

Oman Insurance Company
(Public Shareholding Company)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2007

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 2007 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.

Board of Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

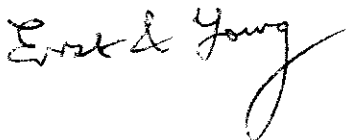
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiary as of 31 December 2007 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. (6) of 2007 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. (6) of 2007, 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.



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

17 January 2008
Dubai

Oman Insurance Company (PSC)

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 AED'000	2006 AED'000
UNDERWRITING INCOME			
Insurance contracts premium receivable		1,514,115	1,045,499
Movement in provision for unearned premiums		(142,286)	(85,707)
Insurance premium revenue	3	1,371,829	959,792
Less: Reinsurers' share of premium	3	665,339	458,763
Net insurance premium revenue		706,490	501,029
Commission income		117,039	85,568
Other income		7,791	6,789
		831,320	593,386
UNDERWRITING EXPENSES			
Claims	4	862,192	540,985
Reinsurers' share of claims	4	(491,406)	(288,327)
Commission expenses		145,772	100,432
Excess of loss reinsurance premiums		24,255	15,714
Policies surrendered and maturities paid		2,007	1,690
General and administration expenses relating to underwriting activities		94,420	64,247
		637,240	434,741
UNDERWRITING PROFIT BEFORE MOVEMENTS IN LIFE ASSURANCE FUND		194,080	158,645
INCREASE IN LIFE ASSURANCE FUND	24(b)	(18,277)	(10,532)
NET UNDERWRITING INCOME		175,803	148,113
INVESTMENT INCOME			
Realised gains	6	262,098	59,808
Fair value gains and losses	7	175,367	16,856
Other investment income	8	80,153	50,084
Investment expenses – finance costs		(43,954)	(59,398)
		473,664	67,350
OTHER INCOME AND EXPENSES			
General and administration expenses not allocated		(17,006)	(4,539)
Interest expense		(4,299)	(9,594)
Other income		2,942	1,421
		(18,363)	(12,712)
PROFIT FOR THE YEAR		631,104	202,751
Basic earnings per share (AED)	10	2.18	0.69
Diluted earnings per share (AED)	10	1.61	0.51

The attached notes 1 to 35 form part of these consolidated financial statements.

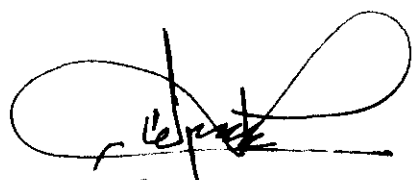
Oman Insurance Company (PSC)

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	2007 AED'000	2006 AED'000
ASSETS			
Office equipment and vehicles	11	10,018	4,172
Investment properties	12	493,940	359,398
Financial investments			
At fair value through profit or loss	13	455,080	260,003
Available for sale	14	2,172,983	1,700,562
Reinsurance assets	24	704,665	452,677
Insurance receivables	15	448,002	332,967
Prepayments and accrued income	16	43,840	21,167
Statutory deposits	17	22,573	8,900
Cash and cash equivalents	18	337,244	159,050
TOTAL ASSETS		4,688,345	3,298,896
EQUITY AND LIABILITIES			
Equity			
Share capital	19	282,750	243,750
Statutory reserve	20	132,136	69,025
Cumulative changes in fair values of securities		520,478	109,121
Strategic reserve	21	303,750	253,750
General reserve	22	571,930	414,154
Retained earnings		354,340	212,286
Proposed dividend – cash	23	98,963	121,875
Proposed dividend – scrip	23	98,963	-
Total equity		2,363,310	1,423,961
Liabilities			
Insurance contract liabilities	24	1,221,559	826,617
Financial liabilities			
Borrowings	25	555,872	621,348
Other financial liabilities	26	133,502	123,883
Insurance payables	27	320,274	247,475
Trade and other payables	28	93,828	55,612
Total liabilities		2,325,035	1,874,935
TOTAL EQUITY AND LIABILITIES		4,688,345	3,298,896

The consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 17 January 2008.



H.E. Mattar Humaid Al Tayer
Chairman



Butti Saeed Al Ghandi
Vice Chairman

The attached notes 1 to 35 form part of these consolidated financial statements.

Oman Insurance Company (PSC)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	<i>Notes</i>	2007 AED'000	2006 AED'000
OPERATING ACTIVITIES			
Profit for the year		631,104	202,751
Adjustments for:			
Depreciation	11	2,419	1,929
Fair value gains on investment properties	7	(150,573)	(64,155)
Gain on sale of financial investments, available-for-sale	6	(169,470)	(101,138)
Gain on sale of investment properties	6	(15,423)	-
Gain on sale of office equipment and vehicles		-	(25)
		298,057	39,362
Changes in operating assets and liabilities:			
Financial investments at fair value through profit or loss		(195,077)	228,816
Reinsurance assets		(251,988)	(131,489)
Insurance receivables		(115,035)	(144,977)
Prepayments and accrued income		(22,673)	6,404
Insurance contract liabilities		394,942	244,981
Insurance payables		72,799	99,322
Other financial liabilities		22,307	18,733
Trade and other payables		38,216	3,285
Net cash from operating activities		241,548	364,437
INVESTING ACTIVITIES			
Purchase of office equipment and vehicles	11	(8,272)	(2,368)
Proceeds from sale of office equipment and vehicles		7	46
Financial investments, available-for-sale		108,406	(458,698)
Statutory deposits		(13,673)	-
Proceeds from sale of investments properties		47,224	-
Purchase of investment properties		(15,770)	(74,147)
Net cash from (used in) investing activities		117,922	(535,167)
FINANCING ACTIVITIES			
Dividend paid		(85,312)	(97,500)
Directors' fees		(15,800)	(7,555)
Amounts payable against purchase of investment property		(12,688)	38,064
Term loans		73,440	438,550
Zakat		(2,000)	(1,000)
Net cash (used in) from financing activities		(42,360)	370,559
INCREASE IN CASH AND CASH EQUIVALENTS		317,110	199,829
Cash and cash equivalents at 1 January		(23,748)	(223,577)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	18	293,362	(23,748)

The attached notes 1 to 35 form part of these consolidated financial statements.

Oman Insurance Company (PSC)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Notes	Share capital AED '000	Statutory reserve AED '000	Cumulative changes in fair values AED '000	Strategic reserve AED '000	General reserve AED '000	Retained earnings AED '000	Proposed dividends AED '000	Total AED '000
Balance at 1 January 2006		97,500	48,750	1,079,819	243,750	363,466	220,928	243,750	2,297,963
Net movement in cumulative changes in fair values		-	-	(970,698)	-	-	-	-	(970,698)
Total income and expense recognised directly in equity		-	-	(970,698)	-	-	-	-	(970,698)
Profit for the year		-	-	-	-	-	202,751	-	202,751
Total income and expense for the year		-	-	(970,698)	-	-	202,751	-	(767,947)
Transfer to statutory reserve	20	-	20,275	-	-	-	(20,275)	-	-
Directors' fees	31	-	-	-	-	-	(7,555)	-	(7,555)
Zakat		-	-	-	-	-	(1,000)	-	(1,000)
Transfer to general reserve	22	-	-	-	-	50,688	(50,688)	-	-
Cash dividend paid		-	-	-	-	-	-	(97,500)	(97,500)
Scrip dividend		146,250	-	-	-	-	-	(146,250)	-
Proposed cash dividend	23	-	-	-	-	-	(121,875)	121,875	-
Transfer to strategic reserve	21	-	-	-	10,000	-	(10,000)	-	-
Balance at 31 December 2006		243,750	69,025	109,121	253,750	414,154	212,286	121,875	1,423,961
		(Note 19)	(Note 20)		(Note 21)	(Note 22)		(Note 23)	

The attached notes 1 to 35 form part of these consolidated financial statements.

Oman Insurance Company (PSC)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – (CONTINUED)

Year ended 31 December 2007

	Notes	Share capital AED '000	Statutory reserve AED '000	Cumulative changes in fair values AED '000	Strategic reserve AED '000	General reserve AED '000	Retained earnings AED '000	Proposed dividends AED '000	Total AED '000
Balance at 1 January 2007		243,750	69,025	109,121	253,750	414,154	212,286	121,875	1,423,961
Net movement in cumulative changes in fair values		-	-	411,357	-	-	-	-	411,357
Total income recognised directly in equity		-	-	411,357	-	-	-	-	411,357
Profit for the year		-	-	-	-	-	631,104	-	631,104
Total income for the year		-	-	411,357	-	-	631,104	-	1,042,461
Transfer to statutory reserve	20	-	63,111	-	-	-	(63,111)	-	-
Directors' fees	31	-	-	-	-	-	(15,800)	-	(15,800)
Zakat		-	-	-	-	-	(2,000)	-	(2,000)
Transfer to general reserve	22	-	-	-	-	157,776	(157,776)	-	-
Cash dividend paid		-	-	-	-	-	-	(85,312)	(85,312)
Scrip dividend		39,000	-	-	-	-	(2,437)	(36,563)	-
Proposed scrip dividend		-	-	-	-	-	(98,963)	98,963	-
Proposed cash dividend	23	-	-	-	-	-	(98,963)	98,963	-
Transfer to strategic reserve	21	-	-	-	50,000	-	(50,000)	-	-
Balance at 31 December 2007		282,750	132,136	520,478	303,750	571,930	354,340	197,926	2,363,310
		(Note 19)	(Note 20)		(Note 21)	(Note 22)		(Note 23)	

The attached notes 1 to 35 form part of these consolidated financial statements.

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

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.

During the current year, the Company obtained a licence to open a branch in Muscat (Oman). The branch will carry out the Company's insurance business in Oman. However, the branch had not commenced operations as of the year end.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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.

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

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

Statement of compliance

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

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 Company 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. The subsidiary primarily trades in quoted securities in the UAE.

2 ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES

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

IFRS 7 Financial Instruments: Disclosures	IFRS 7 requires disclosures that enable the users to evaluate the significance of the financial instruments of the Company and the nature and extent of risks arising from financial instruments. Comparative information for 2006 has been accordingly restated.
IAS 1 Presentation of financial statements (amended)	IAS 1 requires disclosures that enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Premiums earned

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

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

Commissions earned

Commissions earned are recognised at the time policies are written.

Other investment income

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

Realised gains and losses

Realised gains and losses recorded in the income statement on investments include gains and losses on financial assets and on investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

Trade and settlement date accounting

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

Claims

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

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

Policy acquisition costs

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are charged to the income statement when incurred.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Liability adequacy test

At each balance sheet date the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision created.

The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the balance sheet date.

General and administration expenses

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

Foreign currency translation

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

Segment reporting

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

Product classification

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Office equipment and vehicles

Office equipment and vehicles are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

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

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

The assets' residual values, useful lives and method of depreciation are reviewed and adjusted if appropriate at each financial year end. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognised in the income statement as an expense.

An item of office equipment and vehicles is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Fair value is determined by open market values based on valuations performed by independent surveyors and consultant or broker's quotes.

Fair value of financial instruments

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

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

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

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

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as at fair value through profit or loss, as the Company's strategy is to manage financial investments acquired to cover its insurance and investments contract liabilities (including shareholders' funds), on the same bases, being fair value. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) are passively managed and/or carried at amortised cost.

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

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

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

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

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or which are not classified in any of the above categories. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to the income statement.

Impairment and uncollectibility of financial assets

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

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Derecognition of financial instruments

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

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance

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

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

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

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

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

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

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

Insurance receivables

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

Cash and cash equivalents

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

For the purpose of the consolidated cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Insurance contract liabilities

(i) Unearned premium reserve

At the end of each year a proportion of net retained premiums of the general insurance, medical and group life business is provided to cover portions of risks which have not expired at the balance sheet date. The reserves are calculated in accordance with Federal Law No. 9 of 1984 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.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance contract liabilities (continued)

(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.

(iv) Outstanding claims

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

Borrowings

Borrowings and loans are initially recognised at fair value, net of issue costs and any discount or premium on settlement. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest rate method.

Borrowing costs are recognised as an expense when incurred.

Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

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

Employees' end of service benefits

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Judgements

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

Classification of investments

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

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

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

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

All other investments are classified as available for sale.

Impairment of equity investments

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

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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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.

Impairment losses on insurance receivables

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

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

Reinsurance

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

2.5 FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

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

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

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

3 NET INSURANCE PREMIUM REVENUE

Year 2007	<i>General Insurance</i>			<i>Life Assurance</i>			<i>Total</i>		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</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	1,174,412	(558,422)	615,990	339,703	(184,931)	154,772	1,514,115	(743,353)	770,762
Movement in provision for unearned premiums	(110,684)	54,052	(56,632)	(31,602)	23,962	(7,640)	(142,286)	78,014	(64,272)
Insurance premium revenue	<u>1,063,728</u>	<u>(504,370)</u>	<u>559,358</u>	<u>308,101</u>	<u>(160,969)</u>	<u>147,132</u>	<u>1,371,829</u>	<u>(665,339)</u>	<u>706,490</u>
Unearned premium as of 31 December	<u>440,151</u>	<u>(202,919)</u>	<u>237,232</u>	<u>83,669</u>	<u>(43,206)</u>	<u>40,463</u>	<u>523,820</u>	<u>(246,125)</u>	<u>277,695</u>

Year 2006	<i>General Insurance</i>			<i>Life Assurance</i>			<i>Total</i>		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</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>

Insurance contracts premium receivable includes AED 42,497 thousand (2006: AED 36,205 thousand) of reinsurance premium accepted.

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

4 CLAIMS

Year 2007	<i>General Insurance</i>			<i>Life Assurance</i>			<i>Total</i>		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</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	485,054	(226,091)	258,963	142,759	(91,341)	51,418	627,813	(317,432)	310,381
Changes in provision for outstanding claims	192,224	(157,266)	34,958	23,155	(16,708)	6,447	215,379	(173,974)	41,405
Movement in additional reserves (note 24(a))	16,000	-	16,000	3,000	-	3,000	19,000	-	19,000
	693,278	(383,357)	309,921	168,914	(108,049)	60,865	862,192	(491,406)	370,786
Year 2006	<i>General Insurance</i>			<i>Life Assurance</i>			<i>Total</i>		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</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 24(a))	10,000	-	10,000	3,000	-	3,000	13,000	-	13,000
	423,573	(216,117)	207,456	117,412	(72,210)	45,202	540,985	(288,327)	252,658

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

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

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 property, motor and marine risks. The life assurance segment includes life, medical, group life and personal accident risks. 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>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</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	1,063,728	789,019	308,101	170,773	1,371,829	959,792
Insurance premium ceded to reinsurers	(504,370)	(379,231)	(160,969)	(79,532)	(665,339)	(458,763)
Net insurance premiums revenue	559,358	409,788	147,132	91,241	706,490	501,029
Commission income	116,766	85,568	273	-	117,039	85,568
Other income	3,009	2,613	4,782	4,176	7,791	6,789
TOTAL INCOME	679,133	497,969	152,187	95,417	831,320	593,386
UNDERWRITING EXPENSES						
Claims	693,278	423,573	168,914	117,412	862,192	540,985
Reinsurers' share of claims	(383,357)	(216,117)	(108,049)	(72,210)	(491,406)	(288,327)
Net claims incurred	309,921	207,456	60,865	45,202	370,786	252,658
Commission expenses	127,597	91,856	18,175	8,576	145,772	100,432
Policies surrendered and maturities paid	-	-	2,007	1,690	2,007	1,690
General and administration	74,239	50,085	20,181	14,162	94,420	64,247
Insurer's share of excess of loss premium	24,255	15,714	-	-	24,255	15,714
TOTAL EXPENSES	536,012	365,111	101,228	69,630	637,240	434,741
PROFIT BEFORE MOVEMENTS IN LIFE ASSURANCE FUND	143,121	132,858	50,959	25,787	194,080	158,645
INCREASE IN LIFE ASSURANCE FUND (Note 24(b))	-	-	(18,277)	(10,532)	(18,277)	(10,532)
NET UNDERWRITING INCOME	143,121	132,858	32,682	15,255	175,803	148,113
<i>Investment</i>						
TOTAL INVESTMENT INCOME					473,664	67,350
Unallocated other income and expenses					(18,363)	(12,712)
PROFIT FOR THE YEAR					631,104	202,751

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

5 SEGMENTAL INFORMATION (continued)

OTHER INFORMATION

	<i>General insurance</i>		<i>Life assurance</i>		<i>Investment</i>		<i>Total</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</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	1,370,243	842,401	196,099	136,532	3,122,003	2,319,963	4,688,345	3,298,896
Segment liabilities	1,491,113	1,054,723	252,674	160,800	581,248	659,412	2,325,035	1,874,935
Capital expenditure	6,681	2,201	1,591	167	-	-	8,272	2,368
Depreciation	1,936	971	483	958	-	-	2,419	1,929

Secondary segment information

For operational and management reporting purposes, the Company is organised as one geographical segment. Consequently, no secondary segment information is required to be provided.

6 REALISED GAINS

	<i>2007</i>	<i>2006</i>
	<i>AED'000</i>	<i>AED'000</i>
Investment Properties		
Net realised gains	15,423	-
Financial assets available-for-sale		
Net realised gains on equity	169,470	101,138
Financial assets at fair value through profit or loss		
Net realised gains (losses) on held for trading equity	77,205	(41,330)
Total realised gains	262,098	59,808

7 FAIR VALUE GAINS AND LOSSES

	<i>2007</i>	<i>2006</i>
	<i>AED'000</i>	<i>AED'000</i>
Fair value gains on investment properties	150,573	64,155
Fair value gains (losses) on financial assets at fair value through profit or loss (held for trading purposes)	32,121	(47,299)
Fair value losses on financial assets at fair value through profit or loss (designated upon initial recognition)	(7,327)	-
Total fair value gains (losses) on financial assets at fair value through profit or loss	24,794	(47,299)
Total fair value gains	175,367	16,856

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

8 OTHER INVESTMENT INCOME

	2007 AED'000	2006 AED'000
Financial assets at fair value through profit or loss (held for trading purposes)		
Dividend income	3,802	5,034
Financial assets at fair value through profit for loss (designated upon initial recognition)		
Interest income	14,178	2,699
Held-to-maturity financial assets interest income	386	398
Available-for-sale financial assets		
Dividend income	51,741	37,384
Cash and cash equivalents interest income	10,046	4,569
Total other investment income	<u>80,153</u>	<u>50,084</u>

9 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2007 AED'000	2006 AED'000
Staff costs	<u>68,873</u>	<u>49,107</u>
Rental costs – Operating leases	<u>7,984</u>	<u>3,927</u>

10 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:

	2007	2006
Profit for the year, net of directors' fees (AED'000)	<u>615,304</u>	<u>195,196</u>
Weighted average number of shares outstanding during the year	<u>282,750,000</u>	<u>282,750,000</u>
Basic earnings per share (AED)	<u>2.18</u>	<u>0.69</u>

The basic earnings per share as reported for 2006 has been adjusted for the effect of bonus shares issued during the year (Note 23).

The Board of Directors has proposed a scrip dividend of AED 98,963 thousand. If the proposal is approved by the shareholders and the authorities, the number of shares would increase to 381,713,000. Based on this, the diluted earnings per share would be as follows:

	2007	2006
Diluted earnings per share (AED)	<u>1.61</u>	<u>0.51</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

11 OFFICE EQUIPMENT 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 2007	21,200	314	1,036	22,550
Additions	7,825	265	182	8,272
Disposals	-	(28)	-	(28)
At 31 December 2007	<u>29,025</u>	<u>551</u>	<u>1,218</u>	<u>30,794</u>
Depreciation:				
At 1 January 2007	18,283	95	-	18,378
Provided during the year	2,293	126	-	2,419
Disposals	-	(21)	-	(21)
At 31 December 2007	<u>20,576</u>	<u>200</u>	<u>-</u>	<u>20,776</u>
Net carrying amount:				
At 31 December 2007	<u>8,449</u>	<u>351</u>	<u>1,218</u>	<u>10,018</u>

	<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>

12 INVESTMENT PROPERTIES

	<i>2007 AED'000</i>	<i>2006 AED'000</i>
Freehold land	440,849	274,506
25% interest in freehold land owned under joint ownership	-	31,801
50% interest in freehold land owned under joint ownership	53,091	53,091
	<u>493,940</u>	<u>359,398</u>

Certain investment properties with carrying value of AED Nil at 31 December 2007 (2006: AED 138,304 thousand) are subject to lien in respect of guarantees and overdraft facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

13 FINANCIAL ASSETS AT FAIR VALUES THROUGH PROFIT OR LOSS

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
<i>a) Held for trading securities</i>		
Shares – quoted	<u>270,654</u>	<u>149,488</u>
<i>b) Designated upon initial recognition</i>		
Structured investment - unquoted	146,890	108,737
Bank deposits with maturity over 3 months - unquoted	<u>37,536</u>	<u>1,778</u>
	<u>184,426</u>	<u>110,515</u>
	<u>455,080</u>	<u>260,003</u>

Maturity dates for structured notes and bank deposits 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.

Certain structured notes and bank deposits with carrying value of AED 15,000 thousand at 31 December 2007 (2006: AED 18,672 thousand) are subject to lien in respect of guarantees and overdraft facilities.

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Shares and mutual funds – quoted	1,932,531	1,512,968
Shares – unquoted (net of provision for impairment)	<u>240,452</u>	<u>187,594</u>
	<u>2,172,983</u>	<u>1,700,562</u>

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

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
At 1 January	833	2,548
Written off during the year	<u>-</u>	<u>(1,715)</u>
At 31 December	<u>833</u>	<u>833</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.

Quoted shares with carrying value of AED 225,702 thousand at 31 December 2007 (2006: AED 131,032 thousand) 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 quoted shares with carrying value of AED Nil at 31 December 2007 (2006: AED 816,080 thousand) are subject to lien in respect of guarantees and overdraft facilities.

Oman Insurance Company (PSC)

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15 INSURANCE RECEIVABLES

	2007 AED'000	2006 AED'000
Premiums and insurance companies' balances receivable	423,760	311,877
Due from re-insurance companies in respect of settled claims	24,242	21,090
	<u>448,002</u>	<u>332,967</u>

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

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

As at 31 December 2007, premiums and insurance companies' balances receivable at nominal value of AED 19,137 thousand (2006: AED 16,479 thousand) were impaired. Movements in the allowance for impairment of receivables were as follows:

	2007 AED'000	2006 AED'000
At 1 January	16,479	16,496
Charge for the year	2,688	268
Amounts written off	-	(47)
Unused amounts reversed	(30)	(238)
At 31 December	<u>19,137</u>	<u>16,479</u>

16 PREPAYMENTS AND ACCRUED INCOME

	2007 AED'000	2006 AED'000
Accrued income	12,692	3,683
Prepayments	26,411	11,464
Staff debtors and advances	3,926	2,656
Other receivables	811	3,364
	<u>43,840</u>	<u>21,167</u>

17 STATUTORY DEPOSITS

	2007 AED'000	2006 AED'000
Bank Deposits:		
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 for trade licences	1,400	1,400
c) amount under lien with Capital Market Authority, Sultanate of Oman towards license of Muscat Branch	13,673	-
	<u>22,573</u>	<u>8,900</u>

18 CASH AND CASH EQUIVALENTS

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

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Deposits with banks maturing within three months	299,716	127,908
Bank balances and cash	37,528	31,142
	<u>337,244</u>	<u>159,050</u>

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as above, net of outstanding bank overdrafts (note 25).

Certain deposits with carrying value of AED 82,795 thousand at 31 December 2007 (2006: AED 52,795 thousand) are subject to lien in respect of guarantees and overdraft facilities.

19 SHARE CAPITAL

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Issued and fully paid 282,750,000 shares of AED 1 each (2006: – 243,750,000 shares of AED 1 each)	<u>282,750</u>	<u>243,750</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 2007, the shareholders approved the scrip dividend of sixteen shares for every hundred shares held. Accordingly, the number of shares increased to 282,750,000. Legal formalities for registration of the scrip dividend were completed during the year.

20 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.

21 STRATEGIC RESERVE

Transfers to strategic reserve are made by the Board of Directors at its discretion.

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.

22 GENERAL RESERVE

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

Oman Insurance Company (PSC)

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23 PROPOSED DIVIDENDS

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Declared and paid:		
Cash dividend for 2006 of AED 0.35 per share of AED 1 each (2006: AED 1 per share of AED 1 each)	85,312	97,500
Scrip dividend of AED 0.16 per share of AED 1 each (2006: AED 1.5 per share of AED 1 each)	39,000	146,250
	<u>124,312</u>	<u>243,750</u>
Proposed for approval at Annual General Meeting:		
Scrip dividend of AED 0.35 per share of AED 1 each (2006: NIL)	98,963	-
Cash dividend of AED 0.35 per share of AED 1 each (2006: AED 0.50 per share of AED 1 each)	98,963	121,875
	<u>197,926</u>	<u>121,875</u>

24 INSURANCE CONTRACT LIABILITIES

	<i>Gross</i> <i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>	<i>Reinsurers' share</i> <i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>	<i>Net</i> <i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Unearned premium reserve (Note 3)	523,820	381,534	(246,125)	(168,111)	277,695	213,423
Additional Reserve (Note 24(a))	51,750	32,750	-	-	51,750	32,750
Life Assurance Fund (Note 24(b))	42,887	24,610	-	-	42,887	24,610
Outstanding Claims (Note 24(c))	603,102	387,723	(458,540)	(284,566)	144,562	103,157
	<u>1,221,559</u>	<u>826,617</u>	<u>704,665</u>	<u>452,677</u>	<u>516,894</u>	<u>373,940</u>

24 (a) Additional Reserve

	<i>General</i> <i>Insurance</i> <i>AED'000</i>	<i>Life</i> <i>Assurance</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
At 1 January 2006	17,750	2,000	19,750
Increase (Note 4)	10,000	3,000	13,000
At 31 December 2006	27,750	5,000	32,750
Increase (Note 4)	16,000	3,000	19,000
31 December 2007	<u>43,750</u>	<u>8,000</u>	<u>51,750</u>

24 INSURANCE CONTRACT LIABILITIES (continued)**24 (b) Life Assurance Fund**

	<i>AED'000</i>
1 January 2006	14,078
Increase	10,532
31 December 2006	24,610
Increase	18,277
31 December 2007	42,887

The balance at 31 December 2007 includes AED 5,662 thousand (2006: AED 2,580 thousand) in respect of Group Life policies, which normally covers the risk for not more than twelve months.

24 (c) Outstanding Claims

	<i>General AED'000</i>	<i>Life AED'000</i>	<i>Total AED'000</i>
At 1 January 2006:			
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
Net Increase (Note 4)	34,958	6,447	41,405
At 31 December 2007:			
Outstanding claims	568,351	34,751	603,102
Due from reinsurers	(435,391)	(23,149)	(458,540)
	132,960	11,602	144,562

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24 INSURANCE CONTRACT LIABILITIES (continued)

24 (c) Outstanding Claims (continued)

Claims Development Table

The following table reflects the development of the gross outstanding claims of the general insurance at the end of each year together with cumulative payments subsequent to the year of accident:

<i>Underwriting year</i>	<i>Before 2005 AED'000</i>	<i>2005 AED'000</i>	<i>2006 AED'000</i>	<i>2007 AED'000</i>	<i>Total AED'000</i>
Estimate of cumulative claims:					
Accident year	80,157	162,483	243,421	359,801	
One year later	67,558	177,409	304,726	-	
Two years later	58,369	182,726	-	-	
	<u>58,369</u>	<u>182,726</u>	<u>304,726</u>	<u>359,801</u>	<u>905,622</u>
Current estimate of cumulative claims	58,369	182,726	304,726	359,801	905,622
Cumulative payments to date	(32,505)	(127,133)	(177,633)	-	(337,271)
	<u>58,369</u>	<u>182,726</u>	<u>304,726</u>	<u>359,801</u>	<u>905,622</u>
Total cumulative claims recognized in balance sheet	<u>25,864</u>	<u>55,593</u>	<u>127,093</u>	<u>359,801</u>	<u>568,351</u>

The above table does not include claims intimated and settled in the same year. It is currently not practicable to extract the claims development information in respect of life assurance and details of development of outstanding claims net of reinsurance.

25 BORROWINGS

	<i>2007 AED'000</i>	<i>2006 AED'000</i>
Term Loans	511,990	438,550
Bank overdrafts	43,882	182,798
	<u>555,872</u>	<u>621,348</u>

Term loans are unsecured and are repayable within six months of drawdown. The loans are normally rolled over for additional similar periods. Refer to notes 12, 13, 14 and 18 for the details of security in respect of bank overdrafts and other facilities.

26 OTHER FINANCIAL LIABILITIES

	<i>2007 AED'000</i>	<i>2006 AED'000</i>
Amounts held under reinsurance treaties	108,126	85,819
Amounts payable for purchase of investment property	25,376	38,064
	<u>133,502</u>	<u>123,883</u>

27 INSURANCE PAYABLES

	<i>2007 AED'000</i>	<i>2006 AED'000</i>
Reinsurance balances payable	152,345	97,750
Premiums collected in advance	86,114	75,150
Other insurance payables	81,815	74,575
	<u>320,274</u>	<u>247,475</u>

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28 TRADE AND OTHER PAYABLES

	2007 AED'000	2006 AED'000
Accruals for staff costs	32,033	17,298
Employees' end of service benefits (Note 29)	19,557	16,854
Other payables and accruals	42,238	21,460
	<u>93,828</u>	<u>55,612</u>

29 EMPLOYEES' END OF SERVICE BENEFITS

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

	2007 AED'000	2006 AED'000
Provision as at 1 January	16,854	14,837
Provided during the year	3,275	3,107
End of service benefits paid	(572)	(1,090)
	<u>19,557</u>	<u>16,854</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.

30 RELATED PARTY TRANSACTIONS

Related parties represent 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:

	2007 AED'000	2006 AED'000
<i>Affiliates of major shareholders:</i>		
Cash and cash equivalents	205,099	88,637
Statutory deposits	8,900	8,900
Structured Investments (note 13)	14,293	18,676
Premium receivable (note 15)	27,991	22,924
Amounts due to related parties (note 27)	1,391	2,873
Bank overdrafts (note 25)	-	744

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

30 RELATED PARTY TRANSACTIONS (continued)

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

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
<i>Affiliates of major shareholders:</i>		
Premiums	187,612	160,704
Claims	140,429	87,798
Interest expenses	695	8,163
Commission paid	5,442	6,300
Rent paid	863	863

Compensation of the key management personnel is as follows:

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Short term employee benefits	9,235	7,243
End of service benefits	400	367
Total compensation paid to key management personnel	<u>9,635</u>	<u>7,610</u>

31 DIRECTORS' FEES

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

32 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets include cash and cash equivalents, statutory deposits, financial investments (at fair value through profit or loss and available for sale), insurance receivables, payables, borrowings, other financial liabilities 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 14), are not materially different from their carrying values.

33 RISK MANAGEMENT

(a) Governance framework

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

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

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

(b) Capital management framework

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

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

(c) Regulatory framework

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

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

(d) Asset liability management (ALM) framework

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

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

The General Manager regularly monitors the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance liabilities.

33 RISK MANAGEMENT (continued)

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

33A Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. The Company has a small portfolio of life assurance contracts.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly property, motor, marine, medical, group life and personal accident risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Property

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

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

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has reinsurance cover for such damage to limit losses for any individual claim to AED 1,000,000.

Motor

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

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

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 550,800 (USD 150,000).

33 RISK MANAGEMENT (continued)

33A Insurance risk (continued)

Medical, group life and personal accident

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

For medical insurance, the main risks are illness and related healthcare costs. For group life and personal accident the main risks are claims from death and permanent or partial disability. The Company generally does not offer medical insurance to walk-in customers. Medical, group life and personal accident insurance are generally offered to corporate customers with large population to be covered under the policy.

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 64% of amounts due from reinsurance companies at 31 December 2007 (2006: 79%). The maximum theoretical credit risk exposure in this connection is mainly in Europe.

33B Financial risk

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

The Company does not enter into material derivative transactions.

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

33 RISK MANAGEMENT (continued)**33B Financial risk (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, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the balance sheet.

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

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

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

	<i>Notes</i>	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Financial investments			
At fair value through profit or loss	13	455,080	260,003
Available for sale	14	2,172,983	1,700,562
Reinsurance assets	24	704,665	452,677
Insurance receivables	15	448,002	332,967
Other receivables (excluding prepayments)	16	17,429	9,703
Statutory deposits	17	22,573	8,900
Cash and cash equivalents	18	337,244	159,050
TOTAL CREDIT RISK EXPOSURE		4,157,976	2,923,862

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes.

Insurance receivables comprise a large number of customers and insurance companies mainly within the United Arab Emirates. Reinsurance receivables are from the reinsurance companies based mainly in Europe.

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33 RISK MANAGEMENT (continued)

33B Financial risk (continued)

Credit risk (continued)

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

	2007			2006		
	<i>Assets</i>	<i>Liabilities and equity</i>	<i>Contingent liabilities and commitments</i>	<i>Assets</i>	<i>Liabilities and equity</i>	<i>Contingent liabilities and commitments</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
United Arab Emirates	3,620,692	4,152,082	21,169	2,613,518	2,931,809	16,418
Other Middle East countries	90,471	13,450	-	56,604	195,122	-
Europe	899,813	512,834	-	572,302	165,327	-
Rest of the world	77,369	9,979	-	56,472	6,638	-
Total	<u>4,688,345</u>	<u>4,688,345</u>	<u>21,169</u>	<u>3,298,896</u>	<u>3,298,896</u>	<u>16,418</u>

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

31 December 2007

	Neither past due nor impaired				
	<i>Investment grade</i>	<i>Non investment grade (satisfactory)</i>	<i>Non investment grade (unsatisfactory)</i>	<i>Past due or impaired</i>	<i>Total</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Financial investments					
At fair value through profit or loss	455,080	-	-	-	455,080
Available for sale	1,931,698	241,285	-	833	2,173,816
Reinsurance assets	704,665	-	-	-	704,665
Insurance receivables	448,002	-	-	19,137	467,139
Other receivables (excluding prepayments)	17,429	-	-	-	17,429
Statutory deposits	22,573	-	-	-	22,573
Cash and cash equivalents	337,244	-	-	-	337,244
	<u>3,916,691</u>	<u>241,285</u>	<u>-</u>	<u>19,970</u>	<u>4,177,946</u>
Less: Impairment provision					(19,970)
					<u>4,157,976</u>

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At 31 December 2007

33 RISK MANAGEMENT (continued)

33B Financial risk (continued)

Credit risk (continued)

31 December 2006

	<i>Neither past due nor impaired</i>				
	<i>Investment grade</i>	<i>Non investment grade (satisfactory)</i>	<i>Non investment grade (unsatisfactory)</i>	<i>Past due or impaired</i>	<i>Total</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Financial assets					
At fair value through profit or loss	260,003	-	-	-	260,003
Available for sale	1,512,135	188,427	-	833	1,701,395
Reinsurance assets	452,677	-	-	-	452,677
Insurance receivables	332,967	-	-	16,479	349,446
Other receivables (excluding prepayments)	9,703	-	-	-	9,703
Statutory deposits	8,900	-	-	-	8,900
Cash and cash equivalents	159,050	-	-	-	159,050
	<u>2,735,435</u>	<u>188,427</u>	<u>-</u>	<u>17,312</u>	<u>2,941,174</u>
Less: Impairment provision					(17,312)
					<u>2,923,862</u>

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

	<i>Upto 120 days</i>	<i>120 to 180 days</i>	<i>Above 180 days</i>	<i>Total</i>	<i>Past due and impaired</i>	<i>Total</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>
31 December 2007	326,797	77,799	62,543	467,139	(19,137)	448,002

The company generally provides credit facility up 120 days. For assets to be classified as 'past due and impaired' contractual payments in arrears are more than 180 days and an impairment adjustment is recorded in the statement of income for this. When the credit exposure is adequately secured or when the management is confident of recovery, arrears more than 180 days might still be classified as 'past due but not impaired', with no impairment adjustment recorded.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with insurance contracts and financial liabilities when they fall due.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

Oman Insurance Company (PSC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33 RISK MANAGEMENT (continued)

33B Financial risk (continued)

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

	31 December 2007				31 December 2006			
	<i>Less than one year AED'000</i>	<i>More than one year AED'000</i>	<i>No Term AED'000</i>	<i>Total AED'000</i>	<i>Less than one year AED'000</i>	<i>More than one year AED'000</i>	<i>No Term AED'000</i>	<i>Total AED'000</i>
ASSETS								
Office equipment and vehicles	-	10,018	-	10,018	-	4,172	-	4,172
Investment properties	-	-	493,940	493,940	-	-	359,398	359,398
Financial investments								
At fair value through profit or loss	19,034	165,392	270,654	455,080	-	110,515	149,488	260,003
Available for sale	-	-	2,172,983	2,172,983	-	-	1,700,562	1,700,562
Reinsurance assets	704,665	-	-	704,665	452,677	-	-	452,677
Insurance receivables	448,002	-	-	448,002	332,967	-	-	332,967
Prepayments and accrued income	43,840	-	-	43,840	21,167	-	-	21,167
Statutory deposits	22,573	-	-	22,573	8,900	-	-	8,900
Cash and cash equivalents	337,244	-	-	337,244	159,050	-	-	159,050
TOTAL ASSETS	1,575,358	175,410	2,937,577	4,688,345	974,761	114,687	2,209,448	3,298,896
EQUITY AND LIABILITIES								
Equity								
Share capital	-	-	282,750	282,750	-	-	243,750	243,750
Statutory reserve	-	-	132,136	132,136	-	-	69,025	69,025
General reserve	-	-	571,930	571,930	-	-	414,154	414,154
Retained earnings	-	-	354,340	354,340	-	-	212,286	212,286
Proposed dividends	98,963	-	98,963	197,926	121,875	-	-	121,875
Cumulative changes in fair values of securities	-	-	520,478	520,478	-	-	109,121	109,121
Strategic reserve	-	-	303,750	303,750	-	-	253,750	253,750
Total equity	98,963	-	2,264,347	2,363,310	121,875	-	1,302,086	1,423,961
Liabilities								
Insurance contract liabilities	1,221,559	-	-	1,221,559	826,617	-	-	826,617
Financial liabilities								
Borrowings	511,990	43,882	-	555,872	621,348	-	-	621,348
Other financial liabilities	133,502	-	-	133,502	98,507	25,376	-	123,883
Insurance payables	320,274	-	-	320,274	247,475	-	-	247,475
Trade and other payables	93,828	-	-	93,828	55,612	-	-	55,612
Total liabilities	2,281,153	43,882	-	2,325,035	1,849,559	25,376	-	1,874,935
TOTAL EQUITY AND LIABILITIES	2,380,116	43,882	2,264,347	4,688,345	1,971,434	25,376	1,302,086	3,298,896

33 RISK MANAGEMENT (continued)**33B Financial risk (continued)****MARKET RISK**

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

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

Other than investments amounting to AED 421,821 thousand denominated in United States Dollars, to which the UAE Dirham has been pegged for several years, the Company does not have any other foreign currency balances.

Interest rate risk

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

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

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

31 December 2007

	<i>Less than 1 years AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Total AED'000</i>	<i>Effective interest rate</i>
Time deposits	341,323	-	18,502	359,825	4% to 5.5%
Structured Investments	-	94,542	52,348	146,890	3% to 10%
Bank overdrafts	-	(43,882)	-	(43,882)	5.5% to 6.5%
Term loans	(511,990)	-	-	(511,990)	6% to 7%
	<u>(170,667)</u>	<u>50,660</u>	<u>70,850</u>	<u>(49,157)</u>	

31 December 2006

	<i>Less than 1 years AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Total AED'000</i>	<i>Effective interest rate</i>
Time deposits	138,586	-	-	138,586	5% to 6%
Structured Investments	-	55,861	52,876	108,737	3.5% to 10%
Bank overdrafts	(182,798)	-	-	(182,798)	6% to 8%
Term loans	(438,550)	-	-	(438,550)	6% to 8%
	<u>(482,762)</u>	<u>55,861</u>	<u>52,876</u>	<u>(374,025)</u>	

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

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

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

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

	<i>Increase/ decrease in basis points</i>	<i>Effect on profit before taxation for the year AED '000</i>
2007	+25	900
	-50	(1,799)
2006	+25	346
	-50	(692)

Equity price risk

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

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

	2007			2006		
	<i>Change in equity price %</i>	<i>Effect on equity AED'000</i>	<i>Effect on income statement AED'000</i>	<i>Change in equity price %</i>	<i>Effect on equity AED'000</i>	<i>Effect on income statement AED'000</i>
All investments – (Mainly Dubai Financial Market and Abu Dhabi Stock Market)	10	193,253	41,754	10	151,296	25,823

OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

34 CONTINGENCIES

Contingent liabilities

At 31 December 2007 the Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to 21,169 thousand (2006: 16,418 thousand).

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.

35 COMPARATIVE INFORMATION

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

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

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