Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)

FINANCIAL STATEMENTS

31 DECEMBER 2008

ERNST & YOUNG

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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 2008 and the statements of income, cash flow and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of 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 the 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. Except as described in the second paragraph below, 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.

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Basis for qualifications

1. Deficit in policyholders' fund at the balance sheet date includes an amount of AED 30,938,932 due from the policyholders in respect of the decline in the value of available-for -sale investments assigned to the policyholders as described in note 10 (b) iv. Management believes that the market price of such investments will increase in due course and therefore policyholders will not be required to settle this balance. In our opinion, a provision should have been made for this balance and should have been charged to equity. Accordingly, equity and deficit in policyholders' funds are overstated by AED 30,938,932.

2. As described in note 10 (b) iv to the financial statements, the cumulative decline in fair value of available-for-sale securities amounted to AED 111,588,011 of which AED 80,649,079 was charged to equity and AED 30,938,932 was charged to policyholders' funds. Given the current significant difficulties in the financial markets and their resultant impact on prices of equity instruments, management considers that the current quoted prices of the financial assets do not necessarily reflect the extent of impairment in fair values in all cases. Accordingly, no impairment loss has been recorded in the income statement on these investments. As we are unable to assess the reasonableness of this assumption because of its inherent nature, we have not been able to conclude on the adequacy of the charge for impairment and the resulting effect on the loss for the year.

Opinion

In our opinion, except for the effects of the matters set out in the preceding paragraphs, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion except for the effects of the matters mentioned above: (a) 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); (b) 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; and (c) 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.

Ernst & Young

Signed by:
Edward Quinlan
Partner
Registration No. 93

23 March, 2009
Dubai

STATEMENT OF INCOME

Year ended 31 December 2008

	Notes	2008 AED	2007 AED
ATTRIBUTABLE TO POLICYHOLDERS			
UNDERWRITING INCOME			
Insurance premiums revenue	3	**439,816,869**	260,759,309
Insurance premiums ceded to reinsurers	3	**(273,676,450)**	(145,636,309)
Net insurance premiums revenue	3	**166,140,419**	115,123,000
Reinsurance commission income		**18,365,111**	19,468,129
Policy and survey fees		**1,768,777**	985,605
		186,274,307	135,576,734
UNDERWRITING EXPENSES			
Claims	4	**147,095,591**	168,307,726
Reinsurers' share of claims	4	**(65,629,817)**	(101,841,084)
Commission expenses		**29,819,584**	18,733,436
Excess of loss insurance premiums		**7,084,862**	5,419,006
		118,370,220	90,619,084
NET UNDERWRITING INCOME		**67,904,087**	44,957,650
Wakala fees	5	**(77,461,650)**	(55,836,099)
NET LOSS FROM INSURANCE OPERATIONS		**(9,557,563)**	(10,878,449)
Investment (loss) income	6	**(17,584,748)**	14,312,391
Mudarib's share	5	**-**	(3,578,098)
LOSS FOR THE YEAR		**(27,142,311)**	(144,156)
ATTRIBUTABLE TO SHAREHOLDERS			
INCOME			
Investment (loss) income	6	**(45,838,483)**	21,357,718
Wakala fees from policyholders	5	**77,461,650**	55,836,099
Mudarib's share from policyholders	5	**-**	3,578,098
Other income		**785,356**	-
		32,408,523	80,771,915
EXPENSES			
General and administrative expenses		**(38,507,459)**	(39,067,559)
Provision against loan to policyholders' fund	18	**(27,142,311)**	(144,156)
(LOSS) PROFIT FOR THE YEAR		**(33,241,247)**	41,560,200
Basic and diluted (loss) earnings per share	7	**(0.17)**	0.20

The attached notes 1 to 30 form part of these financial statements.

BALANCE SHEET

At 31 December 2008

	Notes	2008 AED	2007 AED
ASSETS			
Furniture and equipment	8	**1,733,217**	1,894,295
Investment property	9	**62,308,055**	45,308,055
Investment securities			
Trading securities	10(a)	**38,278,695**	71,552,951
Available-for-sale	10(b)	**85,135,167**	141,840,271
Reinsurance assets	19	**150,535,926**	109,139,793
Insurance receivables	11	**88,767,429**	84,863,353
Prepayments and other receivables	12	**20,325,825**	76,247,175
Investment deposits	13	**18,000,000**	12,500,000
Cash and cash equivalents	14	**40,106,802**	32,416,914
TOTAL ASSETS		**505,191,116**	575,762,807
EQUITY, POLICYHOLDERS' FUND AND LIABILITIES			
Equity			
Share capital	15	**200,000,000**	200,000,000
Statutory reserve	16	**12,278,225**	12,278,225
General reserve	16	**12,278,225**	12,278,225
Retained earnings		**(1,491,974)**	33,291,846
Proposed dividends	17	-	20,000,000
Cumulative changes in fair value of securities		**(80,649,079)**	(6,664,158)
Total equity		**142,415,397**	271,184,138
Policyholders' fund			
(Deficit) surplus in policyholders' fund	18	**(29,162,588)**	1,898,484
Liabilities			
Insurance contract liabilities	19	**260,498,137**	199,048,343
Financial liabilities			
Ijara payables	20	**22,119,137**	28,925,024
Amounts held under reinsurance treaties		**6,625,386**	5,131,005
Insurance payables	21	**64,197,287**	46,378,361
Trade and other payables	22	**38,498,360**	23,197,452
		391,938,307	302,680,185
Total policyholders' funds and liabilities		**362,775,719**	304,578,669
TOTAL EQUITY, POLICYHOLDERS' FUND AND LIABILITIES		**505,191,116**	575,762,807

The financial statements were authorised for issue by the directors on 23 March, 2009.

Hussien Mohammed Al Meeza
Board Member

Mohammed Omeir Al Mehairi
Board Member

The attached notes 1 to 30 form part of these financial statements.

CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 AED	2007 AED
OPERATING ACTIVITIES			
(Loss) profit for the year		**(33,241,247)**	41,560,200
Adjustments for:			
Depreciation	8	**1,010,966**	1,085,531
Loss (gain) on trading securities	6	**84,766,052**	(14,903,726)
Unrealised gain on fair valuation of investment property	6	**(17,000,000)**	-
Provision for employees' end of service benefits	23	**216,809**	1,318,035
		35,752,580	29,060,040
Changes in operating assets and liabilities:			
Trading securities		**(51,491,796)**	92,369,803
Reinsurance assets		**(41,396,133)**	(53,946,136)
Insurance receivables		**(3,984,076)**	(42,577,668)
Prepayments and other receivables		**55,921,350**	(71,466,131)
Insurance contract liabilities		**61,449,794**	72,509,384
Amounts held under reinsurance treaties		**1,494,381**	169,836
Insurance payables		**17,818,926**	29,983,656
Trade payables and accruals		**15,340,433**	7,711,948
Cash from operations		**90,985,459**	63,814,732
Employees' end of service benefits paid	23	**(293,304)**	(56,098)
Net cash from operating activities		**90,692,155**	63,758,634
INVESTING ACTIVITIES			
Purchase of furniture and equipment	8	**(849,888)**	(856,245)
Purchase of available-for-sale securities		**(48,218,748)**	(32,481,361)
Purchase of investment property	9	-	(45,308,055)
Realisation of investment deposits		-	34,790,380
New investment deposits		**(5,500,000)**	(5,000,000)
Net cash used in investing activities		**(54,568,636)**	(48,855,281)
FINANCING ACTIVITIES			
Murabaha paid		-	(34,212,500)
Ijara (paid) taken	20	**(6,805,887)**	28,925,024
Decrease in policyholders' fund before Zakat		**(122,140)**	-
Cash dividend paid		**(20,000,000)**	-
Directors' fees	27	-	(2,200,000)
Zakat paid		**(1,505,604)**	(1,010,325)
Net cash used in financing activities		**(28,433,631)**	(8,497,801)
INCREASE IN CASH AND CASH EQUIVALENTS		**7,689,888**	6,405,552
Cash and cash equivalents at the beginning of the year		**32,416,914**	26,011,362
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	**40,106,802**	32,416,914

The attached notes 1 to 30 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Share capital (Note 15) AED	*Statutory reserve (Note 16)* 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 2007	200,000,000	8,122,205	8,122,205	23,673,409	-	(24,704,293)	215,213,526
Recognised gains and losses on available-for-sale investments	-	-	-	-	-	(1,380,008)	(1,380,008)
Net movement in fair value of available-for-sale investments	-	-	-	-	-	19,420,143	19,420,143
Total income and expense for the year recognised directly in equity	-	-	-	-	-	18,040,135	18,040,135
Profit for the year	-	-	-	41,560,200	-	-	41,560,200
Total income and expense for the year	-	-	-	41,560,200	-	18,040,135	59,600,335
Transfer to statutory reserve	-	4,156,020	-	(4,156,020)	-	-	-
Transfer to general reserve	-	-	4,156,020	(4,156,020)	-	-	-
Directors' fees	-	-	-	(2,200,000)	-	-	(2,200,000)
Proposed dividend	-	-	-	(20,000,000)	20,000,000	-	-
Zakat	-	-	-	(1,429,723)	-	-	(1,429,723)
Balance at 31 December 2007	200,000,000	12,278,225	12,278,225	33,291,846	20,000,000	(6,664,158)	271,184,138

The attached notes 1 to 30 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Share capital (Note 15) AED	*Statutory reserve (Note 16) 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 2008	200,000,000	12,278,225	12,278,225	33,291,846	20,000,000	(6,664,158)	**271,184,138**
Net movement in fair value of available-for-sale investments	-	-	-	-	-	(73,984,921)	**(73,984,921)**
Total income and expense for the year recognised directly in equity	-	-	-	-	-	(73,984,921)	**(73,984,921)**
Loss for the year	-	-	-	(33,241,247)	-	-	**(33,241,247)**
Total income and expense for the year	-	-	-	(33,241,247)	-	(73,984,921)	**(107,226,168)**
Dividend paid	-	-	-	-	(20,000,000)	-	**(20,000,000)**
Zakat	-	-	-	(1,542,573)	-	-	**(1,542,573)**
Balance at 31 December 2008	**200,000,000**	**12,278,225**	**12,278,225**	**(1,491,974)**	**-**	**(80,649,079)**	**142,415,397**

The attached notes 1 to 30 form part of these financial statements.

1 ACTIVITIES

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC) is a public shareholding company and is registered under the Commercial Companies Law of 1984 (as amended). The Company carries out general, medical insurance as well as life takaful business in accordance with the teachings of Islamic Sharia'a. The Company is also licensed to engage in reinsurance business. The registered address of the company is PO Box 157, Dubai, United Arab Emirates.

The Company obtained its commercial license on 12 March 2003 and commenced operations on 8 April 2003.

The Company mainly issues insurance contracts in connection with motor, marine, fire and engineering, general accident risks, life takaful, group life and medical risks. The Company also invests its funds in investment securities.

During the current year the Company obtained a license to open a new company called Nowat Investments. However, no operations had commenced as at 31 December 2008. The Company also obtained licence to open branches in Syria and Bahrain. At the year-end, no operations had commenced for these branches.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of trading securities, available-for-sale quoted investments and investment properties. The financial statements have been presented in UAE Dirhams.

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

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

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

The articles of association of the Company require that separate accounts be maintained for insurance operations on behalf of the policyholders. Accordingly, the directors have resolved to present the financial statements on that basis and comply with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) to the extent that these are compatible with International Financial Reporting Standards.

New accounting Standards and Interpretations
The company has adopted the following new and amended IFRS and IFRIC Interpretations during the year. Adoption of these revised Standards and Interpretations did not have any effect on the financial performance or position of the company.

IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

2 ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

The principal effects of these new Standards are as follows.

IFRIC 11 IFRS 2 - Company and Treasury Share Transactions
This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This Interpretation has no impact on the financial position or performance of the Company as the Company has not issued any such instruments.

IFRIC 12 Service Concession Arrangements
This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The Company does not act as an operator and hence this Interpretation has no impact on the financial statements.

IFRIC 14 IAS19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 *Employee Benefits*. This Interpretation has no impact on the financial position or performance of the Company as there are no defined benefit schemes currently in place.

IASB Standards and Interpretations issued but not adopted

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

Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements
The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statement. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied retrospectively. This amendment is not expected to have any significant impact on the financial statements of the Company.

Amendments to IFRS 2 Share-based Payment
The IASB issued an amendment to IFRS 2 in January 2008 which becomes effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. This amended Standard will have no impact on the financial position or performance of the Company as no such awards have been issued / granted by them.

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements
The revised Standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact on the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended Standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. These amended Standards are not expected to have any impact on the financial statements of the Company.

IFRS 8 Operating Segments
IFRS 8 *Operating Segments* was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new Standard is expected to have an impact on the presentation of the financial statements of the Company.

2 ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

IASB Standards and Interpretations issued but not adopted (continued)

IAS 1 Revised Presentation of Financial Statements
The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The application of this standard will result in amendments to the presentation of the financial statements. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company is still evaluating whether it will have one or two statements

IAS 23 Borrowing Costs
A revised IAS 23 *Borrowing Costs* was issued in March 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard has been revised to require capitalisation 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 capitalised 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.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfill a number of specified features. The amendments to the Standards is not expected to have any impact on the financial position or performance of the Company.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item and the designation of inflation as a hedged risk or portion in particular situations. It clarified that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The management has concluded that the amendment will have no impact on the financial position or performance of the Company.

IFRIC 15 Agreement for the Construction of Real Estate
IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is complete. Furthermore the Interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 is not expected to have an impact on the financial statements because the Company do not conduct such activity.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2009. The Interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instrument can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This Interpretation is not expected to have an impact on the financial statements of the Company.

2 ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

IASB Standards and Interpretations issued but not adopted (continued)

Improvements to IFRSs
In May 2008 IASB issued its first omnibus of amendments to its Standards primarily with a view to removing inconsistencies and clarifying wordings. There are separate transitional provisions for each Standard and all these are applicable after 31 December 2008. The Company have concluded that there is no significant impact on the financial statements due to any changes made by IASB in its Standards as part of such improvements.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Gross Premiums
Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting period. Premiums collected by intermediaries but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the balance sheet date. Unearned premiums are calculated in accordance with Federal Law No.9 of 1984 as mentioned in 2.2 below. The proportion attributable to subsequent periods is deferred as a provision 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 the 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 contracts.

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 expired or when the contract is transferred to another party.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Realised gains and losses
Realised gains and losses recorded in the income statement on investments include gains and losses on financial assets and on investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the carrying amount 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 (Takaful contracts) are those contracts where a group of participants (the policyholders) mutually guarantee one another other against prescribed uncertain future events of loss or damage, where the Company acts as an agent (Wakil) on their behalf in managing the Islamic insurance operations, in consideration of a Wakala fee. The insurance amounts (premiums) paid net of the Wakala fee are considered as Mudaraba capital, where the Company acts as Mudarib, investing these funds in consideration of a pre-agreed share of the realised profit or loss, if any. The policyholders further donate their premiums (tabarru) to those other policyholders who suffer a prescribed event of loss or damage, payable per the policies of the Company, in its capacity as an agent. As a general guideline, the Company determines whether there is significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains as 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 expired.

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 profit rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

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

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 on an open market basis, 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 organised 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 earned profit. The fair value of fixed/capped profit bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the balance sheet date.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets
The Company currently classifies its investments into trading securities and available-for-sale financial assets.

Trading securities:
Investments typically bought with the intention to sell in the near future are classified as held for trading.

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

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or which are not classified as trading securities. 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.

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

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

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

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, except for the deficit arising from decline in the fair value of available-for-sale securities, is financed by the shareholders through a Qard Hasan (a free loan). The Company maintains a full provision against Qard Hasan.

2 ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are 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 daily prorate basis.

(ii) 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.

(iii) 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 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 the 1/8th method.

(iv) Life takaful fund

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

Murabaha and Ijara payable

Murabaha payable is stated net of deferred profit payable. Deferred profits payable is recognised as an expense when incurred. Ijara is charged to the income statement on a time proportion basis.

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 Board is computed on the following basis:

- Zakat on shareholders' equity is deducted from retained earnings and is computed on their Zakat Pool (Statutory Reserve, General Reserve, Retained Earnings 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 paid up capital and proposed dividend is not included in the Zakat computation and is payable directly by the shareholders themselves.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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 and employees from other GCC countries, 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's presentation currency is the UAE Dirham (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.

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, trading securities, carried at fair value through profit or loss or available-for-sale securities.

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 profit or loss 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 $1/8^{th}$ method to assess potential shortfall in unearned premium reserve.

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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.

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.

3 PREMIUMS EARNED

Year 2008:	*Gross AED*	*Reinsurers' share AED*	*Net AED*
Insurance contracts premium written	**492,939,066**	**305,216,339**	**187,722,727**
Movement in provision for unearned premiums	**(47,222,197)**	**(31,539,889)**	**(15,682,308)**
Movement in additional reserve	**(5,900,000)**	**-**	**(5,900,000)**
Insurance premium revenue	**439,816,869**	**273,676,450**	**166,140,419**
Unearned premium as of 31 December (note 19)	**143,657,155**	**85,591,220**	**58,065,935**

Year 2007:	*Gross AED*	*Reinsurers' share AED*	*Net AED*
Insurance contracts premium written	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	260,759,309	145,636,309	115,123,000
Unearned premium as of 31 December (note 19)	96,434,958	54,051,331	42,383,627

4 CLAIMS

	2008			*2007*		
	Gross AED	*Reinsurers' share AED*	*Net AED*	*Gross AED*	*Reinsurers' share AED*	*Net AED*
Insurance claims paid in the year	**138,767,994**	**55,773,573**	**82,994,421**	131,415,801	76,292,091	55,123,710
Changes in provision for outstanding claims	**8,327,597**	**9,856,244**	**(1,528,647)**	36,891,925	25,548,993	11,342,932
Claims recorded in income statement	**147,095,591**	**65,629,817**	**81,465,774**	168,307,726	101,841,084	66,466,642

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

5 WAKALA FEES AND MUDARIB'S SHARE

The shareholders manage the insurance operations for the policyholders and charge 25% (2007:25%) of gross written premium as Wakala fees. During the year, no Wakala fee was charged on gross written premium amounting to AED 183,092,466 (2007: AED 73,032,372) 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 Mudaribs' share. No Mudarib fee had been charged for 2008 in view of investment losses for the year.

6 INVESTMENT (LOSSES) INCOME

	2008 *AED*	*2007* *AED*
Fair value gains and losses		
Fair value (loss) gain on trading securities	**(84,766,052)**	14,903,726
Fair value gain on investment properties	**17,000,000**	-
Realised gains and losses		
Gain on sale of available-for-sale financial assets	**-**	1,380,008
Gain on sale of trading securities	**89,659**	16,990,335
Other investment income		
Income from investment deposits	**769,454**	957,889
Income from investment in real estate funds	**1,520,562**	1,837,147
Dividend income		
Trading securities	**1,917,477**	2,308,284
Available-for-sale financial assets	**1,710,133**	1,513,333
Other miscellaneous income	**40,750**	477,410
Investment financing cost	**(1,705,214)**	(4,698,023)
	(63,423,231)	35,670,109

	2008 *AED*	*2007* *AED*
Allocated to:		
Policyholders	**(17,584,748)**	14,312,391
Shareholders	**(45,838,483)**	21,357,718
	(63,423,231)	35,670,109

Investment (losses) income has been allocated to the shareholders and policyholders on a pro-rata basis, based on the average balance of their funds. The Shareholders' equity funds include guaranteed funds to third parties, less furniture and equipment, and end of service benefits. The Policyholders' funds include their Mudaraba Capitals invested in the common pool. Allocation of investment (losses) income 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, by weighted average number of shares outstanding during the year.

	2008 AED	*2007 AED*
Net (loss) profit for the year, net of directors' fees	**(33,241,247)**	39,360,200
Weighted average number of shares outstanding during the period	**200,000,000**	200,000,000
(Loss) earnings per share	**(0.17)**	0.20

The weighted average number of shares outstanding as reported for all the years has been adjusted for the effects of the share split approved on 25 May 2008 (note 15).

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

8 FURNITURE AND EQUIPMENT

	Motor vehicles AED	*Furniture and fixtures AED*	*Office equipment AED*	*Total AED*
Cost:				
At 1 January 2008	**260,870**	**3,469,669**	**3,281,983**	**7,012,522**
Additions	**414,565**	**306,259**	**129,064**	**849,888**
At 31 December 2008	**675,435**	**3,775,928**	**3,411,047**	**7,862,410**
Depreciation:				
At 1 January 2008	**164,330**	**2,552,427**	**2,401,470**	**5,118,227**
Charge for the year	**107,493**	**433,238**	**470,235**	**1,010,966**
At 31 December 2008	**271,823**	**2,985,665**	**2,871,705**	**6,129,193**
Net carrying amount:				
At 31 December 2008	**403,612**	**790,263**	**539,342**	**1,733,217**

	Motor vehicles AED	*Furniture and fixtures AED*	*Office equipment AED*	*Total AED*
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	260,870	3,469,669	3,281,983	7,012,522
Depreciation:				
At 1 January 2007	105,433	2,089,983	1,837,280	4,032,696
Charge for the year	58,897	462,444	564,190	1,085,531
At 31 December 2007	164,330	2,552,427	2,401,470	5,118,227
Net carrying amount:				
At 31 December 2007	96,540	917,242	880,513	1,894,295

9 INVESTMENT PROPERTY

	2008 AED	*2007 AED*
At 1 January	**45,308,055**	-
Additions	-	45,308,055
Fair value gains	**17,000,000**	-
At 31 December	**62,308,055**	45,308,055

The investment property comprises a plot of land purchased in 2007. The Company used the fair value model for determining the carrying value of investment properties which has been determined based on a valuation performed by an independent valuator. Fair values represent the amounts at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of the valuation. The property is mortgaged as security against Ijara payable (refer note 20).

10 INVESTMENT SECURITIES

	Domestic		*International*		*Total*	
	2008 AED'000	*2007 AED'000*	*2008 AED'000*	*2007 AED'000*	*2008 AED'000*	*2007 AED'000*
10 (a) Trading securities						
Trading securities	**32,318,755**	57,263,293	**5,959,940**	14,289,658	**38,278,695**	71,552,951
10 (b) Available-for-sale						
Shares and mutual funds						
Quoted securities (note i)	**20,131,962**	79,124,692	**2,719,512**	-	**22,851,474**	79,124,692
Unquoted funds (note ii)	**11,178,686**	11,692,663	**3,906,254**	3,928,287	**15,084,940**	15,620,950
Unquoted securities (note iii)	**3,730,156**	3,691,868	**43,468,597**	43,402,761	**47,198,753**	47,094,629
	35,040,804	94,509,223	**50,094,363**	47,331,048	**85,135,167**	141,840,271

i. Investment in quoted securities represents the Company's investments in shares quoted in the UAE and Bahrain.

ii. Unquoted funds represent the Company's investments in Real Estate Funds which have a maturity of four to five years. The Company expects to earn approximately 3% to 7% return on these investments.

iii. Unquoted securities mainly represent the Company's investments in shares of companies registered in Dubai, Algeria, Kuwait and certain other international markets. 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.

iv. Quoted securities are carried at a value of AED 22,851,474, with a decline in their value compared to the acquisition cost amounting to AED 111,588,011. Of this amount, AED 80,649,079 is deducted from Shareholders' equity and AED 30,938,932 is deducted from policyholders' fund in accordance with the allocation of investment losses to the shareholders and policyholders as approved by the Company's Sharia'a Supervisory Board.
Given the current significant difficulties in the financial markets and their resultant impact on prices of equity instruments, management considers that the current quoted prices of the financial assets do not necessarily reflect the extent of impairment in fair values in all cases. Accordingly, no impairment has been recorded on these investments.

11 INSURANCE RECEIVABLES

	2008 AED	*2007 AED*
Insurance premiums receivable	**68,622,090**	67,367,014
Amounts due from insurance and reinsurance companies	**20,145,339**	17,496,339
	88,767,429	84,863,353

As at 31 December 2008, receivables at nominal value of AED 4,000,000 (2007: AED 3,500,000) were impaired. Movements in the allowance for impairment of receivables were as follows:

	2008 AED	*2007 AED*
At 1 January	**3,500,000**	-
Charge for the year	**500,000**	3,500,000
At 31 December	**4,000,000**	3,500,000

Included in note 28 (B) is the liquidity analysis for insurance receivables.

12 PREPAYMENTS AND OTHER RECEIVABLES

	2008 AED	*2007 AED*
Other receivables	**15,887,938**	73,127,953
Prepaid expenses	**4,437,887**	3,119,222
	20,325,825	76,247,175

13 INVESTMENT DEPOSITS

	2008 AED	*2007 AED*
Dubai Islamic Bank PJSC (note i)	**10,000,000**	7,500,000
Al Salam Bank, Sudan (note ii)	**5,000,000**	5,000,000
Al Hilal Bank (note iii)	**3,000,000**	-
	18,000,000	12,500,000

(i) 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 42 of the Federal Law No. 9 of 1984.

(ii) Investment deposits with Al Salam Bank Sudan has a fixed maturity of one year from the date of deposit.

(iii) Investment deposits with Al Hilal Bank has a fixed maturity of one year from the date of deposit.

The above deposits carry an average rate of return of approximately 4 - 5% (2007: 6%).

14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as per the balance sheet and the statement of cash flows is as follows:

	2008 *AED*	*2007* *AED*
Bank balances and cash	**40,106,802**	32,416,914

15 SHARE CAPITAL

	2008 *AED*	*2007* *AED*
Issued and fully paid – 200,000,000 shares of AED 1 each (2007: 20,000,000 shares of AED 10 each)	**200,000,000**	200,000,000

At the Extraordinary General Meeting held on 25 May 2008, the shareholders of the Company resolved to split the shares' nominal value from AED 10 to AED 1 per share, thereby increasing the number of shares from 20 million to 200 million. At the same meeting, the shareholders also resolved that GCC Nationals and other foreigners can hold up to 15% each in the share capital of the Company and the balance 70% should be held by UAE Nationals.

16 RESERVES

As required by the Commercial Companies Law of 1984 (as amended) and the Company's articles of association, 10% of the net profit should be transferred to statutory reserve. No transfer has been made to statutory reserve in view of loss incurred in the current year. The reserve is not available for distribution except in the circumstances prescribed by the law.

As required by the Company's articles of association, 10% of the net profit should be transferred to general reserve. No transfer has been made to general reserve in view of loss incurred in the current year. The reserve is available for distribution by a resolution of the shareholders of the company at an ordinary general meeting, on the recommendation of the Board of Directors.

17 DIVIDENDS PROPOSED

Proposed cash dividends AED Nil (2007: cash dividend amounting to AED 20,000 thousand at AED 1 per share of AED 10 each). Proposed dividend of 2007 was paid in 2008.

18 POLICYHOLDERS' FUND

	2008 AED	*2007 AED*
Balance at 1 January	**(6,998,740)**	(6,854,584)
Loss for the year	**(27,142,311)**	(144,156)
Loan from shareholders (i)	**34,141,051**	6,998,740
Proposed profit distribution to policyholders (ii)	**1,776,344**	1,898,484
Cumulative changes in fair value of available-for-sale securities (iii)	**(30,938,932)**	-
Balance at 31 December	**(29,162,588)**	1,898,484

(i) The shareholders have financed the policyholders' deficit, except that arising from decline in the fair value of available-for-sale securities in accordance with the Company's policy through a Qard Hasan (a free loan) with no repayment terms. Full provision has been maintained against this Qard Hasan.

(ii) Proposed profit distribution to the policyholders for 2005 was approved by the shareholders at the annual general meeting held on 29 March 2007. The Company started distribution of the profit to the policyholders in the current year as approved by the Sharia'a Supervisory Board.

(iii) During the current year, the Company transferred the share of cumulative changes in fair value of available-for sale securities reflected in equity to policyholders in the same ratio as share of investment losses (refer note 6)

19 INSURANCE CONTRACT LIABILITIES

	Gross		*Reinsurers' share*		*Net*	
	2008 AED	*2007 AED*	*2008 AED*	*2007 AED*	*2008 AED*	*2007 AED*
Unearned premium reserve (note 3)	**143,657,155**	96,434,958	**85,591,220**	54,051,331	**58,065,935**	42,383,627
Additional Reserve (note 19 a)	**21,900,000**	16,000,000	-	-	**21,900,000**	16,000,000
Outstanding claims (note 19 b)	**94,940,982**	86,613,385	**64,944,706**	55,088,462	**29,996,276**	31,524,923
	260,498,137	199,048,343	**150,535,926**	109,139,793	**109,962,211**	89,908,550

19 (a) Additional Reserve

	2008 AED	*2007 AED*
1 January	**16,000,000**	16,000,000
Net increase	**5,900,000**	-
31 December	**21,900,000**	16,000,000

19 INSURANCE CONTRACT LIABILITIES (continued)

19 (b) Outstanding claims

	Outstanding claims AED	*Due from reinsurers AED*	*Net AED*
At 1 January 2007	49,721,460	29,539,469	20,181,991
Net increase (note 4)	36,891,925	25,548,993	11,342,932
At 31 December 2007	86,613,385	55,088,462	31,524,923
Net increase (note 4)	8,327,597	9,856,244	(1,528,647)
At 31 December 2008	**94,940,982**	**64,944,706**	**29,996,276**

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

20 IJARA PAYABLES

	2008 AED	*2007 AED*
Ijara payables	**22,119,137**	28,925,024
	22,119,137	28,925,024

The Company has obtained an Ijara finance of AED 34,029,440 from an Islamic bank, to finance the acquisition of investment property (note 9). The Ijara finance carries a profit rate of 7% and its lease term (divided into twenty quarterly lease periods) commenced from February 2007. The Ijara finance is secured by legal mortgage over the investment property.

21 INSURANCE PAYABLES

	2008 AED	*2007 AED*
Due to reinsurers and other insurance payables	**64,197,287**	46,378,361

22 TRADE AND OTHER PAYABLES

	2008 AED	*2007 AED*
Trade payables and accruals	**34,592,875**	19,252,441
Employees' end of service benefits (note 23)	**1,999,345**	2,075,840
Accrued Zakat	**1,906,140**	1,869,171
	38,498,360	23,197,452

23 EMPLOYEES' END OF SERVICE BENEFITS

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

	2008 AED	*2007 AED*
Provision at 1 January	**2,075,840**	813,903
Provided during the year	**216,809**	1,318,035
End of service benefits paid	**(293,304)**	(56,098)
Provision at 31 December	**1,999,345**	2,075,840

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.

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 4.5% (2007: 6 %) 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 where the Company owns equity investment amounting to AED 2,719,512. 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:

	Major shareholders AED	*Other related parties AED*	*Total 2008 AED*	*Major shareholders AED*	*Other related parties AED*	*Total 2007 AED*
Investment deposits	**10,000,000**	**5,000,000**	**15,000,000**	7,500,000	8,922,760	16,422,760
Carrying value of investments in ordinary shares	**7,202,962**	**39,561,451**	**46,764,413**	41,229,997	87,302,815	128,532,812
Cost of investment in Real Estate Funds	**12,403,060**	**3,711,775**	**16,114,835**	12,425,092	9,837,798	22,262,890
Premiums receivable	**2,539,278**	**10,070,105**	**12,609,383**	3,934,225	5,442,752	9,376,977
Other receivables	-	-	-	-	68,116,953	68,116,953

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

	Major shareholders AED	*Other related parties AED*	*Total 2008 AED*	*Major shareholders AED*	*Other related parties AED*	*Total 2007 AED*
Gross premiums	**27,910,458**	**451,670**	**28,362,128**	11,584,363	12,011,177	23,595,540
Gross claims	**15,555,538**	**104,057**	**15,659,595**	3,118,496	1,202,192	4,320,688
Profit share on investment deposits and real estate funds	**716,841**	**794,044**	**1,510,885**	1,862,802	520,533	2,383,335
Dividend income	**1,010,133**	**1,578,893**	**2,589,026**	2,100,000	720,000	2,820,000
Profit share on Murabaha finance	-	-	-	-	2,415,991	2,415,991

24 RELATED PARTY TRANSACTIONS (continued)

During the year, the Company purchased 3,276,520 shares of Al Salam Bank – Bahrain for AED 9.21 million from a related company. These shares are registered in the name of the related company which holds it in trust for and on behalf of the Company. The market value of the shares as at the end of the period was AED 2.7 million. The change in fair value has been reflected in equity.

Compensation of key management personnel is as follows:

	2008 *AED*	*2007* *AED*
Short term employee benefits	**2,262,450**	2,592,371
End of service benefits	**182,344**	177,349
Total compensation paid to key management personnel	**2,444,794**	2,769,720

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

25 SHARIA'A SUPERVISORY BOARD

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

26 SEGMENTAL INFORMATION

Primary segment information
For management purposes the Company is organised into two business segments, insurance and investment. The insurance segment comprises the general, medical insurance as well as life assurance 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:

	2008 *AED*	*2007* *AED*
Insurance		
Underwriting income	**186,274,307**	135,576,734
Underwriting expenses	**(118,370,220)**	(90,619,084)
Net underwriting income	**67,904,087**	44,957,650
Investment		
Investment (loss) income	**(63,423,231)**	35,670,109
Unallocated:		
General and administrative expenses	**(38,507,459)**	(39,067,559)
Other income	**785,356**	-
(Loss) profit for the year	**(33,241,247)**	41,560,200

26 SEGMENTAL INFORMATION (continued)

OTHER INFORMATION

	Insurance		*Investment*		*Total*	
	2008 AED	*2007 AED*	***2008 AED***	*2007 AED*	***2008 AED***	*2007 AED*
Segment assets	**301,469,199**	243,944,577	**203,721,917**	331,818,230	**505,191,116**	575,762,807
Segment liabilities	**340,656,583**	275,653,645	**22,119,136**	28,925,024	**362,775,719**	304,578,669
Capital expenditure	**922,348**	856,245	-	-	**922,348**	856,245
Depreciation	**1,010,966**	1,085,531	-	-	**1,010,966**	1,085,531

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

No directors' fee will be paid in the current year. 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

(i) 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.

28 RISK MANAGEMENT (continued)

(ii) 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 has fully complied with the externally imposed capital requirements and no changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 2007.

(iii) 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 (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

(iv) Asset liability management (ALM) framework

Financial risks arise from open positions in profit 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.

28 RISK MANAGEMENT (continued)

28A Insurance risk (continued)

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 actual loss 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 300,000 (2007: AED 200,000)

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

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company has reinsurance cover for such claims to limit losses for any individual claim to AED 500,000 (2007: 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 300,000 (2007: 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.

28 RISK MANAGEMENT (continued)

28A Insurance risk (continued)

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 prior 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 reinsurers insolvencies, the Company evaluates the financial condition of its reinsurers. The Company deals with reinsurers approved by the Board of Directors.

28B Financial risk

The Company's principal financial instruments are financial investments (trading securities), receivables arising from insurance and reinsurance contracts, statutory deposits and cash and cash equivalents.

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

The Company does not enter into material derivative transactions.

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 trading securities and available-for-sale 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.

28 RISK MANAGEMENT (continued)

28B Financial risk (continued)

Credit risk (continued)

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

	Notes	2008 AED	2007 AED
Investment securities			
Trading securities	10(a)	**38,278,695**	71,552,951
Available-for-sale	10(b)	**85,135,167**	141,840,271
Reinsurance assets	19	**150,535,926**	109,139,793
Insurance receivables	11	**88,767,429**	84,863,353
Other receivables	12	**15,887,938**	73,127,953
Investment deposits	13	**18,000,000**	12,500,000
Cash and cash equivalents	14	**40,106,802**	32,416,914
		436,711,957	525,441,235

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 the Middle East.

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

	2008			2007		
	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	**304,570,709**	**451,919,931**	**1,021,513**	432,938,873	548,401,708	1,314,200
Other Middle Eastern countries	**34,776,251**	**34,363,098**	-	106,738,126	7,867,740	-
Europe	**155,913,980**	**16,422,513**	-	7,213,585	18,308,959	-
Rest of the world	**9,930,176**	**2,485,574**	-	28,872,223	1,184,400	-
Total	**505,191,116**	**505,191,116**	**1,021,513**	575,762,807	575,762,807	1,314,200

28 RISK MANAGEMENT (continued)

28B Financial risk (continued)

Credit risk (continued)

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

31 December 2008

	Unimpaired				
	High grade AED	*Standard grade (satisfactory) AED*	*Sub-standard grade (unsatisfactory) AED*	*Past due and impaired AED*	*Total AED*
Investment securities					
Trading securities	**38,278,695**	-	-	-	**38,278,695**
Available-for-sale	**85,135,167**	-	-	-	**85,135,167**
Reinsurance assets	**150,535,926**	-	-	-	**150,535,926**
Insurance receivables	**88,767,429**	-	-	**4,000,000**	**92,767,429**
Other receivables	**15,887,938**	-	-	-	**15,887,938**
Investment deposits	**18,000,000**	-	-	-	**18,000,000**
Bank balances and cash	**40,106,802**	-	-	-	**40,106,802**
	436,711,957	-	-	**4,000,000**	**440,711,957**
Less: Impairment provision					**(4,000,000)**
					436,711,957

31 December 2007

	Unimpaired				
	High grade AED	*Standard grade (satisfactory) AED*	*Sub-standard grade (unsatisfactory) AED*	*Past due and impaired AED*	*Total AED*
Investment securities					
Trading securities	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 receivables	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

28 RISK MANAGEMENT (continued)

28B Financial risk (continued)

Credit risk (continued)

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

	Neither past due nor impaired	*Past due but not impaired*		*Unimpaired*		
	Up to 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 2008	**51,690**	**29,983**	**11,094**	**92,767**	**4,000**	**88,767**
31 December 2007	48,460	18,547	21,356	88,363	3,500	84,863

For assets to be classified as 'past due and impaired' contractual payments in arrears are more than 180 days and 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.

28 RISK MANAGEMENT (continued)

28B Financial risk (continued)

Liquidity risk (continued)

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

	31 December 2008				*31 December 2007*			
	Less than one year AED	*More than one year AED*	*No Term AED*	*Total AED*	*Less than one year AED*	*More than one year AED*	*No Term AED*	*Total AED*
ASSETS								
Furniture and equipment	-	1,733,217	-	1,733,217	-	1,894,295	-	1,894,295
Investment property	-	-	62,308,055	62,308,055	-	-	45,308,055	45,308,055
Investment securities:								
Trading securities	38,278,695	-	-	38,278,695	71,552,951	-	-	71,552,951
Available-for-sale	-	-	85,135,167	85,135,167	-	-	141,840,271	141,840,271
Reinsurance assets	150,535,926	-	-	150,535,926	109,139,793	-	-	109,139,793
Insurance receivables	88,767,429	-	-	88,767,429	84,863,353	-	-	84,863,353
Prepayments and other receivables	20,325,825	-	-	20,325,825	76,247,175	-	-	76,247,175
Investment Deposits	18,000,000	-	-	18,000,000	12,500,000	-	-	12,500,000
Bank balances and cash	40,106,802	-	-	40,106,802	32,416,914	-	-	32,416,914
TOTAL ASSETS	356,014,677	1,733,217	147,443,222	505,191,116	386,720,186	1,894,295	187,148,326	575,762,807

28 RISK MANAGEMENT (continued)

28B Financial risk (continued)

Liquidity risk (continued)

	31 December 2008				*31 December 2007*			
	Less than one year AED	*More than one year AED*	*No Term AED*	*Total AED*	*Less than one year AED*	*More than one year AED*	*No Term AED*	*Total AED*
EQUITY AND LIABILITIES								
Equity								
Share capital	-	-	**200,000,000**	**200,000,000**	-	-	200,000,000	200,000,000
Statutory reserve	-	-	**12,278,225**	**12,278,225**	-	-	12,278,225	12,278,225
General reserve	-	-	**12,278,225**	**12,278,225**	-	-	12,278,225	12,278,225
Retained earnings	-	-	**(1,491,974)**	**(1,491,974)**	-	-	33,291,846	33,291,846
Proposed dividends	-	-	-	-	-	-	20,000,000	20,000,000
Cumulative change in fair values of securities	-	-	**(80,649,079)**	**(80,649,079)**	-	-	(6,664,158)	(6,664,158)
Total equity	-	-	**142,415,397**	**142,415,397**	-	-	271,184,138	271,184,138
Policyholders' Fund and Liabilities								
Policyholders' fund	-	-	**(29,162,588)**	**(29,162,588)**	-	-	1,898,484	1,898,484
Liabilities								
Insurance contract liabilities	**260,498,137**	-	-	**260,498,137**	199,048,343	-	-	199,048,343
Financial liabilities								
Ijara payables	**6,805,888**	**15,313,249**	-	**22,119,137**	6,805,888	22,119,136	-	28,925,024
Amounts held under reinsurance treaties	**6,625,386**	-	-	**6,625,386**	5,131,005	-	-	5,131,005
Insurance payables	**64,197,287**	-	-	**64,197,287**	46,378,361	-	-	46,378,361
Trade and other payables	**38,498,360**	-	-	**38,498,360**	23,197,452	-	-	23,197,452
Total policyholders' fund and liabilities	**376,625,058**	**15,313,249**	**(29,162,588)**	**362,775,719**	280,561,049	22,119,136	1,898,484	304,578,669
TOTAL EQUITY, POLICYHOLDERS' FUND AND LIABILITIES	**376,625,058**	**15,313,249**	**113,252,809**	**505,191,116**	280,561,049	22,119,136	273,082,622	575,762,807

28 RISK MANAGEMENT (continued)

28B Financial risk (continued)

Liquidity risk (continued)

The table below summarises the maturity of the financial liabilities of the Company based on remaining undiscounted contractual obligations:

31 December 2008	*Less than 3 months AED*	*3 to 12 months AED*	*1 to 5 years AED*	*Over 5 years AED*	*Total AED*
Liabilities					
Insurance contract liabilities	**47,576,068**	**212,922,069**	-	-	**260,498,137**
Financial liabilities					
Ijara payables	**1,701,472**	**5,104,416**	**15,313,249**	-	**22,119,137**
Amounts held under reinsurance treaties	**6,625,386**	-	-	-	**6,625,386**
Insurance payables	**64,197,287**	-	-	-	**64,197,287**
Trade and other payables	**38,498,360**	-	-	-	**38,498,360**
	158,598,573	**218,026,485**	**15,313,249**	-	**391,938,307**

31 December 2007	*Less than 3 months AED*	*3 to 12 months AED*	*1 to 5 years AED*	*Over 5 years AED*	*Total AED*
Liabilities					
Insurance contract liabilities	30,935,236	168,113,107	-	-	199,048,343
Financial liabilities					
Ijara payables	1,701,472	5,104,416	22,119,136	-	28,925,024
Amounts held under reinsurance treaties	5,131,005	-	-	-	5,131,005
Insurance payables	46,378,361	-	-	-	46,378,361
Trade and other payables	23,197,452	-	-	-	23,197,452
	107,343,526	173,217,523	22,119,136	-	302,680,185

Market risk

Market risk arises from fluctuations in foreign exchange rates, profit 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 43,290 thousand (2007: 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.

28 RISK MANAGEMENT (continued)

28B Financial risk (continued)

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 generating financial instruments as at 31 December are as follows:

31 December 2008	*Less than 1 years AED*	*1 to 5 years AED*	*Over 5 years AED*	*Total AED*	*Effective profit rate*
Assets:					
Investment deposits	**18,000,000**	-	-	**18,000,000**	**5%**
Liabilities:					
Ijara payables	**6,805,888**	**15,313,249**	-	**22,119,137**	**7%**

31 December 2007	*Less than 1 years AED*	*1 to 5 years AED*	*Over 5 years AED*	*Total AED*	*Effective profit rate*
Assets:					
Investment deposits	12,500,000	-	-	12,500,000	6%
Liabilities:					
Murabaha and Ijara payables	6,805,888	22,119,136	-	28,925,024	8%

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 2008) and on income statement due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	2008			*2007*		
	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**	**2,285,147**	**3,827,870**	10	7,912,469	7,155,295

28 RISK MANAGEMENT (continued)

28B Financial risk (continued)

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 2008, 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 1,021,513 (2007: AED 1,314,200).

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 (2007: AED 14.7 million) on account of investments made in securities. The Company has to pay this amount as and when calls are made by the investee company.

Fiduciary assets
The Company has a commitment of AED 10 million which they have received in advance from investors for an IPO for setting up operations in Syria. These assets are held in a fiduciary capacity and as such are not reported in the financial statements, as they are not assets of the 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, Ijara payables and other payables.

The fair values of the financial assets and liabilities are not materially different from their carrying values.