National General Insurance Co. (P.S.C.)

Financial statements

31 December 2007

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Report of the Board of Directors

Dear Shareholders,

The Board of Directors have the pleasure to welcome you to the Seventh annual general meeting and present their report together with the audited financial statements for the year ended 31 December 2007.

FINANCIAL RESULTS

1. The Company reported a net profit of AED 109,110,109 for the year 2007 against AED 237,482 for 2006.

2. Gross premiums increased from AED 209,036,435 in 2006 to AED 290,418,927 in 2007 an increase of 39% and the retained premiums increased from AED 127,547,261 in 2006 to AED 185,542,281 in 2007.

3. The gross claims paid by the Company during the year 2007 amounted to AED 139,013,626 compared with AED 71,966,941 in 2006, the net incurred claims increased to AED 88,667,781 from AED 64,091,842.

4. Underwriting profit increased from AED 34,261,517 in 2006 to AED 42,814,981 in 2007 an increase of 25% and the investment income was AED 68,401,016 in 2007 compared to a loss of AED 32,407,397 in 2006.

5. General and Management expenses for the year 2007 was AED 26,534,958 compared with AED 18,419,255 in 2006.

6. Investment fund comprising investment properties, securities and bank deposits increased to AED 388,351,563 at the end of 2007 compared with AED293,229,657 in 2006.

7. The Technical Reserves (i.e. unearned premium reserve, additional technical reserve and net provision for outstanding claims) at the end of year 2007 amounted to AED 100,197,941 compared with AED 68,464,521 in 2006, representing 58% of the retained premiums in 2007. Life Assurance Fund at the end of the year 2007 amounted to AED 21,378,807 compared to AED 11,836,591 in 2006.

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RECOMMENDATIONS OF THE BOARD OF DIRECTORS

The Board of Directors have the pleasure in presenting the following recommendations to the shareholders:

1. Consider, discuss and approve the Board of Directors' report.
2. Consider, discuss and approve the Auditors' report.
3. Consider, discuss and approve the Financial Statements for the year ended 31 December 2007.
4. Absolve the Chairman and Members of the Board from all responsibilities for acts and decisions made by them in fulfilling their functions during the year ended 31 December 2007.
5. Approve the proposed appropriation of the profits as follows:

	AED
a) Transfer to Legal reserve	10,911,011
b) Transfer to General reserve	10,911,011
c) Director's remuneration	3,500,000
d) Proposed Dividend	48,686,400
e) Balance transferred to retained earnings	35,101,687
Profit for the year 2007	**109,110,109**

6. Appoint or re-appoint Auditors for the financial year 2008 and determine their fees. KPMG being eligible for re-appointment have expressed their willingness to continue in office.

The Board of Directors take pleasure in extending, on your behalf, their sincere thanks and appreciation to H.H Sheikh Khalifa Bin Zayed Al Nahyan, the President and H.H Sheikh Mohammed Bin Rashid Al Maktoum, Vice President, Prime Minister and Ruler of Dubai, for their kind support to the national companies and institutions, who benefited immensely from their wise economic and social policies.

The Directors also appreciate the fruitful co-operation of all customers who had the major role in the progress of the company.

Finally, the Directors express their sincere appreciation and thanks to the Company's executive administration and staff for their loyalty, diligence and hard work. The Directors take this opportunity to thank Messers Munich Re and the rest of the Reinsurers for their strong support to the Company.

On behalf of the Board

KHALID JASSIM MOHD BIN KALBAN
Chairman
Dubai, UAE
Date: 27 January 2008

KPMG

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The Shareholders
National General Insurance Co. (P.S.C.)

Report of the Auditors

We have audited the accompanying financial statements of National General Insurance Co. (P.S.C.) ("the Company"), which comprises the balance sheet as at 31 December 2007, and the income statement, statement of cash flows and statement of changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended) concerning commercial companies and Federal law No. 9 of 1984 (as amended) concerning insurance companies and agents.

Report on other legal and regulatory requirements

As required by the Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Company and the contents of the Directors' report which relate to these financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2007, which may have had a material adverse effect on the business of the Company or its financial position.

Vijendra Nath Malhotra
Registration No : 48B

National General Insurance Co. (P.S.C.)

Balance sheet

at 31 December 2007

	Note	2007 AED	2006 AED
ASSETS			
Property and equipment	*5*	**1,757,255**	2,135,471
Investment properties	*6*	**86,000,000**	66,579,000
Investments held-to-maturity	*7*	**3,656,295**	14,821,520
Investments available-for-sale	*8,21*	**60,105,900**	62,228,355
Investments fair valued through profit and loss	*9*	**105,310,245**	96,613,074
Trade receivables	*10*	**84,279,478**	58,751,705
Due from a related party	*21*	**9,533,297**	2,907,394
Advances and other receivables	*11*	**43,468,836**	12,547,260
Reinsurers' share of outstanding claims	*15*	**80,904,272**	24,679,251
Cash in hand and at bank	*12*	**147,002,929**	58,741,040
TOTAL ASSETS		**622,018,507**	400,004,070
LIABILITIES			
Accounts payable and accruals	*13*	**103,648,611**	85,167,194
Bank overdraft		-	227,118
Unearned premium reserve	*14*	**72,548,289**	48,508,227
Outstanding claims reserve	*15*	**108,553,924**	44,635,545
Life assurance fund		**21,378,807**	11,836,591
TOTAL LIABILITIES		**306,129,631**	190,374,675
NET ASSETS EMPLOYED		**315,888,876**	209,629,395
FINANCED BY:			
SHAREHOLDERS' EQUITY			
Share capital	*16*	**121,716,000**	101,430,000
Legal reserve	*19*	**29,272,467**	18,361,456
General reserve	*19*	**28,656,481**	17,745,470
Revaluation reserve	*19*	-	(649,372)
Retained earnings		**136,243,928**	72,741,841
		315,888,876	209,629,395

The notes on pages 8 to 36 form an integral part of these financial statements.

These financial statements were approved on 27 January 2008 and signed on their behalf by:

Khalid Jassim Mohd Bin Kalban **Chairman**	**Director**	**Dr. Abdul Zahra A. Ali** **General Manager**

The Auditor's report is set out on page 3.

National General Insurance Co. (P.S.C.)

Income statement
for the year ended 31 December 2007

	Note	2007 AED	2006 AED
Net underwriting profit			
Accident and liabilities		**35,888,616**	27,064,587
Marine		**1,919,551**	1,438,499
Fire		**76,966**	1,208,390
Group and individual life		**4,929,848**	4,550,041
Total underwriting profit		**42,814,981**	34,261,517
Interest income (net)		**8,038,105**	4,781,649
Dividend income		**2,916,621**	1,461,142
Realised gains/(losses) on sale of investments		**13,125,464**	(6,905,529)
Unrealised gains/(losses) on investments fair valued through profit and loss		**23,632,059**	(66,584,581)
Profit from sale of investment properties		**-**	6,600,000
Fair value changes in investment properties	*6*	**19,421,000**	26,173,000
Rental income from investment properties	*6*	**1,253,195**	1,302,605
Other income		**14,572**	764,317
		111,215,997	1,854,120
General and administrative expenses	*20*	**(2,105,888)**	(1,616,638)
Net profit for the year		**109,110,109**	237,482
Earnings per share	*24*	**0.896**	0.002

The notes on pages 8 to 36 form an integral part of these financial statements.
The Auditor's report is set out on page 3.

National General Insurance Co. (P.S.C.)

Statement of cash flows

for the year ended 31 December 2007

	Note	2007 AED	2006 AED
Operating activities			
Net profit for the year		**109,110,109**	237,482
Adjustment for:			
Depreciation		**851,039**	781,791
Provision for doubtful account		**358,831**	150,000
Profit on sale of investment properties		**-**	(6,600,000)
Unrealised losses/(gains) on investments		**(23,632,059)**	66,584,581
Realised losses/(gains) on sale of investments		**(13,125,464)**	6,905,529
Gain on fair value adjustment of investment properties		**(19,421,000)**	(26,173,000)
Increase in unearned premium reserve and life fund		**33,582,278**	18,349,756
		87,723,734	60,236,139
Cash flows from working capital			
Increase in trade and related party receivables		**(32,153,676)**	(43,541,424)
Increase in advances and other receivables		**(30,921,576)**	(2,840,483)
Increase in accounts payable & accruals		**14,981,417**	40,091,508
Increase in net outstanding claims		**7,693,358**	3,691,525
Net cash flows provided by/ (used in) operating activities		**47,323,257**	57,637,265
Investing activities			
Investments fair valued through profit and loss - net		**28,060,352**	(29,467,788)
Property and equipment		**(472,823)**	(2,110,487)
Investment properties - net		**-**	24,513,541
Investment held-to-maturity (net)		**11,165,225**	(4,311,270)
Investment available-for-sale (net)		**2,412,996**	(50,102,900)
Net cash flows provided by/ (used in) investing activities		**41,165,750**	(61,478,904)
Financing activities			
Dividends paid		-	(7,245,000)
Cash flows used in financing activities		-	(7,245,000)
Net increase/ (decrease) in cash and cash equivalents		**88,489,007**	(11,086,639)
Cash and cash equivalents at the beginning of the year		**58,513,922**	69,600,561
Cash and cash equivalents at the end of the year	25	**147,002,929**	58,513,922

The notes on pages 8 to 36 form an integral part of these financial statements.

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National General Insurance Co. (P.S.C.)

Statement of changes in shareholders' equity

for the year ended 31 December 2007

	Share capital AED	Legal reserve AED	General reserve AED	Fair value reserve AED	Retained earnings AED	Total AED
As at 1 January 2007	101,430,000	18,361,456	17,745,470	(649,372)	72,741,841	209,629,395
Net profit for the year	-	-	-	-	109,110,109	109,110,109
Issue of bonus shares	20,286,000	-	-	-	(20,286,000)	-
Transfer to legal reserve	-	-	10,911,011	-	(10,911,011)	-
Transfer to general reserve	-	10,911,011		-	(10,911,011)	-
Directors' remuneration	-	-	-	-	(3,500,000)	(3,500,000)
Adjustment to fair value reserve for investments available-for-sale	-	-	-	649,372	-	649,372
As at 31 December 2007	**121,716,000**	**29,272,467**	**28,656,481**	**-**	**136,243,928**	**315,888,876**
As at 1 January 2006	72,450,000	18,337,708	17,721,722	3,311,645	108,776,855	220,597,930
Net profit for the year	-	-	-	-	237,482	237,482
Dividends paid	-	-	-	-	(7,245,000)	(7,245,000)
Issue of bonus shares	28,980,000	-	-	-	(28,980,000)	-
Transfer to legal reserve	-	23,748	-	-	(23,748)	-
Transfer to general reserve	-	-	23,748	-	(23,748)	-
Adjustment to fair value reserve for investments available-for-sale	-	-	-	(3,961,017)	-	(3,961,017)
As at 31 December 2006	**101,430,000**	**18,361,456**	**17,745,470**	**(649,372)**	**72,741,841**	**209,629,395**

The notes on pages 8 to 36 form an integral part of these financial statements.

The Auditor's report is set out on page 3.

National General Insurance Co. (P.S.C.)

Notes
(forming part of the financial statements)

1. Legal status and principal activities

National General Insurance Co. (P.S.C.) ("the Company") is a Public Shareholding Company registered under UAE Federal Law No. (8) of 1984 as amended, in the Emirate of Dubai with effect from 12 September 2001.

The Company was originally incorporated as a private Limited Liability Company, registered under UAE Federal Law No. (8) of 1984, as amended, in the Emirate of Dubai.

The Company underwrites all classes of Life and General insurance business in accordance with the provisions of the UAE Federal Law no. 9 of 1984 relating to insurance companies and insurance agents.

The registered office of the Company is at the Green Tower, P.O. Box 154, Dubai, UAE.

2. Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB") and the requirements of UAE Federal Law No.8 of 1984 (as amended).

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

i) financial instruments at fair value through profit and loss are measured at fair value,

ii) available-for-sale financial assets are measured at fair value, and

iii) investment property is measured at fair value.

c) Functional and reporting currency

The financial statements have been prepared in UAE Dirhams (AED).

d) Critical accounting estimates and judgement in applying accounting policies

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

2. Basis of preparation (continued)

d) Critical accounting estimates and judgement in applying accounting policies (continued)

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The Company estimates for reported and unreported losses and establishing resulting provisions and related reinsurance recoverable is continually reviewed and updated, and adjustments resulting from this review are reflected in income statement. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events.

e) New standards and interpretations not yet effective

The Company has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2007:

- IFRS 8, Operating Segments (effective 1 January 2009);
- IAS 23: (Revised): Borrowing costs (1 January 2009);
- IAS1 (Revised): Presentation of financial statements (1 January 2009);
- IFRIC 13: Customer loyalty programmes (1 July 2008); and
- IFRIC 12, Service Concession Arrangements (effective 1 January 2008).

The application of these new interpretations will not have a material impact on the entity's financial statements in the period of initial application.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

b) Revenue recognition

Premiums are recognised as revenue once the risk is accepted. Amount ceded to reinsurers are recognised in accordance with re-insurance agreements in place during the year. Commission income and expense are recognised on accrual basis.

Unearned premium reserve

The unearned premium reserve represents the estimated proportion of the net premiums written which relates to the periods of insurance subsequent to the balance sheet date and is calculated at $1/24^{th}$ method on all insurance business. In instances where the management is of the opinion that the unearned premium reserve calculated on the above basis is not adequate to cover the unexpired risk existing after the balance sheet date, an additional reserve is created.

3. Significant accounting policies (continued)

c) Claims

Claims paid

Claims paid during the year are charged against the year's income on the basis of actual settlements made.

Outstanding claims and IBNR reserve

On an on-going basis, provisions are made for all known and reported claims, including handling cost, for all classes of business which have not been paid as at 31 December 2007, after deduction of reinsurance share and estimated recoveries on account of salvage and subrogation reimbursements. An additional provision is also made for any claims incurred but not reported at the balance sheet date on the basis of management estimates. The method used by the Company to calculate claims Incurred But Not Reported (IBNR) takes into account historical data, past estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

Life assurance fund

Life assurance fund represents amount set aside to meet the aggregate amount of the liabilities of the Company in relation to its individual life business. This fund has been valued by a consulting actuary.

d) Interest and dividend income

Interest income is recognised in the income statement on an accrual basis.

Dividend income is recognised with the company's right to receive is established.

e) Rental income

Rental income from investment properties are recognised in the income statement on a straight-line basis over the term of the lease.

f) Liability adequacy test

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

3. Significant accounting policies (continued)

g) Financial instruments

Classification

Held-to-maturity investments
Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intent and ability to hold to maturity. These include certain debt instruments.

Available-for-sale assets
Available-for-sale assets are financial assets which are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity. Available-for-sale assets include certain debt and equity investments. These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices.

Financial assets at fair value through profit and loss
Financial assets designated as at fair value through profit and loss at inception are those that are:
i) held in internal funds to match insurance and investment contracts liabilities that are linked to the changes in fair value of these assets. The designation of these assets to be at fair value through profit or loss eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; and
ii) managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel. The Company's investment strategy is to invest in equity and debt securities and to evaluate them with reference to their fair values. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognised on the balance sheet when the Company becomes a party to contractual provisions of the instruments. From this date any gains and losses arising from changes in fair value of assets or liabilities designated as fair value through profit or loss or available-for-sale assets are recognised.

Held-to-maturity investments are recognised on the day they are acquired by to the Company. Receivables are recognised on the day they are transferred to or acquired by the Company.

Measurement

A financial asset or a financial liability is recognised initially at its fair value plus, in the case of a financial asset or a liability not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issues of the financial assets or financial liability.

Subsequently to initial recognition, all financial assets at fair value through profit and loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be measured reliably is stated at cost, including transaction costs, less impairment allowances.

All other financial assets and non-trading financial liabilities are measured at amortised cost less impairment allowances.

3. Significant accounting policies (continued)

g) Financial instruments (continued)

Derecognition

A financial asset is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expired or are surrendered. A financial liability is derecognised when it is extinguished.

Financial assets through profit or loss that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Company commits to sell the assets. The Company uses the weighted average method to determine the gain or loss on derecognition.

Available-for-sale financial assets that are sold are derecognised and the cumulative gains or losses previously recognised in equity are recognised in profit or loss.

h) Investment properties

Property held for long-term rental yields is classified as investment property.

Investment properties are stated at fair value determined annually by an independent registered valuer. Fair value is based on current market prices for similar properties in the same location and condition. Any gain or loss arising in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in accounting policy (e).

i) Foreign currency transactions

Transactions denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the balance sheet date. Non monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to AED at the foreign exchange rate ruling at the date of the transaction. Realised and unrealised exchange gains and losses have been dealt with in the income statement.

j) Property and equipment and depreciation

Property and equipment are stated at cost of acquisition less accumulated depreciation to date and impairment losses, if any. Property and equipment are depreciated over their estimated useful lives using the straight line method of calculation.

The estimated useful lives of all property and equipment are estimated as four years. Depreciation rates, useful lives, as well as residual values, are reassessed annually.

3. Significant accounting policies (continued)

k) Employee terminal benefits

Provision is made for employee terminal benefits in accordance with the Company's policy, which meets the requirements of the UAE Federal Labour Law applicable to an employee's accumulated period of service at the balance sheet date. The Company pays its obligations regarding UAE citizens into a Social Security and UAE Pension Fund in accordance with the UAE Federal Law No. 7 of 1999 for Pension and Social Security.

l) Trade and other receivables

Trade and other receivables are stated at amortised cost net of provision for amounts estimated to be doubtful of recovery.

m) Accounts payable and accruals

Trade payables and accruals are stated at the amortised cost. Liabilities are recognised for amounts to be paid in future for goods or services received, whether or not billed to the Company.

n) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances in current accounts, and short term fixed deposits with banks, net of bank overdrafts, if any.

o) Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

p) Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date or whenever, there is any indication of impairment. If any such indication exists, the recoverable value of the assets is estimated. An impairment loss is recognised where the carrying amount of an asset exceeds its recoverable value. Impairment losses are recognised in the income statement. The impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amounts.

q) Operating lease

Leases in terms of which the substantial risk and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals and payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

3. Significant accounting policies (continued)

r) Reinsurance assets

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

4. Risk management

The Company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risk and the way the Company manages them:

a) Introduction and overview

i) 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 the set financial performance objectives. Management recognizes the critical importance of having efficient and effective risk management systems in place.

The Company is in the phase of establishing a risk management function with clear terms of reference from the board of directors, its committees and the associated executive management committees.

ii) Capital management framework

The Company has an internal risk management framework for identifying risks to which each of its business units and the Company as a whole is exposed, quantifying their impact on economic capital. The internal framework estimates indicate how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk applied to a number of tests (both financial and non-financial) on the capital position of the business.

iii) 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 UAE. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimize (e.g. unearned premium reserve) the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

4. Risk management (continued)

iv) Asset liability management ("ALM")

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 main risk that the Company faces due to the nature of its investments and liabilities is interest rate risk and equity price risk. The Company manages these positions within an ALM that has been developed by management to achieve long-term investment returns in excess of its obligations under insurance and investment contracts.

The Company's ALM is also integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities.

The Company's ALM also forms an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance and investment contracts.

b) Insurance risk

Risks under insurance contracts arise from uncertainty regarding the occurrence of insured event and the amount of the resulting claim. In addition to underwriting risks, the Company is also exposed to other related risks such as credit and liquidity risks.

Underwriting risks

The Company manages its underwriting risks principally through policies and guidelines for accepting and reinsurance arrangements.

Risks are accepted based on an evaluation of pricing and prior underwriting experience in accordance with underwriting guidelines that have been laid out for each line of business. Underwriting guidelines are constantly reviewed and updated to take account of market developments, performance and opportunities. Various approval limits are specified for accepting risks.

The reinsurance strategy of the Company is designed to protect exposures to individual risks and events based in current risk exposures through cost effective insurance arrangements.

Reserving risks are addressed by ensuring prudent and appropriate reserving for business written by the Company, thus ensuring that sufficient funds are available to cover future claims. Reserving practises for the Individual Life Insurance Portfolio involve the use of actuarial analysis from an independent actuary.

Credit risks

Credit risk under insurance contracts is risk that a counterparty will be unable to pay amounts in full when due.

Credit risk is control through terms of trade for receipt of premium. Most of the counterparties are insurance companies that are generally not rated. However they are selected on their standing in the market, rating, relationship experience and length of association. All reinsurance counterparties are rated.

4. Risk management (continued)

b) Insurance risk (continued)

Credit risks (continued)

Reinsurance arrangements are effected with reinsurers whose creditworthiness is assessed on the basis of satisfying minimum rating and financial strength criteria

Claims development

The Company maintains adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The uncertainties about the amount and timing of claim payments are normally resolved within one year.

Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant showing the impact on liabilities and net profit.

31 December 2007

	Change in Assumption	Impact on liabilities AED	Impact on net profit* AED
Current claims	**+ 10%**	**+ 13,901,362**	**-8,097,422**
	- 10%	**- 13,901,362**	**+8,097,422**

31 December 2006

	Change in Assumption	Impact on liabilities AED	Impact on net profit* AED
Incurred claims	+ 10%	+ 7,196,694	-6,040,031
	- 10%	- 7,196,694	+6,040,031

* Net of reinsurance

c) Financial risks

The Company has exposure to the following primary risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company has been established and policies and procedures are in place to mitigate the Company's exposure to credit risk:

Compliance with the policy is monitored and exposures and breaches are regularly reviewed for pertinence and for changes in the risk environment.

4. Risk management (continued)

c) Financial risks (continued)

i) Credit risk (continued)

For all classes of financial assets held by the Company, other than those relating to reinsurance contracts, the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the balance sheet date.

Reinsurance is placed with reinsure's approved by the management, which are generally international securities that are rated by international rating agencies or other GCC securities.

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsure's and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsure's.

At each reporting date, management performs an assessment of creditworthiness of reinsure's and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment if required.

The Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Non-trading investments		Advances, trade and other receivables		Reinsurer share of claims	
	2007 AED	2006 AED	2007 AED	2006 AED	2007 AED	2006 AED
Carrying amount	**169,072,440**	173,662,949	**137,281,611**	74,206,359	**80,904,272**	24,679,251
Concentration by sector						
- Financial institution	**62,373,919**	63,522,635	-	-	**80,904,272**	24,679,251
- Banks	**56,455,465**	53,335,980	**9,921,904**	2,907,394	-	-
- Real estate	**29,904,449**	23,593,349	-	-	-	-
- Service	**7,648,157**	14,028,580	-	-	-	-
- Others	**12,690,450**	19,182,405	**127,359,707**	71,298,965	-	-
Total carrying amount	**169,072,440**	173,662,949	**137,281,611**	74,206,359	**80,904,272**	24,679,251
Concentration by location						
- UAE	**169,072,440**	173,662,949	**119,317,829**	74,206,359	-	-
- GCC	-	-	-	-	-	-
- Other Arab Countries	-	-	-	-	-	-
- Others	-	-	**17,963,782**	-	**80,904,272**	24,679,251
Total carrying amount	**169,072,440**	173,662,949	**137,281,611**	74,206,359	**80,904,272**	24,679,251

The concentrations by location for loans and advances and due from banks are measured based on the residential status of the borrower. The concentration by location for non-trading investments is measured based on the location of the issuer of the security.

4. Risk management (continued)

c) Financial risks (continued)

ii) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial liabilities

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

Maturity profiles

The table below summarizes the maturity profile of the financial assets and liabilities of the Company based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

31 December 2007	**Less than 180 days AED**	**180 days to 1 year AED**	**1-5 Year AED**	**Over 5 Year AED**	**Total AED**
Assets					
Investments held-to-maturity	3,656,295	-	-	-	3,656,295
Investments available-for-sale	25,000,000	-	35,105,900	-	60,105,900
Investments fair value through profit and loss	105,310,245	-	-	-	105,310,245
Trade receivables	71,557,256	9,779,000	2,943,222	-	84,279,478
Due from related party	9,533,297	-	-	-	9,533,297
Advances and other receivables	43,468,836	-	-	-	43,468,836
Reinsure's' share of outstanding claims	-	80,904,272	-	-	80,904,272
Cash in hand and at bank	147,002,929	-	-	-	147,002,929
Total assets	**405,528,858**	**90,683,272**	**38,049,122**	-	534,261,252
Liabilities					
Accounts payable	103,648,611	-	-	-	103,648,611
Bank overdraft	-	-	-	-	-
Unearned premium reserve	-	72,548,289	-	-	72,548,289
Outstanding claim reserve	-	108,553,924	-	-	108,553,924
Life assurance fund	-	21,378,807	-	-	21,378,807
Total liabilities	**103,648,611**	**202,481,020**	-	-	**306,129,631**

4 Risk management (continued)

c) Financial risks (continued)

ii) Liquidity risk (continued)

31 December 2006	Less than 180 days AED	180 days to 1 year AED	1-5 Year AED	Over 5 Year AED	Total AED
Assets					
Investments held-to-maturity	-	11,165,225	3,656,295	-	14,821,520
Investments available-for-sale	-	25,000,000	37,228,355	-	62,228,355
Investments fair value through profit and loss	96,613,074	-	-	-	96,613,074
Trade receivables	50,526,466	6,462,688	1,762,551	-	58,751,705
Due from related party	2,907,394	-	-	-	2,907,394
Advances and other receivables	12,547,260	-	-	-	12,547,260
Reinsure's' share of outstanding claims	-	24,679,251	-	-	24,679,251
Cash in hand and at bank	58,741,040	-	-	-	58,741,040
Total assets	221,335,234	67,307,164	42,647,201	-	331,289,599
Liabilities					
Accounts payable	85,167,194	-	-	-	85,167,194
Bank overdraft	227,118	-	-	-	227,118
Unearned premium reserve	-	48,508,227	-	-	48,508,227
Outstanding claim reserve	-	44,635,545	-	-	44,635,545
Life assurance fund	-	11,836,591	-	-	11,836,591
Total liabilities	85,394,312	104,980,363	-	-	190,374,675

4 Risk management (continued)

c) Financial risks (continued)

iii) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in local equity and bond markets. In addition, the Company actively monitors the key factors that affect stock and bond market movements, including analysis of the operational and financial performance of investees.

(a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham.

The exchange rate of AED against US Dollar is pegged since November 1980 and the Company's exposure to currency risk is limited to that extent.

(b) 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.

The Company invests in securities and has deposits that are subject to interest rate risk. Interest rate risk to the Company is the risk of changes in market interest rates reducing the overall return on its interest bearing securities.

The Company's interest risk policy requires to manage interest risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities.

The Company limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash and investments are denominated and has no significant concentration of interest rate risk.

A summary of the Company's interest rate gap position on the non-trading portfolio is as follows:

31 December 2007	**Less than 180 days AED**	**180 days to 1 year AED**	**1-5 Year AED**	**Over 5 Year AED**	**Total AED**
Assets					
Investments held-to-maturity	3,656,295	-	-	-	3,656,295
Investments available for sale	25,000,000	-	35,102,900	-	60,102,900
Cash at bank	143,454,124	-	-	-	143,454,124
Total assets	172,110,419	-	35,102,900	-	207,213,319
Liabilities					
Bank overdraft	-	-	-	-	-
	172,110,419	-	35,102,900	-	207,213,319

4 Risk management (continued)

c) Financial risks (continued)

iii) Market risk (continued)
b) Interest rate risk (continued)

31 December 2006	Less than 180 days AED	180 days to 1 year AED	1-5 Year AED	Over 5 Year AED	Total AED
Assets					
Investments held-to-maturity	-	11,165,225	3,656,295	-	14,821,520
Investments available for sale	-	25,000,000	37,225,355	-	62,225,355
Cash at bank	56,384,472	-	-	-	56,384,472
Total assets	56,384,472	36,165,225	40,881,650	-	133,431,347
Liabilities					
Bank overdraft	(227,118)	-	-	-	(227,118)
	56,157,354	36,165,225	40,881,650	-	133,204,229

Profile

At the reporting date the interest rate profile of the group`s interest bearing financial instruments was:

	Carrying value (AED) 2007	2006
Fixed rate instruments		
Financial assets	**41,004,070**	54,924,420
Financial liabilities	-	-
	41,004,070	54,924,420
Variable rate instruments		
Financial assets	**164,641,782**	76,384,472
Financial liabilities	-	(227,118)
	164,641,782	76,157,354

4 Risk management (continued)

c) Financial risks (Continued)

iii) Market risk (continued)
b) Interest rate risk (continued)

Cash flow sensitivity analysis for fixed and variable rate instruments

A change of 100 basis point in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables,, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

	Profit or loss (AED)		Equity (AED)	
	100 bp increase	**100 bp Decrease**	**100 bp increase**	**100 bp Decrease**
31 December 2007				
Fixed rate Instruments				
Financial assets	9,012	(9,012)	401,029	(401,029)
Financial liabilities	-	-	-	-
Cash flow sensitivity (net)	9,012	(9,012)	401,029	(401,029)
Variables rate instruments				
Financial assets	1,446,418	(1,446,418)	200,000	(200,000)
Financial liabilities	-	-	-	-
Cash flow sensitivity (net)	1,446,418	(1,446,418)	200,000	(200,000)
31 December 2006				
Fixed rate instruments				
Financial assets	93,113	(93,113)	456,132	(456,132)
Financial liabilities	-	-	-	-
Cash flow sensitivity (net)	93,113	(93,113)	456,132	(456,132)
Variables rate instruments				
Financial assets	563,845	(563,845)	200,000	(200,000)
Financial liabilities	(2,271)	2,271	-	-
Cash flow sensitivity (net)	561,574	(561,574)	200,000	(200,000)

4 Risk management (continued)

b) Financial risks (Continued)

iii) Market risk (continued)

(c) Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit-linked business.

The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market and careful and planned use of derivative financial instruments.

The Company has no significant concentration of price risk.

vi) Operational risks

Operational risk is the risk of loss arising from system 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 can lead to financial loss.

The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks.

The Company has detailed systems and procedures manuals with effective segregation of duties, access controls, authorization and reconciliation procedures, staff training and assessment processes etc. with a compliance and internal audit framework. Business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

5 Property and equipment

	Furniture and fixtures AED	Office equipment AED	Motor vehicles AED	Computer equipment AED	Total AED
Cost					
At 1 January 2006	1,731,517	508,157	61,000	1,988,640	4,289,314
Additions	343,711	181,433	98,000	1,487,343	2,110,487
At 31 December 2006	2,075,228	689,590	159,000	3,475,983	6,399,801
At 1 January 2007	2,075,228	689,590	159,000	3,475,983	6,399,801
Additions	188,324	45,420	131,150	107,929	472,823
Disposals	-	-	(38,000)	-	(38,000)
At 31 December 2007	2,263,552	735,010	252,150	3,583,912	6,834,624
Depreciation					
At 1 January 2006	1,434,282	341,533	51,411	1,655,313	3,482,539
Charge	178,858	83,021	30,802	489,110	781,791
At 31 December 2006	1,613,140	424,554	82,213	2,144,423	4,264,330
At 1 January 2007	1,613,140	424,554	82,213	2,144,423	4,264,330
Charge	212,084	104,151	36,425	498,379	851,039
On disposals	-	-	(38,000)	-	(38,000)
At 31 December 2007	1,825,224	528,705	80,638	2,642,802	5,077,369
Net book value					
At 31 December 2007	**438,328**	**206,305**	**171,512**	**941,110**	**1,757,255**
At 31 December 2006	462,088	265,036	76,787	1,331,560	2,135,471

6. Investment properties

	2007 **AED**	2006 AED
At 1 January	**66,579,000**	37,000,000
Additions – acquisitions	-	28,406,000
Deductions – sales	-	(25,000,000)
Total	**66,579,000**	40,406,000
Fair value adjustment	**19,421,000**	26,173,000
At 31 December	**86,000,000**	66,579,000

Investment property comprises freehold land and residential villas. It is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are reviewed annually by an independent valuation expert. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

Changes in fair values are recorded in the income statement.

The rental income and operating expenses relating to these properties are as follows:

	2007 **AED**	2006 AED
Gross rental income	**1,392,390**	1,411,509
Less: Direct operating expenses	**(139,195)**	(108,904)
Net rental income	**1,253,195**	1,302,605

7. Investments held-to-maturity, at amortised cost

	2007 AED	2006 AED
Emirates Floating Rate Notes	-	5,510,250
Sukuk Bond	3,656,295	9,311,270
	3,656,295	14,821,520

The fair value of held-to-maturity assets at the reporting date is similar to its carrying value. At the reporting date there were no held-to-maturity assets that were overdue but not impaired.

8. Investments available-for-sale

	2007 AED	2006 AED
Externally managed funds – Unquoted	45,000,000	45,000,000
Equity investments – Quoted	-	2,122,455
– Unquoted	3,000	3,000
Structured notes – Unquoted	15,102,900	15,102,900
	60,105,900	62,228,355

Structured notes pay a fixed interest rate. At the reporting date there were no available-for-sale assets that were overdue but not impaired

9. Investments fair valued through profit and loss

	2007 AED	2006 AED
Equity investments – Quoted	105,310,245	96,613,074

Equity investments classified at fair value through profit or loss are designated in this category upon the initial recognition.

Shares amounting to AED 6.3 million (*2006: AED 5.6 million*) are held in the name of a Director for the beneficial interest of the Company.

10. Trade receivables

	2007 AED	2006 AED
Trade accounts receivable		
Insurance companies	**39,104,369**	34,291,465
Reinsurance companies	**5,115,692**	3,237,804
Insurance agents and brokers	**17,963,783**	5,575,518
	23,085,649	16,278,103
	85,269,493	59,382,890
Less: Doubtful debts provision	**(990,015)**	(631,185)
	84,279,478	58,751,705

11. Advances and other receivables

	2007 AED	2006 AED
Accrual of interest and other income		
Advances and prepayments *	**3,571,142**	1,730,273
Staff receivables	**32,576,511**	1,001,203
Deferred reinsurance premiums	**227,442**	217,798
Other receivables	**6,830,299**	9,277,324
	263,442	329,492
	43,468,836	12,556,090
Less: Doubtful debts provision	**-**	(8,830)
	43,468,836	12,547,260

*Advances and prepayments include a sum of AED 30.311 million (*2006: AED nil*) paid as advance towards acquisition of land.

12. Cash in hand and at bank

	2007 AED	2006 AED
Cash in hand	**3,548,805**	2,356,568
Cash at bank	**10,175,001**	3,169,646
Short term deposits	**133,279,123**	53,214,826
	147,002,929	58,741,040

Included in short term deposits with banks operating in the U.A.E., is a deposit amounting to AED 10,000,000 (*2006: AED 10,000,000*) held under lien as collateral for bank guarantees issued in favour of Ministry of Economy and Trade for carrying out commercial activities. (Refer note 22).

13. Accounts payable and accruals

	2007 AED	2006 AED
Creditors	**19,718,328**	6,303,037
Insurance companies	**13,390,115**	7,400,589
Reinsurance companies	**24,068,283**	23,270,365
Premium reserve withheld	**12,572,393**	9,156,124
Accrued expenses	**7,618,720**	4,004,741
Employee terminal benefits	**1,682,372**	2,728,150
Other payable balances	**16,839,784**	21,901,460
Deferred premium income	**7,758,616**	10,402,728
	103,648,611	85,167,194

2006 balance of other payable balances includes AED 4.7 million payable for the land acquired in Majan area of Dubai.

14. Unearned premium reserve

Movements in unearned premium reserve:

	2007 AED	2006 AED
Total at beginning of the year	**48,508,227**	35,937,358
Increase in provision during the year	**24,040,062**	12,570,869
Total at end of the year	**72,548,289**	48,508,227

15. Outstanding claims reserve

	2007 AED	2006 AED
Reserve for outstanding claims	**97,285,715**	39,881,470
Reserve for incurred but not reported claims	**11,268,209**	4,754,075
	108,553,924	44,635,545
Less: Reinsurer's share of outstanding claims	**(80,904,272)**	(24,679,251)
	27,649,652	19,956,294

Movements in outstanding claims reserve

2007	Gross AED	Reinsurance AED	Net AED
Total at beginning of the year	**44,635,545**	**(24,679,251)**	**19,956,294**
Less: Settled during the year	**(13,793,890)**	**5,517,556**	**(8,276,334)**
Add: Provision made during the year	**77,712,269**	**(61,742,577)**	**15,969,692**
Total at end of the year	**108,553,924**	**(80,904,272)**	**27,649,652**

2006	Gross AED	Reinsurance AED	Net AED
Total at beginning of the year	26,768,418	(10,503,653)	16,264,765
Less: Settled during the year	(5,950,027)	3,124,192	(2,825,835)
Add: Provision made during the year	23,817,154	(17,299,790)	6,517,364
Total at end of the year	44,635,545	(24,679,251)	19,956,294

Assumptions and sensitivities

Process used to determine the assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market practices or other published information.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises.

15. Outstanding claims reserve (continued)

The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments or if catastrophic events occur. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate.

The provision estimation difficulties also differ by class of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The method used by the Company takes into account historical data, past estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

Assumptions and sensitivities to changes in key variables

The assumptions that have the greatest effect on the measurement of insurance contract provisions are the expected loss ratios for the most recent accident years for accident and liabilities.

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable in the future may be required.

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process. The Company believes that the liability for claims reported in the balance sheet is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

16. Share capital

The Company's issued and fully paid share capital comprises 121,716,000 shares of AED 1.0 each.

	2007		2006	
	No. of Shares	**AED**	No. of Shares	AED
Balance, beginning of the year	**101,430,000**	**101,430,000**	72,450,000	72,450,000
Issue of bonus shares	**20,286,000**	**20,286,000**	28,980,000	28,980,000
Balance at year end	**121,716,000**	**121,716,000**	101,430,000	101,430,000

At Annual General Meeting held at 15 March 2007, the shareholders approved a bonus share issue amounting to AED 20,286,000 relating to 2006 (*2006: AED 28,980,000 relating to 2005*). At the forthcoming Annual General Meeting, the Directors are proposing a bonus issue of 40% cash dividend of AED 48,686,400.

17. Proposed cash dividend

The Board of Directors proposes a cash dividend AED 48.686 million for the year ended 2007 *(2006:nil).*

18. Proposed directors' fees

In accordance with the Ministry of Economy & Planning interpretation of Article 118 of Commercial Companies Law No. 8 of 1984, the proposed Directors' remuneration of AED 3.5 million (*2006: AED nil*) has been treated as an appropriation from equity and is included in retained earnings.

19. Reserves

In accordance with the Company's Articles of Association and Article (82) of Union Law No. 10 of 1980, the Company transfers 10% of annual net profits, if any, to the legal reserve until it equals 50% of the share capital. Also, in accordance with its Articles of Association, 10% of annual net profits, if any, maybe transferred to a general reserve until it is suspended by an Ordinary General Meeting upon a proposal by the Board of Directors. The General reserve can be utilized for the proposes determined by the Ordinary General Meeting upon recommendations of the Board of Director. The movement in reserves is as follows:

	Legal reserve AED	**General reserve AED**	**Revaluation reserve AED**
Balance at 1 January 2007	**18,361,456**	**17,745,470**	**(649,372)**
Change in fair-value of investment	-	-	**649,372**
Transfer to reserve	**10,911,011**	**10,911,011**	-
Balance at 31 December 2007	**29,272,467**	**28,656,481**	-

The revaluation reserve comprises the cumulative net change in fair value of available-for-sale assets.

20. General and administrative expenses

	2007 AED	2006 AED
Total general and administration expenses	**26,534,958**	18,419,255
Less: Allocated to insurance operations		
- Accident and liabilities	**(17,422,523)**	(12,142,294)
- Marine	**(479,238)**	(337,623)
- Fire	**(880,136)**	(723,189)
- Group and individual life	**(5,647,173)**	(3,599,511)
	24,429,070	16,802,617
Unallocated management expenses	**2,105,888**	1,616,638

20. General and administrative expenses (continued)

The above general and administration expenses include the following costs:

	2007 AED	2006 AED
Staff costs	**13,100,063**	12,974,450
Rent	**1,757,909**	1,213,717
Depreciation	**851,039**	781,791
Number of employees at 31 December	**147**	123

21. Related party transactions

The Company, in the normal course of business, collects premiums, settles claims and enters into transactions with other business enterprises that fall within the definition of a related party as defined by International Accounting Standard 24. The Company's management believes that the terms of such transactions are not significantly different from those that could have been obtained from third parties.

The following are the details of transactions with related parties:

	2007 AED	2006 AED
Premiums written on behalf of shareholders' companies	**48,380,844**	41,297,858
Claims paid to shareholders' companies	**21,673,183**	14,089,590
Management expenses (net)	**174,000**	156,000
Directors' and key management personnel (remuneration including benefits)	**6,613,950**	6,060,112
Interest income	**6,005,483**	3,174,058
Interest expense	**4,109**	250,569

Due from a related party

	2007 AED	2006 AED
Amount receivable	**9,533,297**	2,907,394

Available-for-sale investments

	2007 AED	2006 AED
Externally managed funds - Unquoted	**45,000,000**	45,000,000

21. Related party transactions (continued)

Cash and cash equivalents

	2007 AED	2006 AED
Cash at bank	**9,676,001**	1,914,439
Short term deposits	**114,130,410**	35,000,000
Bank overdraft	**-**	(227,118)

22. Contingent liabilities and commitments

Leases as a lessee

Non cancellable operating lease rentals are payable as follows:

	2007 AED	2006 AED
Less than one year	**501,996**	504,673

The Company leases office premises under operating lease. The leases typically run for a period of one year, with an option to renew the lease after that date. Lease rentals are usually increased/ decreased annually to reflect the market rentals.

Leases as a lessor

The Company leases out its investment properties under operating leases.

Non-cancellable operating leases rentals receivable are as follows:

	2007 AED	2006 AED
Less than one year	**751,161**	613,075
More than one year but less than five years	**-**	-
	751,161	613,075

During the year, AED 1,253,195 (*2006: AED 1,411,509*) was recognised as gross rental income in respect of operating leases.

22. Contingent liabilities and commitments (continued)

Capital commitments

Capital commitments as at 31 December 2007 amounted to AED nil *(2006: AED 21,606,768)*.

Guarantees

	2007 **AED**	2006 AED
Letters of guarantees	**7,745,000**	9,695,000

Fixed deposit amounting to AED 10 million *(2006: AED 10 million)* are under lien as collateral in respect of above guarantees (refer note 10).

Guarantees includes an amount of AED 7.5 million *(2006: AED 7.5 million)* favouring the Ministry of Economy.

The Company, in common with other insurance companies, is involved as defendant in a number of legal cases in respect of its underwriting activities. A provision is made in respect of each individual case where it is probable that the outcome would result in a loss to the Company in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made.

23. Segment information

By Business

			2007		
	Accident and liabilities AED	**Marine AED**	**Fire AED**	**Group and individual Life AED**	**Total AED**
Gross written premium	**214,991,512**	**6,833,304**	**12,549,569**	**56,044,543**	**290,418,928**
Net premiums earned	**140,442,532**	**1,085,256**	**538,081**	**9,894,135**	**151,960,004**
Commissions received on ceded reinsurance	**9,561,920**	**2,354,101**	**2,378,204**	**8,565,111**	**22,859,336**
Net claims incurred	**83,437,527**	**525,112**	**1,035,118**	**3,670,024**	**88,667,781**
Commissions paid	**13,255,787**	**515,455**	**924,064**	**4,212,201**	**18,907,507**
Net underwriting income	**35,888,616**	**1,919,551**	**76,966**	**4,929,848**	**42,814,981**

23. Segment information (continued)

By Business

	2006				
	Accident and liabilities AED	Marine AED	Fire AED	Group and individual life AED	Total AED
Gross written premium	155,321,030	5,017,820	10,748,178	37,949,407	209,036,435
Net premiums earned	100,786,813	1,085,664	181,556	12,922,360	114,976,393
Commissions received on ceded reinsurance	8,848,393	1,370,370	2,527,448	6,168,837	18,915,048
Net claims incurred	61,706,336	303,040	98,815	1,983,651	64,091,842
Commissions paid	8,721,989	376,872	678,610	3,179,106	12,956,577
Net underwriting income	27,064,587	1,438,499	1,208,390	4,550,041	34,261,517

By Geographical

The Company does not have any geographical segment as Company is carrying out all of its operations with in UAE.

Segmental information based on assets and liabilities is not presented due to unavailability.

24. Earnings per share

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding after adjusting for the issue of bonus shares during the year as set out below:

	2007 AED	2006 AED
Net profit for the year	**109,110,109**	237,482
Weighted average number of shares outstanding during the year (after adjusting for issue of bonus shares)	**121,716,000**	121,716,000
Earnings per share	**0.896**	0.002

25. Cash and cash equivalents

	2007 AED	2006 AED
Cash in hand	**3,548,805**	2,356,568
Cash at bank	**10,175,001**	3,169,646
Fixed deposit maturing with in three months	**133,279,123**	53,214,826
Bank overdraft	**-**	(227,118)
	147,002,929	58,513,922

26. Comparative figures

Certain comparative figures have been reclassified, where necessary, to conform with the presentation adopted in these financial statements.