DRAFT

# Oman Insurance Company

**(Public Shareholding Company)**

## CONSOLIDATED FINANCIAL STATEMENTS

**31 DECEMBER 2007**

DRAFT

# 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 Consolidated 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. (9) of 1984 (as amended). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' Responsibility*

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

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

DRAFT

**Report on Other Legal and Regulatory Requirements**

We also confirm that, in our opinion, the financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended), UAE Federal Law No. (9) of 1984 (as amended) and the articles of association of Oman Insurance Company (PSC); proper books of account have been kept by Oman Insurance Company (PSC), and the contents of the report of the Board of Directors relating to these financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended), UAE Federal Law No. (9) of 1984 (as amended), or of the articles of association of Oman Insurance Company (PSC) have occurred during the year which would have had a material effect on the business of Oman Insurance Company (PSC) or on its financial position.

Ernst & Young

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

_____ 2008
Dubai

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

DRAFT

| | 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** | 23(4) | **(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** | 9 | **631,104** | 202,751 |
| Basic and diluted earnings per share (AED) | 10 | **2.18** | 0.69 |

The attached notes 1 to 36 form part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET
At 31 December 2007

DRAFT

| | 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 assets* | | | |
| At fair value through profit or loss | 13 | **455,080** | 260,003 |
| Held-to-maturity | 14 | **22,573** | 8,900 |
| Available for sale | 15 | **2,172,983** | 1,700,562 |
| Reinsurance assets | 24 | **704,665** | 452,677 |
| Insurance receivables | 16 | **448,002** | 332,967 |
| Prepayments and accrued income | 17 | **43,840** | 21,167 |
| Cash and cash equivalents | 18 | **337,244** | 159,050 |
| **TOTAL ASSETS** | | **4,688,345** | 3,298,896 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 19 | **282,750** | 243,750 |
| Statutory reserve | 20 | **132,135** | 69,025 |
| General reserve | 21 | **571,930** | 414,154 |
| Retained earnings | | **354,342** | 212,286 |
| Proposed dividends | 22 | **197,925** | 121,875 |
| Cumulative changes in fair values of securities | | **520,478** | 109,121 |
| Strategic reserve | 23 | **303,750** | 253,750 |
| **Total equity** | | **2,363,310** | 1,423,961 |
| **Liabilities** | | | |
| Insurance contract liabilities | 24 | **1,221,560** | 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 | **93,827** | 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 _____ 2008.

H.E. Mattar Humaid Al Tayer
Chairman

Butti Saaed Al Ghandi
Vice Chairman

The attached notes 1 to 36 form part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

DRAFT

| | Notes | 2007 AED'000 | 2006 AED'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | **631,104** | 202,751 |
| Adjustments for: | | | |
| Depreciation | 12 | **2,419** | 1,929 |
| Unrealised gains on investment properties | | **(150,573)** | (64,155) |
| Gain on sale of available for sale securities | | **(169,470)** | 101,138) |
| Gain on sale of investment properties | | **(15,423)** | - |
| Gain on sale of office equipments and vehicles | | - | (25) |
| Reinsurers' share of unearned premiums | | - | (19,188) |
| Movement in unearned premiums | | - | 85,707 |
| Profit before changes in operating assets and liabilities | | **298,057** | 105,881 |
| At fair value through profit or loss | | **(195,077)** | - |
| Insurance receivables | | **(115,035)** | - |
| Reinsurance assets | | **(252,857)** | - |
| Prepayments and accrued income | | **(22,673)** | - |
| Insurance and contract liabilities | | **395,811** | - |
| Insurance payable | | **72,799** | - |
| Other financial liabilities | | **22,307** | - |
| Trade and other payables | | **38,216** | - |
| Trading securities | | - | 226,008) |
| Premiums, insurance and reinsurance balances receivable | | - | (145,474) |
| Reinsurers' share of outstanding claims | | - | (112,301) |
| Life assurance policy loans | | - | 497 |
| Other assets | | - | 6,404 |
| Life assurance fund, outstanding claims and additional reserve | | - | 159,274 |
| Reinsurance balances payable | | - | 32,833 |
| Amounts held under reinsurance treaties | | - | 18,733 |
| Other payables and accruals | | - | 69,774 |
| Net cash from operating activities | | **241,548** | 361,629 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of office equipments and vehicles | 12 | **(8,272)** | (2,368) |
| Proceeds from sale of office equipments and vehicles | | **7** | 46 |
| Deposits with bank | | - | 18,741 |
| Available-for-sale securities | | **108,406** | (474,631) |
| Held-to-maturity | | **(13,673)** | - |
| Proceeds from sale of investments properties | | **47,224** | - |
| Purchase of investment properties | | **(15,770)** | (74,147) |
| Net cash used in investing activities | | **117,922** | (532,359) |
| **FINANCING ACTIVITIES** | | | |
| Amounts payable for purchase of investment property | | - | 38,064 |
| Dividend paid | | **(85,312)** | (97,500) |
| Directors' fees | | **(15,800)** | (7,555) |
| Amounts payable against purchase of investment property | | **(12,688)** | - |
| Term loans | | **73,440** | - |
| Zakat | | **(2,000)** | (1,000) |
| Short term loans | | - | 438,550 |
| Net cash from (used in) financing activities | | **(42,360)** | 370,559 |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **317,110** | 199,829 |
| Cash and cash equivalents at 1 January | | **(23,748)** | (214,677) |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 8 | **293,362** | (14,848) |

The attached notes 1 to 36 form part of these consolidated financial statements.

Oman Insurance Company (PSC)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

DRAFT

| | Notes | *Share capital AED'000* | *Statutory reserve AED'000* | *General reserve AED'000* | *Retained earnings AED'000* | *Proposed dividends AED'000* | *Cumulative changes in fair values AED'000* | *Strategic reserve AED'000* | *Total AED'000* |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2006 | | 97,500 | 48,750 | 363,466 | 220,928 | 243,750 | 1,079,819 | 243,750 | 2,297,963 |
| Net movement in cumulative changes in fair values | | - | - | - | - | - | (970,698) | | (970,698) |
| Total income 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** | | - | - | - | **202,751** | - | **(970,698)** | - | **(767,947)** |
| Transfer to statutory reserve | 15 | - | 20,275 | - | (20,275) | - | - | - | - |
| Directors' fees | 25 | - | - | - | (7,555) | - | - | - | (7,555) |
| Zakat | | - | - | - | (1,000) | - | - | - | (1,000) |
| Transfer to general reserve | 16 | - | - | 50,688 | (50,688) | - | - | - | - |
| Cash dividend paid | | - | - | - | | (97,500) | - | - | (97,500) |
| Scrip dividend | | 146,250 | - | - | | (146,250) | - | - | - |
| Proposed cash dividend | 17 | - | - | - | (121,875) | 121,875 | - | - | - |
| Transfer to strategic reserve | 18 | - | - | - | (10,000) | - | - | 10,000 | - |
| **Balance at 31 December 2006** | | **243,750** | **69,025** | **414,154** | **212,286** | **121,875** | **109,121** | **253,750** | **1,423,961** |
| | | (Note 18) | (Note 19) | (Note 20) | | (Note 21) | | (Note 22) | |

The attached notes 1 to 36 form part of these consolidated financial statements.

DRAFT

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – (CONTINUED)

Year ended 31 December 2007

| | Notes | *Share capital AED'000* | *Statutory reserve AED'000* | *General reserve AED'000* | *Retained earnings AED'000* | *Proposed dividends AED'000* | *Cumulative changes in fair values AED'000* | *Strategic reserve AED'000* | *Total AED'000* |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2007 | | 243,750 | 69,025 | 414,154 | 212,286 | 121,875 | 109,121 | 253,750 | 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** | | **-** | **-** | **-** | **631,104** | **-** | **411,357** | **-** | **1,042,461** |
| Transfer to statutory reserve | 15 | - | 63,110 | - | (63,110) | - | - | - | - |
| Directors' fees | 25 | - | - | - | (15,800) | - | - | - | (15,800) |
| Zakat | | - | - | - | (2,000) | - | - | - | (2,000) |
| Transfer to general reserve | 16 | - | - | 157,776 | (157,776) | - | - | - | - |
| Cash dividend paid | | - | - | - | - | (85,313) | - | - | (85,313) |
| Scrip dividend | | 39,000 | - | - | (2,438) | (36,562) | - | - | - |
| Proposed scrip dividend | | - | - | - | (98,962) | 98,962 | - | - | - |
| Proposed cash dividend | 17 | - | - | - | (98,962) | 98,963 | - | - | - |
| Transfer to strategic reserve | | | | | (50,000) | - | - | 50,000 | |
| **Balance at 31 December 2007** | | **282,750** | **132,135** | **571,930** | **354,342** | **197,925** | **520,478** | **303,750** | **2,363,310** |

The attached notes 1 to 36 form part of these consolidated financial statements.

DRAFT

## 1 ACTIVITIES

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

| *Subsidiary company* | *Country of incorporation* | *Percentage shareholding* | *Principal activities* |
|---|---|---|---|
| Equator Trading Enterprises LLC | U.A.E. | 100% | [redacted] |

**Changes in accounting policies**
The accounting policies are consistent with those used in the previous year except as follows:

The Company has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretation did not have any effect on the financial performance or position of the Company. They did however give rise to additional disclosures:

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment- Presentation of financial statements

DRAFT

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Changes in accounting policies (continued)**

*IFRS 7 Financial Instruments Disclosures*
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising out of those financial instruments. The new disclosures are included throughout the financial statements.

*IAS 1 Presentation of financial statements*
This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in Note 18.

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

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

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

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

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

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

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

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

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

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

DRAFT

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Commissions earned**
Commissions earned are recognised at the time policies are written.

**Investment income**
(i) Interest income is recognised on a time proportion basis.
(ii) Dividend income is accounted for when the right to receive payment is established.
(iii) Rental income from letting out of properties is apportioned to income on a time-proportion basis.

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

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

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

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

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

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

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

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

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

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

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

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

DRAFT

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment and uncollectibility of financial assets**
An assessment is made at each balance sheet date to determine whether there is objective evidence that a 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.

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

**Insurance and life assurance funds**

*(i) Unearned premium reserve*

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

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

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

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

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

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

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

DRAFT

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

All other investments are classified as available for sale.

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

*Additional reserve*
The management, based on past experience, uses $1/8^{th}$ 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.

DRAFT

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Valuation of unquoted equity investments*

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same ;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

*Provision for outstanding claims, whether reported or not*

Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainly and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the balance sheet date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

*Reinsurance*

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

DRAFT

## 3 NET INSURANCE PREMIUM REVENUE

**Year 2007**

| | *General Insurance* | | | *Life Assurance* | | | *Total* | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Gross AED 000* | *Reinsurer's share AED 000* | *Net AED 000* | *Gross AED 000* | *Reinsurer's share AED 000* | *Net AED 000* | *Gross AED 000* | *Reinsurer's share AED 000* | *Net AED 000* |
| 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 | 1,063,728 | (504,370) | 559,358 | 308,101 | (160,969) | 147,132 | 1,371,829 | (665,339) | 706,490 |
| Unearned premium as of 31 December | 440,152 | (202,919) | 237,233 | 83,669 | (43,206) | 40,463 | 523,821 | (246,125) | 277,696 |

Year 2006

| | *General Insurance* | | | *Life Assurance* | | | *Total* | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Gross AED 000* | *Reinsurer's share AED 000* | *Net AED 000* | *Gross AED 000* | *Reinsurer's share AED 000* | *Net AED 000* | *Gross AED 000* | *Reinsurer's share AED 000* | *Net AED 000* |
| 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 | 789,019 | (379,231) | 409,788 | 170,773 | (79,532) | 91,241 | 959,792 | (458,763) | 501,029 |
| Unearned premium as of 31 December | 329,467 | (148,867) | 180,600 | 52,067 | (19,244) | 32,823 | 381,534 | (168,111) | 213,423 |

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

DRAFT

## 4 CLAIMS

**Year 2007**

| | *General Insurance* | | | *Life Assurance* | | | *Total* | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Gross AED 000* | *Reinsurer's share AED 000* | *Net AED 000* | *Gross AED 000* | *Reinsurer's share AED 000* | *Net AED 000* | *Gross AED 000* | *Reinsurer's share AED 000* | *Net AED 000* |
| 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 19) | 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

| | *General Insurance* | | | *Life Assurance* | | | *Total* | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Gross AED 000* | *Reinsurer's share AED 000* | *Net AED 000* | *Gross AED 000* | *Reinsurer's share AED 000* | *Net AED 000* | *Gross AED 000* | *Reinsurer's share AED 000* | *Net AED 000* |
| Claims paid | 280,086 | (104,007) | 176,079 | 112,157 | (72,019) | 40,138 | 392,243 | (176,026) | 216,217 |
| Changes in provision for outstanding claims | 133,487 | (112,110) | 21,377 | 2,255 | (191) | 2,064 | 135,742 | (112,301) | 23,441 |
| Movement in additional reserves (note 19) | 10,000 | - | 10,000 | 3,000 | - | 3,000 | 13,000 | - | 13,000 |
| | 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 20.

DRAFT

## 5 SEGMENTAL INFORMATION

***Primary segment information***

For management purposes the company is organised into three business segments, general insurance, life assurance and investment. The general insurance segment comprises motor, marine, fire, engineering and general accident. The life assurance segment includes life, medical, group life and personal accident. Investment comprises investment, deposits with banks and cash management for the company's own account. These segments are the basis on which the company reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Segmental information is presented below:

| | *General insurance* | | *Life assurance* | | *Total* | |
|---|---|---|---|---|---|---|
| | ***2007*** | *2006* | ***2007*** | *2006* | ***2007*** | *2006* |
| | ***AED'000*** | *AED'000* | ***AED'000*** | *AED'000* | ***AED'000*** | *AED'000* |
| **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 | 3,008 | 2,613 | 4,782 | 4,176 | 7,790 | 6,789 |
| **TOTAL INCOME** | 679,132 | 497,969 | 152,187 | 95,417 | 831,319 | 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 | 24,254 | 15,714 | - | - | 24,254 | 15,714 |
| **TOTAL EXPENSES** | 536,011 | 365,111 | 101,228 | 69,630 | 637,239 | 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 19)** | - | - | (18,277) | (10,532) | (18,277) | (10,532) |
| **NET UNDERWRITING INCOME** | 143,121 | 132,858 | 32,682 | 15,255 | 175,803 | 148,113 |
| ***Investment*** | | | | | | |
| **TOTAL INVESTMENT INCOME** | | | | | 473,664 | 67,350 |
| Unallocated other income and expenses | | | | | (18,363) | (12,712) |
| **PROFIT FOR THE YEAR** | | | | | 631,104 | 202,751 |

## 5 SEGMENTAL INFORMATION (continued)

**OTHER INFORMATION**

DRAFT

| | General insurance | | Life assurance | | Investment | | Total | |
|---|---|---|---|---|---|---|---|---|
| | ***2007*** | *2006* | ***2007*** | *2006* | ***2007*** | *2006* | ***2007*** | *2006* |
| | ***AED'000*** | *AED'000* | ***AED'000*** | *AED'000* | ***AED'000*** | *AED'000* | ***AED'000*** | *AED'000* |
| Segment assets | | 731,169 | | 110,956 | | 2,456,771 | | 3,298,896 |
| Segment liabilities | | 1,092,788 | | 160,799 | | 621,348 | | 1,874,935 |
| Capital expenditure | | 2,201 | | 167 | | - | | 2,368 |
| Depreciation | | 971 | | 958 | | - | | 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

| | ***2007*** | *2006* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| **Property and equipment** | | |
| Realised gains | **15,423** | - |
| **Available-for-sale financial assets** | | |
| Realised gains | | |
| Equity securities | **246,675** | 59,808 |
| Debt securities | - | - |
| Realised losses | | |
| Equity securities | - | - |
| Debt securities | - | - |
| | **246,675** | 59,808 |
| **Total realised gains for available-for-sale financial assets** | **262,098** | **59,808** |

DRAFT

## 7 FAIR VALUE GAINS AND LOSSES

| | *2007 AED'000* | *2006 AED'000* |
|---|---|---|
| Fair value gains on investment properties | **150,573** | 64,155 |
| Fair value losses on derivative financial instruments held for trading | **(7,327)** | - |
| Fair value gains on hedged items attributable to the hedged risk in fair vale hedges | - | - |
| Fair value losses on hedging instruments in fair vale hedges | | |
| Total fair value losses on fair value hedges | | |
| Fair value gains on financial assets at fair value through profit or loss (held for trading purposes) | **32,121** | (47,299) |
| Fair value gains on financial assets at fair value through profit or loss (designated upon initial recognition) | | |
| Total fair value gains on financial assets at fair value through profit or loss other than derivatives | | |
| Total fair value gains and losses | **175,367** | 16,856 |

## 8 OTHER INVESTMENT INCOME

| | *2007 AED'000* | *2006 AED'000* |
|---|---|---|
| Rental income from investment properties | - | - |
| Financial assets at fair value through profit or loss (held for trading purposes) | | |
| Interest income | **9,957** | 1,965 |
| Dividend income | **7,764** | 7,657 |
| Financial assets at fair value through profit for loss (designated upon initial recognition) | | |
| Interest income | | |
| Dividend income | | |
| Held-to-maturity financial assets interest income | **492** | 371 |
| Loans to related parties interest income | | |
| Available-for-sale financial assets | | |
| Interest income | | |
| Dividend income | **47,738** | 34,761 |
| Insurance receivables interest income | | |
| Cash and cash equivalents interest income | **14,202** | 5,330 |
| Total investment income | **80,153** | 50,084 |

## 9 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

| | *2007 AED'000* | *2006 AED'000* |
|---|---|---|
| Staff costs | **68,977** | 49,107 |
| Rental costs – Operating leases | **7,984** | 3,927 |

DRAFT

## 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 AED'000* | *2006 AED'000* |
|---|---|---|
| Net profit for the year, net of directors' fees | **615,304** | 195,196 |
| Weighted average number of shares outstanding during the year | **282,750,000** | 282,750,000 |
| Earnings per share (AED) | **2.18** | 0.69 |

The basic earnings per share as reported for 2006 has been adjusted for the effect of bonus shares issued during the year (Note 14).

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

## 11 OFFICE EQUIPMENTS AND VEHICLES

| | *Furniture and equipment AED'000* | *Motor vehicles AED'000* | *Capital work in progress AED'000* | *Total AED'000* |
|---|---|---|---|---|
| Cost: | | | | |
| At 1 January 2007 | 21,200 | 314 | 1,036 | 22,550 |
| Additions | 7,825 | 265 | 185 | 8,272 |
| Disposals | - | (27) | - | (27) |
| At 31 December 2007 | 29,025 | 552 | 1,218 | 30,795 |
| Depreciation: | | | | |
| At 1 January 2007 | 18,283 | 95 | - | 18,378 |
| Provided during the year | 2,293 | 126 | - | 2,419 |
| Disposals | - | (20) | - | (20) |
| At 31 December 2007 | 20,576 | 201 | - | 20,777 |
| Net carrying amount: | | | | |
| **At 31 December 2007** | 8,449 | 351 | 1,218 | 10,018 |

DRAFT

## 11 OFFICE EQUIPMENTS AND VEHICLES (continued)

| | *Furniture and equipment AED'000* | *Motor vehicles AED'000* | *Capital work in progress AED'000* | *Total AED'000* |
|---|---|---|---|---|
| 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 | 21,200 | 314 | 1,036 | 22,550 |
| 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 | 18,283 | 95 | - | 18,378 |
| Net carrying amount: | | | | |
| At 31 December 2006 | 2,917 | 219 | 1,036 | 4,172 |

## 12 INVESTMENT PROPERTIES

| | ***2007 AED'000*** | *2006 AED'000* |
|---|---|---|
| Freehold land | 379,008 | 222,991 |
| 25% interest in freehold land owned under joint ownership | - | 31,801 |
| 50% interest in freehold land owned under joint ownership | 114,932 | 104,606 |
| | **493,940** | 359,398 |

## 13 FINANCIAL ASSETS AT FAIR VALUES THROUGH PROFIT OR LOSS

| | ***2007 AED'000*** | *2006 AED'000* |
|---|---|---|
| ***a) Trading securities*** | | |
| Shares – quoted | 270,654 | 149,488 |
| Structured investments | 146,890 | 108,737 |
| Bank deposits with maturity over 3 months | 37,536 | 1,778 |
| | 455,080 | 260,003 |

## 14 HELD TO MATURITY FINANCIAL ASSETS

| | | ***2007 AED'000*** | *2006 AED'000* |
|---|---|---|---|
| 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 | 7,800 | 7,500 |
| b) | Amounts held under lien for trade licences | 1,400 | 1,400 |
| c) | Amounts held under lien for Capital Market Authority, Sultanate of Oman towards License for Muscat Branch | 13,673 | - |

DRAFT

| | | |
|---|---|---|
| | 22,573 | 8,900 |

DRAFT

## 15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | *2007* *AED'000* | *2006* *AED'000* |
|---|---|---|
| Shares and mutual funds – quoted | **1,932,530** | 1,512,968 |
| Mutual funds – unquoted (open-ended) | **-** | 8,364 |
| Shares – unquoted (net of provision for impairment) | **240,453** | 179,230 |
| | **2,172,983** | 1,700,562 |

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

| | *2007* *AED'000* | *2006* *AED'000* |
|---|---|---|
| At 1 January | **833** | 2,548 |
| Written off during the year | **-** | (1,715) |
| At 31 December | **833** | 833 |

Unquoted shares are carried at cost less impairment in value due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value.

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

Quoted shares with carrying value of AED 225,702,000 at 31 December 2007 (2006: AED 206,587,000) were registered in the name of certain shareholders / directors of the company and third parties who have confirmed that they are holding those shares in trust on behalf of the company.

Certain structured notes, quoted shares and freehold land with carrying value of AED 973,060,000 at 31 December 2007 (2006: AED 293,108,000) are held under lien in respect of guarantees and overdraft facilities.

## 16 INSURANCE RECEIVABLES

| | *2007* *AED'000* | *2006* *AED'000* |
|---|---|---|
| Premiums and insurance companies' balances receivable | **423,760** | 311,186 |
| Due from re-insurance companies | **24,242** | 21,090 |
| | **448,002** | 332,276 |

DRAFT

## 16 INSURANCE RECEIVABLES (continued)

[redacted]

## 17 PREPAYMENTS AND ACCRUED INCOME

| | *2007* *AED'000* | *2006* *AED'000* |
|---|---|---|
| Accrued income | **12,692** | 3,683 |
| Prepayments | **11,325** | 11,464 |
| Staff debtors and advances | **3,926** | 2,656 |
| Other receivables | **15,897** | 3,364 |
| | **43,840** | 21,167 |

## 18 CASH AND CASH EQUIVALENTS

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

| | *2007* *AED'000* | *2006* *AED'000* |
|---|---|---|
| Deposits with banks maturing within three months | **299,716** | 136,808 |
| Bank balances and cash | **37,528** | 31,142 |
| Bank overdrafts | **(43,882)** | (182,798) |
| | **293,362** | (14,848) |

DRAFT

## 19 SHARE CAPITAL

| | *2007 AED'000* | *2006 AED'000* |
|---|---|---|
| Issued and fully paid 282,750,000 shares of AED 1 each (2006: – 243,750,000 shares of AED 1 each) | 282,750 | 243,750 |

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 GENERAL RESERVE

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

## 22 PROPOSED DIVIDENDS

| | *2007 AED'000* | *2006 AED'000* |
|---|---|---|
| Declared and paid: | | |
| Cash dividend for 2006 of AED 0.35 per share of AED 1 each (2005: AED 1 per share of AED 1each) | **85,313** | 97,500 |
| Scrip dividend for 2006 of 16 shares for every 100 shares held (2005: 15 shares for every 10 shares held) | **39,000** | 146,250 |
| | **124,313** | 243,750 |
| Proposed for approval at Annual General Meeting: | | |
| Scrip dividend of 35 shares for every 100 shares held (2006: 15 shares for every 100 shares held) | **98,963** | 36,562 |
| Cash dividend of AED 0.35 per share of AED 1 each (2006: AED 0.35 per share of AED 1 each) | **98,963** | 85,313 |
| | **197,926** | 121,875 |

DRAFT

## 23 STRATEGIC RESERVE

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

## 24 INSURANCE CONTRACT LIABILITIES

### 24 (a) Additional Reserve And Life Assurance Fund

| | *Additional reserve* | | *Life Assurance Fund* | *Total* |
|---|---|---|---|---|
| | *Medical* | *General* | | |
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| 1 January 2006 | 2,000 | 17,750 | 14,078 | 33,828 |
| Increase | 3,000 | 10,000 | 10,532 | 23,532 |
| 31 December 2006 | **5,000** | **27,750** | **24,610** | **57,360** |
| Increase | 3,000 | 16,000 | 18,277 | 37,277 |
| 31 December 2007 | 8,000 | 43,750 | 42,887 | 94,637 |

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

DRAFT

## 24 (b) OUTSTANDING CLAIMS

| | *General AED'000* | *Life AED'000* | *Total AED'000* |
|---|---|---|---|
| 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 |

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

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

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

DRAFT

## 25 BORROWINGS

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

## 26 OTHER FINANCIAL LIABILITIES

| | *2007* *AED'000* | *2006* *AED'000* |
|---|---|---|
| Amounts held as reserve on Reinsurance Treaties | **108,126** | 85,819 |
| Amounts payable on property purchase | **25,376** | 38,064 |
| | **133,502** | 123,883 |

## 27 INSURANCE PAYABLES

| | *2007* *AED'000* | *2006* *AED'000* |
|---|---|---|
| | **320,274** | 247,455 |

## 28 TRADE AND OTHER PAYABLES

| | *2007* *AED'000* | *2006* *AED'000* |
|---|---|---|
| Premiums collected in advance | | 75,152 |
| Provision for staff costs | | 17,298 |
| Other creditors and accruals | | 96,033 |
| Employees' end of service benefits (Note 23) | | 16,854 |
| | | 205,337 |

## 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 | **5,500** | 3,107 |
| End of service benefits paid | **(2,797)** | (1,090) |
| Provision as at 31 December (Note 21) | **19,557** | 16,854 |

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.

DRAFT

## 30 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders (including Mashreq Bank PSC), directors and key management personnel of the company, and entities controlled, jointly controlled or significantly influenced by such parties. The pricing policies and terms of these transactions are approved by the company's management.

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

| | *2007* *AED'000* | *2006* *AED'000* |
|---|---|---|
| *Affiliates of major shareholders:* | | |
| Bank balances | 26,048 | 29,464 |
| Deposits with banks | 187,951 | 68,073 |
| Investments in structured notes | 14,293 | 18,676 |
| Amounts due from related parties | 27,991 | 22,924 |
| Amounts due to related parties | 1,391 | 2,873 |
| Bank overdraft | - | 744 |

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

| | *2007* *AED'000* | *2006* *AED'000* |
|---|---|---|
| *Affiliates of major shareholders:* | | |
| Premiums | **187,612** | 160,704 |
| Claims | **140,429** | 87,798 |
| Interest expenses | **695** | 8,163 |
| Commission paid | | 6,300 |
| Rent paid | | 863 |

Compensation of the key management personnel is as follows:

| | *2007* *AED'000* | *2006* *AED'000* |
|---|---|---|
| Short term employee benefits | | 7,243 |
| End of service benefits | | 367 |
| Total compensation paid to key management personnel | | 7,610 |

Outstanding balances at the year-end are secured, non-interest bearing and settlement occurs in cash. For the year ended 31 December 2007, the Company has not recorded any impairment of amounts owed by related parties (2006: Nil).

## 31 DIRECTORS' FEES

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

## 32 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

DRAFT

## 33 RISK MANAGEMENT

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

### 33A Insurance risk

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

***Frequency and amounts of claims***

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

*Property*

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

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

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The company has reinsurance cover for such damage to limit losses for any individual claim to AED 500,000.

*Motor*

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

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The company has reinsurance cover for such claims to limit losses for any individual claim to AED 300,000.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims.

*Marine*

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes.

For marine insurance the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The company has reinsurance to limit losses for any individual claim to AED 275,000.

*Medical, group life and personal accident*

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

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.

DRAFT

## 33 RISK MANAGEMENT (continued)

***Geographical concentration of risks***

The insurance risk arising from insurance contracts is concentrated mainly in the United Arab Emirates. The geographical concentration of risks is similar to last year.

***Reinsurance risk***

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

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

[redacted]

***Regulatory framework risk***

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

### 33B Financial risk

The company's principal financial instruments are available for sale and trading investments, receivables arising from insurance and reinsurance contracts, deposits and cash and cash equivalents.

The company does not enter into derivative transactions.

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

***Interest rate risk***

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

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

***31 December 2007***

| | | | *AED'000* | | |
|---|---|---|---|---|---|
| | *Less than 1 years* | *1 to 5 years* | *over 5 years* | *Total* | *Effective interest rate* |
| **Time deposits** | **325,769** | **15,554** | **18,502** | **359,825** | **4 - 5.5%** |
| **Investments in structural notes** | **-** | **94,541** | **52,348** | **146,889** | **3.5 - 10%** |
| **Bank overdrafts** | **-** | **(43,822)** | **-** | **(43,822)** | **6.00%** |
| **Short term loans** | **(511,990)** | **-** | **-** | **(511,990)** | **6.50%** |
| | **(186,221)** | **66,273** | **70,850** | **(49,098)** | |

**33 RISK MANAGEMENT (continued)**

DRAFT

**Interest rate risk (continued)**

*31 December 2006*

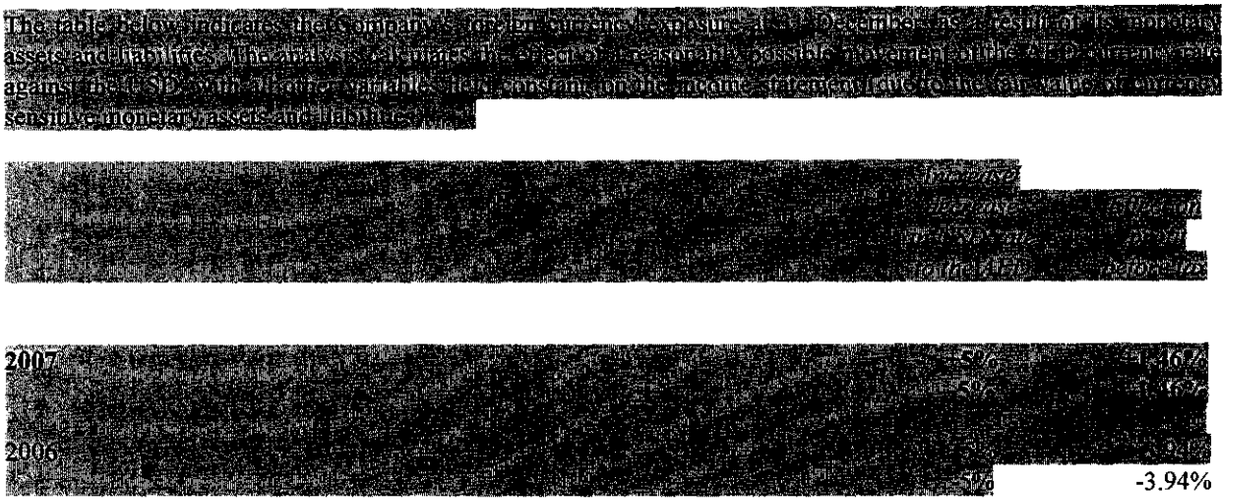
| | *Less than 1 years* | *1 to 5 years* | *AED'000 over 5 years* | *Total* | *Effective interest rate* |
|---|---|---|---|---|---|
| Time deposits | 138,586 | - | - | 138,586 | 5% to 6% |
| Investments in structural notes | 5,733 | 50,128 | 52,876 | 108,737 | 3.5% to 10% |
| Bank overdrafts | (182,798)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

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

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

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

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




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

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

The company limits market risks by maintaining a diversified portfolio and by continuous monitoring of developments in stock markets. In addition, the company actively monitors the key factors that affect stock movements, including analysis of the operational and financial performance of investees. Most of the company's investments are within the United Arab Emirates.

DRAFT

## 33 RISK MANAGEMENT (continued)

***Credit risk***

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

The company only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. It is the company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the company's exposure to bad debts.

The company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.

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

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

Premiums and insurance balances receivable comprise a large number of customers and insurance companies mainly within the United Arab Emirates as well as reinsurance companies mainly in Europe. The ten largest receivables account for [redacted] of the insurance premiums receivable at 31 December 2007 (2006: 10%).

[redacted]

***Liquidity risk***

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

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

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

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December 2007, based on contractual payment dates and current market interest rates.

***Year ended 31 December 2007***

| | *Less than 3 months* | *3 to 12 months* | *1 to 5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|
| Accounts payables and accruals | 93,828 | - | - | - | 93,828 |
| Bank overdraft | - | - | - | - | - |
| Term loan | - | 511,990 | 43,882 | - | 555,872 |
| Finance leases | - | - | - | - | - |
| Total | 93,828 | 511,990 | 43,882 | - | 649,700 |

## 33 RISK MANAGEMENT (continued)

DRAFT

***Liquidity risk (continued)***

*Year ended 31 December 2006*

| | *Less than 3 months* | *3 to 12 months* | *1 to 5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|
| Accounts payables and accruals | 55,612 | - | - | - | 55,612 |
| Bank overdraft | 182,798 | - | - | - | 182,798 |
| Term loan | - | 438,550 | - | - | 438,550 |
| Finance leases | - | - | - | - | - |
| Total | 238,410 | 438,550 | - | - | 676,960 |

***Currency risk***

The table below indicates the Company's foreign currency exposure at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the AED currency rate against theUSD, with all other variables held constant, on the income statement (due to the fair value of currency sensitive monetary assets and liabilities).

| | *Increase/ decrease in USD rate to the AED* | *Effect on profit before tax* |
|---|---|---|
| **2007** | **+5%** | **+1.46%** |
| | **-5%** | **-1.46%** |
| 2006 | +5% | +3.94% |
| | -5% | -3.94% |

***Capital management***

The primary objective of the Company's capital management is 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. No changes were made in the objectives, policies or processes during the years end 31 December 2007 and 31 December 2006.

The Company monitors capital using a gearing ration, which is net debt, divided by total capital plus net debt. The Company's policy is to keep the gearing ratio between ____% and ___%. The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents. Capital represents capital and reserves.

| | ***2007 AED'000*** | *2006 AED'000* |
|---|---|---|
| Interest bearing loans and borrowings | | |
| Trade and other payables | | |
| Less cash and short term deposits | | |
| Equity | | |
| Net realised gains reserve | | |
| Total capital | | |
| Capital and net debt | | |
| Gearing ratio | | |

DRAFT

## 34 CAPITAL COMMITMENTS

| | *2007 AED'000* | *2006 AED'000* |
|---|---|---|
| Commitments in respect of uncalled capital of certain shares held as investments | | - |
| Commitments for purchase of investment property | | - |

**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 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 AED 00 _____ (2006: AED 16,418,0).

## 36 COMPARATIVE INFORMATION

Certain of the corresponding figures in the income statement and balance sheet for 2006 have been reclassified in order to conform with the presentation for the current year and to improve the quality of information presented.

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

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

Commission income amounting to AED 3,536,000 for 2006 has been reclassified to other underwriting income.

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

**Balance sheet**
Reinsurers' share of unearned premium was offset from unearned premium in 2006. These have now been shown on a gross basis on the face of the balance sheet.