

Oman Insurance Company

(Public Shareholding Company)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006

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

Report on the Financial Statements

We have audited the accompanying financial statements of Oman Insurance Company (PSC) and its subsidiary, which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of Oman Insurance Company (PSC), the UAE Commercial Companies Law of 1984 (as amended) and the UAE Federal Law No. (9) of 1984 (as amended). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

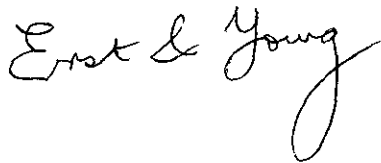
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiary as of 31 December 2006 and their financial performance and their 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. (9) of 1984 (as amended) and the articles of association of Oman Insurance Company (PSC); proper books of account have been kept by Oman 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. (9) of 1984 (as amended), or of the articles of association of Oman Insurance Company (PSC) have occurred during the year which would have had a material effect on the business of Oman Insurance Company (PSC) or on its financial position.

A handwritten signature in cursive script that reads 'Ernst & Young'.

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

17 January 2007
Dubai

Oman Insurance Company (PSC)

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 AED'000	2005 AED'000
UNDERWRITING INCOME			
Insurance contracts premium receivable		1,045,499	800,490
Movement in provision for unearned premiums		(85,707)	(95,584)
Insurance premium revenue	3	959,792	704,906
Less: Reinsurers' share of premium			
Insurance contracts premium receivable		477,951	412,500
Movement in provision for unearned premiums		(19,188)	(48,223)
	3	458,763	364,277
Net insurance premium revenue		501,029	340,629
Commission income		85,568	63,226
Other income		6,789	28,686
		593,386	432,541
UNDERWRITING EXPENSES			
Claims	4	540,985	354,562
Reinsurers' share of claims	4	(288,327)	(159,008)
Commission expenses		100,432	68,411
Excess of loss reinsurance premiums		15,714	6,678
Policies surrendered and maturities paid		1,690	528
General and administration expenses relating to underwriting activities		64,247	45,608
		434,741	316,779
UNDERWRITING PROFIT BEFORE MOVEMENTS IN LIFE ASSURANCE FUND		158,645	115,762
INCREASE IN LIFE ASSURANCE FUND	19	(10,532)	(3,988)
NET UNDERWRITING INCOME		148,113	111,774
INVESTMENT INCOME			
Net realised gains on available for sale investments		101,138	378,874
Net (loss) gain on trading securities		(88,629)	248,208
Unrealised gain on investment properties		64,155	39,713
Gain on sale of investment property		-	2,220
Dividends		42,418	19,745
Interest income		7,666	4,139
Rental income		-	2,669
Investment expenses – finance costs		(59,398)	(38,881)
		67,350	656,687
OTHER INCOME AND EXPENSES			
General and administration expenses not allocated		(4,539)	(10,111)
Interest expense		(9,594)	(2,883)
Other income		1,421	
		(12,712)	(12,994)
PROFIT FOR THE YEAR	6	202,751	755,467
Basic and diluted earnings per share (AED)	7	0.80	3.09

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

Oman Insurance Company (PSC)

CONSOLIDATED BALANCE SHEET

At 31 December 2006

		2006	2005 (Restated)
	Notes	AED'000	AED'000
ASSETS			
Cash and investments:			
Bank balances and cash	8	31,142	10,829
Deposits with banks	9	138,586	92,537
Investments	10	2,318,185	2,772,446
Advance for purchase of investment properties		-	28,374
		<u>2,487,913</u>	<u>2,904,186</u>
Premiums and insurance balances receivable	11	332,276	186,802
Reinsurers' share of unearned premiums	3	168,111	148,923
Reinsurers' share of outstanding claims	20	284,566	172,265
Life assurance policy loans		691	1,188
Office equipments and vehicles	12	4,172	3,754
Other assets	13	21,167	27,571
		<u>810,983</u>	<u>540,503</u>
TOTAL ASSETS		<u>3,298,896</u>	<u>3,444,689</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	243,750	97,500
Statutory reserve	15	69,025	48,750
General reserve	16	414,154	363,466
Retained earnings		212,286	220,928
Proposed dividends	17	121,875	243,750
Cumulative changes in fair values of securities		109,121	1,079,819
Strategic reserve	18	253,750	243,750
Total equity		<u>1,423,961</u>	<u>2,297,963</u>
Liabilities			
Liabilities arising from insurance contracts:			
Unearned premium	3	381,534	295,827
Additional reserve and life assurance fund	19	57,360	33,828
Outstanding claims	20	387,723	251,981
		<u>826,617</u>	<u>581,636</u>
Reinsurance balances payable		97,750	64,917
Amounts held under reinsurance treaties		85,819	67,086
Other payables and accruals	21	205,337	135,563
Amounts payable for purchase of investment property		38,064	-
Short term loans	22	438,550	-
Bank overdrafts	8	182,798	297,524
Total liabilities		<u>1,874,935</u>	<u>1,146,726</u>
TOTAL EQUITY AND LIABILITIES		<u>3,298,896</u>	<u>3,444,689</u>

The consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 17 JANUARY 2007.

H.E. Mattar Humaid Al Tayer
Chairman

Buth Saeed Al Ghandi
Vice Chairman

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

Oman Insurance Company (PSC)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 AED'000	2005 AED'000
OPERATING ACTIVITIES			
Profit for the year		202,751	755,467
Adjustments for:			
Depreciation	12	1,929	1,858
Unrealised gains on investment properties		(64,155)	(39,713)
Gain on sale of available for sale securities		(101,138)	(378,874)
Gain on sale of investment properties		-	(2,220)
Gain on sale of office equipments and vehicles		(25)	-
Reinsurers' share of unearned premiums		(19,188)	(48,223)
Movement in unearned premiums		85,707	95,584
Profit before changes in operating assets and liabilities		105,881	383,879
Trading securities		226,008	(209,452)
Premiums, insurance and reinsurance balances receivable		(145,474)	(35,566)
Reinsurers' share of outstanding claims		(112,301)	16,573
Life assurance policy loans		497	(103)
Other assets		6,404	(16,626)
Life assurance fund, outstanding claims and additional reserve		159,274	7,371
Reinsurance balances payable		32,833	2,540
Amounts held under reinsurance treaties		18,733	26,750
Other payables and accruals		69,774	44,588
Net cash from operating activities		361,629	219,954
INVESTING ACTIVITIES			
Purchase of office equipments and vehicles	12	(2,368)	(1,900)
Proceeds from sale of office equipments and vehicles		46	137
Deposits with bank		18,741	940
Available-for-sale securities		(474,631)	(436,699)
Proceeds from sale of investments properties		-	51,220
Purchase of investment properties		(74,147)	(59,523)
Advance for purchase of investments properties		-	(28,374)
Net cash used in investing activities		(532,359)	(474,199)
FINANCING ACTIVITIES			
Amounts payable for purchase of investment property		38,064	-
Dividend paid		(97,500)	(32,500)
Directors' fees		(7,555)	(2,400)
Zakat		(1,000)	(5,000)
Short term loans		438,550	-
Net cash from (used in) financing activities		370,559	(39,900)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		199,829	(294,145)
Cash and cash equivalents at 1 January		(214,677)	79,468
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	8	(14,848)	(214,677)

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

Oman Insurance Company (PSC)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Note	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Retained earnings AED'000	Proposed dividends AED'000	Cumulative changes in fair values AED'000	Special reserve AED'000	Strategic reserve AED'000	Total AED'000
Balance at 1 January 2005		65,000	32,500	175,199	74,191	65,000	592,855	90,687	-	1,095,432
Net movement in cumulative changes in fair values		-	-	-	-	-	486,964	-	-	486,964
Total income recognised directly in equity		-	-	-	-	-	486,964	-	-	486,964
Profit for the year		-	-	-	755,467	-	-	-	-	755,467
Total income for the year		-	-	-	755,467	-	486,964	-	-	1,242,431
Transfer to statutory reserve	15	-	16,250	-	(16,250)	-	-	-	-	-
Directors' fees	25	-	-	-	(2,400)	-	-	-	-	(2,400)
Zakat		-	-	-	(5,000)	-	-	-	-	(5,000)
Transfer to general reserve	16	-	-	188,267	(188,267)	-	-	-	-	-
Cash dividend paid		-	-	-	-	(32,500)	-	-	-	(32,500)
Scrip dividend		32,500	-	-	-	(32,500)	-	-	-	-
Proposed cash dividend	17	-	-	-	(97,500)	97,500	-	-	-	-
Proposed scrip dividend	17	-	-	-	(146,250)	146,250	-	-	-	-
Transfer from special reserve		-	-	-	90,687	-	-	(90,687)	-	-
Transfer to strategic reserve	18	-	-	-	(243,750)	-	-	-	243,750	-
Balance at 31 December 2005		97,500	48,750	363,466	220,928	243,750	1,079,819	-	243,750	2,297,963
		(Note 14)	(Note 15)	(Note 16)		(Note 17)			(Note 18)	

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

Oman Insurance Company (PSC)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – (CONTINUED)

Year ended 31 December 2006

	<i>Note</i>	<i>Share capital AED'000</i>	<i>Statutory reserve AED'000</i>	<i>General reserve AED'000</i>	<i>Retained earnings AED'000</i>	<i>Proposed dividends AED'000</i>	<i>Cumulative changes in fair values AED'000</i>	<i>Strategic reserve AED'000</i>	<i>Total AED'000</i>
Balance at 1 January 2006		97,500	48,750	363,466	220,928	243,750	1,079,819	243,750	2,297,963
Net movement in cumulative changes in fair values		-	-	-	-	-	(970,698)	-	(970,698)
Total income recognised directly in equity		-	-	-	-	-	(970,698)	-	(970,698)
Profit for the year		-	-	-	202,751	-	-	-	202,751
Total income for the year		-	-	-	202,751	-	(970,698)	-	(767,947)
Transfer to statutory reserve	15	-	20,275	-	(20,275)	-	-	-	-
Directors' fees	25	-	-	-	(7,555)	-	-	-	(7,555)
Zakat		-	-	-	(1,000)	-	-	-	(1,000)
Transfer to general reserve	16	-	-	50,688	(50,688)	-	-	-	-
Cash dividend paid		-	-	-	-	(97,500)	-	-	(97,500)
Scrip dividend		146,250	-	-	-	(146,250)	-	-	-
Proposed cash dividend	17	-	-	-	(121,875)	121,875	-	-	-
Transfer to strategic reserve	18	-	-	-	(10,000)	-	-	10,000	-
Balance at 31 December 2006		243,750	69,025	414,154	212,286	121,875	109,121	253,750	1,423,961
		(Note 14)	(Note 15)	(Note 16)		(Note 17)		(Note 18)	

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

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2006

1 ACTIVITIES

Oman Insurance Company (PSC) which was established by an Amiri Decree issued by His Highness The Ruler of Dubai, is a public shareholding company and is registered under Federal Law No. 8 of 1984 (as amended) relating to commercial companies in the UAE. The company is a subsidiary of MashreqBank (PSC) incorporated in the Emirate of Dubai. Its registered head office is at P O Box 5209, Dubai, United Arab Emirates.

The company mainly issues short term insurance contracts in connection with property, motor and marine risks (collectively known as general insurance) and medical, group life and personal accident risks (included within life assurance). The company has a small portfolio of life assurance contracts. The company also invests its funds in investment securities and properties.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

The consolidated financial statements have been presented in UAE Dirhams and all values are rounded to the nearest thousand (AED 000) except when otherwise indicated.

Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of investments in properties and quoted securities.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiary as at 31 December. The financial statements of the subsidiary are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases.

The extent of shareholding in, and the principal activities of the subsidiary company are as follows:

<i>Subsidiary company</i>	<i>Country of incorporation</i>	<i>Percentage shareholding</i>	<i>Principal activities</i>
Equator Trading Enterprises LLC	U.A.E.	100%	The subsidiary was formed on 25 December 2005 with a paid up capital of AED 3,000,000 as a holding company for overseas investments of Oman Insurance Company (PSC). The subsidiary has not commenced operations.

Changes in accounting policies

The accounting policies are consistent with those used in the previous year.

2 SIGNIFICANT ACCOUNTING POLICIES – continued

IASB Standards and interpretation issued but not yet effective

IFRS 7 Financial Instruments: Disclosures

The application of IFRS 7, which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to financial instruments and associated risks.

IAS 1 Presentation of financial statements (amended)

The application of IAS 1 (amended), which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to the Company's objectives, policies and procedures for managing capital.

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.

Premiums on life assurance policies are accounted for on the date of writing of policies and on subsequent due dates.

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.

Reinsurance

In order to minimise financial exposure from large claims the company enters into agreements with other parties for reinsurance purposes. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. These amounts are shown as "reinsurers' share of outstanding claims" in the balance sheet until the claim is paid by the company. Once the claim is paid the amount due from the reinsurer in connection with the paid claim is transferred to "Premiums and insurance balances receivable".

Premiums on reinsurance assumed which are primarily facultative contracts are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business.

At each reporting date, the company assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the company marks a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

2 SIGNIFICANT ACCOUNTING POLICIES – continued

Commissions earned

Commissions earned are recognised at the time policies are written.

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.
- (iii) Rental income from letting out of properties is apportioned to income on a time-proportion basis.

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 net retained premiums of each department. Other administration expenses are charged to the income statement.

Cash and cash equivalents

Cash and cash equivalents consist of bank balances and cash and short term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Investments in properties

Investments in properties are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments in properties are remeasured at fair value with unrealised gains or losses reported in the income statement. Fair value is determined by open market values based on valuations performed by independent surveyors and consultant or broker's quotes.

Securities

All investment securities are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Trading securities

After initial recognition, all trading securities are remeasured at fair value. All related realised and unrealised gains or losses are recognised in the income statement.

Available for sale securities

After initial recognition, securities which are classified as "available-for-sale" are remeasured at fair value. Unrealised gains or losses are reported as a separate component of equity until the security is derecognised or until the security is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in equity is included in the income statement for the period.

In the case of unquoted investments in shares where fair value cannot reliably be measured, such investments are carried at cost less provision for impairment.

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.

Office equipments and vehicles

Office equipments and vehicles are initially recorded at cost less accumulated depreciation and any impairment in value.

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

Furniture and equipment	over 3 to 5 years
Motor vehicles	over 5 years

The carrying values of office equipments and vehicles are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

2 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 financial asset or group of financial assets may be impaired. If such evidence exists, any impairment losses are recognised in the income statement.

Impairment is determined as follows:

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

Derecognition of financial instruments

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

Premiums and insurance balances receivable

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

Insurance and life assurance funds

(i) Unearned premium reserve

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

(ii) Additional reserve

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

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

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

(iii) Life assurance fund

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

Payables and accruals

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 an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

2 SIGNIFICANT ACCOUNTING POLICIES – continued

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.

Fair value

For investments traded in organised markets, fair value is determined by reference to Stock Exchange quoted market bid prices. Fair value of investments in unquoted mutual funds is determined by reference to the latest published net assets value at which these are traded. Fair value of structured notes is based on the expected discounted cashflows.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Leases

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

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.

Classification of investments as fair value through income statement depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through income statement.

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.

2 SIGNIFICANT ACCOUNTING POLICIES – continued

Judgements - continued

Additional reserve

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

Life assurance fund

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

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.

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.

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3 NET INSURANCE PREMIUM REVENUE

Year 2006	<i>General Insurance</i>			<i>Life Assurance</i>			<i>Total</i>		
	<i>Gross</i>	<i>Reinsurer's</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurer's</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurer's</i>	<i>Net</i>
	<i>AED 000</i>	<i>share</i>	<i>AED 000</i>	<i>AED 000</i>	<i>share</i>	<i>AED 000</i>	<i>AED 000</i>	<i>share</i>	<i>AED 000</i>
Insurance contracts premium receivable	862,192	(401,237)	460,955	183,307	(76,714)	106,593	1,045,499	(477,951)	567,548
Movement in provision for unearned premiums	(73,173)	22,006	(51,167)	(12,534)	(2,818)	(15,352)	(85,707)	19,188	(66,519)
Insurance premium revenue	<u>789,019</u>	<u>(379,231)</u>	<u>409,788</u>	<u>170,773</u>	<u>(79,532)</u>	<u>91,241</u>	<u>959,792</u>	<u>(458,763)</u>	<u>501,029</u>
Unearned premium as of 31 December	<u>329,467</u>	<u>(148,867)</u>	<u>180,600</u>	<u>52,067</u>	<u>(19,244)</u>	<u>32,823</u>	<u>381,534</u>	<u>(168,111)</u>	<u>213,423</u>

Year 2005	<i>General Insurance</i>			<i>Life Assurance</i>			<i>Total</i>		
	<i>Gross</i>	<i>Reinsurer's</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurer's</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurer's</i>	<i>Net</i>
	<i>AED 000</i>	<i>share</i>	<i>AED 000</i>	<i>AED 000</i>	<i>share</i>	<i>AED 000</i>	<i>AED 000</i>	<i>share</i>	<i>AED 000</i>
Insurance contracts premium receivable	669,186	(342,291)	326,895	131,304	(70,209)	61,095	800,490	(412,500)	387,990
Movement in provision for unearned premiums	(84,526)	43,125	(41,401)	(11,058)	5,098	(5,960)	(95,584)	48,223	(47,361)
Insurance premium revenue	<u>584,660</u>	<u>(299,166)</u>	<u>285,494</u>	<u>120,246</u>	<u>(65,111)</u>	<u>55,135</u>	<u>704,906</u>	<u>(364,277)</u>	<u>340,629</u>
Unearned premium as of 31 December	<u>256,294</u>	<u>(126,861)</u>	<u>129,433</u>	<u>39,533</u>	<u>(22,062)</u>	<u>17,471</u>	<u>295,827</u>	<u>(148,923)</u>	<u>146,904</u>

Insurance contracts premium receivable includes AED 36,205 thousand (2005: AED 22,520 thousand) of reinsurance premium accepted.

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4 CLAIMS

Year 2006	<i>General Insurance</i>			<i>Life Assurance</i>			<i>Total</i>		
	<i>Gross</i>	<i>Reinsurer's</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurer's</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurer's</i>	<i>Net</i>
	<i>AED 000</i>	<i>share</i>	<i>AED 000</i>	<i>AED 000</i>	<i>share</i>	<i>AED 000</i>	<i>AED 000</i>	<i>share</i>	<i>AED 000</i>
Claims paid	280,086	(104,007)	176,079	112,157	(72,019)	40,138	392,243	(176,026)	216,217
Changes in provision for outstanding claims	133,487	(112,110)	21,377	2,255	(191)	2,064	135,742	(112,301)	23,441
Movement in additional reserves (note 19)	10,000	-	10,000	3,000	-	3,000	13,000	-	13,000
	<u>423,573</u>	<u>(216,117)</u>	<u>207,456</u>	<u>117,412</u>	<u>(72,210)</u>	<u>45,202</u>	<u>540,985</u>	<u>(288,327)</u>	<u>252,658</u>
Year 2005	<i>General Insurance</i>			<i>Life Assurance</i>			<i>Total</i>		
	<i>Gross</i>	<i>Reinsurer's</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurer's</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurer's</i>	<i>Net</i>
	<i>AED 000</i>	<i>share</i>	<i>AED 000</i>	<i>AED 000</i>	<i>share</i>	<i>AED 000</i>	<i>AED 000</i>	<i>share</i>	<i>AED 000</i>
Claims paid	266,716	(121,004)	145,712	84,463	(54,577)	29,886	351,179	(175,581)	175,598
Changes in provision for outstanding claims	1,434	17,759	19,193	1,949	(1,186)	763	3,383	16,573	19,956
	<u>268,150</u>	<u>(103,245)</u>	<u>164,905</u>	<u>86,412</u>	<u>(55,763)</u>	<u>30,649</u>	<u>354,562</u>	<u>(159,008)</u>	<u>195,554</u>

For details of the movement in the provision for outstanding claims and the related reinsurers' share, refer note 20.

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5 SEGMENTAL INFORMATION

Primary segment information

For management purposes the company is organised into three business segments, general insurance, life assurance and investment. The general insurance segment comprises motor, marine, fire, engineering and general accident. The life assurance segment includes life, medical, group life and personal accident. Investment comprises investment, deposits with banks 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:

	<i>General insurance</i>		<i>Life assurance</i>		<i>Total</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
UNDERWRITING INCOME						
Insurance premium revenue	789,019	584,660	170,773	120,246	959,792	704,906
Insurance premium ceded to reinsurers	(379,231)	(299,166)	(79,532)	(65,111)	(458,763)	(364,277)
Net insurance premiums revenue	409,788	285,494	91,241	55,135	501,029	340,629
Commission income	85,568	63,099	-	127	85,568	63,226
Other income	2,613	26,295	4,176	2,391	6,789	28,686
TOTAL INCOME	497,969	374,888	95,417	57,653	593,386	432,541
UNDERWRITING EXPENSES						
Claims	423,573	268,150	117,412	86,412	540,985	354,562
Reinsurers' share of claims	(216,117)	(103,245)	(72,210)	(55,763)	(288,327)	(159,008)
Net claims incurred	207,456	164,905	45,202	30,649	252,658	195,554
Commission expenses	91,856	62,346	8,576	6,065	100,432	68,411
Policies surrendered and maturities paid	-	-	1,690	528	1,690	528
General and administration	50,085	35,338	14,162	10,270	64,247	45,608
Insurer's share of excess of loss premium	15,714	6,678	-	-	15,714	6,678
TOTAL EXPENSES	365,111	269,267	69,630	47,512	434,741	316,779
PROFIT BEFORE MOVEMENTS IN LIFE ASSURANCE FUND	132,858	105,621	25,787	10,141	158,645	115,762
INCREASE IN LIFE ASSURANCE FUND (Note 19)	-	-	(10,532)	(3,988)	(10,532)	(3,988)
NET UNDERWRITING INCOME	132,858	105,621	15,255	6,153	148,113	111,774
Investment						
TOTAL INVESTMENT INCOME					67,350	656,687
Unallocated other income and expenses					(12,712)	(12,994)
PROFIT FOR THE YEAR					202,751	755,467

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2006

5 SEGMENTAL INFORMATION – continued

OTHER INFORMATION

	<i>General insurance</i>		<i>Life assurance</i>		<i>Investment</i>		<i>Total</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Segment assets	731,169	495,954	110,956	55,378	2,456,771	2,893,357	3,298,896	3,444,689
Segment liabilities	1,092,788	743,441	160,799	105,761	621,348	297,524	1,874,935	1,146,726
Capital expenditure	2,201	1,619	167	281	-	-	2,368	1,900
Depreciation	971	850	958	1,008	-	-	1,929	1,858

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 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	<i>2006</i>	<i>2005</i>
	<i>AED'000</i>	<i>AED'000</i>
Staff costs	49,107	34,707
Rental costs – Operating leases	3,927	2,554

7 BASIC AND DILUTED EARNINGS PER SHARE

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

	<i>2006</i>	<i>2005</i>
	<i>AED'000</i>	<i>AED'000</i>
Net profit for the year, net of directors' fees	195,196	753,067
Weighted average number of shares outstanding during the year	243,750,000	243,750,000
Earnings per share (AED)	0.80	3.09

The basic earnings per share as reported for 2005 has been adjusted for the effect of bonus shares issued during the year (Note 14).

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

Oman Insurance Company (PSC)

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At 31 December 2006

8 CASH AND CASH EQUIVALENTS

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

	2006 AED'000	2005 AED'000
Deposits with banks maturing within three months	136,808	72,018
Bank balances and cash	31,142	10,829
Bank overdrafts	(182,798)	(297,524)
	<u>(14,848)</u>	<u>(214,677)</u>

9 DEPOSITS WITH BANKS

	2006 AED'000	2005 AED'000
Deposits with banks include the following:-		
a) 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	7,500	7,500
b) amounts held under lien in respect of guarantees and overdraft facilities	46,015	14,148
c) amounts held under lien for trade licences	1,400	1,400
d) Other deposits	83,671	69,489
	<u>138,586</u>	<u>92,537</u>

10 INVESTMENTS

	2006 AED'000	2005 AED'000
a) Properties		
Freehold land	222,991	167,426
25% interest in freehold land owned under joint ownership	31,801	25,296
50% interest in freehold land owned under joint ownership	104,606	-
	<u>359,398</u>	<u>192,722</u>
b) Available-for-sale securities		
Shares and mutual funds – quoted	1,512,968	1,959,209
Mutual funds – unquoted (open-ended)	8,364	38,764
Shares – unquoted (net of provision for impairment)	179,230	113,451
Structured notes - unquoted	108,737	92,804
	<u>1,809,299</u>	<u>2,204,228</u>
c) Trading securities		
Shares – quoted	149,488	375,496
	<u>2,318,185</u>	<u>2,772,446</u>

Oman Insurance Company (PSC)

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10 INVESTMENTS - continued

The movements in provision for impairment in unquoted available for sale securities were as follows:

	<i>2006</i> <i>AED'000</i>	<i>2005</i> <i>AED'000</i>
At 1 January	2,548	2,548
Written off during the year	(1,715)	-
At 31 December	<u>833</u>	<u>2,548</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.

Maturity dates for structured notes range between 3 to 10 years. However, the issuers of the notes have options to call back the notes on earlier dates. The principal amounts are guaranteed on maturity or on exercise of the options. The returns on these notes are based mainly on movements in USD LIBOR or share prices of a basket of shares.

Quoted shares with carrying value of AED 131,032,000 at 31 December 2006 (2005: AED 206,587,000) were registered in the name of certain shareholders / directors of the company and third parties who have confirmed that they are holding those shares in trust on behalf of the company.

Certain structured notes, quoted shares and freehold land with carrying value of AED 973,060,000 at 31 December 2006 (2005: AED 293,108,000) are held under lien in respect of guarantees and overdraft facilities.

11 PREMIUMS AND INSURANCE BALANCES RECEIVABLE

	<i>2006</i> <i>AED'000</i>	<i>2005</i> <i>AED'000</i>
Premiums and insurance companies' balances receivable	311,186	181,170
Due from re-insurance companies	21,090	5,632
	<u>332,276</u>	<u>186,802</u>

12 OFFICE EQUIPMENTS AND VEHICLES

	<i>Furniture and equipment AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Capital work in progress AED'000</i>	<i>Total AED'000</i>
Cost:				
At 1 January 2006	19,736	294	235	20,265
Additions	1,490	77	801	2,368
Disposals	(26)	(57)	-	(83)
At 31 December 2006	<u>21,200</u>	<u>314</u>	<u>1,036</u>	<u>22,550</u>
Depreciation:				
At 1 January 2006	16,385	126	-	16,511
Provided during the year	1,903	26	-	1,929
Disposals	(5)	(57)	-	(62)
At 31 December 2006	<u>18,283</u>	<u>95</u>	<u>-</u>	<u>18,378</u>
Net carrying amount:				
At 31 December 2006	<u>2,917</u>	<u>219</u>	<u>1,036</u>	<u>4,172</u>
At 31 December 2005	<u>3,351</u>	<u>168</u>	<u>235</u>	<u>3,754</u>

Oman Insurance Company (PSC)

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13 OTHER ASSETS

	<i>2006</i> <i>AED'000</i>	<i>2005</i> <i>AED'000</i>
Accrued income	3,683	3,821
Prepayments	11,464	10,721
Staff debtors and advances	2,656	2,183
Other receivables	3,364	10,846
	<u>21,167</u>	<u>27,571</u>

14 SHARE CAPITAL

	<i>2006</i> <i>AED'000</i>	<i>2005</i> <i>AED'000</i>
Issued and fully paid 243,750,000 shares of AED 1 each (2005: – 97,500,000 shares of AED 1 each)	<u>243,750</u>	<u>97,500</u>

At the extraordinary general meeting held on 23 January 1999, the shareholders of the company authorised the Board of Directors to change the name of the company. The Board of Directors has agreed not to implement this change until a suitable new name for the company has been identified.

At the annual general meeting held on 12 February 2006, the shareholders approved the scrip dividend of fifteen shares for every ten shares held. Accordingly, the number of shares increased to 243,750,000. Legal formalities for registration of the scrip dividend were completed during the year.

15 STATUTORY RESERVE

In accordance with the Commercial Companies Law and the Company's Articles of Association, 10% of the profit for the year has been transferred to statutory reserve. The reserve is not available for distribution except in the circumstances stipulated by the law.

16 GENERAL RESERVE

Annual transfers to the general reserve are made at the rate of 25% of the net profit less directors' fees for the year. The reserve is freely available for distribution.

17 PROPOSED DIVIDENDS

	<i>2006</i> <i>AED'000</i>	<i>2005</i> <i>AED'000</i>
Declared and paid:		
Cash dividend for 2005 of AED 1 per share of AED 1 each (2004: AED 5 per share of AED 10 each)	<u>97,500</u>	<u>32,500</u>
Proposed for approval at Annual General Meeting:		
Scrip dividend of AED nil per share of AED 1 each (2005: AED 1.5 per share of AED 1 each (in the proportion of fifteen shares for ten shares held)	-	146,250
Cash dividend of AED 0.50 per share of AED 1 each (2005: AED 1 per share of AED 1 each)	<u>121,875</u>	<u>97,500</u>
	<u>121,875</u>	<u>243,750</u>

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At 31 December 2006

18 STRATEGIC RESERVE

The strategic reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the company at an ordinary general meeting, on the recommendation of the Board of Directors.

19 ADDITIONAL RESERVE AND LIFE ASSURANCE FUND

	<i>Additional reserve</i>		<i>Life Assurance Fund</i>	<i>Total</i>
	<i>Medical AED'000</i>	<i>General AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
1 January 2005	2,000	17,750	10,090	29,840
Increase	-	-	3,988	3,988
31 December 2005	2,000	17,750	14,078	33,828
Increase	3,000	10,000	10,532	23,532
31 December 2006	5,000	27,750	24,610	57,360

20 OUTSTANDING CLAIMS

	<i>General AED'000</i>	<i>Life AED'000</i>	<i>Total AED'000</i>
At 1 January 2005:			
Outstanding claims	240,146	7,392	247,538
Due from reinsurers	(182,714)	(5,064)	(187,778)
	57,432	2,328	59,760
Net Increase (Note 4)	19,193	763	19,956
At 31 December 2005:			
Outstanding claims	242,640	9,341	251,981
Due from reinsurers	(166,015)	(6,250)	(172,265)
	76,625	3,091	79,716
Net Increase (Note 4)	21,377	2,064	23,441
At 31 December 2006:			
Outstanding claims	376,127	11,596	387,723
Due from reinsurers	(278,125)	(6,441)	(284,566)
	98,002	5,155	103,157

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

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

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21 OTHER PAYABLES AND ACCRUALS

	2006 AED'000	2005 AED'000
Premiums collected in advance	75,152	26,540
Provision for staff costs	17,298	16,375
Other creditors and accruals	96,033	77,811
Employees' end of service benefits (Note 23)	16,854	14,837
	<u>205,337</u>	<u>135,563</u>

22 SHORT TERM LOANS

Short term loans are unsecured and are repayable within six months of drawdown, unless renewed. Also refer to Note 27.

23 EMPLOYEES' END OF SERVICE BENEFITS

	2006 AED'000	2005 AED'000
Movements in the provision recognised in the balance sheet are as follows:		
Provision as at 1 January	14,837	12,541
Provided during the year	3,107	2,809
End of service benefits paid	(1,090)	(513)
Provision as at 31 December (Note 21)	<u>16,854</u>	<u>14,837</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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders (including Mashreq Bank PSC), 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 consolidated financial statements are as follows:

	2006 AED'000	2005 AED'000
<i>Affiliates of major shareholders:</i>		
Bank balances	29,464	7,040
Deposits with banks	68,073	33,893
Investments in structured notes	18,676	50,108
Amounts due from related parties	22,924	16,086
Amounts due to related parties	2,873	-
Bank overdraft	744	104,215

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

	2006 AED'000	2005 AED'000
<i>Affiliates of major shareholders:</i>		
Premiums	160,704	73,595
Claims	87,798	34,768
Interest expenses	8,163	2,884
Commission paid	6,300	3,688
Rent paid	863	750

Compensation of the key management personnel is as follows:

	2006 AED'000	2005 AED'000
Short term employee benefits	7,243	6,209
End of service benefits	367	550
Total compensation paid to key management personnel	7,610	6,759

25 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.

26 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.

27 RISK MANAGEMENT

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

27A Insurance risk

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims are more than expected. The company mainly issues short term insurance contracts in connection with property, motor and marine risks (collectively known as general insurance) and medical, group life and personal accident risks (included within life assurance). 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 300,000.

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 275,000.

Medical, group life and personal accident

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

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2006

27 RISK MANAGEMENT – continued

Medical, group life and personal accident - continued

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.

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 79% of amounts due from reinsurance companies at 31 December 2006 (2005: 32%). The maximum theoretical credit risk exposure in this connection is mainly in Europe.

Regulatory framework risk

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

27B Financial risk

The company's principal financial instruments are available for sale and trading investments, receivables arising from insurance and reinsurance contracts, 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 interest rate risk, foreign currency risk, credit risk, market price risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair value of financial instruments.

The company has deposits with banks and investments in structured notes which are subject to interest rate risk. The company limits interest rate risk by monitoring changes in interest rates in the currencies in which its deposits and investments in structured notes are denominated.

Oman Insurance Company (PSC)

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At 31 December 2006

27 RISK MANAGEMENT – continued

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

31 December 2006

	<i>Less than 1 years</i>	<i>AED'000 1 to 5 years</i>	<i>over 5 years</i>	<i>Total</i>	<i>Effective interest rate</i>
Time deposits	138,586	-	-	138,586	5% to 6%
Investments in structural notes	5,733	50,128	52,876	108,737	3.5% to 10%
Bank overdrafts	(182,798)	-	-	(182,798)	6% to 8%
Short term loans	(438,550)	-	-	(438,550)	6% to 8%
	<u>(477,029)</u>	<u>50,128</u>	<u>52,876</u>	<u>(374,025)</u>	

31 December 2005

	<i>Less than 1 years</i>	<i>AED '000 1 to 5 years</i>	<i>over 5 years</i>	<i>Total</i>	<i>Effective interest rate</i>
Time deposits	92,537	-	-	92,537	4% to 5%
Investments in structural notes	29,376	28,736	34,692	92,804	3.5% to 10%
Bank overdrafts	(297,524)	-	-	(297,524)	6% to 8%
	<u>(175,611)</u>	<u>28,736</u>	<u>34,692</u>	<u>(112,183)</u>	

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

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 balances in United States Dollars, to which the UAE Dirham is effectively pegged, the company does not deal in any other foreign currency.

Market price risk

Market price 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.

The company is exposed to market risk with respect to its investments in securities and mutual funds.

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 investees. Most of the company's investments are within the United Arab Emirates.

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2006

27 RISK MANAGEMENT – continued

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, other than those relating to reinsurance contracts as described in reinsurance risk above, the maximum credit risk exposure to the company is the carrying value as disclosed in the balance sheet.

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 bank balances are maintained with a range of international and local banks in accordance with limits set by the management.

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

Premiums and insurance balances receivable comprise a large number of customers and insurance companies mainly within the United Arab Emirates as well as reinsurance companies mainly in Europe. The ten largest receivables account for 10% of the insurance premiums receivable at 31 December 2006 (2005: 10%).

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its commitments associated with 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.

The company's terms of business require amounts to be paid within 60 to 90 days of the date of the transactions. Arrangements with reinsurers normally require quarterly settlement of the balance.

28 CAPITAL COMMITMENTS

	2006 AED'000	2005 AED'000
Commitments in respect of uncalled capital of certain shares held as investments	-	2,000
Commitments for purchase of investment property	-	44,451

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.

29 CONTINGENCIES

Contingent liabilities

At 31 December 2006 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 AED 16,418,000 (2005: AED 13,393,000).

30 COMPARATIVE INFORMATION

Certain of the corresponding figures in the income statement and balance sheet for 2005 have been reclassified in order to conform with the presentation for the current year and to improve the quality of information presented.

Income statement

Insurance premium revenue, insurance premium ceded to reinsurers and excess of loss reinsurance premium have been presented on the face of the income statement.

Commission income and commission expenses have been shown separately. These were presented on a net basis in the previous year.

Commission income amounting to AED 3,536,000 for 2005 has been reclassified to other underwriting income.

Other underwriting income amounting to AED 232,000 has been reclassified to insurance premium revenue.

Balance sheet

Reinsurers' share of unearned premium was offset from unearned premium in 2005. These have now been shown on a gross basis on the face of the balance sheet.