for estimated amounts required over and above provisions for unearned premiums to meet future claims and related expenses on business in force at the balance sheet date. Such provision, where necessary, is made on the basis of an assessment of segments in which policies with similar risk profile are grouped together.

CLAIMS AND RELATED EXPENSES

Claims and related expenses are accounted for based on reports received and subsequent review on an individual case basis. Provision is made to cover the estimated ultimate cost of settling claims arising out of events, which have occurred by the end of the financial year, including unreported losses, and claims handling

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

expenses. Provision for unreported claims is established based on actuarial analysis and application of underwriting judgment having regard to the range of uncertainty as to the eventual outcome for each category of business.

POLICY ACQUISITION COSTS

Commissions, taxes, brokerages and other variable underwriting costs directly associated with acquiring business are amortised over the period in which the related premiums are earned. Policy acquisition costs that relate to periods of risk that extend beyond the end of the financial year are reported as deferred policy acquisition costs.

REINSURANCE ARRANGEMENTS

As part of managing its insurance risks, the Group enters into contracts with other reinsurers for compensation of losses on insurance contracts issued by the Group.

Compensations receivable from reinsurers are estimated in a manner consistent with the corresponding claim liability. The benefits and obligations arising under reinsurance contracts are recognised in income and the related assets and liabilities are recognised as accounts receivable, reinsurers' share of technical reserves and accounts payable.

LIABILITY ADEQUACY TEST

At each balance sheet date, liability adequacy tests are performed to ensure adequacy of the contractual liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual undiscounted cash flows and claims handling and administrative expenses are considered. The tests are performed on a portfolio basis where policies with similar risk profile are grouped together as a portfolio.

INVESTMENT INCOME

Investment income comprises interest and dividend receivable for the financial year. Gains and losses arising from changes in the fair value of investments at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale investments are recognised in equity. When available for sale investments are disposed or are impaired, the related fair value adjustments are included in the income statement. Gains and losses arising from changes in the fair value of investment properties are included in the income statement for the period in which they arise.

Investment income arising from insurance business investment assets are allocated to the underwriting results of insurance businesses based on the proportion of their respective insurance funds to shareholders' funds during the financial year.

FOREIGN CURRENCY TRANSLATION

Transactions denominated in currencies other than U.S. Dollars are recorded at the rates ruling at the date of the transaction. Assets and liabilities denominated in currencies other than U.S. Dollars are translated at year-end exchange rates.

Unrealised gains or losses on translation of investments denominated in foreign currencies are taken to income except in respect of non-monetary available for sale investments, which are taken to equity until they are disposed.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Unrealised gains and losses on translation of financial statements of subsidiaries, net of translation adjustments relating to hedging liabilities, if any, are included in the Shareholders' equity. Other foreign currency gains and losses are taken to income.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

In the ordinary course of its business, the Group uses forward foreign exchange contracts as fair value hedges to protect its exposures in respect of foreign currency denominated investments and insurance liabilities and these contracts are carried at fair value.

Where a fair value hedge meets the conditions prescribed by International Financial Reporting Standards for qualifying as an effective hedge, gains or losses from remeasuring forward foreign exchange contracts and gains or losses on hedged assets attributable to the hedged risk are recognised in income.

Where the hedge is not effective, gains or losses from remeasuring forward foreign exchange contracts are recognised in income. Gains or losses on hedged assets are recognised in income except in respect of non-monetary available for sale investments, which are taken to equity until they are disposed.

The gain or losses from remeasuring insurance liabilities and related foreign exchange contracts are recognised in income.

Covered call and put options are written and bought by the Group as part of its investment portfolio. The premium received and paid is initially recorded as liability and asset respectively and the changes in fair value of these options are taken to the statement of income and the corresponding asset or liability adjusted.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying its accounting policies, the Group makes estimates and judgements that have an impact on the amounts recognised and reported in the financial statements. These estimates and judgements are based on historical experience, observable market data, published information and other information including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant impact on the recognised amounts in the financial statements and the processes used to determine these estimates and judgements are described below:

i) Claims and related expenses

The estimate of ultimate losses arising from existing insurance contracts include unreported claims. Provisions for unreported claims are estimated based on actuarial analysis and application of underwriting judgment having regard to the range of uncertainty as to the eventual outcome for each category of business. The ultimate insurance liability also includes the costs to administer the claims.

ii) Ultimate premiums

The estimate of ultimate premiums is based on premium income estimates provided by cedants which is then adjusted to reflect underwriters' judgement taking into account market conditions and historical data. This estimate is subject to review by underwriters and actuaries.

4. MANAGEMENT OF INSURANCE RISKS

Risks under insurance contracts arise from uncertainty regarding the occurrence of the insured event and the amount of the resulting claim. In addition to underwriting risks, the Group is also exposed to other related risks such as credit, currency and liquidity risks.

The following is a summary of policies adopted to mitigate the key insurance risks facing the Group:

i) Underwriting risks

The group manages its underwriting risks principally through policies and guidelines for accepting risks and reinsurance arrangements.

Risks are accepted based on an evaluation of pricing and prior underwriting experience in accordance with underwriting guidelines that have been laid out for each line of business. Underwriting guidelines are constantly reviewed and updated to take account of market developments, performance and opportunities. Accumulation limits are set to control exposures to natural hazards and catastrophes. Various underwriting and approval limits are specified for accepting risks.

Acceptance of risks that do not meet specified minimum criteria are subject to agreement of an Underwriting Review Committee comprising representatives from the Marketing, Underwriting and Actuarial functions.

The reinsurance strategy of the Group is designed to protect exposures to individual and event risks based on current risk exposures through cost effective reinsurance arrangements.

Reserving risks are addressed by ensuring prudent and appropriate reserving for business written by the Group, thus ensuring that sufficient funds are available to cover future claims. Reserving practices involve the use of actuarial analysis and application of underwriting judgement. These are supplemented by periodical independent actuarial reviews for determining the adequacy of reserves.

ii) Credit risks

Credit risk under insurance contracts is the risk that a counterparty will be unable to pay amounts in full when due.

Credit risk is controlled through terms of trade for receipt of premium and in certain cases enforcement of premium warranty conditions. Most of the counterparties are insurance companies that are generally not rated. However, there are no significant exposures from any one counterparty.

Reinsurance arrangements are effected with reinsurers whose creditworthiness is assessed on the basis of satisfying minimum rating and financial strength criteria. Exposure to any single reinsurer generally does not exceed a maximum of 25% of total exposure and risks are generally placed with counterparties with minimum investment grade rating except for proportional treaty arrangements placed on reciprocal basis.

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

Credit risks relating to reinsurance arrangements are analysed as follows:

	US$ '000		
	2008		
	Receivables	**Share of technical provisions**	**Total**
Balance relating to reinsurers:			
- With investment grade rating	**5,281**	**46,548**	**51,829**
- Other	**23,599**	**11,520**	**35,119**
	28,880	**58,068**	**86,948**

	US$ '000		
	2007		
	Receivables	Share of technical provisions	Total
Balance relating to reinsurers:			
- With investment grade rating	3,555	49,104	52,659
- Other	25,263	14,564	39,827
	28,818	63,668	92,486

iii) Currency risks

As the Company writes business in various currencies, it is exposed to currency risk. Foreign exchange currency risks are hedged where exposures are significant and facility to hedge is available.

	US$ '000				
	Euro	Pound Sterling	Norwegian Kroner	Canadian Dollar	Other
2008					
Reinsurance Assets (Liabilities), net	**(10,469)**	**(1,815)**	**(65)**	**(449)**	**(183,580)**
Hedged	**10,266**	**689**	**218**	**405**	**-**

	US$ '000				
	Euro	Pound Sterling	Norwegian Kroner	Canadian Dollar	Other
2007					
Reinsurance Assets (Liabilities), net	(14,663)	(1,571)	(440)	(512)	(88,772)
Hedged	10,897	918	406	522	-

iv) Liquidity risks

Liquidity risk is the risk that cash may not be available to pay obligations when due. Limits have been specified in the investment policy and guidelines that requires a significant portion of investment funds representing insurance liabilities to be held in cash or readily marketable investment securities.

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

v) Sensitivity analysis

The sensitivity of the Group's income to market risks is as follows:

	US$ '000	
	2008	2007
	Income	Income
5% increase in ultimate loss ratio	(12,752)	(10,538)
5% decrease in ultimate loss ratio	12,752	10,538
10% increase in US Dollar exchange rate	8,118	8,979
10% decrease in US Dollar exchange rate	(7,510)	(9,710)

5. CASH AND CASH EQUIVALENTS

	US$ '000	
	2008	2007
Cash and bank balances	171,819	98,221
Deposits with short term maturities	231,130	288,072
	402,949	386,293

Deposits of US$ 13.6 million (2007: Nil) have been pledged as security for borrowing by the subsidiary, Takaful Re Limited.

Details of significant terms and conditions, exposures to credit, interest rate and currency risks are as follows:

i) Credit risk:

Bank balances and deposits with short term maturities are held with leading financial institutions. The Group limits its concentration of time deposits with any one financial institution to a maximum of 10% of shareholders' equity.

ii) Interest rate risk:

	2008	2007
Interest receivable basis:		
- Bank balances	Daily/Monthly	Daily/Monthly
- Deposits with short term maturities	On maturity	On maturity
Effective rates	0.37% to 5.50%	0.10% to 7.50%

As the deposits are short term maturities, there is no sensitivity to interest rate fluctuation.

iii) Currency risk:

	US$ '000	
	2008	2007
U.S. Dollar	299,701	210,063
Kuwaiti Dinar	6,405	110,690
Euro	1,174	800
Pound Sterling	612	1,274
Other	95,057	63,466
	402,949	386,293

6. INVESTMENTS

	US$ '000	
	2008	2007
At fair value through profit or loss		
Held for trading		
Common stock of listed companies	51,401	107,264
	51,401	107,264
Designated at fair value on initial recognition		
Debt Securities		
- Other	17,771	26,966
	17,771	26,966
Held to maturity		
Debt securities		
- Supra-nationals and OECD country governments	50,393	33,918
- Other investment grade	40,446	44,942
	90,839	78,860
Available for sale		
Debt securities		
- Supra-nationals and OECD country governments	38,525	26,441
- Other investment grade	18,232	9,063
- Non-OECD country governments	4,227	6,138
- Other	12,850	16,134
Common stock of listed companies	3,286	2,047
Common stock of unlisted companies	11,405	22,511
Other	23,412	23,942
	111,937	106,276
	271,948	319,366

Movements on the Group's provision for impaired available for sale investments are as follows:

	US$ '000	
	2008	2007
At 1 January	7,050	6,405
New provision:		
- Unlisted companies	1,316	215
- Others	2,485	500
Provision reversed on sale	(2,548)	(70)
At 31 December	8,303	7,050

Debt securities amounting to US$ 41.1 million (2007: US$ 48.5 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and US$ 65.3 million (2007: US$ 54.0 million) for borrowings.

Details of significant exposures to credit, interest rate and currency risks on investments are as follows:

i) **Credit risk:**

The Group limits its investment concentration in debt securities in any one investee and in any one industry group to 10% and 20% respectively, of the total debt securities portfolio.

The Group also limits its investment concentration in common stock of listed companies of any one issue and any one issuer to 5% and 10% respectively, of its total common stock portfolio.

6. INVESTMENTS (Contd.)

ii) Debt securities - interest rate risk:

	2008		
	Interest receivable basis	**Effective rates**	**Coupon rates**
Supra-nationals and OECD country government securities	**Semi-annual/Annual**	2.6% - 7.3%	2.8% - 7.5%
Other investment grade debt securities	**Semi-annual/Annual**	3.0% - 9.2%	3.0% - 9.5%
Non-OECD country government securities	**Semi-annual/Annual**	4.5% - 5.3%	4.5% - 5.2%
Other securities	**Monthly/Semi-Annual**	2.6% - 7.4%	2.4% - 7.4%

	2007		
	Interest receivable basis	Effective rates	Coupon rates
Supra-nationals and OECD country government securities	Semi-annual/Annual	3.3% - 5.1%	2.3% - 6.5%
Other investment grade debt securities	Semi-annual/Annual	4.2% - 7.4%	3.4%- 7.4%
Non-OECD country government securities	Semi-annual/Annual	4.2% - 6.1%	3.1% - 6.0%
Other securities	Monthly/Semi-Annual	5.7% - 7.6%	5.7% - 7.6%

iii) Debt securities - currency risk :

	US$ '000		
	2008		
	U.S. Dollar	**Other**	**Total**
Supra-nationals and OECD country government securities	**85,465**	**3,453**	**88,918**
Other investment grade debt securities	**57,584**	**1,094**	**58,678**
Non-OECD country governments	**2,025**	**2,202**	**4,227**
Other debt securities	**30,620**	**-**	**30,621**
	175,694	**6,749**	**182,444**

	US$ '000		
	2007		
	U.S. Dollar	Other	Total
Supra-nationals and OECD country government securities	60,359	-	60,359
Other investment grade debt securities	52,913	1,092	54,005
Non-OECD country governments	1,148	4,990	6,138
Other debt securities	43,100	-	43,100
	157,520	6,082	163,602

6. INVESTMENTS (Contd.)

iv) Debt securities - remaining term to maturity:

The principal amount and book values of debt securities are shown in the table below by contractual maturity.

	US$ '000			
	2008		2007	
	Principal amount	**Book value**	Principal amount	Book value
Supra-nationals and OECD country government securities:				
- Due in one year or less	**17,343**	**17,560**	29,078	29,018
- One to five years	**62,124**	**63,167**	31,192	31,341
- More than five years	**8,009**	**8,191**	-	-
	87,476	**88,918**	60,270	60,359
Debt securities of other investment grade issuers:				
- Due in one year or less	**24,000**	**23,950**	28,000	27,996
- One to five years	**33,028**	**33,728**	26,028	26,009
- More than five years	**1,000**	**1,000**	-	-
	58,028	**58,678**	54,028	54,005
Non-OECD country government securities:				
- Due in one year or less	**550**	**540**	3,323	3,214
- One to five years	**2,236**	**3,687**	2,918	2,924
	2,786	**4,227**	6,241	6,138
Other debt securities :				
- Due in one year or less	**1,573**	**2,148**	2,000	2,176
- One to five years	**8,710**	**8,064**	13,800	13,958
- More than 5 years	**26,485**	**20,409**	26,087	26,966
	36,768	**30,621**	41,887	43,100
	185,058	**182,444**	162,426	163,602

v) Common stock:

Common stock have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis.

The book value of common stock classified by currencies in which they are denominated are as follows:

	US$ '000	
	2008	2007
U.S. Dollar	**29,703**	79,892
Euro	**3,842**	8,252
Bahraini Dinar	**2,382**	6,379
Kuwaiti Dinar	**2,415**	4,643
Pound Sterling	**2,607**	3,948
Japanese Yen	**2,423**	3,405
Other	**22,720**	25,303
	66,092	131,822

6. INVESTMENTS (Contd.)

vi) Commitments:

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 8.7 million (2007: US$ 7.1 million).

7. SENSITIVITY ANALYSIS

The sensitivity of the Group's profit or loss and equity to market risks on its cash and cash equivalents and investments is as follows:

	US$ '000			
	2008		2007	
	Income	**Equity**	Income	Equity
Interest rate				
+ 100 basis points shift in yield curves- debt instruments	**(464)**	**(1,409)**	(355)	(702)
- 100 basis points shift in yield curves- debt instruments	**477**	**1,466**	361	712
Currency risk				
10% increase in US Dollar exchange rate	**8,024**	**125**	17,248	84
10% decrease in US Dollar exchange rate	**(6,565)**	**(102)**	(14,109)	(72)
Equity price				
10% increase in equity prices	**4,769**	**-**	9,757	-
10% decrease in equity prices	**(4,769)**	**-**	(9,405)	-

8. ACCRUED INCOME

	US$ '000	
	2008	2007
Accrued insurance premiums		
Expected to be received :		
- Within 12 months	95,938	65,720
- After 12 months	3,319	1,435
	99,257	67,155
Accrued interest		
- Expected to be received within 12 months	3,610	5,999
	102,867	73,154

9. INSURANCE RECEIVABLES

	US$ '000	
	2008	2007
Balances due :		
- Within 12 months	57,848	54,298
- After 12 months	5,798	2,056
	63,646	56,354

Movements on the Group's provision for impaired receivables are as follows:

	US$ '000	
	2008	2007
At 1 January	16,016	15,972
Provision for impairment	1,064	44
31 December	17,080	16,016

The individually impaired receivables mainly relate to counter party in financial difficulty. The ageing of these receivables is as follows:

	US$ '000	
	2008	2007
Under two years	138	101
Over two years	11,124	11,050
	11,262	11,151

Receivables that are less than 12 months past due are not considered impaired. The ageing analysis of these receivables is as follows:

	US$ '000	
	2008	2007
Upto 6 months	16,012	20,684
6 to 12 months	19,998	15,022
	36,010	35,706

10. INSURANCE DEPOSITS

	US$ '000	
	2008	2007
Balances due :		
- Within 12 months	47,995	35,768
- After 12 months	14,346	19,177
	62,341	54,945

Movements on the Group's provision for impaired deposits are as follows:

	US$ '000	
	2008	2007
At 1 January	5,338	4,894
Provision for impairment	92	444
31 December	5,430	5,338

The individually impaired deposits mainly relate to counter parties in financial difficulty. The ageing of these deposits is as follows:

	US$ '000	
	2008	2007
Under ten years	1,108	1,020
Over ten years	4,684	4,752
	5,792	5,772

Deposits that are less than 3 years past due are not considered impaired. The ageing analysis of these deposits is as follows:

	US$ '000	
	2008	2007
Up to 1 year	14,728	8,424
1 to 3 years	33,227	35,955
	47,955	44,379

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000	
	2008	2007
General insurance business		
- Claims outstanding	57,990	63,372
- Unreported general insurance claims	7,681	10,160
- Deferred retrocession premium reserve	1,674	1,497
	67,345	75,029
Life insurance business		
- Life insurance claims outstanding	78	296
- Life insurance unreported losses	154	430
	232	726
	67,577	75,755

12. OTHER ASSETS

	US$ '000	
	2008	2007
Intangible assets :		
- Goodwill	1,893	1,893
- Present value of future profits (PVFP)	5,000	5,000
- Computer software	9,933	9,538
	16,826	16,431
Less : accumulated amortisation	(10,266)	(9,088)
Net intangible assets	6,560	7,343
Other assets due within 12 months:		
- Collateralised cash deposits	4,555	3,971
- Prepayments and other receivables	8,736	15,366
	13,291	19,337
	19,851	26,680

	US$ '000	
	2008	2007
Movement in intangible assets :		
Net book value at 1 January	7,343	2,568
- Additions	395	5,363
- Amortisation charge	(1,178)	(588)
Net book value at 31 December	6,560	7,343

Collateralised cash deposits have been pledged as security for reinsurance letters of credit and guarantees.

13. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) BALANCE SHEET

	US$ '000	
	2008	2007
ASSETS		
Cash & cash equivalents	6,186	3,721
Accrued income	17,016	11,354
Insurance receivable	5,607	6,018
Insurance deposits	6,403	2,711
Deferred acquisition costs	3,821	3,609
Deferred wakala fees	3,127	2,281
	42,160	29,694
LIABILITIES		
Accounts payable	8,853	7,434
Other liabilities	51	-
	8,904	7,434
TAKAFUL FUND		
Unearned contributions	15,585	11,418
Outstanding claims	6,966	5,077
Unreported losses	13,317	6,968
	35,868	23,463
Accumulated deficit	(2,612)	(1,203)
	42,160	29,694

The subsidiary Takaful Re Limited has a commitment to provide an interest free loan to the extent of the accumulated deficit.

13. TAKAFUL PARTICIPANTS' FUND ACCOUNTS (Contd.)

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000	
	2008	2007
Gross contributions	34,033	20,339
Outward reinsurance premiums	(747)	(694)
Unearned contributions	(4,224)	(2,440)
Net earned contributions	29,062	17,205
Reported losses	(12,495)	(5,062)
Provision for unreported losses	(6,417)	(4,632)
Claim and related expenses	(18,912)	(9,694)
Policy acquisition costs	(5,944)	(6,545)
Deferred policy acquisition costs	219	1,376
Policy acquisition costs	(5,725)	(5,169)
Fee payable to operator (Wakala fee)	(6,053)	(3,579)
Investment income	159	41
Other income	86	45
Other expenses & provisions	(26)	-
Deficit for the year	(1,409)	(1,151)

14. FIXED ASSETS

	US$ '000	
	2008	2007
Land	1,340	1,340
Building	9,272	9,272
Work in progress - building	16,240	-
Information systems, furniture, equipment and other	12,985	12,673
	39,837	23,285
Less: accumulated depreciation	(13,711)	(12,930)
	26,126	10,355
Movements in fixed assets :		
Net book value at 1 January	10,355	9,537
- Additions	16,627	801
- Disposals	-	(24)
- Revaluation	-	431
- Reversal of impairment on revaluation	-	431
- Depreciation charge	(856)	(821)
Net book value at 31 December	26,126	10,355

Land and Building comprises the head office property owned and occupied by the Company since 1984. The property was revalued in October 2007 by external valuers. Based on open market valuation, the fair value of land was determined at US$ 1,340,000. The increase in fair value of US$ 431,000 has been taken to income to set off the loss recognised in the previous valuation. The fair value of the building has been determined at US$ 9,272,000. The increase in fair value of US$ 431,000 has been included in Property Revaluation Reserve.

Work in progress-building is the office premise of the subsidiary Takaful Re Limited under construction in Dubai, U.A.E. The subsidiary has a commitment of US$ 15.8 million (2007: US$ 28.6 million) towards construction of this building.

15. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000	
	2008	2007
General insurance business		
Claims outstanding	274,713	288,513
Unreported losses	132,887	104,125
Unearned premiums	100,210	83,712
	507,810	476,350
Life insurance business		
Claims outstanding	14,160	10,007
Unreported losses	60,687	36,062
Unearned premiums	9,655	12,440
	84,502	58,509
	592,312	534,859

The mean term of reserves is 3.2 years and 4.6 years for non-life and life business respectively.

16. CLAIMS DEVELOPMENT

The table below shows the incurred gross and net claims including unreported losses computed with reference to earned premiums, compared with previous estimates for the last 5 years:

	US$ '000					
	Underwriting year					
	2004	2005	2006	2007	2008	Total
Gross						
Estimate of incurred claims costs:						
- At end of underwriting year	46,409	60,230	61,939	145,803	104,722	
- One year later	81,670	98,619	122,927	226,499	-	
- Two years later	88,069	110,437	132,928	-	-	
- Three years later	92,116	115,741	-	-	-	
- Four years later	90,982	-	-	-	-	
Current estimate of incurred claims	90,982	115,741	132,928	226,499	104,722	670,872
Cumulative payments to date	(68,568)	(83,244)	(87,046)	(101,862)	(6,096)	(346,816)
Liability recognised	22,414	32,497	45,882	124,637	98,626	324,056
Liability in respect of prior years						158,391
Total liability included in the balance sheet						482,447
Net						
Estimate of incurred claims costs:						
- At end of underwriting year	45,985	55,843	56,934	137,457	102,165	
- One year later	76,236	91,271	111,562	217,719	-	
- Two years later	81,510	101,740	121,448	-	-	
- Three years later	84,968	107,078	-	-	-	
- Four years later	84,122	-	-	-	-	
Current estimate of incurred claims	84,122	107,078	121,448	217,719	102,165	632,532
Cumulative payments to date	(63,878)	(76,946)	(79,332)	(100,233)	(6,226)	(326,615)
Liability recognised	20,244	30,132	42,116	117,486	95,939	305,917
Liability in respect of prior years						110,627
Total liability included in the balance sheet						416,544

17. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

2008	US$ '000		
	Gross	Reinsurance	Net
Claims			
Claims outstanding	298,520	63,668	234,852
Unreported losses	140,187	10,590	129,597
Total at beginning of year	438,707	74,258	364,449
Increase in provision during the year	182,547	77	182,470
Claims settled during the year	(138,807)	(8,432)	(130,375)
Balance at end of year	482,447	65,903	416,544
Unearned premium			
At beginning of year	96,152	1,497	94,655
Increase in provision during the year	13,713	177	13,535
Balance at end of year	109,865	1,674	108,190
Accrued insurance premium			
At beginning of year	69,019	1,864	67,155
Increase during the year	33,014	912	32,102
Balance at end of year	102,033	2,776	99,257
Deferred policy acquisitions costs			
At beginning of year	17,690	478	17,212
Increase during the year	3,229	145	3,084
Balance at end of year	20,919	623	20,296

2007	US$ '000		
	Gross	Reinsurance	Net
Claims			
Claims outstanding	278,149	59,106	219,043
Unreported losses	90,882	10,839	80,043
Total at beginning of year	369,031	69,945	299,086
Increase in provision during the year	221,579	18,277	203,302
Claims settled during the year	(151,903)	(13,964)	(137,939)
Balance at end of year	438,707	74,258	364,449
Unearned premium			
At beginning of year	66,360	4,227	62,133
Increase (decrease) in provision during the year	29,792	(2,730)	32,522
Balance at end of year	96,152	1,497	94,655
Accrued insurance premium			
At beginning of year	38,722	4,462	34,260
Increase (decrease) during the year	30,297	(2,598)	32,895
Balance at end of year	69,019	1,864	67,155
Deferred policy acquisitions costs			
At beginning of year	13,592	1,533	12,059
Increase (decrease) during the year	4,098	(1,055)	5,153
Balance at end of year	17,690	478	17,212

18. INSURANCE PAYABLES

	US$ '000	
	2008	2007
Due Within 12 months	34,922	32,589
	34,922	32,589

19. BORROWINGS

	US$ '000	
	2008	2007
Due within 12 months	68,384	45,802
	68,384	45,802

Borrowings amounting to US$ 55.7 million (2007: US$ 45.8 million) and US$ 12.7 million (2007: Nil) are secured by debt securities and deposits with short term maturity, respectively. The effective interest rate on the borrowings was 4.4% (2007: 5.8%).

20. OTHER LIABILITIES

	US$ '000	
	2008	2007
Accrued expenses	3,786	3,218
Post employment benefits (note 31)	13,274	12,337
Accrual for scheme of arrangement fees	3,231	3,231
Reinsurance premiums accrued	11,733	11,861
Employee share scheme (note 30)	795	1,287
Dividends payable	937	522
Other	12,693	11,246
	46,449	43,702
Balances due:		
- Within 12 months	32,380	30,078
- After 12 months	14,069	13,624
	46,449	43,702

21. SHAREHOLDERS' EQUITY

i) Share capital:

a) Composition:

	US$ '000	
	2008	2007
Authorised 500 million ordinary shares of US$ 1 each	500,000	500,000
Issued, Subscribed & Fully Paid-up 220 million (2007: 220 million) ordinary shares of US$ 1 each	220,000	220,000

21. SHAREHOLDERS' EQUITY (Contd.)

b) Major Shareholders

Shareholders who have an interest of 5% or more of the outstanding shares are as shown below:

Name	Nationality	No. of shares (in millions)		% of total outstanding shares	
		2008	2007	2008	2007
Central Bank of Libya	Libya	31.8	31.8	15.0	14.9
General Pension & Social Security Authority	UAE	27.5	27.5	13.0	12.9
Ministry of Finance & Industry	UAE	27.2	27.2	12.9	12.8
Kuwait Investment Authority	Kuwait	27.2	27.2	12.9	12.8
Real Estate Bank	UAE	11.0	11.0	5.2	5.2

c) Shareholding pattern

The shareholding pattern in the outstanding shares of the Company is as follows:

Shares	No. of shares (in millions)		No. of shareholders		% of total outstanding shares	
	2008	2007	2008	2007	2008	2007
Less than 1%	69.2	57.6	4,751	5,286	31.4	26.2
1% to 5%	37.2	37.8	7	10	16.9	17.7
5% to 10%	-	11.0	-	1	-	5.0
10% and above	113.6	113.6	4	4	51.7	51.6

ii) Treasury stock:

The company held 8,707,776 of its own shares at 31 December 2008 (2007: 7,270,664 shares).

iii) Legal reserve:

In accordance with applicable legal provisions, the Group is required to set aside 10% of net profits each year to build a Legal Reserve up to a maximum of 100% of the paid up value of its share capital.

iv) General reserve:

General Reserve represents unrestricted reserves created by appropriation from net profits of the parent or subsidiary companies.

v) Investment revaluation reserve:

Investment Revaluation Reserve comprises gains or losses arising from remeasurement of available for sale investment assets. These gains or losses are carried in the reserve until the assets are disposed of, at which time the gains or losses are included in income.

vi) Property revaluation reserve:

Property Revaluation Reserve represents the difference between the cost of buildings less accumulated depreciation and their fair values. Further, the difference between depreciation based on the revalued carrying amounts and the depreciation based on original cost of the property is transferred directly from Property Revaluation Reserve to Retained Earnings.

21. SHAREHOLDERS' EQUITY (Contd.)

vii) Accumulated deficit:

Accumulated deficit includes gains and losses on translation of financial statements of subsidiaries and gains or losses on remeasurement of available for sale investment assets held at 1 January 2000, being the date of adoption of IAS 39. Movements during the year are follows:

	US$ '000	
	2008	2007
Gains or losses on remeasurement of investment assets:		
Balance at 1 January	432	431
Transfers on disposal	(437)	1
Balance at 31 December	(5)	432

viii) Capital management:

The Group's total capital comprises paid-up capital, legal reserve and retained earning less treasury shares. The Group's policy is to maintain a strong capital base so as to maintain client, investor and market confidence and to sustain future development of the business. The parent company is regulated by Central Bank of Bahrain, which sets and monitors capital requirement for the parent company. Central Bank of Bahrain requires the parent company to compute the solvency margin requirement in accordance with provision of the Rule Book issued by them. The company is in compliance with the required margin of solvency.

Additionally, the Company manages its capital adequacy on an evaluation of its capital requirement through risk based capital models.

22. MINORITY INTERESTS

	US$ '000	
	2008	2007
At 1 January	64,724	58,964
Share of profit and movement in equity of subsidiaries	(5,485)	6,100
Dividend declared by subsidiary	(3,284)	(340)
At 31 December	55,955	64,724

23. SEGMENT INFORMATION

i) Analysis of revenue by primary business segment:

The Group's non-life reinsurance business consists of two main business segments, treaty and facultative mainly involving underwriting of property and marine classes. Life business mainly involves short term group life policies and long term life policies. Life portfolio does not contain investment linked policies.

	US$ '000				
	Year ended 31 December 2008				
	Non-life		Life		Total
	Treaty	Facultative	Short term	Long term	
REVENUES :					
Gross premiums written	180,750	38,979	32,006	28,959	280,694
Outward reinsurance premiums	(9,345)	(1,911)	(258)	34	(11,480)
Change in unearned premiums - gross	(13,237)	(3,901)	2,786	-	(14,352)
Change in unearned premiums - reinsurance	215	(35)	-	-	180
Net earned premiums	158,383	33,132	34,534	28,993	255,042
Investment loss attributable to insurance funds	(4,296)	(2,235)	(555)	(502)	(7,588)
	154,087	30,897	33,979	28,491	247,454
COSTS AND EXPENSES :					
Gross claims paid	(84,792)	(23,453)	(21,463)	(9,099)	(138,807)
Claims recovered from reinsurers	5,848	2,230	354	-	8,432
Change in provision for outstanding claims - gross	(410)	2,305	(2,813)	(1,633)	(2,551)
Change in provision for outstanding claims - reinsurance	(2,828)	(1,711)	(218)	-	(4,757)
Change in provision for unreported losses - gross	(27,411)	(1,582)	(6,363)	687	(34,669)
Change in provision for unreported losses - reinsurance	(1,904)	(573)	158	-	(2,319)
Claims and related expenses	(111,497)	(22,784)	(30,345)	(10,045)	(174,671)
Policy acquisition costs	(47,064)	(7,066)	(2,312)	(843)	(57,285)
Policy acquisition costs recovered from reinsurers	2,460	259	-	-	2,719
Change in deferred policy acquisition costs - gross	3,211	403	(96)	(278)	3,240
Change in deferred policy acquisition costs - reinsurance	(59)	-	-	-	(59)
Policy acquisition costs	(41,452)	(6,404)	(2,408)	(1,121)	(51,385)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	(19,401)	(19,401)
Operating expenses	(10,852)	(3,145)	(1,733)	(1,568)	(17,298)
Segment underwriting result	(9,714)	(1,436)	(507)	(3,644)	(15,301)
Operating expenses - unallocated #					(566)
Underwriting result					(15,867)

 # Unallocated operating expenses represent corporate expenses.

23. SEGMENT INFORMATION (Contd.)

	US$ '000				
	Year ended 31 December 2007				
	Non-life		Life		Total
	Treaty	Facultative	Short term	Long term	
REVENUES :					
Gross premiums written	163,747	34,881	21,678	29,662	249,968
Outward reinsurance premiums	(10,635)	(3,983)	(110)	(33)	(14,761)
Change in unearned premiums - gross	(14,733)	(3,109)	(2,217)	(1,659)	(21,718)
Change in unearned premiums - reinsurance	(2,719)	(11)	-	-	(2,730)
Net earned premiums	135,660	27,778	19,351	27,970	210,759
Investment income attributable to insurance funds	11,566	7,145	312	519	19,542
	147,226	34,923	19,663	28,489	230,301
COSTS AND EXPENSES :					
Gross claims paid	(90,391)	(33,707)	(17,504)	(10,268)	(151,870)
Claims recovered from reinsurers	7,706	6,246	-	12	13,964
Change in provision for outstanding claims - gross	(18,168)	10,776	2,227	(1,390)	(6,555)
Change in provision for outstanding claims - reinsurance	4,592	(623)	(61)	99	4,007
Change in provision for unreported losses - gross	(15,902)	1,215	(893)	810	(14,770)
Change in provision for unreported losses - reinsurance	858	(1,143)	3	-	(282)
Claims and related expenses	(111,305)	(17,236)	(16,228)	(10,737)	(155,506)
Policy acquisition costs	(40,949)	(7,381)	(477)	(1,284)	(50,091)
Policy acquisition costs recovered from reinsurers	2,990	275	-	(3)	3,262
Change in deferred policy acquisition costs - gross	2,474	841	485	293	4,093
Change in deferred policy acquisition costs - reinsurance	984	-	-	-	984
Policy acquisition costs	(34,501)	(6,265)	8	(994)	(41,752)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	(16,500)	(16,500)
Operating expenses	(10,732)	(2,386)	(1,054)	(1,442)	(15,614)
Segment underwriting result	(9,312)	9,036	2,389	(1,184)	929
Operating expenses - unallocated #					(659)
Underwriting result					270

 # Unallocated operating expenses represent corporate expenses.

23. SEGMENT INFORMATION (Contd.)

ii) Analysis of premiums by secondary business segment - geographical location of the risk insured:

	US$ '000									
	2008					2007				
	Non-life		Life		Total	Non-life		Life		Total
	Treaty	Facultative	Short term	Long term		Treaty	Facultative	Short term	Long term	
Gross premiums from:										
- Middle East & North Africa	100,761	24,275	31,177	28,805	185,018	96,030	21,348	21,678	29,662	168,718
- Africa	14,856	2,405	166	154	17,581	12,228	1,930	-	-	14,158
- Asia	65,133	12,299	-	-	77,432	55,488	11,581	-	-	67,069
- Others	-	-	663	-	663	1	22	-	-	23
	180,750	38,979	32,006	28,959	280,694	163,747	34,881	21,678	29,662	249,968

iii) Analysis of segment assets and liabilities:

	US$ '000									
	2008					2007				
	Non-life		Life		Total	Non-life		Life		Total
	Treaty	Facultative	Short term	Long term		Treaty	Facultative	Short term	Long term	
Segment assets	189,583	91,985	13,701	19,840	315,109	162,410	85,696	13,124	13,619	274,849
Segment liabilities	376,826	174,498	35,799	51,840	638,963	330,547	188,072	29,460	30,573	578,652

24. OUTWARD REINSURANCE PREMIUMS

	US$ '000			
	2008			
	Treaty	Facultative	Life	Total
Proportional retrocession premium	6,150	862	-	7,012
Protection premium	3,194	948	224	4,366
Reinstatement premium	1	101	-	102
	9,345	1,911	224	11,480

	US$ '000			
	2007			
	Treaty	Facultative	Life	Total
Proportional retrocession premium	7,993	1,120	1	9,114
Protection premium	2,020	1,942	142	4,104
Reinstatement premium	622	921	-	1,543
	10,635	3,983	143	14,761

25. INVESTMENT LOSS

	US$ '000			
	2008			
	Insurance funds	Shareholders' funds	Total	2007
Interest income				
- Investments designated at fair value through profit or loss	823	717	1,540	1,174
- Others	9,556	10,574	20,130	23,160
Dividends	1,483	1,963	3,446	2,223
Realised (loss) gains				
- Trading investments	(3,007)	(5,998)	(9,005)	12,149
- Investment designated at fair value through profit or loss	265	231	496	845
- Available for sale	(528)	(10)	(538)	4,029
(Loss) gain on remeasurement				
- Trading investments	(11,785)	(21,488)	(33,273)	7,742
- Investments designated at fair value through profit or loss	(3,524)	(3,070)	(6,594)	(2,047)
Impairment loss-available for sale	(372)	(880)	(1,252)	(715)
Other	(499)	(580)	(1,079)	5,133
	(7,588)	(18,541)	(26,129)	53,693

26. OPERATING EXPENSES

	US$ '000			
	2008			2007
	Underwriting	Non-Underwriting	Total	
Salaries and benefits	14,048	10,501	24,549	20,584
General and administration	3,816	4,029	7,845	8,586
	17,864	14,530	32,394	29,170

27. OTHER INCOME

	US$ '000	
	2008	2007
Third party administration services	8,403	9,141
Fees on managing Islamic reinsurance operations	6,023	3,580
Foreign exchange gain (loss)	4,604	(937)
Software sales and related services	1,525	955
Interest on cash balances	85	200
Other	261	1,729
	20,901	14,668

28. OTHER EXPENSES AND PROVISIONS

	US$ '000	
	2008	2007
Provision for doubtful receivables and deposits	1,161	285
Scheme of arrangement fee	-	188
Intangible asset amortised	1,000	500
Other	943	2,469
	3,104	3,442

29. LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic (loss) earnings per share has been computed as follows:

		For the year ended 31 December 2008	For the year ended 31 December 2007
Weighted average number of shares outstanding	'000	211,984	213,939
Net (loss) profit	US$'000	(28,568)	23,655
(Loss) earnings per share	US$	(0.13)	0.11

30. EMPLOYEE SHARE SCHEME

The Group operates a cash-settled, share based compensation scheme. Awards under the scheme are subject to the Company achieving specified minimum rates of return to shareholders and are determined based on an evaluation of employee performance against objectives agreed in advance. Virtual shares are allocated at the end of the financial year, being the allotment date, based on the book value of the Company's shares at the beginning of the financial year. These virtual shares will vest in the employees after two years from the allotment date.

The effect of the Scheme on the consolidated financial statements is presented below:

	US$ '000	
	2008	2007
Liability	**795**	1,287
Expense	**(464)**	840

31. POST EMPLOYMENT BENEFITS

The Group operates a number of post employment plans on defined benefit basis. Eligibility for participation in the defined benefit plans is based on completion of a specified period of continuous service or date of hire. Benefits are based on the employee's years of service.

The principal actuarial assumptions used for accounting purposes were:

	2008	2007
Discount rate	**2.9%**	4.0%
Expected return on plan assets	**2.9%**	4.0%
Future salary increases	**3.0%**	3.0%

The movements in the liability recognised in the balance sheet are:

	US$ '000	
	2008	2007
Balance at 1 January	13,649	11,782
Accruals for the year	2,806	1,997
Payments during the year	(3,181)	(1,442)
Balance at 31 December	13,274	12,337

32. FORWARD FOREIGN EXCHANGE CONTRACTS

In the ordinary course of its business, the Group uses forward foreign exchange contracts to hedge its exposure in respect of foreign currency denominated investments and insurance liabilities. In the event that the item being hedged is sold or settled prior to maturity of the forward foreign exchange contract, it is generally the Group's policy to enter into another offsetting forward foreign exchange contract of the same amount and maturity date. The notional amounts of these financial instruments are not recognised in the Group's consolidated financial statements but their fair values are recognised as assets or liabilities, as appropriate, with changes in fair value being taken to the statement of income. The contracts oblige the Group to exchange cash flows to be received in the future from foreign currency denominated investments for U.S. Dollars at predetermined exchange rates. The counter parties in respect of these transactions are leading financial institutions.

i. Forward foreign exchange contracts - by currency:

	US$ '000			
	2008		2007	
	Notional amount purchases	**Notional amount sales**	Notional amount purchases	Notional amount sales
Euro	**9,581**	**2,486**	13,095	11,401
Pound Sterling	**733**	**1,719**	2,988	4,166
Japanese yen	**-**	**1,717**	381	4,356
Other	**683**	**1,129**	1,529	1,981
	10,997	**7,051**	17,993	21,904

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of the volume of outstanding transactions, but do not represent credit or market risk exposures.

ii. Forward foreign exchange contracts - remaining term to maturity:

All of the forward foreign exchange contracts outstanding are due in one year or less.

iii. Forward foreign exchange contracts - unrealised gains and losses:

The following table summarises the fair value of the Group's hedging portfolio of forward foreign exchange contracts at the balance sheet date, segregating the items between those that are in an unrealised gain position from those that are in an unrealised loss position.

	US$ '000			
	2008		2007	
	Purchases	**Sales**	Purchases	Sales
Unrealised gains	727	21	41	210
Unrealised losses	(104)	(255)	(220)	(234)
	623	**(234)**	(179)	(24)

33. COVERED OPTIONS

The Group writes and buys quoted covered call and put options as part of its investment portfolio. The notional amounts of these options are not recognised in the Group's consolidated financial statements. The premium received and paid is initially recorded as liability and asset respectively and the changes in fair value of these options are taken to the statement of income and the corresponding asset or liability adjusted. The liability relating to these options amounted to US$ nil (2007: US$ 143,410). All options are denominated in US Dollars and are due to expire in less than one year. The counter parties in respect of these transactions are leading financial institutions.

The notional amount and fair value of covered call and put options outstanding at the balance sheet date are as follows:

	US$ '000			
	Notional amount		Fair value of notional amount	
	2008	2007	2008	2007
Call options written	-	5,680	-	5,656

34. RECONCILIATION OF NET RESULT TO CASH FLOWS FROM OPERATING ACTIVITIES

	US$ '000	
	2008	2007
(Loss) profit before minority interests	(33,292)	29,671
Increase in insurance funds	55,151	89,159
Change in insurance receivable/payable, net	(4,959)	(4,601)
Change in accrued income	(29,713)	(30,090)
Change in other assets/liabilities, net	60,293	(26,076)
Net cash provided by operating activities	47,480	58,063

35. FAIR VALUE DISCLOSURE

The following table presents the fair values of the Group's financial instruments:

	US$ '000					
	2008					
	Book Value					
	Assets at fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Total	Fair value
ASSETS						
Cash and cash equivalents	-	402,949	-	-	402,949	402,949
Investments	69,172	-	90,839	111,937	271,948	272,338
Accrued income	-	615	101,171	1,081	102,867	102,867
Insurance receivables	-	63,646	-	-	63,646	63,646
Insurance deposits	-	62,341	-	-	62,341	62,341
Other assets	-	12,221	-	-	12,221	12,221
LIABILITIES						
Insurance payables	-	-	34,922	-	34,922	34,922
Borrowings	-	68,384	-	-	68,384	68,384
Other liabilities	-	-	46,449	-	46,449	46,449

	US$ '000					
	2007					
	Book Value					
	Assets at fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Total	Fair value
ASSETS						
Cash and cash equivalents	-	386,293	-	-	386,293	386,293
Investments	134,230	-	78,860	106,276	319,366	320,054
Accrued income	-	3,736	68,591	827	73,154	73,154
Insurance receivables	-	56,354	-	-	56,354	56,354
Insurance deposits	-	54,945	-	-	54,945	54,945
Other assets	-	18,275	-	-	18,275	18,275
LIABILITIES						
Insurance payables	-	-	32,589	-	32,589	32,589
Borrowings	-	45,802	-	-	45,802	45,802
Other liabilities	-	-	43,702	-	43,702	43,702

The information disclosed in the table above is not indicative of the net worth of the Group.

35. FAIR VALUE DISCLOSURE (Contd.)

The following methods and assumptions were used to estimate the fair value of the financial instruments:

i. General:

The book values of the Group's financial instruments except investments and forward foreign exchange contracts were deemed to approximate fair value due to the immediate or short term maturity of these financial instruments.

ii. Investments:

The fair value of debt securities, common stock of listed companies and other investments, where applicable, is based on quoted market prices. For certain other investments, which are not listed, a reasonable estimate of fair value has been made based on available financial data relating to these investments.

iii. Forward foreign exchange contracts:

The fair value of forward foreign exchange contracts, used for hedging purposes, is based on quoted market prices.

iv. Covered options:

The fair value of covered options is based on their quoted market prices.

v. Fair value less than carrying amounts:

The fair value of fixed interest debt securities fluctuates with changes in market interest rates. The book value of financial assets held to maturity has not been reduced to fair value where lower, because such market rate variations are considered temporary in nature and management intends, and has the financial resources and capacity, to generally hold such investments to maturity.

36. PRINCIPAL SUBSIDIARIES

At 31 December 2008, the principal subsidiaries of the Company were:

	Country of incorporation	Ownership
Arig Insurance Company Limited	United Kingdom	100.0%
Arima Insurance Software W.L.L.	Kingdom of Bahrain	100.0%
Gulf Warranties W.L.L.	Kingdom of Bahrain	66.0%
Takaful Re Limited	United Arab Emirates	54.0%

37. RELATED PARTY DISCLOSURES

Related parties represent the Company's major shareholders, subsidiary companies, directors and key management personnel.

The consolidated financial statements include the effect of the following transactions with related parties.

	US$ '000	
	2008	2007
i) Directors		
- Remuneration paid	1,026	1,080
- Allowances	91	104
ii) Key management compensation		
- Salaries and other short-term employee benefits	1,050	992
- Post-employment benefits	203	288
- Share-based benefit	(86)	318
iii) Balances payable (net)		
Key management		
- Maximum balance	2,476	2,381
- Closing balance	2,493	2,389

All transactions with related parties are conducted on an arm's length basis. All outstanding balances from related parties are expected to be settled within 12 months. No provisions have been required in 2008 and 2007 for any outstanding amounts due from related parties.

38. PARENT COMPANY

The unconsolidated balance sheet of the parent company, Arab Insurance Group (B.S.C.), is presented below.

	US$ '000	
	2008	2007
ASSETS		
Cash and cash equivalents	313,562	294,105
Investments	230,871	265,206
Accrued income	102,511	72,315
Insurance receivables	61,021	57,399
Insurance deposits	62,341	54,881
Deferred policy acquisition costs	20,296	17,212
Reinsurers' share of technical provisions	67,577	75,755
Other assets	19,407	17,910
Investment in subsidiaries	71,711	82,251
Fixed assets	9,201	9,596
	958,498	946,630
LIABILITIES		
Technical provisions	592,312	534,859
Insurance payables	34,918	32,589
Borrowings	55,678	45,802
Other liabilities	36,011	34,942
	718,919	648,192
SHAREHOLDERS' EQUITY (note 21)		
Share capital	220,000	220,000
Treasury stock	(7,889)	(6,548)
Reserves	33,754	44,791
(Accumulated deficit) retained earnings	(6,286)	40,195
	239,579	298,438
	958,498	946,630

ARAB INSURANCE GROUP (B.S.C.)

APPENDIX I

ADDITIONAL DISCLOSURE ON INVESTMENTS

	US$ '000 31-December-2008		
	Investments in U.A.E.	Investments outside U.A.E.	**Total**
a. Cash & Cash Equivalents	43,844	359,105	**402,949**
Total Cash & Cash Equivalents	**43,844**	**359,105**	**402,949**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	3,920	47,481	**51,401**
	3,920	**47,481**	**51,401**
Designated at fair value on initial recognition			
Debt Securities			
- Other	-	17,771	**17,771**
	-	**17,771**	**17,771**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	50,393	**50,393**
- Other investment grade	4,020	36,426	**40,446**
	4,020	**86,819**	**90,839**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	38,525	**38,525**
- Other investment grade	3,050	15,182	**18,232**
- Non-OECD country governments	1,326	2,901	**4,227**
- Other	5,636	7,214	**12,850**
Common stock of listed companies	-	3,286	**3,286**
Common stock of unlisted companies	-	11,405	**11,405**
Other (see note)	1,721	21,691	**23,412**
	11,733	**100,204**	**111,937**
Total Investments	**19,673**	**252,275**	**271,948**

Note: The Group does not have any direct investments in land or real estate. However, 'Other' includes investments in Real Estate funds amounting to US$ 6,007,000 (in U.A.E.: US$ 146,000).