Arab Insurance Group (B.S.C.)

Report of the Board of Directors and Consolidated Financial Statements for the year ended 31 December 2007

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REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

The Directors of Arab Insurance Group (B.S.C.) (Arig) are pleased to present the Company's 27th Annual Report and Consolidated Financial Statements for the year ended 31 December 2007.

FINANCIAL RESULTS

The Group recorded net profits of US$ 23.7 million for the year despite the impact of extraordinary losses from natural catastrophes. The result represents an 8.0% average return on shareholders' equity. In view of the continued profitable operations of the Company, the Board, subject to regulatory approval, recommends a cash dividend of 7.5% on paid-up capital (7.5 cents per share) amounting to US$ 16.5 million.

The Directors are pleased to report that during the year under review, the reinsurance book grew by 50% to US$ 250 million (2006: US$ 166.3 million), lead by growth in the Personal Lines comprising the Life and Medical portfolios. However, underwriting profits, impacted by catastrophe and other losses, reduced to US$ 0.3 million for the year (2006: US$ 8.1 million).

Investment earnings, on the other hand increased by about 40% to US$ 53.7 million for the year (2006: US$ 38.4 million), representing an average rate of return on investments of 7.7% (2006: 5.8%). Arig's investments, based on prudent but active asset allocation strategies, benefited from the continued allocation of a significant portion of its funds to short-term instruments thereby capturing higher money market yields. Invested assets increased to US$ 711.7 million at the end of 2007 (2006: US$ 674.3 million).

MARKET CONDITIONS

A look at reinsurer's Balance Sheets at the end of 2007 may lead to the conclusion that the industry is enjoying its best time ever with companies returning US$ 9.4 billion of capital to shareholders[1], an increase of 200% over 2006. As so often the case, one has to look deeper for answers.

Coming out of a hard market with favorable returns, insurers were spared major losses in 2006 and again in 2007, even though the industry recorded the highest number of natural catastrophes ever. Just to highlight some of these 950 events impacting 2007: two Category 5 hurricanes made landfall, Japan had a near-miss earthquake measuring 6.9 on the Richter Scale, record floods in the U.K., European windstorm Kyrill, wildfires ravaging through California and Greece and, closer to home, Cyclone Gonu, the first natural catastrophe recorded in the GCC in a long time.

However great their fury, most insurers escaped large losses from these catastrophes under their insured portfolios. As a catalyst, the capital position of the 16 top global reinsurance operators grew to new heights at US$ 129 billion as of 3rd Quarter 2007[1], or 20% higher than in 2005. Adding to that, another US$ 7 billion of catastrophe bonds were placed with investors, taking the convergence between insurance and financial markets to the next level.

Clearly, reinsurers are flush with capital, which has created a situation of pronounced over-supply or, in other words, a soft market. That - and not a flourishing reinsurance market - is the real reason why large reinsurers are buying back shares as they can no longer achieve target returns on a growing capital base. It is all part and parcel of the soft market cycle, which is generally expected to continue throughout 2008 and into 2009. It will last until opportunistic investors will find insurance an increasingly unattractive option and capital starts moving to other asset classes.

[1] Source: Guy Carpenter Global Reinsurance Composite

On the investment front, the continuing fall of the US Dollar against major currencies led to considerable uncertainty in the currency markets. Added to this, the crisis in the US sub-prime mortgage sector impacted several leading global and some of the regional financial institutions which were forced to record significant write-downs on their exposures to this sector. The sharp rise in commodity prices, the prospects of higher inflation and political uncertainties pose a threat to maintaining the current growth levels for the global economy.

THE ARIG RESPONSE

As a professional reinsurer, Arig has a joint obligation vis-à-vis its shareholders and clients. Even in soft market conditions, the Company needs to hold its place in its core markets. To create consistent returns throughout the industry cycles may seem like a daunting task but it is possible. Notwithstanding, there will be short-term volatility reflecting the experience from a book dominated by industrial and commercial risks. The Company has therefore intensified its efforts to grow its Personal Lines portfolio.

In the summer of 2007, Arig purchased the Middle East Life portfolio of Scottish Re and took on board their key staff. Almost all former Scottish Re accounts were novated to Arig, as clients appreciated the fact that they may now draw from world-class support services at their doorstep. This and prevailing strong growth dynamics in this class catapulted the Company into a leading position within the MENA region. Life and Medical are now contributing approximately 29% to Arig's total premium of US$ 250 million, delivering on a key target for profitable future development.

2007 also marks the initiation of the Company's combined ERM (Enterprise Risk Management) instruments, an integrated approach to the management of insurance, financial, operational and all other prominent risks the organization is exposed to. With the new tools in place, Arig can now base its current decisions and future strategies on significantly improved information. As a result, shareholders and clients alike should be better protected against unwelcome surprises.

Despite all efforts made throughout the reporting year, reinsurance results were affected primarily by two factors. On June 6, Cyclone Gonu hit the coastal areas of Oman, the first major natural catastrophe to hit the Gulf region in recent history, causing about US$ 800 million of insured losses. Arig's net impact currently stands at around US$ 9.2 million - still small compared to what cat events could cost but sizeable enough to put a dent into the Company's earnings. A further US$ 9.4 million of losses came from recently discontinued lines of business.

The Board is pleased to report that Arig's enlarged Life portfolio is generating profits even in its first year after the Scottish Re acquisition. Earnings would have been even higher, if not for the very prudent reserving approach that was adopted based on recommendation of our actuaries as a first year precaution.

As in the past, Arig's investment strategy was based on prudent principles coupled with active management aimed at capturing market opportunities. The Company's investments, we are happy to report, have no exposure to the sub-prime mortgage market and therefore remain insulated from the financial woes stemming from the sub-prime crisis affecting many financial institutions. In line with the Company's fiduciary obligations towards policyholders, investment funds continued to be held in high quality liquid assets.

OUTLOOK

For 2008, the Company expects a continuously competitive environment limiting our potential for growth in the non-life classes. The Company is set on taking a conservative underwriting approach making bottom line consideration a priority. On the other hand, the Life and Medical portfolios are expected to display strong dynamics. This will help Arig's profitability by way of better performance and a reduction in acquisition cost. The Board remains cautiously optimistic that Arig will continue to consolidate its business model and improve on returns from its reinsurance operations despite a challenging industry and a volatile world economic climate.

ACKNOWLEDGEMENTS

The Directors 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 strengthening 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 A Al Bustani
Chairman

14 February 2008

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REPORT OF THE AUDITORS TO THE SHAREHOLDERS
Arab Insurance Group B.S.C.
Manama, Kingdom of Bahrain

14 February 2008

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 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the Directors for the consolidated *financial statements*

The Directors of the Company are 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 control 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 control 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.

KPMG

Report of the auditors to the shareholders (continued)

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 2007, and of 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 consolidated 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 ended 31 December 2007, which might have had a material effect on the business of the Company or 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 2007

(In thousands of U.S. Dollars)

	Note	2007	2006
ASSETS			
Cash and cash equivalents	5	**386,293**	304,541
Investments	6	**319,366**	360,931
Accrued income	8	**73,154**	43,064
Insurance receivables	9	**56,354**	47,517
Insurance deposits	10	**54,945**	51,372
Deferred policy acquisition costs		**17,212**	12,059
Reinsurers' share of technical provisions	11	**75,755**	74,172
Other assets	12	**26,680**	12,101
Takaful participants' assets	13	**29,694**	14,882
Fixed assets	14	**10,355**	9,537
		1,049,808	930,176
LIABILITIES			
Technical provisions	15	**534,859**	435,391
Insurance payables	18	**32,589**	28,353
Borrowings	19	**45,802**	55,929
Other liabilities	20	**43,702**	43,261
Takaful fund and participants' liabilities	13	**29,694**	14,882
		686,646	577,816
EQUITY			
Shareholders' equity	21		
Share capital		**220,000**	220,000
Treasury stock		**(6,548)**	(4,293)
Reserves		**44,974**	36,742
Retained earnings		**40,012**	40,947
		298,438	293,396
Minority interests	22	**64,724**	58,964
		363,162	352,360
		1,049,808	930,176

These consolidated financial statements were approved by the Board of Directors on 14 February 2008 and signed by:

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kalban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 40 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 2007

(In thousands of U.S. Dollars)

	Note		2007	2006
Gross premiums written			249,968	166,304
Net earned premiums			210,759	145,760
Claims and related expenses			(172,006)	(99,901)
Policy acquisition costs			(41,752)	(38,846)
Investment income attributable to insurance funds	25		19,542	15,607
Operating expenses	26		(16,273)	(14,554)
Underwriting result	23		270	8,066
Investment income attributable to shareholders' funds	25		34,151	22,770
Operating expenses - non-underwriting activities	26		(12,897)	(9,634)
Borrowing cost			(3,079)	(3,604)
Other income	27		15,605	20,284
Other expenses and provisions	28		(4,379)	(5,233)
Profit for the year			29,671	32,649
Minority interests			(6,016)	(2,283)
Net profit attributable to shareholders			23,655	30,366
Earnings per share attributable to shareholders:	29	US$	0.11	0.14

The accompanying notes 1 to 40 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 40 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 2006

(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 2005	200,000	(2,836)	18,344	4,422	8,225	30,991	44,228	272,383	56,154	328,537
Changes on remeasurement of available for sale assets	-	-	-	916	-	916	-	916	18	934
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	2,118	-	2,118	8	2,126	-	2,126
Transfer of net depreciation on revalued property	-	-	-	-	(353)	(353)	353	-	-	-
Net income (expense) recognised directly in equity	-	-	-	3,034	(353)	2,681	361	3,042	18	3,060
Net profit for the year	-	-	-	-	-	-	30,366	30,366	2,283	32,649
Total recognised income (expense)	-	-	-	3,034	(353)	2,681	30,727	33,408	2,301	35,709
Issue of bonus shares	20,000	-	-	-	-	-	(20,000)	-	-	-
Purchase of treasury shares	-	(1,457)	-	-	-	-	-	(1,457)	-	(1,457)
Dividends paid	-	-	-	-	-	-	(9,858)	(9,858)	-	(9,858)
Sale of partial interest in subsidiary	-	-	-	-	-	-	-	-	611	611
Directors' remuneration paid	-	-	-	-	-	-	(1,080)	(1,080)	-	(1,080)
Transfer to legal reserves	-	-	3,070	-	-	3,070	(3,070)	-	-	-
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(102)	(102)
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
Parent company balances at 31 December 2006 (note 38)	220,000	(4,293)	21,381	7,436	7,872	36,689	41,000	293,396	-	293,396

The accompanying notes 1 to 40 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 2007

(In thousands of U.S. Dollars)

	Note	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Premiums received		297,178	182,590
Reinsurance premiums paid		(14,760)	(15,975)
Claims paid		(257,446)	(152,334)
Reinsurance receipts in respect of claims		14,083	10,343
Interest received		27,120	17,562
Dividends received		2,223	2,088
Investment income received		15,000	17,782
Operating expenses paid		(26,227)	(21,491)
Interest paid		(3,206)	(3,601)
Other income/expenses, net		2,098	11,593
Insurance deposits paid		(3,891)	(4,579)
Purchase of trading investments		(243,932)	(285,501)
Sale of trading investments		260,633	253,293
Directors' remuneration paid		(1,080)	(1,080)
Net cash provided by operating activities	34	67,793	10,690
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of portfolio		6,621	-
Disposal of investment in subsidiary		-	625
Disposal of associate		-	1,250
Maturity/sale of investments		76,025	69,174
Purchase of investments		(39,368)	(85,794)
Collateralised cash deposits received		263	286
Purchase of fixed assets		(1,009)	(778)
Purchase of intangible assets		(108)	(597)
Net cash provided by (used in) investing activities		42,424	(15,834)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		(21,747)	(10,000)
Purchase of treasury stock		(2,255)	(1,457)
Net borrowings		(10,127)	(19,997)
Net cash used in by financing activities		(34,129)	(31,454)
Net increase (decrease) in cash and cash equivalents		76,088	(36,598)
Effect of exchange rate on cash and cash equivalents		5,664	1,088
Cash and cash equivalents, beginning of year		304,541	340,051
Cash and cash equivalents, end of year		386,293	304,541

The accompanying notes 1 to 40 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 2007

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.

In June 2007 the Company acquired Scottish Re Limited's Middle East Life Reinsurance portfolio as of 1 January 2007, as a result of which the primary segment of the Company's Life portfolio is now reported as short term and long term business.

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

In 2007, the Group has adopted IFRS 7, Financial Instruments: Disclosure and IAS 1, Presentation of Financial Statements - Capital Disclosures. The adoption of these Standards do not have any impact on the financial statements except for certain additional disclosures.

During the year 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:

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

- IFRS 8 - Operating Segments - require disclosures about its operating segments including the description determination and revenue from these segments, effective 1 January 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 2007.

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. Property values are based on recent valuations carried out by qualified professional valuers in accordance with recognised valuation principles.

Investments in non-financial assets such as land and buildings are included in investments if such assets are not for the Group's own use.

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 recognized 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 recognized as an expense, except to the extent that they reverse decreases or increases previously recognized 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	10	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. The assets of the defined benefit plans are managed internally as part of the Group's investment portfolio.

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 recognized 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 recognized 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 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 of 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		
	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**

	US$ '000		
	2006		
	Receivables	Share of technical provisions	Total
Balance relating to reinsurers:			
- With investment grade rating	6,276	49,805	56,081
- Other	18,066	9,301	27,367
	24,342	59,106	83,448

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
2007					
Reinsurance Assets (Liabilities), net	**(14,663)**	**(1,571)**	**(440)**	**(512)**	**(88,772)**
Hedged	**10,897**	**918**	**406**	**522**	-

	US$ '000				
	Euro	Pound Sterling	Norwegian Kroner	Canadian Dollar	Other
2006					
Reinsurance Assets (Liabilities), net	(10,495)	(702)	(394)	(719)	(76,657)
Hedged	9,708	842	338	887	-

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.)

iv) Sensitivity analysis

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

	US$ '000	
	2007	2006
	Income	Income
5% increase in ultimate loss ratio	(10,538)	(7,288)
5% decrease in ultimate loss ratio	10,538	7,288
10% increase in US Dollar exchange rate	8,979	7,387
10% decrease in US Dollar exchange rate	(9,710)	(8,042)

5. CASH AND CASH EQUIVALENTS

	US$ '000	
	2007	2006
Cash and bank balances	98,221	58,732
Deposits with short term maturities	288,072	245,809
	386,293	304,541

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:

	2007	2006
Interest receivable basis:		
- Bank balances	Daily/Monthly	Daily/Monthly
- Deposits with short term maturities	On maturity	On maturity
Effective rates	0.10% to 7.50%	0.13% to 6.50%

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

iii) Currency risk:

	US$ '000	
	2007	2006
U.S. Dollar	210,063	180,789
Kuwaiti Dinar	110,690	108,758
Euro	800	1,141
Pound Sterling	1,274	1,912
Other	63,466	11,941
	386,293	304,541

6. INVESTMENTS

	US$ '000	
	2007	2006
At fair value through profit or loss		
Held for trading		
Debt securities		
- Other	-	6,207
Common stock of listed companies	107,264	92,464
	107,264	98,671
Designated at fair value on initial recognition		
Debt Securities		
- Other	26,966	46,696
	26,966	46,696
Held to maturity		
Debt securities		
- Supra-nationals and OECD country governments	33,918	33,002
- Other investment grade	44,942	73,928
	78,860	106,930
Available for sale		
Debt securities		
- Supra-nationals and OECD country governments	26,441	42,988
- Other investment grade	9,063	10,986
- Non-OECD country governments	6,138	4,654
- Other	16,134	13,273
Common stock of listed companies	2,047	2,136
Common stock of unlisted companies	22,511	14,289
Other	23,942	20,308
	106,276	108,634
	319,366	360,931

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

	US$ '000	
	2007	2006
At 1 January	6,405	5,896
Provision:		
- Unlisted companies	215	-
- Others	430	509
At 31 December	7,050	6,405

Debt securities amounting to US$ 48.5 million (2006: US$ 46.4 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and US$ 54.0 million (2006: US$ 67.9 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:

	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%**

	2006		
	Interest receivable basis	Effective rates	Coupon rates
Supra-nationals and OECD country government securities	Semi-annual/Annual	4.6% - 6.0%	2.3% - 6.5%
Other investment grade debt securities	Semi-annual/Annual	4.9% - 6.7%	2.5% - 8.0%
Non-OECD country government securities	Semi-annual/Annual	3.1% - 5.9%	3.1% - 5.9%
Other securities	Monthly/Semi-Annual	6.2% - 7.4%	6.2% - 7.4%

iii) Debt securities - currency risk :

	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**

	US$ '000		
	2006		
	U.S. Dollar	Other	Total
Supra-nationals and OECD country government securities	75,990	-	75,990
Other investment grade debt securities	83,876	1,038	84,914
Non-OECD country governments	1,151	3,503	4,654
Other debt securities	66,176	-	66,176
	227,193	4,541	231,734

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			
	2007		2006	
	Principal amount	**Book value**	Principal amount	Book value
Supra-nationals and OECD country government securities:				
- Due in one year or less	**29,078**	**29,018**	17,000	16,972
- One to five years	**31,192**	**31,341**	57,195	56,790
- More than five years	**-**	**-**	2,220	2,228
	60,270	**60,359**	76,415	75,990
Debt securities of other investment grade issuers:				
- Due in one year or less	**28,000**	**27,996**	29,000	29,004
- One to five years	**26,028**	**26,009**	54,028	53,869
- More than five years	**-**	**-**	2,000	2,041
	54,028	**54,005**	85,028	84,914
Non-OECD country government securities:				
- Due in one year or less	**3,323**	**3,214**	-	-
- One to five years	**2,918**	**2,924**	4,749	4,654
- More than five years	**-**	**-**	-	-
	6,241	**6,138**	4,749	4,654
Other debt securities :				
- Due in one year or less	**2,000**	**2,176**	-	-
- One to five years	**13,800**	**13,958**	15,217	15,163
- More than 5 years	**26,087**	**26,966**	47,586	51,013
	41,887	**43,100**	62,803	66,176
	162,426	**163,602**	228,995	231,734

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	
	2007	2006
U.S. Dollar	**79,892**	60,205
Euro	**8,252**	8,971
Bahraini Dinar	**6,379**	7,114
Kuwaiti Dinar	**4,643**	7,579
Pound Sterling	**3,948**	4,789
Japanese Yen	**3,405**	5,225
Other	**25,303**	15,006
	131,822	108,889

6. INVESTMENTS (Contd.)

vi) Commitments:

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 7.1 million (2006: US$ 8.0 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			
	2007		2006	
	Income	**Equity**	Income	Equity
Interest rate				
+ 100 basis points shift in yield curves- debt instruments	**(355)**	(702)	(719)	(1,117)
- 100 basis points shift in yield curves- debt instruments	**361**	712	719	1,117
Currency risk				
10% increase in US Dollar exchange rate	**16,648**	684	12,864	556
10% decrease in US Dollar exchange rate	**(13,619)**	(562)	(10,525)	(455)
Equity price				
10% increase in equity prices	**9,757**	-	7,983	-
10% decrease in equity prices	**(9,405)**	-	(7,969)	-

8. ACCRUED INCOME

	US$ '000	
	2007	2006
Accrued insurance premiums		
Expected to be received :		
- Within 12 months	**65,720**	33,204
- After 12 months	**1,435**	1,058
	67,155	34,262
Accrued interest		
- Expected to be received within 12 months	**5,999**	8,802
	73,154	43,064

9. INSURANCE RECEIVABLES

	US$ '000	
	2007	2006
Balances due :		
- Within 12 months	54,298	47,398
- After 12 months	2,056	119
	56,354	47,517

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

	US$ '000	
	2007	2006
At 1 January	15,972	15,447
Provision for impairment	44	525
31 December	16,016	15,972

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

	US$ '000	
	2007	2006
Under two years	101	337
Over two years	11,050	10,577
	11,151	10,914

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

	US$ '000	
	2007	2006
Upto 6 months	20,684	14,360
6 to 12 months	15,022	7,795
	35,706	22,155

10. INSURANCE DEPOSITS

	US$ '000	
	2007	2006
Balances due :		
- Within 12 months	35,768	28,914
- After 12 months	19,177	22,458
	54,945	51,372

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

	US$ '000	
	2007	2006
At 1 January	4,894	4,627
Provision for impairment	444	267
31 December	5,338	4,894

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

	US$ '000	
	2007	2006
Under ten years	1,020	978
Over ten years	4,752	4,342
	5,772	5,320

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

	US$ '000	
	2007	2006
Up to 1 year	8,424	9,017
1 to 3 years	35,955	28,795
	44,379	37,812

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000	
	2007	2006
General insurance business		
- Claims outstanding	63,372	58,750
- Unreported general insurance claims	10,160	10,445
- Deferred retrocession premium reserve	1,497	4,227
	75,029	73,422
Life insurance business		
- Life insurance claims outstanding	296	356
- Life insurance unreported losses	430	394
	726	750
	75,755	74,172

12. OTHER ASSETS

	US$ '000	
	2007	2006
Intangible assets :		
- Goodwill	1,893	1,893
- Present value of future profits (PVFP)	5,000	-
- Computer software	9,538	9,175
	16,431	11,068
Less : accumulated amortisation	(9,088)	(8,500)
Net intangible assets	7,343	2,568
Other assets due within 12 months:		
- Collateralised cash deposits	3,971	4,234
- Prepayments and other receivables	15,366	5,299
	19,337	9,533
	26,680	12,101

	US$ '000	
	2007	2006
Movement in intangible assets :		
Net book value at 1 January	2,568	2,224
- Additions	5,363	235
- Amortisation charge	(588)	109
Net book value at 31 December	7,343	2,568

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	
	2007	2006
ASSETS		
Cash & cash equivalents	3,721	272
Accrued income	11,354	8,994
Insurance receivable	6,018	1,085
Insurance deposits	2,711	383
Deferred acquisition costs	3,609	2,233
Deferred wakala fees	2,281	1,793
Other assets	-	122
	29,694	14,882
LIABILITIES		
Accounts payable	7,434	3,009
TAKAFUL FUND		
Unearned contributions	11,418	8,970
Outstanding claims	5,077	601
Unreported losses	6,968	2,354
	23,463	11,925
Accumulated deficit	(1,203)	(52)
	29,694	14,882

13. TAKAFUL PARTICIPANTS' FUND ACCOUNTS (Contd.)

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000	
	2007	2006
Gross contributions	20,339	15,049
Outward reinsurance premiums	(694)	(782)
Unearned contributions	(2,440)	(8,965)
Net earned contributions	17,205	5,302
Reported losses	(5,062)	(291)
Provision for unreported losses	(4,632)	(2,355)
Claim and related expenses	(9,694)	(2,646)
Policy acquisition costs	(6,545)	(3,738)
Deferred policy acquisition costs	1,376	2,232
Policy acquisition costs	(5,169)	(1,506)
Fee payable to operator (Wakala fee)	(3,579)	(1,216)
Investment income	41	-
Other income	45	14
Deficit for the year	(1,151)	(52)

14. FIXED ASSETS

	US$ '000	
	2007	2006
Land	1,340	909
Building	9,272	8,841
Information systems, furniture, equipment and other	12,673	12,446
	23,285	22,196
Less: accumulated depreciation	(12,930)	(12,659)
	10,355	9,537
Movements in fixed assets :		
Net book value at 1 January	9,537	9,743
- Additions	801	551
- Disposals	(24)	-
- Revaluation	431	-
- Reversal of impairment on revaluation	431	-
- Depreciation charge	(821)	(757)
Net book value at 31 December	10,355	9,537

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.

15. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000	
	2007	2006
General insurance business		
Claims outstanding	288,513	275,177
Unreported losses	104,125	89,516
Unearned premiums	83,712	65,989
	476,350	430,682
Life insurance business		
Claims outstanding	10,007	2,972
Unreported losses	36,062	1,366
Unearned premiums	12,440	371
	58,509	4,709
	534,859	435,391

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					
	2003	2004	2005	2006	2007	Total
Gross						
Estimate of incurred claims costs:						
- At end of underwriting year	46,851	46,409	60,230	61,939	145,803	
- One year later	82,605	81,670	98,619	122,927	-	
- Two years later	86,084	88,069	110,437	-	-	
- Three years later	91,770	92,116	-	-	-	
- Four years later	91,615	-	-	-	-	
Current estimate of incurred claims	91,615	92,116	110,437	122,927	145,803	562,898
Cumulative payments to date	(73,561)	(64,395)	(72,103)	(57,197)	(27,956)	(295,212)
Liability recognized	18,054	27,721	38,334	65,730	117,847	267,686
Liability in respect of prior years						171,021
Total liability included in the balance sheet						438,707
Net						
Estimate of incurred claims costs:						
- At end of underwriting year	38,925	45,985	55,843	56,934	137,457	
- One year later	67,143	76,236	91,271	111,562	-	
- Two years later	69,210	81,510	101,740	-	-	
- Three years later	74,500	84,968	-	-	-	
- Four years later	74,547	-	-	-	-	
Current estimate of incurred claims	74,547	84,968	101,740	111,562	137,457	510,274
Cumulative payments to date	(57,903)	(59,655)	(66,961)	(52,781)	(28,036)	(265,336)
Liability recognized	16,644	25,313	34,779	58,781	109,421	244,938
Liability in respect of prior years						119,511
Total liability included in the balance sheet						364,449

17. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

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
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

2006	US$ '000		
	Gross	Reinsurance	Net
Claims			
Claims outstanding	289,059	71,240	217,819
Unreported losses	79,624	8,328	71,296
Total at beginning of year	368,683	79,568	289,115
Increase in provision during the year	107,972	519	107,453
Claims settled during the year	(107,624)	(10,142)	(97,482)
Balance at end of year	369,031	69,945	299,086
Unearned premium			
At beginning of year	60,348	2,914	57,434
Increase in provision during the year	6,012	1,313	4,699
Balance at end of year	66,360	4,227	62,133
Deferred policy acquisitions costs			
At beginning of year	14,576	1,317	13,259
(Decrease) increase during the year	(984)	216	(1,200)
Balance at end of year	13,592	1,533	12,059

18. INSURANCE PAYABLES

	US$ '000	
	2007	2006
Due Within 12 months	32,589	28,353
	32,589	28,353

19. BORROWINGS

	US$ '000	
	2007	2006
Due within 12 months	45,802	55,929
	45,802	55,929

Borrowings amounting to US$ 45.8 million (2006: US$ 55.9 million) are secured by debt securities. The effective interest rate on the borrowings was 5.8% (2006: 5.2%).

20. OTHER LIABILITIES

	US$ '000	
	2007	2006
Accrued expenses	3,218	2,520
Post employment benefits (note 31)	12,337	11,782
Accrual for scheme of arrangement fees	3,043	4,043
Reinsurance premiums accrued	11,861	10,892
Covered option premium	143	40
Employee share scheme (note 30)	1,287	577
Dividends payable	522	804
Other	11,291	12,603
	43,702	43,261
Balances due:		
- Within 12 months	30,078	31,479
- After 12 months	13,624	11,782
	43,702	43,261

21. SHAREHOLDERS' EQUITY

i) Share capital:

a) Composition:

	US$ '000	
	2007	2006
Authorized 500 million ordinary shares of US$ 1 each	500,000	500,000
Issued, Subscribed & Fully Paid-up 220 million (2006: 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	
		2007	2006	2007	2006
General Pension & Social Security Authority	UAE	27.5	27.5	12.9	12.8
Ministry of Finance & Industry	UAE	27.2	27.2	12.8	12.6
Central Bank of Libya	Libya	31.8	27.2	14.9	12.6
Kuwait Investment Authority	Kuwait	27.2	27.2	12.8	12.6
Real Estate Bank	UAE	11.0	11.0	5.2	5.1

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	
	2007	2006	2007	2006	2007	2006
Less than 1%	57.6	67.1	5,286	5,618	26.2	31.2
1% to 5%	37.8	28.2	10	6	17.7	13.1
5% to 10%	11.0	11.0	1	1	5.0	5.1
10% and above	113.6	109.0	4	4	51.6	50.6

ii) Treasury stock:

The company held 7,270,664 of its own shares at 31 December 2007 (2006: 4,730,771 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) Retained earnings:

Retained Earnings 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	
	2007	2006
Gains or losses on remeasurement of investment assets:		
Balance at 1 January	431	423
Transfers on disposal	1	8
Balance at 31 December	432	431

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, 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	
	2007	2006
At 1 January	58,964	56,154
Share of profit and movement in equity of subsidiaries	6,100	2,301
Change arising from sale of interest in subsidiaries, net	-	611
Dividend declared by subsidiary	(340)	(102)
At 31 December	64,724	58,964

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 2007					Year ended 31 December 2006			
	Non-life		Life		Total				
	Treaty	Facultative	Short term	Long term		Treaty	Facultative	Life	Total
REVENUES :									
Gross premiums written	163,747	34,881	21,678	29,662	249,968	130,877	29,554	5,873	166,304
Outward reinsurance premiums	(10,635)	(3,983)	(110)	(33)	(14,761)	(14,739)	(1,154)	(81)	(15,974)
Change in unearned premiums - gross	(14,733)	(3,109)	(2,217)	(1,659)	(21,718)	(574)	(5,077)	(219)	(5,870)
Change in unearned premiums - reinsurance	(2,719)	(11)	-	-	(2,730)	1,286	14	-	1,300
Net earned premiums	135,660	27,778	19,351	27,970	210,759	116,850	23,337	5,573	145,760
Investment income attributable to insurance funds	11,566	7,145	312	519	19,542	9,494	6,010	103	15,607
	147,226	34,923	19,663	28,489	230,301	126,344	29,347	5,676	161,367
COSTS AND EXPENSES :									
Gross claims paid	(90,391)	(33,707)	(17,504)	(10,268)	(151,870)	(74,709)	(29,193)	(5,121)	(109,023)
Claims recovered from reinsurers	7,706	6,246	-	12	13,964	5,698	4,283	-	9,981
Change in provision for outstanding claims - gross	(18,168)	10,776	2,227	(1,390)	(6,555)	(6,895)	26,613	(820)	18,898
Change in provision for outstanding claims - reinsurance	4,592	(623)	(61)	99	4,007	979	(12,267)	76	(11,212)
Change in provision for unreported losses - gross	(15,902)	1,215	(893)	810	(14,770)	(10,975)	(1,647)	1,554	(11,068)
Change in provision for unreported losses - reinsurance	858	(1,143)	3	-	(282)	1,872	991	(340)	2,523
Claims and related expenses	(111,305)	(17,236)	(16,228)	(10,737)	(155,506)	(84,030)	(11,220)	(4,651)	(99,901)
Policy acquisition costs	(40,949)	(7,381)	(477)	(1,284)	(50,091)	(36,447)	(6,491)	(456)	(43,394)
Policy acquisition costs recovered from reinsurers	2,990	275	-	(3)	3,262	5,740	85	-	5,825
Change in deferred policy acquisition costs - gross	2,474	841	485	293	4,093	(2,249)	1,182	-	(1,067)
Change in deferred policy acquisition costs - reinsurance	984	-	-	-	984	(211)	-	1	(210)
Policy acquisition costs	(34,501)	(6,265)	8	(994)	(41,752)	(33,167)	(5,224)	(455)	(38,846)
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)	(9,829)	(2,528)	(717)	(13,074)
Segment underwriting result	(9,312)	9,036	2,389	(1,184)	929	(682)	10,375	(147)	9,546
Operating expenses - unallocated #					(659)				(1,480)
Underwriting result					270				8,066

 # 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								
	2007					2006			
	Non-life		Life		Total	Treaty	Facultative	Life	Total
	Treaty	Facultative	Short term	Long term					
Gross premiums from:									
- Middle East & North Africa	96,030	21,348	21,678	29,662	168,718	80,602	18,034	5,870	104,506
- Africa	12,228	1,930	-	-	14,158	8,090	1,525	-	9,615
- Asia	55,488	11,581	-	-	67,069	42,183	9,976	3	52,162
- Others	1	22	-	-	23	2	19	-	21
	163,747	34,881	21,678	29,662	249,968	130,877	29,554	5,873	166,304

iii) Analysis of segment assets and liabilities:

	US$ '000								
	2007					2006			
	Non-life		Life		Total	Treaty	Facultative	Life	Total
	Treaty	Facultative	Short term	Long term					
Segment assets	162,410	85,696	13,124	13,619	274,849	127,353	91,068	2,062	220,483
Segment liabilities	330,547	188,072	29,460	30,573	578,652	279,860	189,252	7,740	476,852

24. OUTWARD REINSURANCE PREMIUMS

	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

	US$ '000			
	2006			
	Treaty	Facultative	Life	Total
Proportional retrocession premium	12,593	546	-	13,139
Protection premium	2,151	1,583	81	3,815
Reinstatement premium	(5)	(975)	-	(980)
	14,739	1,154	81	15,974

25. INVESTMENT INCOME

	US$ '000			
	2007			
	Insurance funds	**Shareholders' funds**	**Total**	2006
Interest income				
- Investments designated at fair value through profit or loss	562	612	1,174	1,005
- Others	8,962	14,198	23,160	22,538
Dividends	921	1,302	2,223	2,089
Realised gains				
- Trading investments	3,638	8,511	12,149	9,042
- Investment designated at fair value through profit or loss	405	440	845	1,476
- Available for sale	1,592	2,437	4,029	5,469
Gain (loss) on remeasurement				
- Trading investments	-	-	-	-
- Investments designated at fair value through profit or loss	1,041	4,654	5,695	(3,239)
Impairment loss	(342)	(373)	(715)	(510)
Other	2,763	2,370	5,133	507
	19,542	34,151	53,693	38,377

26. OPERATING EXPENSES

	US$ '000			
	2007			
	Underwriting	Non-Underwriting	Total	2006
Salaries and benefits	11,941	8,643	20,584	17,922
General and administration	4,332	4,254	8,586	6,266
	16,273	12,897	29,170	24,188

27. OTHER INCOME

	US$ '000	
	2007	2006
Warranty claims	-	10,414
Third party administration services	9,141	6,704
Fees on managing Islamic reinsurance operations	3,580	1,216
Software sales and related services	955	848
Interest on cash balances	200	210
Gain on sale of interest in associate	-	459
Other	1,729	433
	15,605	20,284

Warranty claims in 2006 relates to the settlement reached with the Government of the Kingdom of Morocco on a claim lodged under the Warranty Agreement entered into between the Moroccan Government and the Company in July 1997 on the acquisition of the erstwhile subsidiary, CNIA Assurance S.A., Morocco.

28. OTHER EXPENSES AND PROVISIONS

	US$ '000	
	2007	2006
Provision for doubtful receivables and deposits	285	1,624
Scheme of arrangement fee	188	379
Foreign exchange loss	937	2,748
Goodwill amortised	500	-
Other	2,469	482
	4,379	5,233

29. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic earnings per share has been computed as follows:

		For the year ended 31 December 2007	For the year ended 31 December 2006
Weighted average number of shares outstanding	'000	213,939	216,392
Net profit	US$'000	23,655	30,366
Earnings per share	US$	0.11	0.14

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	
	2007	2006
Liability	1,287	577
Expense	840	577

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:

	2007	2006
Discount rate	4.0%	5.1%
Expected return on plan assets	4.0%	5.1%
Future salary increases	3.0%	3.3%

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

	US$ '000	
	2007	2006
Balance at 1 January	11,782	9,919
Accruals for the year	1,997	3,216
Payments during the year	(130)	(1,353)
Balance at 31 December	13,649	11,782

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			
	2007		2006	
	Notional amount purchases	**Notional amount sales**	Notional amount purchases	Notional amount sales
Euro	**13,095**	**11,401**	10,094	7,787
Pound Sterling	**2,988**	**4,166**	1,497	3,992
Japanese yen	**381**	**4,356**	-	4,391
Other	**1,529**	**1,981**	2,442	3,948
	17,993	**21,904**	14,033	20,118

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			
	2007		2006	
	Purchases	**Sales**	Purchases	Sales
Unrealised gains	**41**	**210**	235	124
Unrealised losses	**(220)**	**(234)**	(85)	(262)
	(179)	**(24)**	150	(138)

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$ 143,410 (2006: US$ 39,750). 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	
	2007	2006	2007	2006
Call options written	5,680	2,438	5,656	2,354

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

	US$ '000	
	2007	2006
Profit before minority interests	29,671	32,649
Increase in insurance funds	89,159	11,175
Change in insurance receivable/payable, net	(4,601)	(3,884)
Change in accrued income	(30,090)	(504)
Change in other assets/liabilities, net	(16,346)	(28,746)
Net cash provided by operating activities	67,793	10,690

35. FAIR VALUE DISCLOSURE

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

	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

	US$ '000					
	2006					
	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	-	304,541	-	-	304,541	304,541
Investments	145,367	-	106,930	108,634	360,931	360,768
Accrued income	-	5,893	36,086	1,085	43,064	43,064
Insurance receivables	-	47,517	-	-	47,517	47,517
Insurance deposits	-	51,372	-	-	51,372	51,372
Other assets	-	7,755	-	-	7,755	7,755
LIABILITIES						
Insurance payables	-	-	28,353	-	28,353	28,353
Borrowings	-	55,929	-	-	55,929	55,929
Other liabilities	-	-	43,261	-	43,261	43,261

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

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.

35. FAIR VALUE DISCLOSURE (Contd.)

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 2007, 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	
	2007	2006
i) Directors		
- Remuneration paid	1,080	1,080
- Allowances	104	108
ii) Key management compensation		
- Salaries and other short-term employee benefits	992	1,088
- Post-employment benefits	288	943
- Share-based payments	94	131

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 2007 and 2006 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	
	2007	2006
ASSETS		
Cash and cash equivalents	**294,105**	207,084
Investments	**265,206**	319,053
Accrued income	**72,315**	42,221
Insurance receivables	**57,399**	46,265
Insurance deposits	**54,881**	51,177
Deferred policy acquisition costs	**17,212**	12,059
Reinsurers' share of technical provisions	**75,755**	74,172
Other assets	**17,910**	11,140
Investment in subsidiaries	**82,251**	74,870
Fixed assets	**9,596**	9,148
	946,630	847,189
LIABILITIES		
Technical provisions	**534,859**	435,391
Insurance payables	**32,589**	28,267
Borrowings	**45,802**	55,929
Other liabilities	**34,942**	34,206
	648,192	553,793
SHAREHOLDERS' EQUITY (note 21)		
Share capital	**220,000**	220,000
Treasury stock	**(6,548)**	(4,293)
Reserves	**44,791**	36,689
Retained earnings	**40,195**	41,000
	298,438	293,396
	946,630	847,189

39. PORTFOLIO TAKEOVER

On 29 June 2007, the Company has entered into an agreement with Scottish Re Limited, United Kingdom, to takeover Scottish Re Limited's Middle East Life Reinsurance portfolio as of 1 January 2007 for a net consideration in cash of US$ 6.6 million.

The assets and liabilities taken over on the acquisition date are as follows:

	US$'000	
	Assets	Liabilities
Cash and cash equivalents	6,621	-
Investments	10,426	-
Accrued income	11,738	-
Deferred policy acquisition costs	521	-
Insurance receivable	3,359	-
Technical provisions	-	37,531
Other Liability/Assets	-	134
Present Value of Future Profits	5,000	-

The takeover has resulted in the recognition of an intangible asset, Present Value of Future Profits (PVFP) of US$ 5.0 million. The PVFP would be amortised over a period of 60 months.

40. EVENTS AFTER THE BALANCE SHEET DATE

The directors propose to recommend the following appropriations for approval of shareholders at the Annual General Assembly meeting to be held on 30 March 2008:

	US$ '000
Cash dividend of US$ 0.075 per share of US$ 1 each	16,500
Directors' remuneration	1,026
	17,526