

**AL-SAGR NATIONAL INSURANCE COMPANY
(PUBLIC SHAREHOLDING COMPANY)
DUBAI - UNITED ARAB EMIRATES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2007**

**Al-Sagr National Insurance Company
(Public Shareholding Company)
Dubai - United Arab Emirates**

**Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2007**

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Independent Auditor's Report

The Shareholders
Al-Sagr National Insurance Company
(Public Shareholding Company)
Dubai- United Arab Emirates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Al-Sagr National Insurance Company (a Public Shareholding Company) - Dubai, United Arab Emirates and its subsidiary** (collectively "the Group"), which comprise the consolidated balance sheet as of December 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Cont'd....



Independent Auditor's Report to the Shareholders of Al-Sagr National Insurance Company (a Public Shareholding Company) – Dubai - continued (page 2 of 2)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Al-Sagr National Insurance Company (a Public Shareholding Company) - Dubai** and its subsidiary as of December 31, 2007 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Group has maintained proper books of account. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, and of the U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents, or the Group companies' Articles of Association which might have materially affected the financial position of the Group or the results of its operations.

For Deloitte & Touche (M.E.)

Saba Y. Sindaha
Partner
(Registration No. 410)

Dubai
March 12, 2008

Consolidated Balance Sheet
At December 31, 2007
(In Arab Emirates Dirhams)

	Note	December 31, <u>2007</u>	December 31, <u>2006</u> (Restated)
ASSETS			
Non-current assets			
Property and equipment	5	2,263,145	939,314
Investment property	6	29,144,519	60,419,799
Investment in associates	7	54,862,034	8,886,967
Investment in joint venture	8	-	28,660,079
Held-to-maturity investments	9	26,924,816	19,544,816
Available-for-sale investments	9	<u>3,100,000</u>	<u>515,000</u>
Total non-current assets		<u>116,294,514</u>	<u>118,965,975</u>
Current assets			
Reinsurance contract assets	10	394,963,592	183,718,617
Insurance and other receivables	11	229,066,625	169,135,304
Investments held for trading	9	183,776,329	214,644,509
Bank balances and cash	12	<u>241,381,955</u>	<u>77,187,991</u>
Total current assets		<u>1,049,188,501</u>	<u>644,686,421</u>
Total Assets		<u>1,165,483,015</u> =====	<u>763,652,396</u> =====

The accompanying notes form an integral part of these consolidated financial statements.

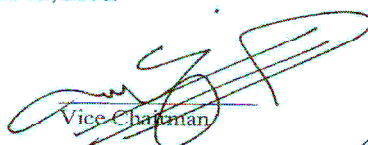
Consolidated Balance Sheet (continued)
At December 31, 2007
(In Arab Emirates Dirhams)

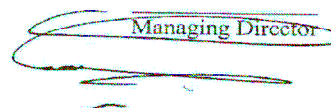
	Note	December 31, 2007	December 31, 2006 (Restated)
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	100,000,000	100,000,000
Statutory reserve		37,099,907	25,720,738
General reserve		100,000,000	100,000,000
Investments revaluation reserve		2,585,000	-
Retained earnings		<u>214,246,333</u>	<u>112,583,810</u>
Equity attributable to equity holders of the parent		453,931,240	338,304,548
Minority interest	14	<u>18,445,607</u>	<u>14,872,678</u>
Total Equity		<u>472,376,847</u>	<u>353,177,226</u>
Non-current liabilities			
Due to related parties	26	11,760,000	-
Provision for employees' end of service indemnity	15	<u>7,924,083</u>	<u>5,186,283</u>
Total non-current liabilities		<u>19,684,083</u>	<u>5,186,283</u>
Current liabilities			
Insurance contract liabilities	10	550,342,456	301,225,294
Insurance and other payables	16	114,271,647	60,383,787
Bank overdrafts	17	<u>8,807,982</u>	<u>43,679,806</u>
Total current liabilities		<u>673,422,085</u>	<u>405,288,887</u>
Total Liabilities		<u>693,106,168</u>	<u>410,475,170</u>
Total Equity and Liabilities		<u>1,165,483,015</u>	<u>763,652,396</u>

The accompanying notes form an integral part of these consolidated financial statements.

The consolidated financial statements on pages 3 to 54 were approved by the Board of Directors and authorized for issue on March 12, 2008.


Chairman


Vice Chairman


Managing Director

Consolidated Income Statement
For the year ended December 31, 2007
(In Arab Emirates Dirhams)

	Note	Year ended December 31, <u>2007</u>	Year ended December 31, <u>2006</u>
Gross insurance premium revenue		433,909,109	301,954,038
Less: Insurance premium ceded to reinsurers		(210,765,113)	(127,268,502)
Net retained premium revenue		223,143,996	174,685,536
Net changes in unearned premium	10	(18,532,034)	(37,865,616)
Net insurance premium revenue		204,611,962	136,819,920
Gross claims settled	10	(305,181,659)	(124,930,583)
Insurance claims recovered from reinsurers	10	152,475,792	53,732,137
Net claims settled		(152,705,867)	(71,198,446)
Net changes in outstanding claims		(19,340,153)	(19,833,666)
Net claims incurred		(172,046,020)	(91,032,112)
Gross commission earned and documentation fees		80,739,301	47,354,810
Less: Commission incurred		(30,282,132)	(20,487,515)
Net commission earned and documentation fees		50,457,169	26,867,295
Underwriting profit		83,023,111	72,655,103
General and administrative expenses relating to underwriting activities		(22,678,906)	(15,613,926)
Net underwriting profit		60,344,205	57,041,177
Investment (loss)/revenue	18	75,309,278	(91,939,746)
(Loss)/revenue from joint venture	8	(6,331,759)	56,625,037
Finance costs		(1,881,628)	(4,913,626)
Other expenses-Net	19	(485,748)	(1,187,112)
Unallocated general and administrative expenses		(5,669,727)	(3,903,482)
Profit for the year		121,284,621	11,722,248
		=====	=====
Attributable to:			
Equity holders of the parent		113,791,692	7,994,809
Minority interest		7,492,929	3,727,439
		121,284,621	11,722,248
		=====	=====
Basic earnings per share	21	1.14	0.08
		=====	=====

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the year ended December 31, 2007
(In Arab Emirates Dirhams)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>General reserve</u>	<u>Investments revaluation reserve</u>	<u>Retained earnings</u> (Restated)	<u>Attributable to equity holders of parent</u> (Restated)	<u>Minority interest</u> (Restated)	<u>Total</u> (Restated)
Balance at December 31, 2005	50,000,000	25,000,000	66,000,000	-	192,441,399	333,441,399	16,466,899	349,908,298
Profit for the year	-	-	-	-	7,994,809	7,994,809	3,727,439	11,722,248
Bonus shares	50,000,000	-	-	-	(50,000,000)	-	-	-
Dividends	-	-	-	-	-	-	(2,940,000)	(2,940,000)
Board of Directors' remuneration paid	-	-	-	-	(750,000)	(750,000)	-	(750,000)
Transfer to statutory reserve	-	720,738	-	-	(720,738)	-	-	-
Transfer to general reserve	-	-	34,000,000	-	(34,000,000)	-	-	-
Balance at December 31, 2006	100,000,000	25,720,738	100,000,000	-	114,965,470	340,686,208	17,254,338	357,940,546
Prior year adjustment (Note 24)	-	-	-	-	(2,381,660)	(2,381,660)	(2,381,660)	(4,763,320)
Restated balance at January 1, 2007	100,000,000	25,720,738	100,000,000	-	112,583,810	338,304,548	14,872,678	353,177,226
Gain on available-for-sale recognized directly in equity	-	-	-	2,585,000	-	2,585,000	-	2,585,000
Profit for the year	-	-	-	-	113,791,692	113,791,692	7,492,929	121,284,621
Dividends	-	-	-	-	-	-	(3,920,000)	(3,920,000)
Board of Directors' remuneration paid	-	-	-	-	(750,000)	(750,000)	-	(750,000)
Transfer to statutory reserve	-	11,021,876	-	-	(11,021,876)	-	-	-
Balance at December 31, 2007	100,000,000	36,742,614	100,000,000	2,585,000	214,603,626	453,931,240	18,445,607	472,376,847

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement
For the year ended December 31, 2007
(In Arab Emirates Dirhams)

	Year ended December 31, 2007	Year ended December 31, 2006 (Restated)
Cash flows from operating activities		
Profit for the year	121,284,621	11,722,248
Prior year adjustment (Note 24)	-	(4,763,320)
Adjustments for:		
Depreciation of property and equipment	440,585	451,200
Allowance for doubtful debts	1,246,797	750,000
Investment (loss)/revenue	(34,470,797)	(58,681,370)
Increase in reinsurance contract assets	(211,244,975)	(102,132,795)
Increase in insurance contract liabilities	249,117,162	164,595,397
Fair value adjustments - investment property	-	(35,640,938)
Fair value adjustments - securities	(34,506,725)	129,637,017
Provision for employees' end of service indemnity	2,800,344	996,093
Loss on disposal of property and equipment	37,727	-
Finance costs	<u>1,881,628</u>	<u>4,913,626</u>
Operating cash flows before movements in working capital	96,586,367	111,847,158
(Increase)/decrease in fixed deposits with banks	(143,651,781)	14,708,364
Increase in insurance and other receivables	(61,178,118)	(85,123,794)
Increase/(decrease) in insurance and other payables	<u>53,887,860</u>	<u>(11,634,682)</u>
Cash (used in)/from operations	(54,355,672)	29,797,046
Interest paid	(1,881,628)	(4,913,626)
Employees' end of service indemnity paid	<u>(62,544)</u>	<u>(83,433)</u>
Net cash (used in)/from operating activities	(56,299,844)	24,799,987
Cash flows from investing activities		
Proceeds from sale of investments property	64,712,311	-
Additions of investment property	(30,227,802)	(8,835,034)
Proceeds from sale of investments in securities	250,966,988	56,563,229
Purchase of investments in securities	(167,353,229)	(119,631,785)
Proceeds from sale of investment in joint venture	23,252,128	85,530,899
Addition of investment in joint venture	(923,808)	(8,352,964)
Purchase of investments in associates	(45,975,067)	(3,333,634)
Purchase of property and equipment	(1,802,143)	(583,914)
Interest received	6,549,923	3,666,395
Dividends received	4,995,795	2,605,930
Rent received net of expenses	<u>428,755</u>	<u>678,350</u>
Net cash from investing activities	104,623,851	8,307,472
Cash flows from financing activities		
Increase in due to related parties	11,760,000	-
Directors' remuneration paid	(750,000)	(750,000)
Decrease in bank overdrafts	(34,871,824)	(15,825,669)
Dividends paid to minority	<u>(3,920,000)</u>	<u>(2,940,000)</u>
Net cash from/(used in) financing activities	(27,781,824)	(19,515,669)
Net increase in cash and cash equivalents	20,542,183	13,591,790
Cash and cash equivalents at the beginning of the year	<u>18,256,765</u>	<u>4,664,975</u>
Cash and cash equivalents at the end of the year (Note 26)	38,798,948	18,256,765
	=====	=====

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2007

1. General Information

Al-Sagr National Insurance Company - Dubai (the “Company”) was incorporated on December 25, 1979 as a public shareholding company by an Emiri Decree from His Highness, The Ruler of Dubai, and is registered with the Ministry of Economy of the United Arab Emirates under registration No. (16). The Company’s address in Dubai is P.O. Box 14614, Dubai, UAE.

The principal activity of the Company is the writing of insurance of all types. The Company operates through its Head Office in Dubai and its branches in Dubai, Sharjah, Abu Dhabi and Ajman in the United Arab Emirates.

The Company also operates in Saudi Arabia under the name of Al-Sagr Saudi Insurance Company (a Bahraini shareholding closed exempt company) and in which the Company owns 50% of its capital (the subsidiary).

Under the new Co-operative insurance regulations promulgated in the Kingdom of Saudi Arabia by a Royal decree number M/32 dated 2/6/1424 (July 31, 2003), insurance in the Kingdom shall be undertaken through registered companies operating in a co-operative manner. No insurance or re-insurance company may be incorporated in the Kingdom without a license issued by Royal Decree provided that it will be operating as a public joint stock company and having a minimum paid up capital of SR 100 million. Accordingly, the Company required to obtain a license to practice its insurance activities in the Kingdom of Saudi Arabia.

During the year, Company obtained the insurance license with Saudi Arabian Monetary Agency (“SAMA”) under a new company namely “Al Sagr Company for Co-operative Insurance”. The new company is currently under process of commercial registration. These factors indicate that the subsidiary Company may be unable to continue as a going concern. The financial statements have been prepared on the assumption that the subsidiary company will continue as a going concern and, accordingly, do not include any adjustments that might result should it not be able to continue as a going concern.

Subsequent at the year end, Al Sagr Company for Co-Operative Insurance has been registered under commercial registration number 1010243765 dated Muharram 26, 1429 (February 4, 2008).

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

2. Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after January 1, 2007, and the consequential amendments to IAS 1 *Presentation of Financial Statements*.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 24).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*; IFRIC 8 *Scope of IFRS 2*; IFRIC 9 *Reassessment of Embedded Derivatives*; and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IAS 1 (Revised)	<i>Presentation of Financial Statements</i> (effective for accounting periods on or after January 1, 2009);
IAS 23 (Revised)	<i>Borrowing Costs</i> (effective for accounting periods beginning on or after January 1, 2009);
IFRS 8	<i>Operating Segments</i> (effective for accounting periods beginning on or after January 1, 2009);
IFRIC 11	<i>Group and Treasury Share Transactions</i> (effective for accounting periods beginning on or after March 1, 2007);
IFRIC 12	<i>Service Concession Arrangements</i> (effective for accounting periods beginning on or after January 1, 2008);
IFRIC 13	<i>Customer Loyalty Programmes</i> (effective for accounting periods beginning on or after July 1, 2008); and
IFRIC 14	<i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction</i> (effective for accounting periods beginning on or after January 1, 2008).

The directors anticipate that all of the above Standards and Interpretations will be adopted in the Group's financial statements for the period commencing January 1, 2008 or as and when it is applicable and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Group in the period of initial application.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

3. Significant accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of investment property and financial instruments. For the purpose of the consolidated financial statements, the results and financial position of the Company are expressed in Arab Emirates Dirhams, which is the functional currency of the Company and the presentation currency for the consolidated financial statements. The financial statements of the subsidiary company expressed in Saudi Riyals were translated for consolidation purposes to Arab Emirates Dirhams at the exchange rates prevailing at year-end, as parity exchange rates are fixed. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements includes the accounts of Al-Sagr National Insurance Company (a public shareholding company) and the accounts of its 50% owned subsidiary Al-Sagr Saudi Insurance Company (a Bahraini shareholding closed exempt company) and its branches in Saudi Arabia over which the Company has significant influence over its financial and operating policies.

All significant inter-company transactions and balances of the consolidated companies are eliminated on consolidation. Minority interest is reflected in the consolidated income statement and in the consolidated balance sheet as a separate caption under equity.

Insurance contracts

Definition

The Group issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

3. Significant accounting policies (continued)

Insurance contracts (continued)

Recognition and measurement

Insurance contracts are classified into two main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

Short-term insurance contracts

These contracts are casualty and property insurance contracts.

Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non contractual events.

Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

For all these insurance contracts, premiums are recognized as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability.

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

3. Significant accounting policies (continued)

Insurance contracts (continued)

Recognition and measurement (continued)

Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance contract assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due. The Group assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Group reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

Insurance contract liabilities

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Group and still unpaid at the balance sheet date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the balance sheet date and is estimated using the 1/24th method and the subsidiary is estimated using 1/365th method for all lines of business except for marine cargo where 25% method is used. The unearned premium calculated by the above method (after reducing the reinsurance share) complies with the minimum unearned premium amounts to be maintained using the 25% and 40% method for marine and non-marine business respectively, as required by U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents. The unearned premium calculated by the 1/24th method accounts for the estimated acquisition costs incurred by the Group to acquire policies and defers these over the life of the policy.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

3. Significant accounting policies (continued)

Insurance contracts (continued)

Recognition and measurement (continued)

During the year, the subsidiary has changed its accounting policy for unearned premium relating to issued policies on premium written, net of reinsurers' share on a pro-rata basis over the term of the policy, by using 1/365th method of income apportionment for all classes of business except for marine cargo where 25% method of apportionment has been used in compliance with the local regulatory authority.

The reinsurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premium is classified as reinsurance contract assets in the financial statements.

Deferred policy acquisition costs

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are amortised over the terms of the policies as premium is earned.

Salvage and subrogation reimbursements

Estimates of salvage and subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims.

Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred policy acquisition costs. Any deficiency is immediately charged to profit or loss initially by writing off the deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

3. Significant accounting policies (continued)

Insurance contracts (continued)

Receivables and payables related to insurance contracts

Receivables and payables are recognized when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

Revenue recognition

Insurance contract income

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these financial statements.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Dividend income

Dividend income from investments is recognized when the Shareholders' rights to receive payment have been established.

Rental income

Rental income from investment property which are leased under operating leases are recognized on a straight-line basis over the term of the relevant lease.

General and administrative expenses

20% of general and administrative expenses for the year are allocated to insurance departments in proportion to each department's share of written premiums.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

3. Significant accounting policies (continued)

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Arab Emirates Dirhams ("AED"), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the year in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's Kingdom of Saudi Arabia operations (including comparatives) are expressed in Saudi Riyals using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognized in profit or loss in the period in which the foreign operation is disposed off.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

3. Significant accounting policies (continued)

Provision for employees' end of service indemnity

Provision for employees' end of service indemnity is made in accordance with the Group policy which is in compliance with U.A.E. and Kingdom of Bahrain labour laws and is based on current remuneration and cumulative years of service at the balance sheet date.

Defined contribution plan

U.A.E. national employees of the Group are members of the Government managed retirement pension and social security benefit scheme established pursuant to U.A.E. Federal Labour Law No. 7 of 1999. The Group is required to contribute 12.5% of "employees' salary" to the retirement benefit scheme to fund the benefits. These employees are also required to contribute 5% of their salaries to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the profit or loss.

Statutory reserve

In accordance with U.A.E. Federal Commercial Companies Law Number 8 of 1984, as amended, the Company has established a statutory reserve by appropriation of 10% of profit for each year until the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution except as stipulated by the Law.

General reserve

The general reserve is established through transfers from profit for the year as recommended by the board of directors and approved by the Shareholders at the Annual General Meeting. The reserve is distributable based on a recommendation by the board of directors approved by a Shareholders' resolution.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Notes to the Consolidated financial statements (continued)
For the year ended December 31, 2007

3. Significant accounting policies (continued)

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

The results of operations of the joint venture and its net assets are determined using the equity method permitted by the alternative method allowed under IAS 31.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss.

Impairment of tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Notes to the Consolidated financial statements (continued)
For the year ended December 31, 2007

3. Significant accounting policies (continued)

Impairment of tangible assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Financial assets

The Company has the following financial assets: available-for-sale investments, held-to-maturity investments and investments held for trading classified as 'investments', insurance and other receivables, and bank balances and cash classified as 'loans and receivables'. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

3. Significant accounting policies (continued)

Financial assets (continued)

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks net of fixed deposits in banks with maturity over three months.

Insurance and other receivables

Insurance and other receivables that have fixed or determinable payments are measured at amortised cost using the effective interest method, less any impairment.

Investments

Investments of the Group are recognized and derecognized on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Investments of the Group are classified into the following specified categories: investments 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, and 'available-for-sale' (AFS).

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial assets is either held for trading or designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short- term profit taking.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

3. Significant accounting policies (continued)

Financial assets (continued)

AFS financial assets

AFS financial assets comprise listed shares held by the Group traded in an active market and are stated at fair value. Gains and losses arising from the changes in the fair value are recognized directly in the equity in the investments revaluation reserve with the exception of impairment losses. Where the investment is disposed off or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of insurance receivables where the carrying amount is reduced through the use of an allowance account. When an insurance receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices at the close of the business on the balance sheet date;
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

3. Significant accounting policies (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Insurance and other payables, bank overdrafts and provision for employees' end of service indemnity are classified as 'other financial liabilities' and are measured at amortised cost.

Insurance and other payables

Insurance and other payables are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

3. Significant accounting policies (continued)

Financial liabilities and equity instruments issued by the Group (continued)

Financial liabilities (continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Bank overdrafts

Interest bearing bank overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in Note 3, management has made judgments that have the most significant effect on the amounts recognized in the financial statements and applied certain assumptions, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below:

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

4. Critical accounting judgments and key sources of estimation uncertainty
(continued)

Critical accounting judgments

Classification of investments

Management decides on acquisition of an investment whether it should be classified as FVTPL - held for trading, held-to-maturity or available-for-sale.

The Group classifies investments as FVTPL - held for trading if they are acquired primarily for the purpose of making a short term profit by the dealers. The Group classifies investments held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. Other investments are classified as available-for-sale.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models.

Impairment of financial assets

The Group determines whether available for sale equity financial assets are impaired when there has been a significant or prolonged decline in their fair value below cost. This determination of what is significant or prolonged requires judgment. In making this judgment and to record whether an impairment occurred, the Group evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

4. Critical accounting judgments and key sources of estimation uncertainty
(continued)

Key sources of estimation uncertainty

The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group will eventually pay for such claims. 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 reported ("IBNR") at the balance sheet date. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

Note 28, claims development process, present the development of the estimate of ultimate claim cost for claims notified in a given year. This gives an indication of the accuracy of the Group's estimation technique for claims payments.

Impairment of insurance receivables

An estimate of the collectible amount of insurance receivables is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired, entails the Group evaluating, the credit and liquidity position of the policy holders and the insurance companies, historical recovery rates including detailed investigations carried out during 2007 and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognized as an expense in the profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognized in the profit or loss at the time of collection.

Liability adequacy test

At each balance sheet, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Group makes use of the best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities in evaluating the adequacy of the liability. Any deficiency is immediately charged to the profit or loss.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

5. Property and equipment

	Office improvement AED	Furniture and equipment AED	Motor vehicles AED	Total AED
Cost				
At December 31, 2005	1,052,858	1,978,900	260,300	3,292,058
Additions	<u>115,515</u>	<u>326,424</u>	<u>141,975</u>	<u>583,914</u>
At December 31, 2006	1,168,373	2,305,324	402,275	3,875,972
Additions	911,784	866,039	24,320	1,802,143
Disposals	(<u>320,211</u>)	(<u>195,160</u>)	(<u>12,740</u>)	(<u>528,111</u>)
At December 31, 2007	<u>1,759,946</u>	<u>2,976,203</u>	<u>413,855</u>	<u>5,150,004</u>
Accumulated depreciation				
At December 31, 2005	844,184	1,444,724	196,550	2,485,458
Charge for the year	<u>184,727</u>	<u>142,767</u>	<u>123,706</u>	<u>451,200</u>
At December 31, 2006	1,028,911	1,587,491	320,256	2,936,658
Charge for the year	189,816	228,850	21,919	440,585
Eliminated on disposals	(<u>290,770</u>)	(<u>195,155</u>)	(<u>4,459</u>)	(<u>490,384</u>)
At December 31, 2007	<u>927,957</u>	<u>1,621,186</u>	<u>337,716</u>	<u>2,886,859</u>
Carrying amount				
At December 31, 2007	<u>831,989</u>	<u>1,355,017</u>	<u>76,139</u>	<u>2,263,145</u>
	=====	=====	=====	=====
At December 31, 2006	139,462	717,833	82,019	939,314
	=====	=====	=====	=====

At December 31, 2007, the cost of fully depreciated property and equipment that was still in use amounted to AED 2,480,722 (2006: AED 2,088,114).

The useful life used in the calculation of depreciation for all assets is 3 to 4 years.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

6. Investment property

	<u>2007</u> AED	<u>2006</u> AED
Fair value, at the beginning of the year	60,419,799	15,943,827
Additions during the year	30,227,802	8,835,034
Disposals during the year	(61,503,082)	-
Increase in fair value during the year	<u>-</u>	<u>35,640,938</u>
Fair value, at the end of the year	29,144,519 =====	60,419,799 =====

The fair value of the Group's investment property at December 31, 2007 has been arrived at on the basis of a valuation carried out by the management on an open market value basis. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The property rental income earned by the Group from its investment property, which are leased out under operating leases, and direct operating expenses arising on the investment property are as follows:

	<u>Year ended December 31,</u> <u>2007</u> AED	<u>2006</u> AED
Rental income	514,755	755,667
Direct operating expenses	(86,000)	(77,317)
	428,755 =====	678,350 =====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

7. Investments in associates

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
	<u>AED</u>	<u>AED</u>
Al Sagr Company for Co-Operative Insurance (SCCI), Kingdom of Saudi Arabia	52,920,000	7,023,333
Najm Project for Motor Insurance Development, Kingdom of Saudi Arabia	<u>1,942,034</u>	<u>1,863,634</u>
	54,862,034	8,886,967
	=====	=====

Investment in associates represents payments made against the share capital of the two companies in the Kingdom of Saudi Arabia. Najm Project for Motor Insurance Development is under formation.

During the year Al Sagr Company for Co-Operative Insurance Company obtained license with Saudi Arabian Monetary Agency (“SAMA”) and is currently under process of commercial registration.

Subsequent to the year end, Al Sagr Company for Co-Operative Insurance has been registered under commercial registration number 1010243765 dated Muharram 26,1429 (February 04, 2008).

8. Investments in Joint Venture

The Company has established a joint venture with Gulf General Investment Company and Investment Group (both related parties) with equal shares of 33.33% each in the ownership of Horizon Tower, a property located in Dubai Marina, Dubai. The Company’s share in the (loss)/profits of the joint venture during the year ended December 31, 2007 amounted to AED (6,331,759) (2006: AED 56,625,037) and the balance of the investment in the joint venture amounted to AED nil as at December 31, 2007 (2006: AED 28,660,079).

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

9. Investments in securities

	December 31,	
	2007	2006
	AED	AED
Held for trading investments	183,776,329	214,644,509
Available - for - sale investments	3,100,000	515,000
Held-to-maturity investments	26,924,816	19,544,816
	213,801,145	234,704,325
	=====	=====

Held for trading investments include AED 13,717,212 (2006: AED 12,891,492) of unquoted investments, which are recognized at fair value based on the valuation done by independent fund valuers.

Following are the movement of investments in securities during the year 2007:

	2007	2006
	AED	AED
a) Investments held for trading:		
Fair value, at the beginning of the year	214,644,509	297,417,990
Net (disposals)/additions during the year	(65,374,905)	46,863,536
Increase/(decrease) in fair value	34,506,725	(129,637,017)
Fair value, at the end of the year	183,776,329	214,644,509
	=====	=====
	2007	2006
	AED	AED
b) Available-for-sale investments:		
Fair value, at the beginning of the year	515,000	-
Additions during the year	-	515,000
Increase in fair value	2,585,000	-
Fair value, at the end of the year	3,100,000	515,000
	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

9. Investments in securities (continued)

	<u>2007</u>	<u>2006</u>
	AED	AED
c) Held-to-maturity investments:		
Cost, at the beginning of the year	19,544,816	9,800,000
Net additions during the year	<u>7,380,000</u>	<u>9,744,816</u>
Cost, at the end of the year	26,924,816	19,544,816
	=====	=====

As of December 31, 2007, held-to-maturity investments amounting to AED 22,540,000 (2006: AED 16,660,000) are registered in the name of the sole agent in the Kingdom of Saudi Arabia, Sagr Al Bayda'a Trading Agencies Co. Ltd. being held in trust and for the benefit of the Group.

10. Insurance contract liabilities and re-insurance contract assets

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
	AED	AED
		(Restated)
Gross		
Insurance contract liabilities		
Claims reported unsettled	366,359,570	164,398,256
Claims incurred but not reported	5,890,900	3,637,000
Unearned premiums	<u>178,091,986</u>	<u>133,190,038</u>
Total insurance contract liabilities (gross)	<u>550,342,456</u>	<u>301,225,294</u>
Recoverable from reinsurers		
Claims reported unsettled	315,584,585	130,709,524
Unearned premiums	<u>79,379,007</u>	<u>53,009,093</u>
Total reinsurers' share of insurance liabilities	<u>394,963,592</u>	<u>183,718,617</u>
Net		
Claims reported unsettled	50,774,985	33,688,732
Claims incurred but not reported	5,890,900	3,637,000
Unearned premiums	<u>98,712,979</u>	<u>80,180,945</u>
	155,378,864	117,506,677
	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

10. Insurance contract liabilities and re-insurance contract assets (continued)

Movement in the insurance contract liabilities and reinsurance contract assets during the year were as follows:

	<u>Year ended December 31, 2007</u>			<u>Year ended December 31, 2006</u>		
	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Claims						
Notified claims	164,398,256	(130,709,524)	33,688,732	58,697,648	(44,205,582)	14,492,066
Incurred but not reported	<u>3,637,000</u>	<u>-</u>	<u>3,637,000</u>	<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>
Total at the beginning of the year	168,035,256	(130,709,524)	37,325,732	61,697,648	(44,205,582)	17,492,066
Claims settled in the year	(305,181,659)	152,475,792	(152,705,867)	(124,930,583)	53,732,137	(71,198,446)
Increase in liabilities	<u>509,396,873</u>	<u>(337,350,853)</u>	<u>172,046,020</u>	231,268,191	(140,236,079)	91,032,112
Total at the end of the year	372,250,470	(315,584,585)	56,665,885	168,035,256	(130,709,524)	37,325,732
	=====	=====	=====	=====	=====	=====
Notified claims	366,359,570	(315,584,585)	50,774,985	164,398,256	(130,709,524)	33,688,732
Incurred but not reported	<u>5,890,900</u>	<u>-</u>	<u>5,890,900</u>	<u>3,637,000</u>	<u>-</u>	<u>3,637,000</u>
Total at the end of the year	372,250,470	(315,584,585)	56,665,885	168,035,256	(130,709,524)	37,325,732
	=====	=====	=====	=====	=====	=====
Unearned premium						
Balance at year-end	178,091,986	(79,379,007)	98,712,979	126,198,065	(50,780,440)	75,417,625
Balance at beginning of the year	(133,190,038)	<u>53,009,093</u>	(80,180,945)	(74,932,249)	<u>37,380,240</u>	(37,552,009)
Net increase during the year	<u>44,901,948</u>	<u>(26,369,914)</u>	<u>18,532,034</u>	<u>51,265,816</u>	<u>(13,400,200)</u>	<u>37,865,616</u>
Total at the end of the year before adjustment	178,091,986	(79,379,007)	98,712,979	126,198,065	(50,780,440)	75,417,625
Prior year adjustment (Note 24)	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,991,973</u>	<u>(2,228,653)</u>	<u>4,763,320</u>
Total at the end of the year	178,091,986	(79,379,007)	98,712,979	133,190,038	(53,009,093)	80,180,945
	=====	=====	=====	=====	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

11. Insurance and other receivables

	December 31,	
	2007	2006
	AED	AED
Receivables arising from insurance and reinsurance contracts:		
Due from policy holders	185,314,347	146,853,378
Allowance for doubtful debts	(2,872,980)	(2,896,695)
	182,441,367	143,956,683
Due from insurance and reinsurance companies	29,335,470	11,357,935
Other receivables:		
Due from a related party	11,237	6,868,895
Accrued interest income	4,459,084	1,560,247
Prepaid expenses and refundable deposits	2,822,195	1,711,671
Due from staff	654,729	659,741
Other receivables	9,342,543	3,020,132
	17,289,788	13,820,686
	229,066,625	169,135,304
	=====	=====

The average credit period is 120 days. Due from policyholders outstanding between 180 days and 365 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience.

Analysis of due from policyholders over 180 days are as follows:

	December 31,	
	2007	2006
	AED	AED
Allowance made for	2,872,980	2,896,694
Post dated cheques received	8,898,228	8,467,668
Allowance not made	25,920,669	18,649,026
	37,691,877	30,013,388
	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

11. Insurance and other receivables (continued)

Before accepting any new customer, the Group assesses the potential customers credit quality and defines credit limits by customer. Of the due from policyholders balance at the end of year AED 14 million (2006: AED18 million) is due from the Group's largest customer. There are 9 (2006: 9) other customers who represent more than 17% (2006:16%) of the total balance of due from policyholders.

Included in the Group's due from policyholders balance are debtors with a carrying amount of AED 4.7 million (2006: AED 2.9 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

During the year, the Group provided an additional provision of AED 1,246,797 (2006: AED 750,000) against allowance for doubtful debts and written off the customers balance amounts to AED 1,270,512 (2006: nil) against the allowance for doubtful debts.

In determining the recoverability of an insurance receivable, the Group considers any change in the credit quality of the insurance receivable from the date credit was initially granted up to the reporting date. The concentration of credit risks is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

12. Bank balances and cash

	December 31,	
	2007	2006
	AED	AED
Cash on hand	61,200	47,300
Bank balances:		
Current accounts	16,644,614	3,209,465
Fixed deposits	<u>224,676,141</u>	<u>73,931,226</u>
	241,381,955	77,187,991
	=====	=====

Fixed deposits with banks as at December 31, 2007 include AED 7,500,000 (2006: AED 7,500,000) deposited in the name of the Company to the order of the Minister of Economy and Trade of the United Arab Emirates as required by the Federal Law Number (9) of 1984 relating to Insurance Companies and Agents.

Fixed deposits amounting to AED 65,920,722 (2006: AED 58,931,226) are under lien in respect of bank credit facilities granted to the Company(Note 17).

All fixed deposits with banks mature within different periods not exceeding one year from the balance sheet date.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

13. Share capital

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
	AED	AED
Issued and fully paid:		
100,000,000 ordinary shares of AED 1 each		
(2006: 100,000,000 shares of AED 1 each)	100,000,000	100,000,000
	=====	=====

14. Minority interest

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
	AED	AED
		(Restated)
Opening balance	14,872,678	16,466,899
Dividends paid	(3,920,000)	(2,940,000)
Share of profit for the year	<u>7,492,929</u>	<u>3,727,439</u>
	18,445,607	17,254,338
Prior year adjustment (Note 24)	<u>-</u>	(<u>2,381,660</u>)
	18,445,607	14,872,678
	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

15. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	December 31,	
	2007	2006
	AED	AED
Balance at the beginning of the year	5,186,283	4,273,623
Amounts charged to income	2,800,344	996,093
Amounts paid	(62,544)	(83,433)
Balance at the end of the year	7,924,083	5,186,283
	=====	=====

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

16. Insurance and other payables

	December 31,	
	2007	2006
	AED	AED
Payables arising from insurance and reinsurance contracts:		
Due to insurance and reinsurance companies	<u>73,843,759</u>	<u>42,313,700</u>
Other payables:		
Insurance customers payable	26,153,448	3,619,438
Accrued expenses and provisions	10,020,128	5,222,290
Unearned income	-	1,242,000
Notes payable - post-dated cheques	707,401	864,481
Others	<u>3,546,911</u>	<u>7,121,878</u>
	<u>40,427,888</u>	<u>18,070,087</u>
	114,271,647	60,383,787
	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

17. Bank overdrafts

The Group obtained bank facilities in the form of overdraft repayable upon demand and bearing interest ranging from 5.5% to 6.25% per annum (2006: 5% to 6.5% per annum). The overdraft balance was AED 8,807,982 as of December 31, 2007 (2006: AED 43,679,806). These facilities are secured by lien on fixed deposits.

18. Investment revenue/(loss)

	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
	AED	AED
Net (loss)/income from investment in securities	25,618,851	(2,660,924)
Net income from investment property	3,637,984	1,050,862
Interest on fixed deposits	6,549,923	3,666,395
Dividends from held-for-trading investments	4,995,795	-
Effect of changes in fair value of investment property (Note 6)	-	35,640,938
Effect of changes in fair value of trading investments	<u>34,506,725</u>	<u>(129,637,017)</u>
	75,309,278	(91,939,746)
	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

19. Other expenses-Net

	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
	AED	AED
Recovery against bad debts	3,224,507	2,198,817
Loss on disposal of property and equipment	(37,727)	-
Others	(3,672,528)	(3,385,929)
	(485,748)	(1,187,112)
	=====	=====

20. Profit for the year

Profit for the year has been arrived at after charging the following expenses:

	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
	AED	AED
Staff costs	15,373,053	13,095,385
Depreciation of property and equipment	440,585	451,200
Provision for doubtful debts	1,246,797	750,000

21. Basic earnings per share

	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Net profit for the year	AED 113,791,692	AED 7,994,809
	=====	=====
Number of shares	100,000,000	100,000,000
	=====	=====
Earnings per share	AED 1.14	AED 0.08
	=====	=====

Basic earnings per share are calculated by dividing the net profit for the year by the number of weighted average of shares outstanding during the year.

During the year, the subsidiary changed its accounting policy for unearned premium written relating to issued policies which resulted in an increase in net unearned premium by AED 4,763,320 and corresponding decrease in reported profit for the year ended December 31, 2006; accordingly net profit of the Company's share in the subsidiary decreased by AED 2,381,660 and earnings per share reduced by Fils 2 was not restated due to the impracticability (Note 24).

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

22. Cash and cash equivalents

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
	AED	AED
Bank balances and cash (Note 12)	241,381,955	77,187,991
Fixed deposits under lien and maturity over three months	(202,583,007)	(58,931,226)
	38,798,948	18,256,765
	=====	=====

23. Bonus shares

The directors propose to increase the share capital by AED 50 million through distribution of bonus shares. The distribution of bonus shares is subject to the approval of the Shareholders at the Annual General Meeting.

It has also been proposed that the board of directors remuneration for the year be AED 750,000 (2006: AED 750,000).

24. Prior year adjustment

This represents the change in accounting policy for the recognition of unearned premium of the subsidiary in order to comply with the local regulatory authority. The subsidiary has changed its accounting policy for unearned premium relating to issued policies on premium written, net of reinsurers' share on a pro-rata basis over the term of the policy, by using 1/365th method of income apportionment for all classes of business except for marine cargo where 25% method of apportionment has been used against the subsidiary's previous policy of recognizing unearned premium on marine cargo at 25% and 1/24th for all other classes. Consequent to the change in the accounting policy, net unearned premium for the year ended December 31, 2006 was increased by AED 4,763,320 and corresponding decrease in retained earnings and minority interest as at December 31, 2006 by AED 2,381,660 each, earnings per share decreased by Fils 2, increase in reinsurance contract asset by AED 2,228,651 and insurance contract liabilities by AED 6,991,973. If the subsidiary follows the same policy of the parent company, current year net profit will be reduced by AED 2,209,516 and corresponding decrease in retained earnings and minority interest by AED 1,104,758 each. Restatement of prior income statement has not been done due to the impracticability to extract the unearned income based on the new policy for the year ended December 31, 2005 and the change in profit is incorporated by restating the opening retained earnings.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

25. Geographical segment

	2007			2006		
	<u>UAE</u>	<u>Outside UAE</u>	<u>Total</u>	<u>UAE</u>	<u>Outside UAE</u>	<u>Total</u>
	AED	AED	AED	AED	AED	AED
Insurance revenue	222,601,936	62,749,327	285,351,263	124,914,773	42,675,924	167,590,697
Insurance cost	(160,188,123)	(42,140,029)	(202,328,152)	(70,099,809)	(20,932,303)	(91,032,112)
General and administrative expenses	(15,949,786)	(6,729,120)	(22,678,906)	(13,266,402)	(6,251,006)	(19,517,408)
Segment result	<u>46,464,027</u>	<u>13,880,178</u>	<u>60,344,205</u>	<u>41,548,562</u>	<u>15,492,615</u>	<u>57,041,177</u>
Segment assets	1,025,357,515 =====	140,125,500 =====	1,165,483,015 =====	488,927,670 =====	274,724,726 =====	763,652,396 =====
Segment liabilities	590,103,667 =====	103,002,501 =====	693,106,168 =====	303,187,777 =====	107,287,393 =====	410,475,170 =====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

26. Related party transactions

At the balance sheet date, amounts due from/to related parties were as follows:

	December 31,	
	2007	2006
	AED	AED
Due from policy holders	874,354	3,720,712
Due from shareholders	3,228,407	6,868,895
Due to shareholders	11,760,000	-
Gross outstanding claims	181,455,064	10,183,490

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the year for bad or doubtful debts in respect of the amounts owed by related parties.

Due to shareholders represents the portion of the amount paid by the shareholders on behalf of the Company against the investment in one of its associate- Al Sagr Company for Co-Operative Insurance, Kingdom of Saudi Arabia.

Transactions:

During the year, the Group entered into the following transactions with related parties:

	Year ended December 31,	
	2007	2006
	AED	AED
Gross premium	13,280,797	9,788,586
Claims paid	9,593,525	275,371
Sale of investment property	71,752,128	-
Sale of investment in joint venture	23,252,128	-

Premiums are charged to related parties at rates agreed with the management.

Value for the sale of investment property and investment in joint venture are determined and approved by the board of directors.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

26. Related party transactions (continued)

Compensation of Board of directors / key management personnel

	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
	AED	AED
Short term benefits	5,559,621	4,820,293
Long term benefits	1,454,158	167,811
Board of directors' remuneration	750,000	750,000

The remuneration of directors is subject to approval by the shareholders and as per limits set by the U.A.E. Commercial Companies Law No. 8 of 1984, as amended.

27. Contingent liabilities

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
	AED	AED
Letters of guarantees	12,228,837	11,406,743
	=====	=====

28. Operating lease arrangements

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
	AED	AED
Within one year	313,000	313,000
In the second to third year (inclusive)	297,350	610,350
	610,350	923,350
	=====	=====

Operating lease payments represent rentals payable by the Group for its office property. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.