

Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)
FINANCIAL STATEMENTS
31 DECEMBER 2007

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DUBAI ISLAMIC INSURANCE & REINSURANCE COMPANY (AMAN) (PSC)

Report on the Financial Statements

We have audited the accompanying financial statements of Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC), which comprise the balance sheet as at 31 December 2007 and the income statement, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC), the UAE Commercial Companies Law of 1984 (as amended) and the UAE Federal Law No. (6) of 2007. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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



Signed by:
Edward Quinlan
Partner
Registration No. 93

3 March 2008

Dubai

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

STATEMENT OF INCOME

Year ended 31 December 2007

	Notes	2007 AED	2006 AED
ATTRIBUTABLE TO POLICYHOLDERS			
UNDERWRITING INCOME			
Insurance premiums revenue	3	260,759,309	138,629,727
Insurance premiums ceded to reinsurers	3	(145,636,309)	(61,915,861)
Net insurance premiums revenue	3	115,123,000	76,713,866
Commission received on ceded reinsurance		19,468,129	10,505,198
Policy and survey fees		985,605	711,376
		<u>135,576,734</u>	<u>87,930,440</u>
UNDERWRITING EXPENSES			
Claims	4	168,307,726	73,049,535
Reinsurers' share of claims	4	(101,841,084)	(30,039,850)
Claims incurred	4	66,466,642	43,009,685
Commission paid		18,733,436	9,463,251
Excess of loss insurance premiums		5,419,006	1,861,999
		<u>90,619,084</u>	<u>54,334,935</u>
NET UNDERWRITING INCOME			
Wakala fees	5	44,957,650	33,595,505
		<u>(55,836,099)</u>	<u>(36,349,427)</u>
NET DEFICIT FROM INSURANCE OPERATIONS			
Investment income (loss)	6	(10,878,449)	(2,753,922)
Mudarib fees	5	14,312,391	(10,618,745)
		<u>(3,578,098)</u>	<u>-</u>
DEFICIT FOR THE YEAR			
		<u>(144,156)</u>	<u>(13,372,667)</u>
ATTRIBUTABLE TO SHAREHOLDERS			
INCOME			
Investment income (loss)	6	21,357,718	(17,938,176)
Wakala fees from policyholders	5	55,836,099	36,349,427
Mudarib fees from policyholders	5	3,578,098	-
		<u>80,771,915</u>	<u>18,411,251</u>
EXPENSES			
General and administrative expenses		(39,067,559)	(25,291,562)
Provision against loan to policyholders' fund	18	(144,156)	(6,854,584)
PROFIT (LOSS) FOR THE YEAR			
		<u>41,560,200</u>	<u>(13,734,895)</u>
Basic and diluted earnings per share	7	<u>1.96</u>	<u>(0.79)</u>

The attached notes 1 to 31 form part of these financial statements.

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

BALANCE SHEET

At 31 December 2007

	Notes	2007 AED	2006 AED
ASSETS			
Furniture and equipment	8	1,894,295	2,123,581
Investment property	9	45,308,055	-
Financial assets			
At fair value through profit or loss	10	71,552,951	149,019,028
Available for sale	11	141,840,271	91,318,775
Reinsurance assets	19	109,139,793	55,193,657
Insurance receivables	12	84,863,353	42,285,685
Prepayments and other receivables	13	76,247,175	4,781,044
Investment deposits	14	12,500,000	42,290,380
Cash and cash equivalents		32,416,914	26,011,362
TOTAL ASSETS		575,762,807	413,023,512
EQUITY, POLICYHOLDERS' FUND AND LIABILITIES			
Equity			
Share capital	15	200,000,000	200,000,000
Statutory reserve	16	12,278,225	8,122,205
General reserve	16	12,278,225	8,122,205
Retained earnings		33,291,846	23,673,409
Proposed dividends	17	20,000,000	-
Cumulative changes in fair value of securities		(6,664,158)	(24,704,293)
Total equity		271,184,138	215,213,526
Policyholders' fund and liabilities			
Policyholders' fund			
Deficit in policyholders' fund	18	(6,998,740)	(6,854,584)
Loan from shareholders	18	6,998,740	6,854,584
Proposed profit distribution to policyholders	18	1,898,484	1,898,484
		1,898,484	1,898,484
Liabilities			
Insurance contract liabilities	19	199,048,343	126,538,959
Financial liabilities			
Murabaha and Ijara payables	20	28,925,024	34,212,500
Amounts held under reinsurance treaties		5,131,005	4,961,169
Insurance payables	21	46,378,361	16,394,705
Trade and other payables	22	23,197,452	13,804,169
		302,680,185	195,911,502
Total liabilities		304,578,669	197,809,986
TOTAL EQUITY, POLICYHOLDERS' FUND AND LIABILITIES		575,762,807	413,023,512

The financial statements were authorised for issue in accordance with a resolution of the directors on 3 March 2008.

Husien Mohammed Al Meeza
Managing Director / CEO

Mohammed Iqbal Mankani
Acting General Manager

The attached notes 1 to 31 form part of these financial statements.

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 AED	2006 AED
OPERATING ACTIVITIES			
Profit (loss) for the year		41,560,200	(13,734,895)
Adjustments for:			
Depreciation	8	1,085,531	1,486,421
Changes in fair value of investments carried at fair value through income statement	6	(14,903,726)	21,369,445
Provision for employees' end of service benefits	23	1,318,035	450,972
		<u>29,060,040</u>	<u>9,571,943</u>
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		92,369,803	(148,983)
Reinsurance assets		(53,946,136)	(31,485,488)
Insurance receivables		(42,577,668)	(22,016,793)
Prepayments and other receivables		(71,466,131)	(1,057,484)
Insurance contract liabilities		72,509,384	55,891,204
Amounts held under reinsurance treaties		169,836	1,313,895
Insurance payables		29,983,656	5,727,934
Trade payables and accruals		7,711,948	751,934
		<u>63,814,732</u>	<u>18,548,162</u>
Cash from operations			
Employees' end of service benefits paid	23	(56,098)	(141,022)
Net cash from operating activities		<u>63,758,634</u>	<u>18,407,140</u>
INVESTING ACTIVITIES			
Purchase of furniture and equipment	8	(856,245)	(561,885)
Financial assets, available-for-sale		(32,481,361)	(93,581,050)
Purchase of investment property	9	(45,308,055)	-
Realisation of investment deposits		34,790,380	11,025,000
New investment deposits		(5,000,000)	(34,790,380)
Murabaha receivable		-	2,431,516
Net cash used in investing activities		<u>(48,855,281)</u>	<u>(115,476,799)</u>
FINANCING ACTIVITIES			
Murabaha taken	20	-	34,212,500
Murabaha repaid	20	(34,212,500)	(35,000,000)
Ijara taken	20	34,029,440	-
Ijara repaid	20	(5,104,416)	-
(Decrease) increase in policyholders funds before Zakat		-	(6,518,083)
Issue of rights shares		-	131,000,000
Cash dividend paid		-	(9,000,000)
Directors' fees	27	(2,200,000)	-
Zakat paid		(1,010,325)	(782,548)
Net cash (used in) from financing activities		<u>(8,497,801)</u>	<u>113,911,869</u>
INCREASE IN CASH AND CASH EQUIVALENTS		<u>6,405,552</u>	<u>16,842,210</u>
Cash and cash equivalents at the beginning of the year		<u>26,011,362</u>	<u>9,169,152</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u>32,416,914</u>	<u>26,011,362</u>

The attached notes 1 to 31 form part of these financial statements.

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Share capital (Note 15) AED	Statutory reserve (Note 16) AED	Proposed scrip dividend AED	General reserve (Note 16) AED	Retained earnings AED	Proposed cash dividend (Note-17) AED	Cumulative changes in fair value of securities AED	Total AED
Balance at 1 January 2006	60,000,000	8,122,205	9,000,000	8,122,205	38,019,195	9,000,000	-	132,263,605
Net movement in fair value of available for sale investments	-	-	-	-	-	-	(24,704,293)	(24,704,293)
Total loss for the year recognised directly in equity	-	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	(13,734,895)	-	(24,704,293)	(24,704,293)
Total loss for the year	-	-	-	-	(13,734,895)	-	(24,704,293)	(38,439,188)
Scrip dividend issued	9,000,000	-	(9,000,000)	-	-	-	-	-
Rights issue	131,000,000	-	-	-	-	-	-	131,000,000
Cash dividend paid	-	-	-	-	-	(9,000,000)	-	(9,000,000)
Zakat	-	-	-	-	(610,891)	-	-	(610,891)
Balance at 31 December 2006	200,000,000	8,122,205	-	8,122,205	23,673,409	-	(24,704,293)	215,213,526

The attached notes 1 to 31 form part of these financial statements.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Premiums earned

Premiums are accounted for on the date of writing of policies after adjusting for unearned premiums.

Claims

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

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

Liability adequacy test

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

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

Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

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

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

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

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

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

Policy acquisition costs

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

Commissions earned and paid

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

Investment income

- (i) Income from investment deposits is recognised on an accrual basis.
- (ii) Dividend income is accounted for when the right-to- receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Realised gains and losses

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

Leases

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

Segment reporting

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

Product classification

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

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

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

The Company does not have any investment contracts or any insurance contracts with Discretionary Participation Features (DPF).

Furniture and equipment

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

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

Motor vehicles	4 years
Furniture and fixtures	4 years
Office equipment	4 years

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

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

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the balance sheet date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations.

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

Financial assets

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or which are not classified in any of the above categories. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to the income statement.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment losses are recognised in the income statement.

Impairment is determined as follows:

- a) for assets carried at fair value, impairment is the difference between cost and fair value;
- b) for assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of financial instruments

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

Insurance receivables

Provision is made against premiums and insurance balances receivable as soon as they are considered doubtful of recovery.

Deficit in policyholders' fund

Any deficit in the policyholders' fund is financed by the shareholders through loans. The Company maintains a full provision against such loans.

Insurance contract liabilities

(i) Unearned premium reserve

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

(ii) Additional reserve

A provision is made for the estimated excess of potential claims over unearned premiums, for claims incurred but not reported at the balance sheet date and for potential shortfall in unearned premium reserve. The reserves represent the management's best estimates on the basis of:

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

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance contract liabilities (continued)

(iii) Outstanding claims

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

Murabaha and Ijara payable

Murabaha payable is stated net of deferred profit payable.

Profits payable are recognised as an expense when incurred.

Payables and accruals

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

Provisions

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

Zakat

Zakat as approved by the Company's Sharia'a Supervisory Committee is computed on the following basis:

- Zakat on shareholders' equity is deducted from retained earnings and is computed on their Zakat Pool (shareholders' equity less paid up capital and proposed dividend plus loan to policyholders and employees' end of service benefits).
- Zakat is distributed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board.
- Zakat on policyholders' fund is computed on their Zakat-Pool (Policyholders' fund less proposed profit distribution).
- Zakat on paid up capital and proposed dividend is not included in the Zakat computation and is payable directly by the shareholders themselves. Similarly, Zakat on proposed profit distribution to policyholders is not included in the Zakat computation and is payable directly by the policyholders themselves.

Employees' end of service benefits

The Company provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Company makes contributions to the Government Social Insurance Scheme calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

Foreign currency translation

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Judgements

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

Classification of investments

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

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

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

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

All other investments are classified as available for sale.

Impairment of equity investments

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

Additional reserve

Management, based on past experience, uses 1/8th method to assess potential shortfall in unearned premium reserve.

Estimation uncertainty

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

Valuation of unquoted equity investments

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimation uncertainty (continued)

Provision for outstanding claims, whether reported or not

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

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

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

Impairment losses on insurance receivables

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

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

Reinsurance

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

2.5 FUTURE CHANGES IN ACCOUNTING POLICIES

New pronouncements not yet effective for the year ended 31 December 2007

The Company has not adopted the new accounting standards or interpretations that have been issued but not yet effective. These standards and interpretations, except for revised IAS 1 (revised) and IAS 23 (revised), are not likely to have any significant impact on the financial statements of the Company in the period of their initial application.

IAS 1, Presentation of financial statements, the application of the revised standard will result in amendments to the presentation of the financial statements.

IAS 23, Borrowing costs, has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

3 PREMIUMS EARNED

	<i>Gross AED</i>	<i>Reinsurers' share AED</i>	<i>Net AED</i>
Year 2007:			
Insurance contracts premium receivable	296,376,768	174,033,452	122,343,316
Movement in provision for unearned premiums	(35,617,459)	(28,397,143)	(7,220,316)
Insurance premium revenue	<u>260,759,309</u>	<u>145,636,309</u>	<u>115,123,000</u>
Unearned premium as of 31 December (note-19)	<u>96,434,958</u>	<u>54,051,331</u>	<u>42,383,627</u>
Year 2006:			
Insurance contracts premium receivable	165,301,650	72,081,612	93,220,038
Movement in provision for unearned premiums	(24,671,923)	(10,165,751)	(14,506,172)
Movement in additional reserve	(2,000,000)	-	(2,000,000)
Insurance premium revenue	<u>138,629,727</u>	<u>61,915,861</u>	<u>76,713,866</u>
Unearned premium as of 31 December (note-19)	<u>60,817,499</u>	<u>25,654,188</u>	<u>35,163,311</u>

4 CLAIMS

	<i>Gross AED</i>	<i>2007 Reinsurers' share AED</i>	<i>Net AED</i>	<i>Gross AED</i>	<i>2006 Reinsurers' share AED</i>	<i>Net AED</i>
Insurance claims paid in the year	131,415,801	76,292,091	55,123,710	43,830,254	8,720,113	35,110,141
Changes in provision for outstanding claims	<u>36,891,925</u>	<u>25,548,993</u>	<u>11,342,932</u>	<u>29,219,281</u>	<u>21,319,737</u>	<u>7,899,544</u>
Claims recorded in income statement	<u>168,307,726</u>	<u>101,841,084</u>	<u>66,466,642</u>	<u>73,049,535</u>	<u>30,039,850</u>	<u>43,009,685</u>

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

5 WAKALA AND MUDARIB FEES

The shareholders manage the insurance operations for the policyholders and charge 25% (2006:25%) of gross written premium as Wakala fees. During the year, no Wakala fee was charged on gross written premium amounting to AED 73,032,374 (2006: AED 19,903,942) as the Company retained insignificant risk on such premiums and commission income from such business was significantly lower than the normal commission. Management therefore decided not to charge Wakala fee on these premiums.

The shareholders also manage the policyholders' investment funds and charge 25% of investment income earned by the policyholders' investment funds as Mudarib fees. No Mudarib fee had been charged for 2006 in view of investment losses for the year.

Wakala and Mudarib fees have been approved by the Company's Sharia'a Supervisory Board.

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

6 INVESTMENT INCOME (LOSSES)

	2007 AED	2006 AED
Fair value gains and losses		
Fair value gain (loss) on financial assets carried at fair value through profit or loss	14,903,726	(21,369,445)
Realised gains and losses		
Gain on sale of available for sale financial assets	1,380,008	-
Gain (loss) on sale of financial assets carried at fair value through profit or loss	16,990,335	(8,503,932)
Other investment income		
Income from investment deposits	957,889	1,660,732
Income from investment in real estate funds	1,837,147	1,538,947
Dividend income		
Financial assets carried at fair value through profit or loss	2,308,284	1,174,576
Available for sale financial assets	1,513,333	151,111
Murabaha income	-	275,687
Other miscellaneous income	477,410	-
Investment financing	(4,698,023)	(3,484,597)
	<u>35,670,109</u>	<u>(28,556,921)</u>
Allocated to:		
Shareholders	21,357,718	(17,938,176)
Policyholders	14,312,391	(10,618,745)
	<u>35,670,109</u>	<u>(28,556,921)</u>

Investment income (losses) have been allocated to the shareholders in the ratio of equity at beginning of the year to total assets at the end of the year excluding the current year profit (loss), fixed assets and end of service benefits. The remaining income (loss) has been allocated to the policyholders. Allocation of investment income (losses) to the shareholders and policyholders has been approved by the Company's Sharia'a Supervisory Board.

7 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is calculated by dividing profit attributable to the shareholders for the year, net of directors' remuneration, of AED 2,200,000 (2006: AED Nil) by weighted average number of shares outstanding during the year, adjusted for the bonus element included in the rights issue (the bonus element being the impact of issuing rights shares at value lower than the prevailing market price) as required by International Financial Reporting Standards (IFRS).

	2007 AED	2006 AED
Net profit (loss) for the year, net of directors' fees	39,360,200	(13,734,895)
Weighted average number of shares outstanding during the period	20,000,000	17,309,581
Earnings per share	<u>1.96</u>	<u>(0.79)</u>

No figure for diluted earnings per share has been presented because the Company has not issued any instruments which would have an impact on earnings per share when exercised.

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

8 FURNITURE AND EQUIPMENT

	<i>Motor vehicles AED</i>	<i>Furniture and fixtures AED</i>	<i>Office equipment AED</i>	<i>Total AED</i>
Cost:				
At 1 January 2007	260,870	3,034,005	2,861,402	6,156,277
Additions	-	435,664	420,581	856,245
At 31 December 2007	<u>260,870</u>	<u>3,469,669</u>	<u>3,281,983</u>	<u>7,012,522</u>
Depreciation:				
At 1 January 2007	105,433	2,089,983	1,837,280	4,032,696
Change for the year	58,897	462,444	564,190	1,085,531
At 31 December 2007	<u>164,330</u>	<u>2,552,427</u>	<u>2,401,470</u>	<u>5,118,227</u>
Net carrying amount: At 31 December 2007	<u>96,540</u>	<u>917,242</u>	<u>880,513</u>	<u>1,894,295</u>

	<i>Motor vehicles AED</i>	<i>Furniture and fixtures AED</i>	<i>Office equipment AED</i>	<i>Total AED</i>
Cost:				
At 1 January 2006	249,370	2,677,583	2,667,439	5,594,392
Additions	11,500	356,422	193,963	561,885
At 31 December 2006	<u>260,870</u>	<u>3,034,005</u>	<u>2,861,402</u>	<u>6,156,277</u>
Depreciation:				
At 1 January 2006	40,038	1,364,113	1,142,124	2,546,275
Change for the year	65,395	725,870	695,156	1,486,421
At 31 December 2006	<u>105,433</u>	<u>2,089,983</u>	<u>1,837,280</u>	<u>4,032,696</u>
Net carrying amount: At 31 December 2006	<u>155,437</u>	<u>944,022</u>	<u>1,024,122</u>	<u>2,123,581</u>

9 INVESTMENT PROPERTY

	<i>2007 AED</i>	<i>2006 AED</i>
Freehold Land	<u>45,308,055</u>	<u>-</u>

The investment property was purchased during the year.

In the opinion of the Management, fair value of the investment property, as of 31 December 2007 was not significantly different from its carrying value. Refer to note 20 for security details.

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2007 AED	2006 AED
Designated upon initial recognition		
Quoted securities at cost (note i)	58,895,373	44,142,914
Cumulative fair value adjustments recognised in the income statement	12,657,578	11,615,635
Unquoted securities at cost (note ii)	-	69,869,819
Cumulative fair value adjustments recognised in the income statement	-	23,390,660
	<u>71,552,951</u>	<u>149,019,028</u>

Notes:

- Investment in quoted securities represents the Company's investment in shares quoted in the UAE and Bahrain.
- In the previous year, a 3% investment in a real estate development Company in Bahrain was purchased from Al Salam Bank, Bahrain, a related party. The investment was sold to the Bank in the current year.

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2007 AED	2006 AED
Quoted securities (note i)	79,124,693	67,152,003
Unquoted funds (at cost) (note ii)	24,117,755	21,685,810
Unquoted securities at cost (note iii)	38,597,823	2,480,962
	<u>141,840,271</u>	<u>91,318,775</u>

Notes:

- Investment in quoted securities represents the Company's investment in shares quoted in the UAE and Bahrain.
- Unquoted funds represent the Company's investment in the Real Estate Funds of Dubai Islamic Bank PJSC, Amiak Finance PJSC and Emirates Islamic Bank PJSC which have original maturity of four to five years. The Company expects to earn approximately 3% to 7% return on these investments.
Investment in quoted securities represents the Company's investment in shares quoted in the UAE and Bahrain.
- Unquoted securities represent the Company's investment in ordinary shares in Dubai and Bahrain.
The unquoted available for sale investments are carried at cost less any impairment in value due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value.
- Negative cumulative changes in fair value in respect of available for sale investments as of the year end are allocated to the policyholders when the investment is sold or derecognised. Until such times, the cumulative changes in fair value are shown under equity.

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

12 INSURANCE RECEIVABLES

	2007 AED	2006 AED
Insurance premiums receivable	67,367,014	36,627,600
Amounts due from insurance and reinsurance companies	17,496,339	5,658,085
	<u>84,863,353</u>	<u>42,285,685</u>

As at 31 December 2007, receivables at nominal value of AED 3,500,000 (2006: AED Nil) were impaired. Movements in the allowance for impairment of receivables were as follows:

	2007 AED	2006 AED
At 1 January	-	-
Charge for the year	3,500,000	-
At 31 December	<u>3,500,000</u>	<u>-</u>

13 PREPAYMENTS AND OTHER RECEIVABLES

	2007 AED	2006 AED
Other receivables	73,127,953	3,072,394
Prepaid expenses	3,119,222	1,708,650
	<u>76,247,175</u>	<u>4,781,044</u>

14 INVESTMENT DEPOSITS

	2007 AED	2006 AED
Dubai Islamic Bank PJSC (note i)	7,500,000	7,500,000
Al Salam Bank, Bahrain	-	34,790,380
Al Salam Bank, Sudan (note ii)	5,000,000	-
	<u>12,500,000</u>	<u>42,290,380</u>

Notes:

- Investment deposits with Dubai Islamic Bank PJSC have a fixed maturity of one year from the date of deposit. These represent the amounts that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with Article 41 of the Federal Law No. 9 of 1984.
- Investments deposits with Al Salam Bank Sudan have a fixed maturity of one year from the date of deposit.

15 SHARE CAPITAL

	2007 AED	2006 AED
Issued and fully paid – 20,000,000 (2006: 20,000,000) shares of AED 10 each	<u>200,000,000</u>	<u>200,000,000</u>

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

16 RESERVES

As required by the Commercial Companies Law and the Company's articles of association, 10% of the profit for the year has been transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The reserve is not available for distribution except in the circumstances stipulated by the law.

As required by the Company's articles of association, 10% of the profit for the year has been transferred to general reserve. The reserve is available for distribution by a resolution of the shareholders of the Company at an ordinary general meeting, on recommendation of the Board of Directors.

17 DIVIDENDS PROPOSED

The Board of Directors have proposed a cash dividend amounting to AED 20,000 thousand at AED 1 per share of AED 10 each (2006: cash dividend amounting to AED Nil per share of AED 10 each). This is subject to the approval of the shareholders at the Annual General Meeting.

18 POLICYHOLDERS' FUND

	2007 AED	2006 AED
Balance at 1 January	(6,854,584)	6,518,083
Deficit for the year	(144,156)	(13,372,667)
Balance at 31 December	(6,998,740)	(6,854,584)
Proposed profit distribution to policyholders	1,898,484	1,898,484

Notes:

- The shareholders have financed the policyholders' deficit in accordance with the company's policy through a loan with no return. Full provision has been maintained against such a loan.
- Proposed profit distribution to the policyholders for 2005 was approved by the shareholders at the annual general meeting held on 29 March 2006.

19 INSURANCE CONTRACT LIABILITIES

	Gross		Reinsurers' share		Net	
	2007 AED	2006 AED	2007 AED	2006 AED	2007 AED	2006 AED
Unearned premium reserve (Note 3)	96,434,958	60,817,499	54,051,331	25,654,188	42,383,627	35,163,311
Additional Reserve (Note 19 a)	16,000,000	16,000,000	-	-	16,000,000	16,000,000
Outstanding Claims (Note 19 b)	86,613,385	49,721,460	55,088,462	29,539,469	31,524,923	20,181,991
	<u>199,048,343</u>	<u>126,538,959</u>	<u>109,139,793</u>	<u>55,193,657</u>	<u>89,908,550</u>	<u>71,345,302</u>

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

19 INSURANCE CONTRACT LIABILITIES (continued)

19 (a) Additional Reserve

	<i>Additional reserve AED</i>
1 January 2006	
Increase	14,000,000
	<u>2,000,000</u>
31 December 2006	
Increase	16,000,000
	<u>-</u>
31 December 2007	<u>16,000,000</u>

19 (b) Outstanding claims

	<i>Outstanding claims AED</i>	<i>Due from reinsurers AED</i>	<i>Net AED</i>
At 1 January 2006	20,502,179	8,219,732	12,282,447
Net increase (Note 4)	29,219,281	21,319,737	7,899,544
At 31 December 2006	49,721,460	29,539,469	20,181,991
Net increase (Note 4)	16,891,925	25,548,993	11,342,932
At 31 December 2007	<u>86,613,385</u>	<u>55,088,462</u>	<u>31,524,923</u>

Uncertainty about the amount and timing of claims payment for all material amounts is typically resolved within one year.

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

20 MURABAHA AND IJARA PAYABLES

	2007 AED	2006 AED
Murabaha payables	-	34,212,500
Ijara payables	28,925,024	-
	<u>28,925,024</u>	<u>34,212,500</u>

The Company has obtained an Ijara loan of AED 34,029,440 from Emirates Islamic Bank, Dubai to finance purchase of investment property (note 9). The loan carries profit rate of 8% and is repayable in twenty quarterly instalments commencing from February 2007. The loan is secured by legal mortgage over the investment property.

The previous year loan of AED 34,212,500 from Al Salam Bank Bahrain, which carried maximum profit rate of 8%, has been repaid during the year.

21 INSURANCE PAYABLES

	2007 AED	2006 AED
Due to reinsurers and other insurance payables	<u>46,378,361</u>	<u>16,394,705</u>

22 TRADE AND OTHER PAYABLES

	2007 AED	2006 AED
Trade payables and accruals	19,252,441	11,540,493
Employees' end of service benefits (Note 23)	2,075,840	813,903
Accrued Zakat	1,869,171	1,449,773
	<u>23,197,452</u>	<u>13,804,169</u>

23 EMPLOYEES' END OF SERVICE BENEFITS

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

	2007 AED	2006 AED
Provision at 1 January	813,903	503,953
Provided during the year	1,318,035	450,972
Less: paid during the year	(56,098)	(141,022)
Provision at 31 December	<u>2,075,840</u>	<u>813,903</u>

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

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

24 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders (including Dubai Islamic Bank PJSC), directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. The Company's banker, Dubai Islamic Bank PJSC (DIB) and its subsidiaries own an equity interest of 6% (2006: 9.5 %) in the Company. The Managing Director of the Company is also a key management executive of Al Salam Bank in Sudan and Al Salam Bank in Bahrain. The pricing policies and terms of these transactions are approved by the Board of Directors.

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

	<i>Major shareholders AED</i>	<i>Other related parties AED</i>	<i>Total 2007 AED</i>	<i>2006 AED</i>
Investment deposits	7,500,000	8,922,760	16,422,760	42,290,380
Carrying value of investments in ordinary shares	41,229,997	87,302,815	128,532,812	104,659,697
Cost of investment in Real Estate Funds	12,425,092	9,837,798	22,262,890	19,830,945
Premiums receivable	3,934,225	5,442,752	9,376,977	1,827,795
Murabaha loan	-	-	-	34,212,500
Other receivables (see note below)	-	68,116,953	68,116,953	-

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

	<i>Major shareholders AED</i>	<i>Other related parties AED</i>	<i>Total 2007 AED</i>	<i>2006 AED</i>
Gross premiums	11,584,363	12,011,177	23,595,540	16,165,448
Gross claims	3,118,496	1,202,192	4,320,688	11,809,310
Profit share on investment deposits and real estate funds	1,862,802	520,533	2,383,335	3,343,206
Dividend income	2,100,000	720,000	2,820,000	486,000
Profit share on Murabaha loan	-	2,415,991	2,415,991	2,742,181

During the year, the Company sold a 3% investment in a real estate development company in Bahrain to Al Salam Bank, Bahrain. (note 10). Amount due from Al Salam Bank Bahrain is included in other receivables.

Compensation of the key management personnel is as follows:

	<i>2007 AED</i>	<i>2006 AED</i>
Short term employee benefits	2,592,371	2,264,343
End of service benefits	177,349	132,000
Total compensation paid to key management personnel	<u>2,769,720</u>	<u>2,396,343</u>

Outstanding balances at the year-end arise in the normal course of business. For the year ended 31 December 2007, the Company has not recorded any impairment of amounts owed by related parties (2006: AED Nil).

25 SHARIA'A SUPERVISORY COMMITTEE

The Company's business activities are subject to the supervision of a Sharia'a Committee consisting of three members appointed by the shareholders. The Sharia'a Committee performs a supervisory role in order to determine whether the operations of the Company are conducted in accordance with Sharia'a rules and principles.

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

26 SEGMENTAL INFORMATION

Primary segment information

For management purposes the Company is organised into two business segments, general insurance and investment. The general insurance segment comprises the insurance business undertaken by the Company. Investment comprises investment and cash management for the Company's own account. These segments are the basis on which the Company reports its primary segment information. Segmental information is presented below:

	2007		2006		Total
	Attributable to		Attributable to		
	Policyholders AED	Shareholders AED	Policyholders AED	Shareholders AED	
General Insurance					
Underwriting income	135,576,734	-	87,930,440	-	135,576,734
Underwriting expenses	(90,619,084)	-	(54,334,935)	-	(90,619,084)
Net underwriting income	44,957,650	-	33,595,505	-	44,957,650
Wakala fee	(55,836,099)	55,836,099	(36,349,427)	36,349,427	-
Mudarib fee	(3,578,098)	3,578,098	-	-	-
	(14,456,547)	59,414,197	(2,753,922)	36,349,427	44,957,650
					33,595,505
Investment					
Investment income (loss)	14,312,391	21,357,718	(10,618,745)	(17,938,176)	35,670,109
Unallocated other income and expenses	-	(39,067,559)	-	(25,291,562)	(39,067,559)
Provision against loan to policyholders' fund	-	(144,156)	-	(6,854,584)	(144,156)
Profit (loss) for the year	(144,156)	41,560,200	(13,372,667)	(13,734,895)	41,416,044
					(27,107,562)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

26 SEGMENTAL INFORMATION (continued)

OTHER INFORMATION

	<i>General Insurance</i>		<i>Investment</i>		<i>Total</i>	
	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Segment assets	<u>243,944,577</u>	<u>137,895,329</u>	<u>331,818,230</u>	<u>275,128,183</u>	<u>575,762,807</u>	<u>413,023,512</u>
Segment liabilities	<u>275,653,645</u>	<u>163,597,486</u>	<u>28,925,024</u>	<u>34,212,500</u>	<u>304,578,669</u>	<u>197,809,986</u>
Capital expenditure	<u>856,245</u>	<u>561,885</u>	<u>-</u>	<u>-</u>	<u>856,245</u>	<u>561,885</u>
Depreciation	<u>1,085,531</u>	<u>1,486,421</u>	<u>-</u>	<u>-</u>	<u>1,085,531</u>	<u>1,486,421</u>

Secondary segment information

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

27 DIRECTORS' FEES

Directors' fees for 2007 have been included as an appropriation of the profit for the year in accordance with the interpretation of the Commercial Companies Law of 1984 (as amended) by the Ministry of Economy.

28 RISK MANAGEMENT

(a) Governance framework

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

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

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

(b) Capital management framework

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company fully complied with the externally imposed capital requirements and no changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

28 RISK MANAGEMENT (continued)

(c) Regulatory framework

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

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

(d) Asset liability management (ALM) framework

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

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

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

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

28A Insurance risk

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

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

Frequency and amounts of claims

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

Property

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

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

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has reinsurance cover for such damage to limit losses for any individual claim to AED 200,000.

28 RISK MANAGEMENT (continued)

28A Insurance risk

Motor

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

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company has reinsurance cover for such claims to limit losses for any individual claim to AED 250,000.

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

Marine

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

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Company has reinsurance to limit losses for any individual claim to AED 200,000.

Medical, group life and personal accident

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

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

Life assurance

The Company has only a small portfolio of life assurance contracts.

Geographical concentration of risks

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

Reinsurance risk

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

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. The Company deals with reinsurers approved by the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

28 RISK MANAGEMENT (continued)**28B Financial risk**

The Company's principal financial instruments are financial investments (at fair value through profit or loss and available for sale), receivables arising from insurance and reinsurance contracts, statutory deposits and cash and cash equivalents.

The Company does not enter into material derivative transactions.

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

Credit risk

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

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

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

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

	Notes	2007 AED	2006 AED
Financial assets			
At fair value through profit or loss	10	71,552,951	149,019,028
Available for sale	11	141,840,271	91,318,775
Reinsurance assets	19	109,139,793	55,193,657
Insurance receivables	12	84,863,353	42,285,685
Other assets (excluding prepayments)	13	73,127,953	3,072,394
Investment deposits	14	12,500,000	42,290,380
Bank balances and cash		32,416,914	26,011,362
TOTAL CREDIT RISK EXPOSURE		525,441,235	409,191,281

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

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

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

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

28 RISK MANAGEMENT (continued)

28B Financial risk (continued)

Credit risk (continued)

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

	2007			2006		
	Assets AED	Liabilities and equity AED	Contingent liabilities and commitments AED	Assets AED	Liabilities and equity AED	Contingent liabilities and commitments AED
United Arab Emirates	432,938,873	548,401,708	1,314,200	269,740,569	362,562,054	173,625
Other Middle East countries	106,738,126	7,867,740	-	135,430,555	39,890,588	-
Europe	7,213,585	18,308,959	-	4,958,050	9,809,037	-
Rest of the world	28,872,223	1,184,400	-	2,894,338	761,833	-
Total	575,762,807	575,762,807	1,314,200	413,023,512	413,023,512	173,625

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

31 December 2007

	Neither past due nor impaired				
	High grade AED	Standard grade (satisfactory) AED	Sub-standard grade (unsatisfactory) AED	Past due or impaired AED	Total AED
Financial assets					
At fair value through profit or loss	71,552,951	-	-	-	71,552,951
Available for sale	141,840,271	-	-	-	141,840,271
Reinsurance assets	109,139,793	-	-	-	109,139,793
Insurance receivables	84,863,353	-	-	3,500,000	88,363,353
Other assets (excluding prepayments)	73,127,953	-	-	-	73,127,953
Investment deposits	12,500,000	-	-	-	12,500,000
Bank balances and cash	32,416,914	-	-	-	32,416,914
	525,441,235	-	-	3,500,000	528,941,235
Less: Impairment provision					(3,500,000)
					525,441,235

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

28 RISK MANAGEMENT (continued)

28B Financial risk (continued)

Credit risk (continued)

31 December 2006

	Neither past due nor impaired			Past due or impaired AED	Total AED
	High grade AED	Standard grade (satisfactory) AED	Sub-standard grade (unsatisfactory) AED		
Financial assets					
At fair value through profit or loss	149,019,028	-	-	-	149,019,028
Available for sale	91,318,775	-	-	-	91,318,775
Reinsurance assets	55,193,657	-	-	-	55,193,657
Insurance receivables	42,285,685	-	-	-	42,285,685
Other receivables (excluding prepayments)	3,072,394	-	-	-	3,072,394
Statutory deposits	42,290,380	-	-	-	42,290,380
Cash and cash equivalents	26,011,362	-	-	-	26,011,362
	<u>409,191,281</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>409,191,281</u>
Less: Impairment provision					-
					<u>409,191,281</u>

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

	Upto 90 days AED '000	90 to 180 days AED '000	above 180 days AED '000	Total AED '000	Past due and impaired AED '000	Total AED '000
31 December 2007	48,460	18,547	21,356	88,363	3,500	84,863
31 December 2006	30,837	9,172	2,277	42,286	-	42,286

The Company generally provides credit facility up to 120 days.

For assets to be classified as 'past due and impaired' contractual payments in arrears are more than 180 days and an impairment adjustment is recorded in the statement of income for this. When the credit exposure is adequately secured or when the management is confident of recovery, arrears more than 180 days might still be classified as 'past due but not impaired', with no impairment adjustment recorded.

Liquidity risk

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

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

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2007

28 RISK MANAGEMENT (continued)

28B Financial risk (continued)

	31 December 2007		31 December 2006		
	Less than one year AED	More than one year AED	Less than one year AED	More than one year AED	Total AED
EQUITY AND LIABILITIES					
Equity					
Share capital	-	-	-	200,000,000	200,000,000
Statutory reserve	-	-	-	8,122,205	8,122,205
General reserve	-	-	-	8,122,205	8,122,205
Retained earnings	-	-	-	23,673,409	23,673,409
Proposed dividends	-	-	-	-	-
Cumulative changes in fair values of securities	-	-	-	(24,704,293)	(24,704,293)
Total equity	-	271,184,138	-	215,213,526	215,213,526
Policyholders' Fund and Liabilities					
Policyholders' fund	-	-	-	1,898,484	1,898,484
Liabilities					
Insurance contract liabilities	199,048,343	-	126,538,959	-	126,538,959
Financial liabilities					
Murabaha and Ijara payables	6,805,888	22,119,136	8,553,125	25,659,375	34,212,500
Amounts held under reinsurance treaties	5,131,005	-	4,961,169	-	4,961,169
Insurance payables	46,378,361	-	16,394,705	-	16,394,705
Trade and other payables	23,197,452	-	13,804,169	-	13,804,169
Total liabilities	280,561,049	22,119,136	170,252,127	1,898,484	197,809,986
TOTAL EQUITY AND LIABILITIES	280,561,049	22,119,136	170,252,127	217,112,010	413,023,512

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

28 RISK MANAGEMENT (continued)

28B Financial risk (continued)

MARKET RISK

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

Foreign currency risk

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

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

Other than investments amounting to AED 43,721 thousand denominated in United States Dollars, to which the UAE Dirham has been pegged for several years, the Company does not have any other foreign currency balances.

Profit rate risk

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

The Company is exposed to profit rate risk on certain of its investments and bank balances and cash. The Company limits its risk by monitoring changes in such rates.

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

31 December 2007

	<i>Less than 1 years AED</i>	<i>1 to 5 years AED</i>	<i>Over 5 years AED</i>	<i>Total AED</i>	<i>Effective profit rate</i>
Investment deposits	12,500,000	-	-	12,500,000	6%
Murabaha and Ijara payables	6,805,888	22,119,136	-	28,925,024	8%
	<u>19,305,888</u>	<u>22,119,136</u>	<u>-</u>	<u>41,425,024</u>	

31 December 2006

	<i>Less than 1 years AED</i>	<i>1 to 5 years AED</i>	<i>Over 5 years AED</i>	<i>Total AED</i>	<i>Effective profit rate</i>
Investment deposits	42,290,380	-	-	42,290,380	5.5%
Murabaha and Ijara payables	8,553,125	25,659,375	-	34,212,500	8%
	<u>50,843,505</u>	<u>25,659,375</u>	<u>-</u>	<u>76,502,880</u>	

28 RISK MANAGEMENT (continued)**28B Financial risk (continued)***Profit rate risk (continued)*

The impact of changes in profit rate risk is not expected to be significant for the Company.

Equity price risk

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

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2007) and on income statement due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	2007			2006		
	Change in equity price %	Effect on equity AED	Effect on income statement AED	Change in equity price %	Effect on equity AED	Effect on income statement AED
All investments – (Mainly Dubai Financial Market and Abu Dhabi Stock Market)	10	7,912,469	7,155,295	10	6,715,200	5,575,855

OPERATIONAL RISK

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

29 CONTINGENCIES AND COMMITMENTS*Contingent liabilities*

At 31 December 2007, the Company had contingent liabilities in respect of bank and other guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to AED 1,314,200 (2006: AED 173,625).

Legal claims

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

Commitments

The Company has a commitment for AED 14.7 million (2006: AED Nil) on account of investments made in securities. The Company has to pay this amount as and when calls are made by the investee company.

30 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of bank balances and cash, investment deposits, investments, premium, insurance and reinsurance balances receivable, due from related parties and other receivables. Financial liabilities consist of outstanding claims, Murabaha and Ijara payables and other payables.

The fair values of the financial assets and liabilities with the exception of unquoted investment which is carried at cost (note 9), are not materially different from their carrying values.

31 COMPARATIVE INFORMATION

The Company has changed the order of presentation of assets on its balance sheet to align it with the order adopted for presentation of its liabilities with less liquid items presented before more liquid items. The Company has also presented various classes of financial assets on the face of the balance sheet this year instead of disclosing them in the notes. Furthermore, reinsurance assets have been grouped together.

An amount of AED 6,582,419 that was inadvertently included in insurance receivables in 2006 has been reclassified to reinsurance assets.

These changes have been made to improve the quality of information presented and do not affect previously reported income statement or equity amounts.