

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C)
DUBAI - UNITED ARAB EMIRATES

AUDITORS' REPORT AND FINANCIAL STATEMENTS
DECEMBER 31, 2007

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)
Dubai - United Arab Emirates

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for the year ended December 31, 2007

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Directors' Report

On behalf of the Board of Directors, I am pleased to welcome you to this Ordinary General Assembly of Dubai National Insurance & Reinsurance PSC, and to present its sixteenth annual report and accounts for the financial year 2007.

The year 2007 continued to witness impressive economic growth and the astute economic policies initiated by the UAE government further led to tremendous advancement in all sectors. This momentum of growth has also gained pace in the insurance sector, and your company has planned well ahead to capture this momentum, and continue the growth witnessed in the past couple of years to the ensuing years.

The key factors attributable to your company's consistent progress are cautious and prudent underwriting approach adopted, without excessive risk exposure and thus maintaining a well balanced portfolio.

In a very competitive environment, your company has built a "team of achievers" who are committed towards making our collective vision a reality.

The net underwriting income improved by 28% from AED 13.50 Million to AED 17.33 Million. The gross premiums written continued to be evenly distributed over the various classes of business. The gross premiums increased by 40% in the year 2007 to AED 93.79 Million compared to AED 66.94 Million in the year 2006. Despite the significant growth in premium, the administration expenses increased only by 10% from AED 6.36 Million in 2006 to AED 6.99 Million in 2007. The year 2007 results reflect the continued momentum in our business and the reaping of the benefits from our reinsurance strategies, thereby continually improving our operating efficiencies, and ensuring better returns on investments.

The company is maintaining a healthy technical reserve (net) of AED 59.48 Million in 2007.

Your company's net profit for the year 2007 before appropriation amounted to AED 36.05 Million. The Board is pleased to recommend to the shareholders the following appropriations

Cash dividend @ 35%	AED 35.00 Million
Directors Remuneration	AED 1.55 Million

The Board takes this opportunity to thank all our shareholders, clients, business partners, reinsurers and employees for their unflinching support and confidence in the company.

The following recommendations are placed for your approval & ratification:

- 1) To approve the Board of Directors' and Auditors' Report for 2007.
- 2) To ratify the Company's financial statements for the year ended 31st December 2007
- 3) To approve the Board of Directors' proposal relating to appropriation of profit and retained earnings.
- 4) To release the Chairman, the Members of the Board and the auditors from any liabilities related to the performance of their duties during the year under review.
- 5) To appoint statutory auditors for the year 2008.



KHALAF AHMED AL HABTOOR
Chairman of the Board of Directors
19 February 2008

**Independent Auditor's Report
To the Shareholders of
DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)
Dubai, United Arab Emirates**

Report on the Financial Statements

We have audited the accompanying financial statements of DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.) (the "Company"), which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 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 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 auditor's 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 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 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 give a true and fair view of the financial position of the Company as on December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the requirements of the UAE Federal Law No. (9) of 1984 (as amended) concerning insurance companies and agents.

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No 8 of 1984 (as amended), we also confirm that we have obtained all the information and explanations necessary for our audit, proper books of account have been kept by the Company and the contents of the Directors' report which relate to the financial statements are in agreement with the Company's books of account. To the best of our knowledge and belief, no violations of above mentioned Law or of the Memorandum and Articles of Association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.



GRANT THORNTON

Farouk Mohamed
Insurance Registration No. 54
Dubai, United Arab Emirates
Date: February 19, 2008

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

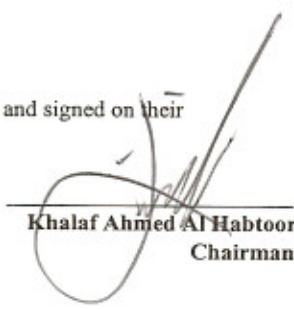
Dubai - United Arab Emirates

Balance Sheet at December 31, 2007

	Notes	2007 AED'000	2006 AED'000
Assets			
Non-Current			
Statutory deposits	3	15,475	15,475
Property and equipment	4	2,261	33,570
Investment property	5	95,577	66,309
		<u>113,313</u>	<u>115,354</u>
Current			
Available-for-sale investments	6	360,296	284,867
Insurance receivables	7	13,919	12,765
Other receivables	8	1,084	4,023
Due from related parties	9	14,596	9,136
Re-insurer's share of outstanding claims	10	41,819	48,101
Cash in hand and at banks including deposits		52,746	9,190
		<u>484,460</u>	<u>368,082</u>
Total assets		<u><u>597,773</u></u>	<u><u>483,436</u></u>
Equity			
Share capital	11	100,000	100,000
Legal reserve	12	50,000	50,000
Obligatory reserve	13	25,000	25,000
General reserve	14	220,000	220,000
Retained earnings		36,936	32,464
Cumulative changes in reserve on available for sale investments	6	3,583	(97,380)
Total equity		<u>435,519</u>	<u>330,084</u>
Liabilities			
Non-Current			
End of service benefits	15	941	921
Current			
Outstanding claims provision	10	87,347	93,555
Unearned premium reserves	16	13,953	11,456
Insurance and other payables	17	59,785	47,420
Due to related parties	9	228	-
		<u>161,313</u>	<u>152,431</u>
Total liabilities		<u>162,254</u>	<u>153,352</u>
Total equity and liabilities		<u><u>597,773</u></u>	<u><u>483,436</u></u>

These financial statements were approved by the Board of Directors on 19 February 2008 and signed on their behalf by:


Sultan Ahmed Al Habtoor
Managing Director


Khalaf Ahmed Al Habtoor
Chairman

The notes on pages 9 to 32 form an integral part of these financial statements.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)
Dubai - United Arab Emirates

Income Statement
for the year ended December 31, 2007

		2007	2006
	Notes	AED'000	AED'000
Gross premium		93,798	66,941
Re-insurance share		(59,865)	(40,218)
Net premium		<u>33,933</u>	<u>26,723</u>
Net transfer (to) / from unearned premium reserve		(2,497)	13,524
Net premium earned		<u>31,436</u>	<u>40,247</u>
Commission earned		6,001	3,548
Commission paid		(5,376)	(4,096)
Others		278	971
Gross underwriting income		<u>32,339</u>	<u>40,670</u>
Gross claims paid		31,426	47,961
Reinsurance share		(16,496)	(24,648)
Net claims paid		<u>14,930</u>	<u>23,313</u>
Provision for outstanding claims		(6,208)	(17,607)
Reinsurance share of outstanding claims		6,282	21,464
Net claims Incurred		<u>15,004</u>	<u>27,170</u>
Net underwriting income		17,335	13,500
Income from investment	18	11,008	12,958
Income from investment property	19	14,685	6,442
Other income	20	18	3,645
Gross income		<u>43,046</u>	<u>36,545</u>
General and administrative expenses	21	(6,996)	(6,365)
Net profit for the year		<u><u>36,050</u></u>	<u><u>30,180</u></u>
Earnings per share:		AED	AED
Basic	22	<u><u>0.36</u></u>	<u><u>0.30</u></u>

The notes on pages 9 to 32 form an integral part of these financial statements.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

Dubai - United Arab Emirates

**Statement of changes in shareholders' equity
for the year ended December 31, 2007**

	Share capital	Legal reserve	Obligatory reserve	General reserve	Cummulative changes in reserve on available for sale investments	Retained earnings	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
As at January 01, 2006	100,000	50,000	25,000	220,000	78,748	78,520	552,268
Net profit for the year	-	-	-	-	-	30,180	30,180
Dividends paid	-	-	-	-	-	(75,000)	(75,000)
Directors' remuneration	-	-	-	-	-	(1,259)	(1,259)
Adjustment arising on translation of operating assets and liabilities of overseas branch	-	-	-	-	-	23	23
Net unrealized losses on investments	-	-	-	-	(176,128)	-	(176,128)
As at 31 December 2006	100,000	50,000	25,000	220,000	(97,380)	32,464	330,084
Net profit for the year	-	-	-	-	-	36,050	36,050
Dividends paid	-	-	-	-	-	(30,000)	(30,000)
Directors' remuneration	-	-	-	-	-	(1,553)	(1,553)
Transfer to general reserve (note 17)	-	-	-	-	-	-	-
Adjustment arising on translation of operating assets and liabilities of overseas branch	-	-	-	-	-	-	-
Net unrealized gains on investments	-	-	-	-	100,963	(25)	(25)
As at 31 December 2007	100,000	50,000	25,000	220,000	3,583	36,936	435,519

The notes on pages 9 to 32 form an integral part of these financial statements.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)
Dubai - United Arab Emirates

Statement of cash flows
for the year ended December 31, 2007

	Notes	2007 AED'000	2006 AED'000
Operating activities			
Net profit for the year		36,050	30,180
<i>Adjustments for:</i>			
Depreciation on property and equipment	4	410	882
Depreciation on investment property	5	1,829	872
Currency translation		(25)	23
Profit on sale of property and equipment	20	(16)	(113)
Net transfer to employees' end-of-service benefits		19	(294)
Transfer to unearned premium		2,497	(13,524)
Provision for out standing claims		(6,208)	(17,607)
Reinsurer share in outstanding claims		6,282	21,464
Dividend and interest on long-term deposits		(11,008)	(12,958)
Directors remuneration		(1,553)	(1,259)
Income from investment property - net	19	(16,514)	(7,314)
Operating profit before changes in working capital		11,763	352
Changes in working capital			
Insurance receivables		(1,154)	6,991
Other receivables		2,939	(1,810)
Insurance and other payables		12,365	(19,319)
Due from/(to) related parties-net		(5,232)	(7,091)
Net cash provided by/(used in) operating activities		20,681	(20,877)
Investing activities			
Purchase of investments	6	(24,862)	(52,499)
Proceeds from sale of investments		50,396	-
Purchase of property and equipment	4	(200)	(180)
Proceeds from disposals of property and equipment		19	160
Dividend and interest on long-term deposits income		11,008	12,958
Income from investment property - net	19	16,514	7,314
Net cash provided by/(used in) investing activities		52,875	(32,247)
Financing activities			
Dividends paid		(30,000)	(75,000)
Net cash used in financing activities		(30,000)	(75,000)
Net increase /(decrease) in cash and cash equivalents		43,556	(128,124)
Cash and cash equivalents at 1 January		9,190	137,314
Cash and cash equivalents at 31 December	23	52,746	9,190

The notes on pages 9 to 32 form an integral part of these financial statements.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

**DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)
Dubai – United Arab Emirates**

**Notes to the financial statements
for the year ended December 31, 2007**

1 Legal status and activities

Dubai National Insurance & Reinsurance (P.S.C.) (the “Company”) is a public shareholding company incorporated in Dubai on 6 January 1992 with overseas branch in Beirut, Lebanon.

The Company is engaged in insurance and reinsurance of all classes of business in accordance with the provisions of the UAE Federal Law No. 9 of 1984 relating to insurance companies and insurance agents.

The registered address of the Company is 2nd Floor, Al Habtoor Motors Building, P.O. Box 1806, Dubai, UAE.

The total number of staff employed by the Company as at 31 December 2007 was 45 (2006: 45).

The overseas branch in Beirut is in the process of being closed down [note 4 (b)].

Accordingly, the related license as required by local regulations has been terminated. All related guarantees are blocked with the Ministry of Economic & Commerce, Insurance Affairs Department in Lebanon until it meets all its obligations, as published in official gazette in April 2004 [note 3 (ii)].

2 Significant accounting policies

a) Adoption of new and revised standards

In the current year, the Company has adopted IFRS 7, *Financial Instruments: Disclosures*, mandatory for reporting periods beginning on January 1, 2007 or later. The new standard replaces and amends disclosure requirements previously set out in IAS-32, *Financial Instruments: Disclosure and presentation* and the consequential amendments to IAS-1, *Presentation of Financial Statements*.

The new disclosure that become necessary due to adoption of IFRS 7 and changes in IAS-1 can be found in note 30.

Four Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) 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 Company’s accounting policies.

2 Significant accounting policies (cont.)

a) Adoption of new and revised standards (cont.)

The following new Standards and Interpretations which are yet to become mandatory, have not been applied by the Company are as follows:

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

Based on the Company business model and accounting policies, management does not expect material impact on financial statements when the Interpretations become effective and management does not intend to apply any of these pronouncements early.

b) Basis of preparation

- i) The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB) and interpretations thereof issued by the International Financial Reporting Interpretations Committee and applicable requirements of UAE Federal Law No. 8 of 1984 (as amended) relating to commercial companies, and of UAE Federal Law No.(9) of 1984 (as amended) concerning insurance companies and agents.

The financial statements are presented in UAE Dirhams ("AED"), rounded off to the nearest thousand.

- ii) The significant accounting policies followed by the Company are as follows and are consistent with those used in the previous year except as disclosed in note 2(a).

2 Significant accounting policies (cont.)

c) Accounting convention

The financial statements are prepared under the historical cost convention except for quoted investments available-for-sale, which are stated at their fair value.

d) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the property and equipment.

The rates of depreciation used are based on the following estimated useful lives of the assets.

	Years
Furniture and fixtures	4-11 years
Motor vehicles	3 years
Buildings	40 years

e) Investment property

Investment property is measured as per Cost Model and are carried net of accumulated depreciation. Depreciation is determined on a straight-line basis over the estimated useful life of the property which is considered to be 40 years.

f) Revenue recognition

Gross premium

Gross premium and policy fees are recognised as income when insurance policies are issued to the insured, consequent to the acceptance of the risk.

Commission on reinsurance

Commission is recognised at the time the policies are written excluding profit commission which is recognised at the time of settlement.

Interest income

Interest income is recognised on accrual basis.

2 Significant accounting policies (cont.)

f) Revenue recognition (cont.)

Investment income

Investment income is recognized at the time the securities are liquidated and the proceeds are realised or realisable.

Rental income

Rental income from investment property is recognised on a straight line basis over the term of the lease.

Dividend income

Dividend income is recognised when the right to receive payment is established.

g) Claims

Claims incurred comprise actual claims and other related costs paid and incurred in the year and movement in outstanding claims. Claim handling costs are recognised at the time of registering the claims.

On account of uncertainties involved in non-motor claim recoveries, salvage and subrogation rights are recognised only at the time of actual recovery. For motor claim recoveries, salvage is accounted at the time of registering the claims.

Provision for outstanding claims represents the estimated settlement values of all claims notified, but not settled at the balance sheet date on the basis of individual case estimates.

The reinsurers' portion towards the above outstanding claims is classified as reinsurance's share of outstanding claims and it is shown as current assets in the financial statements.

In addition, outstanding claims include provision for those outstanding claims which is incurred but not reported (IBNR). The provision for IBNR claims is made at the balance sheet date based on past experience.

h) Liability adequacy test

All recognised insurance liabilities including provision for outstanding claims are subject to liability adequacy test at each reporting date. This involves comparison of current estimates of all contractual cash flows attached to these liabilities with their carrying amounts. Estimates of contractual cash flows include expected claim handling costs as also recoveries from third parties. Any deficiency in carrying amounts is charged to the income statement by establishing a provision for losses arising from liability adequacy test.

2 Significant accounting policies (cont.)

i) Reserves for unearned premium

The reserves for unearned premium represents that portion of premiums earned net of reinsurance, which relate to the period of insurance subsequent to the balance sheet date.

For periods of up to one year, the provision is calculated at a minimum of 40% of the annual premiums earned for all categories, except for marine, which is calculated at a minimum of 25%. For periods of more than one year, the provision is calculated at 100% of the premium that extends over one year.

j) Reinsurance premium

Ceded reinsurance premiums are accounted for in the same accounting periods as the premiums for the related direct insurance, and are calculated in accordance with reinsurance arrangements in place during the year.

k) Available-for-sale investment

Investments in securities are classified as available for sale. They are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, quoted securities are measured at fair value, with unrealised gains or losses reported as fair value reserve, and shown as part of shareholders' equity until the investment is derecognised. On de-recognition, the cumulative gain or loss previously reported in equity is included in the income statement for the period.

Fair value cannot reliably be measured for unquoted securities. Such investments are measured at cost less provision for impairment, if any. At the time of de-recognition, the provision, if any, relating to the securities is recognised as income.

l) Fair value measurement

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted prices at the close of business on the balance sheet date.

2 Significant accounting policies (cont.)

m) Receivables and payables related to insurance contracts

Receivables and payables are recognized when due. These include amount due to and from Insurance brokers, re-insurers and insurance contract holders.

If there is objective evidence that the insurance receivables impaired, the Company reduces the carrying amount of the insurance receivables accordingly and realizes the impairment loss in the income statement.

n) End of service benefits

Staff terminal benefits

In compliance with UAE Labour Law, the company has gratuity benefits covering all of its non-national employees who have been with the company for more than one year. The provision for staff terminal benefits is based on the liability that would arise if the employment of all the employees was terminated at the balance sheet date.

The UAE Government has introduced Federal Labour Law No. 7 of 1999 for pension and social security. Under this law employers are required to contribute 12.5% of the 'contribution calculation salary' (basic salary plus allowances) of those employees who are UAE nationals. These employees are also required to contribute 5% of the 'contribution calculation salary' to the scheme. The Company's contribution is recognised as an expense in the income statement as incurred. The employees and employers' contribution, to the extent remaining unpaid at the balance sheet date, are shown under provisions.

o) Foreign currency transactions

Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to UAE Dirhams at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

p) Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date or whenever there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment losses are recognised in the income statement.

2 Significant accounting policies (cont.)

q) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease.

r) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits, current accounts and fixed deposits balances with original maturities of less than 3 months and free from lien. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of cash flows.

s) Critical accounting estimates and judgements in applying accounting policy

The company makes estimates and assumption that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. These estimates are continually reviewed and updated, and adjustments resulting from this review are reflected in income statement. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

3 Statutory deposit

	2007 AED'000	2006 AED'000
i) Deposit in US Dollars with a local bank in Dubai, UAE held under a lien in favour of the Ministry of Economy and Planning in accordance with Article 41 of Federal Law No. (9) of 1984 (as amended) relating to insurance companies and brokers. The deposit cannot be withdrawn without prior approval from the Ministry of Economy and Planning.	7,500	7,500
(ii) Restricted fixed deposit in favour of the Ministry of Economy & Commerce, Government of Lebanon, as per law no. 31/91 of Insurance companies held under lien by bank against guarantees issued [deposit in LL 3,273 million (2006: LL 3,273 million)]	7,975	7,975
	<u>15,475</u>	<u>15,475</u>

4 Property and equipment

	Furniture and fixtures AED'000	Motor vehicles AED'000	Land and Buildings AED'000	Total AED'000
Cost				
At 1 January 2007	2,975	352	38,407	41,734
Additions	86	114	-	200
Disposals	(36)	(40)		(76)
Transfer to investment property (note 5)	-	-	(36,208)	(36,208)
At 31 December 2007	<u>3,025</u>	<u>426</u>	<u>2,199</u>	<u>5,650</u>
Depreciation				
At 1 January 2007	2,450	183	5,531	8,164
Charge for the year	278	89	42	409
Disposals	(33)	(40)	-	(73)
Transfer to investment property (note 5)	-	-	(5,111)	(5,111)
At 31 December 2007	<u>2,695</u>	<u>232</u>	<u>462</u>	<u>3,389</u>
Net book value				
At 31 December 2007	<u>329</u>	<u>194</u>	<u>1,737</u>	<u>2,261</u>
At 31 December 2006	<u>525</u>	<u>169</u>	<u>32,876</u>	<u>33,570</u>

4 Property and equipment (cont.)

a) In the opinion of the management, there has been no impairment in the carrying value of property and equipment at the balance sheet date.

b) Building (comprising of a flat in a commercial complex) in Beirut branch is mortgaged to the Ministry of Economics and Commerce, Lebanon (note 1).

5 Investment property

	AED'000
Cost	
At 01.01. 2007	69,512
Transfer from property and equipment (note 4)	36,208
At 31.12.2007	<u>105,720</u>
Depreciation	
At 01.01. 2007	3,203
Transfer from property and equipment (note 4)	5,111
Charge for the year (note 19)	1,829
At 31.12.2007	<u>10,143</u>
Net book value	
At 31.12.2007	<u>95,577</u>
Net book value	
At 31.12.2006	<u>66,309</u>

During the year, the management changes its intention of use of the building from owner occupied to rental property; hence it has been reclassified to investment property.

On December 31, 2007, Asteco, independent professional valuers estimated the open market value of the investment properties at AED 230 million (2006: AED 103 million) as per their valuation report. Hence, there has been no impairment in the carrying value of the property as at the balance sheet date.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

6 Available-for-sale investments

	2007	2006
	AED'000	AED'000
Quoted securities and funds, at cost	346,171	371,705
Cumulative changes in fair value transferred to equity	3,583	(97,380)
	349,754	274,325
Unquoted securities	18,437	18,437
Less: Provision for diminution in value	(7,895)	(7,895)
	10,542	10,542
	360,296	284,867
 Movement in quoted securities and funds:		
Quoted securities and funds at 1 January	371,705	319,206
Purchased during the year	24,862	52,499
Disposed during the year	(50,396)	-
	346,171	371,705

7 Insurance receivables

Due from policy holders	11,856	6,651
Due from insurance companies	2,378	5,272
Due from reinsurance companies	794	1,583
Due from insurance brokers	2,286	2,695
	17,314	16,201
Provision for bad receivables	(3,395)	(3,436)
	13,919	12,765

The average credit period of the Company is 90 days. Insurance receivables outstanding over one year are fully provided and outstanding less than one are provided based on management's estimates.

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8 Other receivables

	2007 AED'000	2006 AED'000
Prepayments	684	300
Accrued interest	300	3523
Other receivables	100	200
	<u>1,084</u>	<u>4,023</u>

9 Related party transactions

The Company, in the normal course of business, collects premiums from and settles claims of other businesses that fall within the definition of related parties as contained in International Financial Reporting Standards. Management believes that the terms of such transactions are not significantly different from those that could have been obtained from third parties.

The following are the details of significant transactions with related parties:

	2007 AED'000	2006 AED'000
Premiums written	47,956	33,289
Claims paid	12,184	6,842
Agency repairs	1,749	1,677
Purchases and rent	495	481

10 Outstanding claim provision

Opening balance	89,502	107,785
Provision for the year	25,351	29,678
Claims paid during the year	(31,426)	(47,961)
	<u>83,427</u>	<u>89,502</u>
Provision for IBNR claims	3,920	4,053
Balance at 31 December	<u>87,347</u>	<u>93,555</u>

This has been explained by way of a detailed note as 'Claims Development' as required by IFRS – 4.

10 Outstanding claim provision (cont.)**Assumptions and sensitivities**

The process used to determine assumptions for assessing claims provisions are reviewed and updated to be consistent with observable market practices and other reliable information to result in most likely expected outcome.

However, considering nature of business it cannot be predicted with certainty the likely outcome and the actual cost of the claim. But each claim is assessed on case to case basis depending upon information available and past trends as also size of similar claims.

An analysis of sensitivity is carried out for various claims which is an indication for establishing the adequacy of the estimation process. The Company believes that the liability for claims reported in the balance sheet is adequate.

Claims development

For all classes of business underwritten by the Company the uncertainty is typically resolved generally within one year except for Motor Insurance where the uncertainty is generally resolved within three years. Claims development over last five years is analysed below:

Underwriting year	2003 and prior	2004	2005	2006	2007	Total
-----AED'000-----						
Estimate of cumulative claims						
At the end of underwriting year	239,260	45,949	95,474	33,733	22,362	-
One year later	192,547	91,378	89,501	39,307	-	-
Two years later	196,609	94,259	90,755	-	-	-
Three years later	196,677	91,300	-	-	-	-
Four years later	195,798	-	-	-	-	-
	=====	=====	=====	=====	=====	=====
Estimate of cumulative claims	195,798	91,300	90,755	39,307	22,362	439,522
Cumulative payments to date	169,389	74,285	68,511	32,215	11,695	356,095
	=====	=====	=====	=====	=====	=====
Provision for outstanding claims	26,409	17,015	22,244	7,092	10,667	83,427
Provision for IBNR claims	-	-	-	-	3,920	3,920
	=====	=====	=====	=====	=====	=====
Gross outstanding claims as on 31.12.2007	26,409	17,015	22,244	7,092	14,587	87,347
Reinsurer's share of claims	18,888	3,934	9,614	4,472	4,911	41,819
	=====	=====	=====	=====	=====	=====
Net outstanding claims as on 31.12.2007	7,521	13,081	12,630	2,620	9,676	45,528
	=====	=====	=====	=====	=====	=====

10 Outstanding claim provision (cont.)

As per IFRS – 4, Claims Development are required to be disclosed in the financial statements as to allow comparison of the developments claim provision with those seen in the previous years.

11 Share capital

The authorised and issued share capital comprises 100,000,000 fully paid-up shares of AED 1 each:

	2007	2007	2006	2006
	No of shares	AED'000	No of shares	AED'000
Balance at 31 December	100,000,000	100,000	100,000,000	100,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

12 Legal reserve

In accordance with the Company's Articles of Association and Articles 192 of the UAE Commercial Companies Law of 1984 (as amended), a minimum of 10% of the Company's annual net profits must be transferred to a non-distributable legal reserve. As per the Company's Articles of Association, such transfers are required until the balance on the legal reserve equals 50% of the Company's paid-up share capital. No transfer to legal reserve has been made during the year as it has reached the minimum of 50% of Company's paid-up share capital.

13 Obligatory reserve

In accordance with the Company's Articles of Association, at least 10% of the Company's annual net profits (before directors' fees) must be transferred to a non-distributable obligatory reserve. Such transfers are required until the balance on this reserve equals 25% of the Company's paid-up share capital, or until the transfer is suspended by resolution of the shareholders. No transfer to obligatory reserve has been made during the year as it has reached the minimum of 25% of Company's paid-up share capital.

14 General reserve

This reserve is established by appropriations from net profits, as proposed by the Board of Directors and is subject to approval by the General Assembly.

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15 End of service benefits

The movement in this account during the year was as follows:

	2007 AED'000	2006 AED'000
Balance at 1 January	921	1,215
Charge for the year	157	198
Transfer from group companies	2	-
Payments during the year	(139)	(492)
Balance at 31 December	<u>941</u>	<u>921</u>

16 Reserve for unearned premiums

Balance at 1 January	11,456	24,980
Added during the year	13,953	11,456
Released during the year	(11,456)	(24,980)
Balance at 31 December	<u>13,953</u>	<u>11,456</u>

17 Insurance and other payables

Payable arising from insurance and reinsurance contracts:

Trade creditors	1,874	2,916
Insurance companies	1,073	1,165
Re-insurance companies	30,637	20,885
Premium reserve withheld	4,032	3,158

Other payables:

Accrued expenses	812	782
Provision for staff benefits	1,136	1,060
Directors' remuneration *	1,553	1,259
Other payables	18,668	16,195
	<u>59,785</u>	<u>47,420</u>

* Directors' remuneration is an appropriation of net profit for the year in accordance with Article 118 of UAE Commercial Companies Law of 1984 (as amended), by The Ministry of Economy and Planning and also as per the Articles of Association of the Company.

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18 Income from investment

	2007 AED'000	2006 AED'000
Dividend income	6,618	6,978
Interest income – net	4,390	5,980
	<u>11,008</u>	<u>12,958</u>

19 Income from investment property

Total rental income *	19,605	8,620
Investment property maintenance expenses	(3,091)	(1,306)
Depreciation property (note – 5)	(1,829)	(872)
	<u>14,685</u>	<u>6,442</u>

20 Other income

Profit on sale of property and equipment	16	113
Others*	2	3,532
	<u>18</u>	<u>3,645</u>

* During the year, on account of change in intention of use of the building from owner occupied to investment property, the rental income of the current year has been included in income from investment property instead of other income (notes 4 & 5).

21 General and administration expenses

Personnel costs	4,411	3,360
Other operational expenses	2,585	3,005
	<u>6,996</u>	<u>6,365</u>

22 Earning per share

Basic

Net profit for the year (AED'000)	36,050	30,180
	<u>100,000</u>	<u>100,000</u>
Weighted average number of shares outstanding (note -11)		
Earning per share (AED)	<u>0.36</u>	<u>0.30</u>

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)**23 Cash and cash equivalents**

	2007	2006
	AED'000	AED'000
Cash in hand and at banks*	52,746	9,190

* Cash at banks includes approximately AED 3.19 Million (2006: AED 2.4 Million) in Lebanese Lira (LL).

24 Segment reporting**a) Primary Segment Information**

	2007	2006
	AED'000	AED'000
Gross premiums written		
Class of business		
Motor, accident and engineering	39,948	30,302
Life & Health	36,557	27,840
Marine	11,454	4,852
Fire	5,839	3,947
	<u>93,798</u>	<u>66,941</u>

b) Secondary segment information

The Company's business is mainly conducted within UAE.

25 Proposed dividend and bonus issue

The Board has proposed cash dividend of 35% i.e. AED 35 million for the year.

During the previous year, the Board had proposed a cash dividend of AED 30 million representing 30% of the paid up capital as at 31 December 2006. This was approved by the Annual General Meeting held on March 19, 2007.

26 Commitments and contingencies

	2007 AED'000	2006 AED'000
a) Guarantees*	7,975	10,528

* Guarantees of AED 7.9 million (2006: AED 7.9 million) issued by banks are secured by way of deposit held.

27 Operating lease obligations

Leases as a lessor

The Company has leased out its investment properties under various operating leases.

Non-cancellable operating lease rentals receivable are:

Due within one year	-	3,640
Due within two to five years	-	740

Leases as a lessee

At the balance sheet date, there were no major outstanding commitments under non-cancellable operating leases.

28 Capital commitments

At the balance sheet date, there were no major capital commitments.

29 Insurance risk management

Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Company assumes the risk of loss from persons or organisations that are directly subject to the risk. Such risks may relate to property, liability, life, accident health, financial or other perils that may arise from an insurable event. The Company also has exposure to market risk through its insurance and investment activities. The Company manages the risk through well laid out procedures and delegation levels for both underwriting and settlement of claims.

The Company has structured policies for acceptance and pricing risks. All experienced and qualified professionals undertake the assessment of risks and pricing, with a conservative and cautious approach. Survey, risk measurement, sensitivity analysis, reinsurance term etc., are followed meticulously before acceptance of risk. Apart from these study of portfolio, probability, market trend, past history are all considered for pricing.

29 Insurance risk management (cont.)

Underwriting strategy

Involves the Company's own risk assessment procedures and is based on balance portfolio. It is set out in terms of industry, type of exposures, limits for each class, and quality of risks with acceptance levels. This is percolated down to the lower levels of the underwriting sections with the authorities specified along with their limits. Risk selection is set out as per risk management.

Managing reinsurance risk

The Company carries reinsurance cover to minimise exposure to potential losses arising from large insurance claims and consequently in the normal course of business enters into arrangements with other parties for reinsurance purposes. Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance arrangements.

These reinsurance are through treaty and facultative reinsurance contracts. The reinsurers are selected based on their standing in the market, rating, relationship experience and length of association.

Reinsurance recoverable are monitored on regular basis and through exchange of statements which are duly reconciled.

Terms and conditions of insurance contracts

Insurance contracts are based on uncertainty. As such the terms and conditions of Insurance contracts varies but are generally based on norms as applied in Insurance Market.

Sensitivity of Underwriting Profits and Losses

The contribution from Insurance operations in the profit of the Company amounts to AED 17.335 million for the year ended December 31, 2007 (2006: AED 13.500 million)

The Company does not foresee any major impact from insurance operations on account of the following

- The overall risk retention level of the Company in the year ended December 31, 2007 is 36% (2006: 40%). The liabilities of the Company are adequately covered by excess of loss reinsurance programs to safeguard against major financial impact.
- The Company's commissions earned from reinsurance placements are consistent and remain a comfortable source of income.
- Because of the low risk retention in 76% volume of business and limited exposure in high retention areas like motor, the Company does not foresee any serious financial impact in the insurance net profits due to changes in the loss ratios.

30 Financial instruments

The financial assets of the Company include cash at bank and in hand, insurance receivables, other receivables, due from related parties and investments. Financial liabilities include insurance payables, other payable and due to related parties. Accounting policies for each class of financial assets and liabilities are set out in note 2.

Capital Management

The Company's objective when managing capital risks are:

- 1) To comply with the Insurance Capital Requirements required by the UAE Federal Law No. 9 of 1984 as amended concerning Insurance Companies and Agents. The minimum regulatory capital for Insurance Companies which must be maintained at all times throughout the year as per UAE Law is AED 50,000,000/-
- 2) To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to the shareholders.
- 3) To provide an adequate rate of return to shareholders by pricing products and services commensurately with the level of risk.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholders or issue new shares.

There were no changes made in the objectives, policies or processes during the years 31st December 2007 and 31st December 2006.

The table below summarises the minimum regulatory capital of the Company and the actual equity held by the Company at the end of the year:

	2007	2006
	AED'000	AED'000
Total equity held	435,519	330,084
Minimum Regulatory Capital	50,000	50,000

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

30 Financial instruments (Contd.)

Categories of financial instruments

Year- 2007

Assets	Loans and Receivables	Available for sale Investments	Insurance Contracts (IFRS-4)	Non- Financial instruments	Total AED'000
Statutory deposits	15,475	-	-	-	15,475
Property and equipment	-	-	-	2,261	2,261
Investment property	-	-	-	95,577	95,577
Available-for-sale investments	-	360,296	-	-	360,296
Insurance receivables	13,919	-	-	-	13,919
Other receivables	400	-	-	684	1,084
Due from related parties	14,596	-	-	-	14,596
Re-insurer's share of outstanding claims	-	-	41,819	-	41,819
Cash in hand and at banks including deposits	52,746	-	-	-	52,746
Total assets	97,136	360,296	41,819	98,522	597,773

30 Financial instruments (Contd.)**Year -2007**

Liabilities	At cost	Insurance Contracts (IFRS-4)	Total AED'000
End of service benefits	941	-	941
Outstanding claims provision	-	87,347	87,347
Unearned premium reserves	-	13,953	13,953
Insurance and other payables	59,785	-	59,785
Due to related parties	228	-	228
Total liabilities	60,954	101,300	162,254

The main risks arising from the Company's financial instruments are credit risk, interest rate risk, liquidity risk, foreign exchange risk and market risk. The broad review and agreed policies for management of these risks are summarized below:

Credit risk

Credit risk is the risk that one party to a contract underlying a financial instrument will fail to discharge its obligations causing the other party to incur a financial loss.

All of the Company's underwriting activities are carried out in the United Arab Emirates. Cash is placed with a group of banks with good credit ratings. Credit risk on account receivables is spread, as they are due from a large number of customers. Credit risk with respect to 'due from insurer's and due from brokers is diversified due to the dispersion of amounts recoverable over a large number of insurers.

Credit risk with respect to reinsurers is mitigated by placement only with those Companies having an acceptable rating.

Credit risk is limited to the carrying values of financial assets in the balance sheet.

Interest rate risk

The Company has interest bearing deposit in commercial banks. The interest rate is floating in nature. However, the Company does not foresee any material impacts due to interest rate fluctuations in the foreseeable future.

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30 Financial instruments (cont.)

Liquidity risk

Liquidity risk is the risk that the Company faces in meeting its present and future financial obligations in a timely manner. Solvency risk refers to the excess of assets over liabilities, and hence, to the adequacy of the Company's capital. The Company is required to maintain an adequate level of liquidity by the regulatory requirements currently in force in the UAE.

Liquidity requirements are monitored by the management to ensure sufficient funds are available to meet commitments as they arise. The table below summarized the contractual maturity of various financial instruments:

Year -2007

	Less than 30 days	30-90 days	90-180 days	After 180 days	Total AED'000
Statutory deposits	-	-	-	15,475	15,475
Available-for-sale investments	-	-	-	360,296	360,296
Insurance receivables	2,880	11,039	-	-	13,919
Other receivables	400	-	-	-	400
Due from related parties	5,941	8,655	-	-	14,596
Cash in hand and at banks including deposits:					
Interest bearing	26,240	21,132	3,148	-	50,520
Non-interest bearing	2,226	-	-	-	2,226
	<u>37,687</u>	<u>40,826</u>	<u>3,148</u>	<u>375,771</u>	<u>457,432</u>
Liabilities					
End of service benefits	-	-	-	941	941
Insurance and other payables	14,736	28,745	-	16,304	59,785
Due to related parties	228	-	-	-	228
	<u>14,964</u>	<u>28,745</u>	<u>-</u>	<u>17,245</u>	<u>60,954</u>

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

30 Financial instruments (cont.)

Year -2006

	Less than 30 days	30-90 days	90-180 days	After 180 days	Total AED'000
Statutory deposits	-	-	-	15,475	15,475
Available-for-sale investments	-	-	-	284,867	284,867
Insurance receivables	5,107	7,658	-	-	12,765
Other receivables	4,023	-	-	-	4,023
Due from related parties	4,304	4,832	-	-	9,136
Cash in hand and at banks including deposits:					
Interest bearing	5,020	-	2,325	-	7,345
Non-interest bearing	1,845	-	-	-	1,845
	<u>20,299</u>	<u>12,490</u>	<u>2,325</u>	<u>300,342</u>	<u>335,456</u>
Liabilities					
End of service benefits	-	-	-	921	921
Insurance and other payables	9,407	24,468	-	13,545	47,420
	<u>9,407</u>	<u>24,468</u>	<u>-</u>	<u>14,466</u>	<u>48,341</u>

Exchange risk

A major portion of the Company's liabilities and assets are denominated in UAE Dirhams or US Dollars, barring Beirut Branch which is in Lebanese Lira. However since US Dollar is effectively pegged to AED, there is minimal risk. Moreover assets and liabilities in Beirut branch are not considered to be significant to adversely result in significant exchange loss.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

30 Financial instruments (cont.)

Market risk (cont.)

The Company is exposed to market risk with respect to its investments in quoted shares.

The Company limits market risks by maintaining a diversified portfolio and by continuous monitoring of developments in stock markets. In addition, the company actively monitors the key factors that affect stock movements, including analysis of the operational and financial performance of investee.

All the Company's investments are within the United Arab Emirates.

Sensitivity of Equity Prices

At the balance sheet date, if the equity prices are 10% higher/lower as per the assumptions mentioned below and all other variables were held constant

- The Company's Statement of Equity would have increased/decreased by AED 34.975 Million (2006: AED 22.393 Million)

Method and assumptions for sensitivity analysis

- The sensitivity analysis is done based on the exposure to equity price risk as at the balance sheet date.
- As at the balance sheet date if the equity prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on equity has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

Fair value

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between the book values under the historical cost method except for available-for-sale investments and fair value estimates. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

Available-for-sale investments are quoted and carried at fair value as at 31 December 2007 based on the year end market quotes and the resultant increase in the fair value taken as 'Cumulative changes in reserve on available for sale investments' as part of shareholders' equity.

The fair values of all classes of the Company's financial assets and financial liabilities are not materially different from their carrying values in the balance sheet.