

Dubai Insurance Company
(Public Shareholding Company)

FINANCIAL STATEMENTS

31 DECEMBER 2007

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DUBAI INSURANCE COMPANY (PSC)

Report on the Financial Statements

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

Board of Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

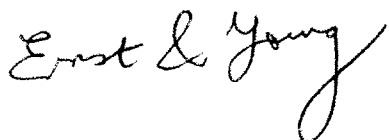
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Report on Other Legal and Regulatory Requirements

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



Signed by:
Edward B. Quinlan
Partner
Registration No. 93

13 February 2008
Dubai

Dubai Insurance Company (PSC)

INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 AED	2006 AED
UNDERWRITING INCOME			
Insurance contracts premium receivable		61,297,675	24,501,858
Movement in provision for unearned premiums		(16,558,854)	(1,314,226)
Insurance premium revenue	3	44,738,821	23,187,632
Less: Reinsurers' share of premium	3	22,876,204	14,088,397
Net insurance premium revenue		21,862,617	9,099,235
Commission income		8,681,745	5,180,341
		30,544,362	14,279,576
UNDERWRITING EXPENSES			
Claims	4	17,423,420	24,327,772
Reinsurers' share of claims	4	(6,680,684)	(21,193,612)
Commission expenses		5,810,052	613,725
Excess of loss reinsurance premium		1,559,826	356,627
General and administration expenses relating to underwriting activities		4,972,703	3,069,821
		23,085,317	7,174,333
NET UNDERWRITING INCOME		7,459,045	7,105,243
INVESTMENT INCOME			
Realised gains	6	24,877,141	—
Fair value gains and losses	7	318,444	(39,357,584)
Other investment income	8	12,779,354	9,783,456
		37,974,939	(29,574,128)
OTHER INCOME AND EXPENSES			
General and administration expenses not allocated		(1,634,544)	(1,023,274)
Other income		275,913	178,556
		(1,358,631)	(844,718)
PROFIT (LOSS) FOR THE YEAR	9	44,075,353	(23,313,603)
Basic earnings per share (AED)	10	5.78	(3.09)
Diluted earnings per share (AED)	10	4.34	(2.32)

The attached notes 1 to 33 form part of these financial statements.

Dubai Insurance Company (PSC)

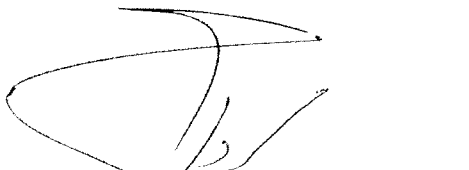
BALANCE SHEET

At 31 December 2007

	Notes	2007 AED	2006 AED
ASSETS			
Office equipment and vehicles	11	501,847	401,205
Investment property	12	3,892,950	4,628,610
Advance for purchase of investment property		20,169,250	-
Financial assets			
At fair value through profit or loss	13	6,992,122	36,518,711
Held-to-maturity	14	1,849,505	1,572,529
Available for sale	15	362,315,685	209,289,393
Reinsurance assets	24	20,256,479	36,945,991
Insurance receivables	16	33,481,353	7,725,172
Prepayments and accrued income	17	1,268,126	632,179
Statutory deposits	18	7,500,000	7,515,000
Cash and cash equivalents	19	53,391,455	41,544,365
TOTAL ASSETS		511,618,772	346,773,155
EQUITY AND LIABILITIES			
Equity			
Share capital	20	75,000,000	75,000,000
Statutory reserve	21	37,500,000	37,500,000
General reserve	22	3,500,000	3,500,000
Retained earnings		54,691,645	36,316,292
Proposed dividends – cash	23	-	7,500,000
Proposed dividends – scrip	23	25,000,000	-
Cumulative changes in fair values of securities		252,291,888	132,786,620
Total equity		447,983,533	292,602,912
Liabilities			
Insurance contract liabilities	24	43,762,014	45,675,575
Amounts held under reinsurance treaties		4,765,782	2,729,215
Reinsurance balances payable		4,424,507	1,516,277
Trade and other payables	25	10,682,936	4,249,176
Total liabilities		63,635,239	54,170,243
TOTAL EQUITY AND LIABILITIES		511,618,772	346,773,155

The financial statements were authorised for issue in accordance with a resolution of the directors on 13 February 2008.


Chairman


Vice Chairman

The attached notes 1 to 33 form part of these financial statements.

Dubai Insurance Company (PSC)

CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 AED	2006 AED
OPERATING ACTIVITIES			
Profit (loss) for the year		44,075,353	(23,313,603)
Adjustments for:			
Depreciation on office equipment and vehicles	11	243,902	163,118
Depreciation on investment property	12	735,660	735,660
Provision for employees' end of service benefits	26	132,213	177,878
Gain on sale of available for sale securities	6	(18,563,346)	-
Loss (gain) on sale of office equipments and vehicles	6	33,137	(25,250)
		<u>26,656,919</u>	<u>(22,262,197)</u>
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		29,526,589	37,690,407
Reinsurance assets		16,689,512	(16,246,096)
Insurance receivables		(25,756,181)	(2,791,605)
Prepayments and accrued income		(635,947)	810,127
Insurance contract liabilities		(1,913,561)	16,770,590
Amounts held under reinsurance treaties		2,036,567	421,591
Reinsurance balances payable		2,908,230	812,201
Trade and other payables		6,406,150	488,443
		<u>55,918,278</u>	<u>15,693,461</u>
Cash from operations			
Employees' end of service paid	26	(104,603)	(1,541,908)
		<u>55,813,675</u>	<u>14,151,553</u>
Net cash from operating activities			
INVESTING ACTIVITIES			
Purchase of available-for-sale securities		(42,607,203)	(17,218,282)
Proceeds from sale of available-for-sale securities		27,372,549	-
Advance made on purchase of investment property		(20,169,250)	-
Purchase of office equipment and vehicles	11	(427,681)	(451,147)
Proceeds from sale of office equipment and vehicles		50,000	25,250
Statutory deposits		15,000	(15,000)
		<u>(35,766,585)</u>	<u>(17,659,179)</u>
Net cash used in investing activities			
FINANCING ACTIVITIES			
Dividend paid		(7,500,000)	(22,500,000)
Directors' fees		(700,000)	(150,000)
		<u>(8,200,000)</u>	<u>(22,650,000)</u>
Net cash used in financing activities			
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		11,847,090	(26,157,626)
Cash and cash equivalents at 1 January		41,544,365	67,701,991
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	19	<u>53,391,455</u>	<u>41,544,365</u>

The attached notes 1 to 33 form part of these financial statements.

Dubai Insurance Company (PSC)
STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2007

	Notes	Share capital AED	Statutory reserve AED	General reserve AED	Retained earnings AED	Proposed dividends AED	Cumulative changes in fair values AED	Total AED
Balance at 1 January 2006		75,000,000	37,500,000	3,500,000	67,279,895	22,500,000	265,720,000	471,499,895
Net movement in cumulative changes in fair values		-	-	-	-	-	(132,933,380)	(132,933,380)
Total income and expense recognised directly in equity		-	-	-	-	-	(132,933,380)	(132,933,380)
Profit for the year		-	-	-	(23,313,603)	-	-	(23,313,603)
Total income and expense for the year		-	-	-	(23,313,603)	-	(132,933,380)	(156,246,983)
Directors' fees	28	-	-	-	(150,000)	-	-	(150,000)
Cash dividend paid		-	-	-	-	(22,500,000)	-	(22,500,000)
Proposed cash dividend	23	-	-	-	(7,500,000)	7,500,000	-	-
Balance at 31 December 2006		75,000,000	37,500,000	3,500,000	36,316,292	7,500,000	132,786,620	292,602,912
Net movement in cumulative changes in fair values		-	-	-	-	-	119,505,268	119,505,268
Total income recognised directly in equity		-	-	-	-	-	119,505,268	119,505,268
Profit for the year		-	-	-	44,075,353	-	-	44,075,353
Total income for the year		-	-	-	44,075,353	-	119,505,268	163,580,621
Cash dividend paid	23	-	-	-	-	(7,500,000)	-	(7,500,000)
Directors' fees	28	-	-	-	(700,000)	-	-	(700,000)
Proposed dividend -- scrip	23	-	-	-	(25,000,000)	25,000,000	-	-
Balance at 31 December 2007		75,000,000	37,500,000	3,500,000	54,691,645	25,000,000	252,291,888	447,983,533
	(Note 20)		(Note 21)	(Note 22)		(Note 23)		

The attached notes 1 to 33 form part of these financial statements.

Dubai Insurance Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

1 ACTIVITIES

Dubai Insurance Company (PSC) is a public shareholding company and is registered under the Federal Law No. 8 of 1984 (as amended) relating to commercial companies in the UAE. The company mainly issues short term insurance contracts in connection with motor, marine, fire and engineering, general accident, medical and group life risks (collectively termed as general insurance). The Company also invests its funds in investment securities. The registered address of the Company is P.O. Box 3027, Dubai, United Arab Emirates. The Company operates from Dubai and most of the insurance policies are issued in the UAE.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention except for the measurement at fair value of those financial instruments that have been measured at fair value.

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 Law.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies are consistent with those used in the previous year except for change in the basis of calculation of additional reserve and adoption of IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements (amended) which gave rise to additional disclosures. The effects of these changes are as follows:

Calculation of additional reserve

Until the previous year, additional reserve included a provision for shortfall in unearned premiums calculated by reference to 1/8th method and unearned premiums calculated in accordance with UAE Federal Law No. 9 of 1984 (as amended), at 40% of net written premiums for all classes of business except marine which is calculated at 25%. With effect from 1 January 2007, the Board of Directors has decided to change the policy of the Company whereby no additional provision is made for the abovementioned shortfall in unearned premiums.

As a result of the change, net profit for the year is higher by AED 929,128.

IFRS 7 Financial Instruments: Disclosures

IFRS 7 requires disclosures that enable the users to evaluate the significance of the financial instruments of the Company and the nature and extent of risks arising from financial instruments. Comparative information for 2006 has been accordingly restated.

IAS 1 Presentation of financial statements (amended)

IAS 1 requires disclosures that enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital.

Dubai Insurance Company (PSC)
NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Premiums earned

Premiums on general insurance policies are accounted for on the date of writing of policies except premium income on marine cargo policies which is accounted for on the expected date of voyage. Premiums are adjusted for unearned premium.

Commissions earned

Commissions earned are recognised at the time policies are written.

Other investment income

- (i) Interest income 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 property. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

Trade and settlement date accounting

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

Claims

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

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

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.

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 unexpired risk provision 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.

General and administration expenses

Direct expenses of general insurance business are charged to respective departmental revenue accounts. Indirect expenses of the general insurance business are allocated to departmental revenue accounts on the basis of gross retained premiums of each department. Other administration expenses are charged to the income statement.

Dubai Insurance Company (PSC)
NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

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

Segment reporting

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

Product classification

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

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

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

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

Office equipment and vehicles

Office equipment and vehicles 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:

Furniture and equipment	over 3 to 5 years
Office building	over 25 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 office equipment and vehicles 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.

Dubai Insurance Company (PSC)
NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2007

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are initially measured at cost, including transaction costs. Subsequent expenditure is added to the carrying value of investment properties when it is probable that future economic benefits in excess of the originally assessed standard of performance will flow to the Company. Any expenditure that results in the maintenance of property to an acceptable standard or specification is treated as repairs and maintenance expenses and is charged to the income statement in the period in which it is incurred.

Subsequently, investment properties are measured at cost less any accumulated depreciation and accumulated impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of 4-33 years. All subsequent additions are depreciated over the remaining useful lives of investment properties.

No depreciation is charged on land.

Fair value of financial instruments

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

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

Financial assets

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

The classification depends on the purpose for which the investments were acquired or originated.

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

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

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gains and losses 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 in any of the above categories. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to the income statement.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the income statement. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;
- (b) For assets carried at cost, impairment is the difference between carrying value 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.

Reinsurance

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

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

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

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

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

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

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

Insurance receivables

Provision is made against insurance receivables as soon as they are considered doubtful of recovery.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less in the balance sheet.

2 ACCOUNTING POLICIES (continued)

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

(ii) Additional reserve

A provision is made for the estimated excess of potential claims over unearned premiums and for claims incurred but not reported at the balance sheet date.

The reserves represent the management's best estimates on the basis of:

- a) claims reported during the year
- b) delay in reporting these claims

(iii) Outstanding claims

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

Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier 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.

Employees' end of service benefits

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

With respect to its national employees, the Company makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Judgements

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

Classification of investments

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

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

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

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

All other investments are classified as available for sale.

Impairment of equity investments

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

Estimation uncertainty

The key assumptions concerning the future 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 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 possible 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.

Dubai Insurance Company (PSC)
NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment losses on insurance receivables

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

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

Reinsurance

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

2.5 FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

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

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

3 NET INSURANCE PREMIUM REVENUE

Year 2007

	<i>Gross AED</i>	<i>Reinsurer's share AED</i>	<i>Net AED</i>
Insurance contracts premium receivable	61,297,675	27,691,651	33,606,024
Movement in provision for unearned premiums	(16,558,854)	(4,815,447)	(11,743,407)
Insurance premium revenue	44,738,821	22,876,204	21,862,617
Unearned premium as of 31 December	25,777,544	10,469,795	15,307,749

Dubai Insurance Company (PSC)
NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2007

3 NET INSURANCE PREMIUM REVENUE (continued)

Year 2006

	<i>Gross AED</i>	<i>Reinsurer's share AED</i>	<i>Net AED</i>
Insurance contracts premium receivable	24,501,858	15,156,789	9,345,069
Movement in provision for unearned premiums	(1,314,226)	(1,068,392)	(245,834)
Insurance premium revenue	<u>23,187,632</u>	<u>14,088,397</u>	<u>9,099,235</u>
Unearned premium as of 31 December	<u>9,218,690</u>	<u>5,654,348</u>	<u>3,564,342</u>

Insurance contracts premium receivable includes AED 2.35 million (2006: AED 1.34 million) of reinsurance premium accepted.

4 CLAIMS

Year 2007

	<i>Gross AED</i>	<i>Reinsurer's share AED</i>	<i>Net AED</i>
Claims paid	35,895,835	28,185,643	7,710,192
Changes in provision for outstanding claims	(18,072,415)	(21,504,959)	3,432,544
Movement in additional reserve (note 24)	(400,000)	-	(400,000)
	<u>17,423,420</u>	<u>6,680,684</u>	<u>10,742,736</u>

Year 2006

	<i>Gross AED</i>	<i>Reinsurer's share AED</i>	<i>Net AED</i>
Claims paid	8,871,408	6,015,908	2,855,500
Changes in provision for outstanding claims	15,456,364	15,177,704	278,660
	<u>24,327,772</u>	<u>21,193,612</u>	<u>3,134,160</u>

For details of the movement in the provision for outstanding claims and the related reinsurers' share, refer note 24.

Dubai Insurance Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

5 SEGMENTAL INFORMATION

Primary segment information

For management purposes the Company is organised into two business segments; insurance and investment. The insurance segment comprises motor, marine, fire, engineering, general accident, medical and group life insurance. 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. Transactions between segments are conducted at estimated market rates on an arm's length basis. Segmental information is presented below:

	2007 AED	2006 AED
Insurance		
Underwriting income	28,984,536	13,922,949
Underwriting expenses	(21,525,491)	(6,817,706)
Net underwriting income	7,459,045	7,105,243
Investment		
Investment income	37,974,939	(29,574,128)
Unallocated other income and expenses	(1,358,631)	(844,718)
Profit (loss) profit for the year	44,075,353	(23,313,603)

OTHER INFORMATION

	General insurance		Investment		Total	
	2007 AED	2006 AED	2007 AED	2006 AED	2007 AED	2006 AED
Segment assets	75,265,604	55,850,133	436,353,168	290,923,022	511,618,772	346,773,155
Segment liabilities	62,935,239	54,170,243	-	-	62,935,239	54,170,243
Capital expenditure	427,681	451,147	20,169,250	-	20,596,931	451,147
Depreciation	243,902	163,118	735,660	735,660	979,562	898,778

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.

6 REALISED GAINS

	2007 AED	2006 AED
Available-for-sale financial assets		
Net realised gains on equity	18,563,346	-
Held-for-trading financial assets		
Net realised gains on equity	6,346,932	-
Office equipment and vehicles		
Loss on sale of office equipment and vehicles	(33,137)	-
Total realised gains for financial assets	24,877,141	-

Dubai Insurance Company (PSC)
NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2007

7 FAIR VALUE GAINS AND LOSSES

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Fair value gain (losses) on financial investments held for trading	<u>318,444</u>	<u>(39,357,584)</u>

8 OTHER INVESTMENT INCOME

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Rental income from investment properties	1,754,647	1,580,622
Investment property expenses	<u>(1,207,626)</u>	<u>(1,228,205)</u>
	547,021	352,417
Financial assets at fair value through profit or loss (held for trading purposes)		
Dividend income	1,806,114	5,148,869
Held-to-maturity financial assets interest income	136,259	119,760
Available-for-sale financial assets		
Dividend income	7,553,270	1,224,596
Cash and cash equivalents and statutory deposits interest income	<u>2,736,690</u>	<u>2,937,814</u>
	<u>12,779,354</u>	<u>9,783,456</u>

9 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Staff costs	<u>4,239,881</u>	<u>2,574,955</u>

10 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year, net of directors' fees by the weighted average number of shares outstanding during the year as follows:

	<i>2007</i>	<i>2006</i>
Profit (loss) for the year, net of directors' fees (AED)	<u>43,375,353</u>	<u>(23,163,603)</u>
Weighted average number of shares outstanding during the year	<u>7,500,000</u>	<u>7,500,000</u>
Earnings per share (AED)	<u>5.78</u>	<u>(3.09)</u>

The Board of Directors has proposed a scrip dividend of AED 25,000,000. If the proposal is approved by the shareholders and the authorities, the number of shares would increase to 10,000,000. Based on this, the diluted earnings per share would be as follows:

	<i>2007</i>	<i>2006</i>
Diluted earnings per share (AED)	<u>4.34</u>	<u>(2.32)</u>

Dubai Insurance Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

11 OFFICE EQUIPMENT AND VEHICLES

	<i>Furniture and office equipment AED</i>	<i>Motor vehicles AED</i>	<i>Total AED</i>
Cost:			
At 1 January 2007	798,543	362,000	1,160,543
Additions	427,681	-	427,681
Disposals	-	(140,000)	(140,000)
At 31 December 2007	<u>1,226,224</u>	<u>222,000</u>	<u>1,448,224</u>
Depreciation:			
At 1 January 2007	654,888	104,450	759,338
Provided during the year	164,989	78,913	243,902
Disposals	-	(56,863)	(56,863)
At 31 December 2007	<u>819,877</u>	<u>126,500</u>	<u>946,377</u>
Net carrying amount:			
At 31 December 2007	<u>406,347</u>	<u>95,500</u>	<u>501,847</u>

	<i>Furniture and equipment AED</i>	<i>Motor vehicles AED</i>	<i>Total AED</i>
Cost:			
At 1 January 2006	647,396	175,000	822,396
Additions	151,147	300,000	451,147
Disposals	-	(113,000)	(113,000)
At 31 December 2006	<u>798,543</u>	<u>362,000</u>	<u>1,160,543</u>
Depreciation:			
At 1 January 2006	577,620	131,600	709,220
Provided during the year	77,268	85,850	163,118
Disposals	-	(113,000)	(113,000)
At 31 December 2006	<u>654,888</u>	<u>104,450</u>	<u>759,338</u>
Net carrying amount:			
At 31 December 2006	<u>143,655</u>	<u>257,550</u>	<u>401,205</u>

Dubai Insurance Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

12 INVESTMENT PROPERTY

	<i>Land AED</i>	<i>Building AED</i>	<i>Total AED</i>
Cost:			
At 1 January 2007	<u>1,669,725</u>	<u>18,391,504</u>	<u>20,061,229</u>
Depreciation:			
At 1 January 2007	-	15,432,619	15,432,619
Provided during the year	-	<u>735,660</u>	<u>735,660</u>
At 31 December 2007	<u>-</u>	<u>16,168,279</u>	<u>16,168,279</u>
Net carrying amount:			
At 31 December 2007	<u><u>1,669,725</u></u>	<u><u>2,223,225</u></u>	<u><u>3,892,950</u></u>

	<i>Land AED</i>	<i>Building AED</i>	<i>Total AED</i>
Cost:			
At 1 January 2006	<u>1,669,725</u>	<u>18,391,504</u>	<u>20,061,229</u>
Depreciation:			
At 1 January 2006	-	14,696,959	14,696,959
Provided during the year	-	<u>735,660</u>	<u>735,660</u>
At 31 December 2006	<u>-</u>	<u>15,432,619</u>	<u>15,432,619</u>
Net carrying amount:			
At 31 December 2006	<u><u>1,669,725</u></u>	<u><u>2,958,885</u></u>	<u><u>4,628,610</u></u>

The fair value of the investment property as of 31 December 2007 based on a valuation done by an independent valuer amounted to AED 35,000,000 (2006: AED 30,000,000).

13 FINANCIAL ASSETS AT FAIR VALUES THROUGH PROFIT OR LOSS

	<i>2007 AED</i>	<i>2006 AED</i>
a) <i>Trading securities</i>		
Shares – quoted	<u><u>6,992,122</u></u>	<u><u>36,518,711</u></u>

14 HELD TO MATURITY FINANCIAL ASSETS

	<i>2007 AED</i>	<i>2006 AED</i>
Unquoted bonds - at cost	<u><u>1,849,505</u></u>	<u><u>1,572,529</u></u>

Dubai Insurance Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Shares – quoted	349,435,335	196,080,240
Shares – unquoted	12,880,350	13,209,153
	<u>362,315,685</u>	<u>209,289,393</u>

Unquoted shares are carried at cost less 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.

16 INSURANCE RECEIVABLES

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Premiums and insurance companies' balances receivable	31,610,333	7,600,182
Due from re-insurance companies in respect of settled claims	1,871,020	124,990
	<u>33,481,353</u>	<u>7,725,172</u>

All of the above amounts are due within twelve month of the balance sheet date. The reinsurers' shares of claims not paid by the Company at the balance sheet date are disclosed in note 24.

The amounts due from reinsurers are normally settled on a quarterly basis.

As at 31 December 2007, premiums and insurance companies' balances receivables at nominal value of AED 776,864 (2006: AED 776,864) were impaired.

17 PREPAYMENTS AND ACCRUED INCOME

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Accrued income	532,351	109,512
Staff debtors and advances	372,548	262,050
Other receivables	198,894	48,726
Prepayments	164,333	211,891
	<u>1,268,126</u>	<u>632,179</u>

Dubai Insurance Company (PSC)
NOTES TO THE FINANCIAL STATEMENTS
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18 STATUTORY DEPOSITS

	<i>2007</i>	<i>2006</i>
	<i>AED</i>	<i>AED</i>
Bank deposits:		
Amounts that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with Article 41 of Federal Law No. 9 of 1984	<u>7,500,000</u>	<u>7,515,000</u>

19 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:

	<i>2007</i>	<i>2006</i>
	<i>AED</i>	<i>AED</i>
Deposits with banks maturing within three months	41,133,656	38,913,779
Bank balances and cash	<u>12,257,799</u>	<u>2,630,586</u>
	<u>53,391,455</u>	<u>41,544,365</u>

20 SHARE CAPITAL

	<i>2007</i>	<i>2006</i>
	<i>AED</i>	<i>AED</i>
Issued and fully paid 7,500,000 shares of AED 10 each (2006: – 7,500,000 shares of AED 10 each)	<u>75,000,000</u>	<u>75,000,000</u>

21 STATUTORY RESERVE

In accordance with the Commercial Companies Law and the Company's Articles of Association, 10% of the net profit for the year is required to be transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the statutory reserve is equal to 50% of the paid up share capital. Accordingly, no amount has been transferred to statutory reserve. The reserve is not available for distribution except in the circumstances stipulated by the law.

22 GENERAL RESERVE

The reserve is freely available for distribution.

23 PROPOSED DIVIDENDS

	<i>2007</i>	<i>2006</i>
	<i>AED</i>	<i>AED</i>
Declared and paid:		
Cash dividend for 2006 of AED 1 per share of AED 10 each (2005: AED 3 per share of AED 10 each)	<u>7,500,000</u>	<u>22,500,000</u>
Proposed for approval at Annual General Meeting:		
2007: Scrip dividend of AED 3.33 per share of AED 10 each	25,000,000	-
(2006: Cash dividend of AED 1 per share of AED 10 each)	<u>-</u>	<u>7,500,000</u>

Dubai Insurance Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

24 INSURANCE CONTRACT ASSETS AND LIABILITIES

	<i>Gross</i>		<i>Reinsurers' share</i>		<i>Net</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
Unearned premium reserve (Note 3)	25,777,544	9,218,690	10,469,795	5,654,348	15,307,749	3,564,342
Additional Reserve (Note 24(a))	1,800,000	2,200,000	-	-	1,800,000	2,200,000
Outstanding Claims (Note 24(b))	16,184,470	34,256,885	9,786,684	31,291,643	6,397,786	2,965,242
	<u>43,762,014</u>	<u>45,675,575</u>	<u>20,256,479</u>	<u>36,945,991</u>	<u>23,505,535</u>	<u>8,729,584</u>

24 (a) Additional Reserve

	<i>AED</i>
At 1 January 2006 and at 31 December 2006	2,200,000
Decrease	(400,000)
31 December 2007	<u>1,800,000</u>

24 (b) Outstanding claims

	<i>Outstanding claims</i>	<i>Due from reinsurers</i>	<i>Net</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>
At 1 January 2006	18,800,521	16,113,939	2,686,582
Net increase (Note 4)	15,456,364	15,177,704	278,660
At 31 December 2006	34,256,885	31,291,643	2,965,242
Net increase (Note 4)	(18,072,415)	(21,504,959)	3,432,544
At 31 December 2007	<u>16,184,470</u>	<u>9,786,684</u>	<u>6,397,786</u>

Claims development

There are no material amounts for which amount and timing of claims payment is not resolved within one year of the balance sheet date.

25 TRADE AND OTHER PAYABLES

	<i>2007</i>	<i>2006</i>
	<i>AED</i>	<i>AED</i>
Premiums collected in advance	642,990	230,742
Provision for staff costs	400,000	350,000
Other creditors and accruals	8,247,884	2,303,982
Employees' end of service benefits (Note 26)	1,392,062	1,364,452
	<u>10,682,936</u>	<u>4,249,176</u>

Dubai Insurance Company (PSC)
NOTES TO THE FINANCIAL STATEMENTS
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26 EMPLOYEES' END OF SERVICE BENEFITS

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

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Provision as at 1 January	1,364,452	2,728,482
Provided during the year	132,213	177,878
End of service benefits paid	(104,603)	(1,541,908)
Provision as at 31 December (Note 25)	<u>1,392,062</u>	<u>1,364,452</u>

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

27 RELATED PARTY TRANSACTIONS

Related parties represent, major shareholders, directors and key management personnel of the company, and entities controlled, jointly controlled or significantly influenced by such parties. The pricing policies and terms of these transactions are approved by the Company's management.

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

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
<i>Affiliates of major shareholders:</i>		
Amounts due from related parties	6,830,399	3,047,590
Amounts due to related parties	716,530	256,179
Outstanding claims	6,601,647	28,292,382

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

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
<i>Affiliates of major shareholders:</i>		
Premiums	22,340,424	13,976,781
Claims	22,669,487	6,171,195
Rent received	53,100	51,750

Compensation of the key management personnel is as follows:

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Short term employee benefits	1,727,500	1,354,520
End of service benefits	297,220	168,807
Total compensation paid to key management personnel	<u>2,024,720</u>	<u>1,523,327</u>

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

28 DIRECTORS' FEES

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

Dubai Insurance Company (PSC)
NOTES TO THE FINANCIAL STATEMENTS
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29 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets include bank balances and cash, deposits, investment securities, receivables, payables and certain other assets and liabilities.

The fair values of the financial assets and liabilities, with the exception of unquoted investments in shares carried at cost (Note 10), are not materially different from their carrying values.

30 RISK MANAGEMENT

(a) Governance framework

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

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

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

(b) Capital management framework

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

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

(c) Regulatory framework

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

The operations of the Company are also subject to regulatory requirements within the jurisdiction 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.

(d) Asset liability management (ALM) framework

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

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

The General Manager 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.

Dubai Insurance Company (PSC)
NOTES TO THE FINANCIAL STATEMENTS

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30 RISK MANAGEMENT (continued)

30A 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. The Company has a small portfolio of life assurance contracts.

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, group life and personal accident risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Property

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

For property insurance contracts the main risks are fire and business interruption. In recent years the Company has only underwritten policies for properties containing fire detection 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 500,000.

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 200,000.

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 125,000 (USD 34,060).

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.

Dubai Insurance Company (PSC)
NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2007

30 RISK MANAGEMENT (continued)

30A 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 last year.

Reinsurance risk

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

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

The five largest reinsurers account for 98% of amounts due from reinsurance companies at 31 December 2007 (2006: 87%). The maximum theoretical credit risk exposure in this connection is mainly in Europe.

30B Financial risk

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

The Company does not enter into derivative transactions.

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

Credit risk

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

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

- The Company only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company's available for sale investments and at fair value through profit or loss investments are managed by the General Manager in accordance with the guidance of the Chairman 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.

Dubai Insurance Company (PSC)
NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2007

30 RISK MANAGEMENT (continued)

30B Financial risk (continued)

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

	<i>Notes</i>	2007 AED	2006 AED
Financial assets			
At fair value through profit or loss	13	6,992,122	36,518,711
Held-to-maturity	14	1,849,505	1,572,529
Available for sale	15	362,315,685	209,289,393
Reinsurance assets	24	20,256,479	36,945,991
Insurance receivables	16	33,481,353	7,725,172
Other receivables (excluding prepayments)		1,103,793	420,288
Statutory deposits	18	7,500,000	7,515,000
Cash and cash equivalents	19	53,391,455	41,544,365
TOTAL CREDIT RISK EXPOSURE		486,890,392	341,531,449

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 assets are from reinsurance companies based mainly in Europe and the Middle East.

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

	2007			2006		
	<i>Assets</i>	<i>Liabilities and equity</i>	<i>Contingent liabilities and commitments</i>	<i>Assets</i>	<i>Liabilities and equity</i>	<i>Contingent liabilities and commitments</i>
	AED	AED	AED	AED	AED	AED
United Arab Emirates	486,125,128	502,428,483	189,023,250	307,212,671	342,527,663	10,255,836
Europe	17,329,637	6,116,590	-	27,709,493	2,889,478	-
Rest of the world	8,164,007	3,073,699	-	11,850,991	1,356,014	-
Total	511,618,772	511,618,772	189,023,250	346,773,155	346,773,155	10,255,836

Dubai Insurance Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

30 RISK MANAGEMENT (continued)

30B 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 2007

	<i>Neither past due nor impaired</i>				
	<i>Investment grade AED</i>	<i>Non investment grade (satisfactory) AED</i>	<i>Non investment grade (unsatisfactory) AED</i>	<i>Past due and impaired AED</i>	<i>Total AED</i>
Financial investments					
At fair value through profit or loss	6,992,122	-	-	-	6,992,122
Held-to-maturity	1,849,505	-	-	-	1,849,505
Available for sale	362,315,685	-	-	-	362,315,685
Reinsurance assets	20,256,479	-	-	-	20,256,479
Insurance receivables	33,481,353	-	-	776,864	34,258,217
Other receivables (excluding prepayments)	1,103,793	-	-	-	1,103,793
Statutory deposits	7,500,000	-	-	-	7,500,000
Cash and cash equivalents	53,391,455	-	-	-	53,391,455
	<u>486,890,392</u>	<u>-</u>	<u>-</u>	<u>776,864</u>	<u>487,667,256</u>
Less: Impairment provision					(776,864)
					<u>486,890,392</u>

31 December 2006

	<i>Neither past due nor impaired</i>				
	<i>Investment grade AED</i>	<i>Non investment grade (satisfactory) AED</i>	<i>Non investment grade (unsatisfactory) AED</i>	<i>Past due and impaired AED</i>	<i>Total AED</i>
Financial assets					
At fair value through profit or loss	36,518,711	-	-	-	36,518,711
Held-to-maturity	1,572,529	-	-	-	1,572,529
Available for sale	209,289,393	-	-	-	209,289,393
Reinsurance assets	36,945,991	-	-	-	36,945,991
Insurance receivables	7,725,172	-	-	776,864	8,502,036
Other receivables (excluding prepayments)	420,288	-	-	-	420,288
Statutory deposits	7,515,000	-	-	-	7,515,000
Cash and cash equivalents	41,544,365	-	-	-	41,544,365
	<u>341,531,449</u>	<u>-</u>	<u>-</u>	<u>776,864</u>	<u>342,308,313</u>
Less: Impairment provision					(776,864)
					<u>341,531,449</u>

Dubai Insurance Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

30 RISK MANAGEMENT (continued)

30B Financial risk (continued)

Credit risk (continued)

The following table provides an age analysis of receivables arising from insurance and reinsurance contracts past due but not impaired:

	<i>Past due but not impaired</i>					<i>Total</i> AED	<i>Past due and impaired</i> AED	<i>Total</i> AED
	<i>90</i>	<i>91 to 180</i>	<i>181 to 270</i>	<i>271,365</i>	<i>> 365</i>			
	<i>days</i> AED	<i>days</i> AED	<i>days</i> AED	<i>days</i> AED	<i>days</i> AED			
2007	23,070,497	6,894,579	2,733,464	480,333	1,079,342	34,258,215	776,864	33,481,351
2006	5,288,051	1,242,671	263,942	1,421,446	285,926	8,502,036	776,864	7,725,172

For assets to be classified as 'past due and impaired' contractual payments in arrears are more than 180 days and an impairment adjustment is recorded in the statement of income for this. When the credit exposure is adequately secured or when management is confident of settlement, 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.

Dubai Insurance Company (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

30 RISK MANAGEMENT (continued)

The table below summarises the maturity of the assets and liabilities of the Company based on remaining undiscounted contractual obligations.

	31 December 2007			31 December 2006		
	Less than one year AED	More than one year AED	No Term AED	Less than one year AED	More than one year AED	No Term AED
ASSETS						
Office equipment and vehicles	-	501,847	-	-	401,205	401,205
Investment property	-	2,223,225	1,669,725	-	2,958,885	4,628,610
Financial assets						
At fair value through profit or loss	-	-	6,992,122	-	-	36,518,711
Held-to-maturity	1,849,505	-	-	-	1,572,529	1,572,529
Available for sale	-	-	362,315,685	-	-	209,289,393
Advance for purchase of investment property	-	20,169,250	-	-	-	-
Reinsurance assets	20,256,479	-	-	36,945,991	-	36,945,991
Insurance receivables	33,481,353	-	-	7,725,172	-	7,725,172
Prepayments and accrued income	1,268,126	-	-	632,179	-	632,179
Statutory deposits	7,500,000	-	-	7,515,000	-	7,515,000
Cash and cash equivalents	53,391,455	-	-	41,544,365	-	41,544,365
TOTAL ASSETS	117,746,918	22,894,322	370,977,532	94,362,707	4,932,619	346,773,155
EQUITY AND LIABILITIES						
Equity						
Share capital	-	-	75,000,000	-	-	75,000,000
Statutory reserve	-	-	37,500,000	-	-	37,500,000
General reserve	-	-	3,500,000	-	-	3,500,000
Retained earnings	-	-	54,691,645	-	-	36,316,292
Proposed dividends	-	-	25,000,000	7,500,000	-	7,500,000
Cumulative changes in fair values of securities	-	-	252,291,888	-	-	132,786,620
Total equity	-	-	447,983,533	7,500,000	-	292,602,912
Liabilities						
Insurance contract liabilities	43,762,014	-	-	45,675,575	-	45,675,575
Amounts held under reinsurance treaties	4,765,782	-	-	2,729,215	-	2,729,215
Reinsurance balances payable	4,424,507	-	-	1,516,277	-	1,516,277
Trade and other payables	10,682,936	-	-	4,249,176	-	4,249,176
Total liabilities	63,635,239	-	-	54,170,243	-	54,170,243
TOTAL EQUITY AND LIABILITIES	63,635,239	-	447,983,533	61,670,243	-	346,773,155

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

30 RISK MANAGEMENT (continued)**30B Financial risk (continued)****MARKET RISK**

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

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 1,849,505 (2006: AED 1,572,529) denominated in Canadian Dollars, the Company does not have any other foreign currency balances.

Interest rate risk

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

The Company is exposed to interest rate risk on certain of its held-to-maturity investment and cash and cash equivalents. The Company limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash and interest bearing investments and borrowings are denominated.

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

31 December 2007

	<i>Less than 1 years AED</i>	<i>1 to 5 years AED</i>	<i>Over 5 years AED</i>	<i>Total AED</i>	<i>Effective interest rate</i>
Time deposits	48,633,656	-	-	48,633,656	5% to 5.35%
Held-in maturity	1,849,505	-	-	1,849,505	7.25%
	<u>50,483,161</u>	<u>-</u>	<u>-</u>	<u>50,483,161</u>	

31 December 2006

	<i>Less than 1 years AED</i>	<i>1 to 5 years AED</i>	<i>Over 5 years AED</i>	<i>Total AED</i>	<i>Effective interest rate</i>
Time deposits	46,428,779	-	-	46,428,779	5.7%
Held-in maturity	1,572,529	-	-	1,572,529	7.25%
	<u>48,001,308</u>	<u>-</u>	<u>-</u>	<u>48,001,308</u>	

There is no significant difference between contractual repricing or maturity dates.

30 RISK MANAGEMENT (continued)**Interest rate risk (continued)**

The following table demonstrates the sensitivity of statement of income to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the Company's profit for the year, based on the floating rate financial assets and financial liabilities held at 31 December 2007.

	<i>Increase/ decrease in basis points</i>	<i>Effect on profit before taxation for the year AED</i>
2007	+25	126,208
	-50	(252,146)
2006	+25	120,003
	-50	(240,006)

Equity price risk

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

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

	2007			2006		
	<i>Change in equity price %</i>	<i>Effect on equity AED</i>	<i>Effect on income statement AED</i>	<i>Change in equity price %</i>	<i>Effect on equity AED</i>	<i>Effect on income statement AED</i>
All investments – (Mainly Dubai Financial Market and Abu Dhabi Stock Market)	10	34,943,533	699,212	10	19,608,024	3,651,871

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

31 CAPITAL COMMITMENTS

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Commitment in respect of purchase of investment properties (plots of land in the UAE)	181,523,250	-
Commitments in respect of Un called capital of certain shares held as investments	-	2,740,836

32 CONTINGENCIES***Contingent liabilities***

At 31 December 2007 the Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to 7,500,000 (2006: 7,515,000).

Legal claims

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

33 COMPARATIVE INFORMATION

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

Realised gains and fair value gains and losses have now been shown separately on the face of the income statement. Interest income and dividend income have now been grouped together as other investment income.

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