Islamic Arab Insurance Co. (Salama) and its subsidiaries

Directors' report and consolidated financial statements

For the year ended 31 December 2007

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for the year ended 31 December 2007

Contents | ***Page***

سلامة
SALAMA
الشركة الإسلامية العربية للتأمين (ش.م.ع.)
ISLAMIC ARAB INSURANCE CO. (P.S.C.)
معاً. لمستقبل آمن.
SECURING OUR FUTURE. together.

مقيدة تحت الرقم (١٧) بموجب القانون الاتحادي رقم (٩) لسنة ١٩٨٤
Registration No. (17) under Federal Law No. (9) of 1984

31 March 2008

Dear Shareholders,

The Board of Directors is pleased to present the 28th Annual Report of the Company together with the audited financial statements for year ended on 31st December 2007.

All operating entities of the Company have maintained their growth momentum in their respective markets. The gross written premium income has increased by 42% to AED 933m against AED 656m in year 2006. The underwriting profit grew by 8% from AED 109m in 2006 to AED 118m for year 2007. The investment income decreased by 6% from AED 164m in 2006 to AED 154m for year 2007.

The smaller growth in underwriting profit is attributable to the unusual frequency of some major losses in 2007 suffered by BEST Re, our Re-Takaful entity, in South East Asia and UAE. However the results indicate the resilience of BEST Re against unusually large and more frequent claims. The decrease in investment income is normal in light of the unusually higher returns of regional equity markets witnessed in 2006.

Your Company Salama was upgraded to a financial strength rating of "A-" by AM BEST at the beginning of 2008. It was also awarded a financial strength rating of "BBB+" by S & P. Both ratings are based on good competitive position, strong operating performance and strong capitalization. Both ratings carry stable outlook which is unlikely to change in near future.

Financial highlights of the Company for years ended December 2007 and 2006 are as follows:-

بناية المخاوي، شقة رقم ١٠١
ص.ب. ١٠٢١٤، دبي
هاتف: ٣٣٥٥٣٠٠ ٤ ٩٧١+
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SALAMA
الشركة الإسلامية العربية للتأمين (ش.م.ع.)
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Registration No (17) under Federal Law No. (9) of 1984.

	2007 AED '000	2006 AED '000
Gross premium written	**933,222**	655,795
Net premium earned	**740,939**	544,205
Net claims incurred	**423,506**	295,623
Net profit	**153,028**	177,231
Provision for unearned premium	**-28,946**	-21,969
Gross provision for outstanding claims	**100,377**	63,075
Share Capital	**1,100,000**	1,100,000

Economies in all countries, where our group operates have sustained and continue to demonstrate a strong performance. As such our group entities are likely to benefit from viable economic environments in which they operate, as well as from under-developed insurance and Takaful markets. All our entities are continuing to expand organically combined with exploring new markets for their products and expanding in new line of business. In 2008 we expect to get approval for a new Family (life) Takaful entity in both Egypt and Senegal. Salama Saudi Arabia (KSA) was among the first four companies to get full operating approvals from SAMA at the beginning of 2008. Salama KSA shows very strong prospects aided by a good branch network across Saudi Arabia.

SALAMA is the largest Takaful and Re-Takaful company in the world by coverage and capitalization. Your Company Board is committed to maintain this strong leadership position.

We would like to convey our thanks to our clients and reinsurers for their invaluable support. We would like to thank the management and staff for their efforts and contribution towards the growth of the Company.

Board of Directors

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The Shareholders
Islamic Arab Insurance Co. (Salama) and its subsidiaries

Independent auditor's report

We have audited the accompanying consolidated financial statements of Islamic Arab Insurance Co. (Salama) ("the Company") and its subsidiaries (collectively referred to as the "Group") which comprises the consolidated balance sheet as at 31 December 2007, the consolidated statement of income, the consolidated statement of cash flows and the consolidated statement of changes in shareholder's 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 consolidated 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 consolidated 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group 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 Group and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Group'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 Group or its financial position.

Vijendra Nath Malhotra
Registration No : 48B

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of income

for the year ended 31 December 2007

	Note	2007	2006
UNDERWRITING RESULTS		**AED'000**	AED'000
Underwriting income			
Gross written premium		**933,222**	657,592
Less: reinsurance premiums ceded		**(163,337)**	(91,418)
Net premium		**769,885**	566,174
Net movement in unearned premium		**(28,946)**	(21,969)
Premiums earned		**740,939**	544,205
Commission received on ceded reinsurance		**23,022**	16,510
		763,961	560,715
Underwriting expenses			
Gross claims paid		**355,003**	257,196
Less: reinsurance share of claims paid		**(31,874)**	(24,648)
Net claims paid		**323,129**	232,548
Net movement in outstanding claims & Technical Reserve Life		**100,377**	63,075
Claims incurred		**423,506**	295,623
Commission paid and other costs		**221,971**	155,741
		645,477	451,364
Net underwriting income		**118,484**	109,351
Income			
Investment income	8	**154,532**	163,639
Other income		**9,633**	8,563
		282,649	281,553
Expenses			
General & administrative expenses	9	**(102,761)**	(86,238)
Financial expenses		**(19,084)**	(8,245)
Provision for charitable donations	10	**(2,703)**	(2,492)
Net profit before tax for the year		**158,101**	184,578
Tax	34	**(3,334)**	(2,437)
Net profit after tax for the year		**154,767**	182,141
Earnings per share (AED)	33	**0.14**	0.16
Attributable to:			
Shareholders		**153,029**	177,231
Policyholders		-	-
Minority interest		**1,738**	4,910
		154,767	182,141

The notes on pages 9 to 54 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on page 3.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated balance sheet

at 31 December 2007

	Note	2007 AED'000	2006 AED'000
ASSETS			
Property and equipment	*11*	**65,995**	53,468
Intangible assets	*12*	**8,541**	10,993
Goodwill	*5*	**186,194**	186,194
Investment properties	*13*	**90,095**	74,908
Investments in associates	*14*	**29,607**	33,539
Statutory deposits	*15*	**28,207**	22,872
Investments	*16*	**855,841**	222,732
Deposits with insurance and reinsurance companies	*17*	**306,788**	285,310
Premiums and insurance balance receivables	*18*	**455,207**	316,851
Reinsurers' share of outstanding claims	*21*	**101,166**	67,315
Reinsurers' share of unearned premiums	*22*	**48,772**	20,823
Amounts due from related parties	*26*	**50,059**	7,826
Other assets and receivables	*19*	**107,605**	40,367
Cash and bank balances	*20*	**177,088**	809,172
TOTAL ASSETS		**2,511,165**	2,152,370
LIABILITIES			
Bank finance	*25*	**178,142**	162,623
Outstanding claims & Family Takaful reserve	*21*	**517,969**	379,473
Unearned premiums reserve	*22*	**172,621**	115,172
Insurance balances payable	*23*	**108,082**	76,713
Other payables and accruals	*24*	**92,543**	91,139
Amounts due to related parties	*26*	**4,957**	14,014
TOTAL LIABILITIES		**1,074,314**	839,134
NET ASSETS EMPLOYED		**1,436,851**	1,313,236
FINANCED BY:			
Shareholders' equity		**1,411,823**	1,272,057
Policyholder funds	*28*	**-**	-
Minority interest	*27*	**25,028**	41,179
		1,436,851	1,313,236

The notes on pages 9 to 54 form an integral part of these consolidated financial statements.

We approve these consolidated financial statements and confirm that we are responsible for them, including selecting the accounting policies and making the judgements underlying them. We also confirm that we have made available all relevant accounting records and information for their compilation.

These consolidated financial statements were approved on

Vice Chairman & CEO

General Manager

The independent auditor's report is set out on page 3.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of cash flows

For the year ended 31 December 2007

	2007 AED'000	2006 AED'000
Operating activities		
Net profit before minority interest	154,767	182,141
Adjustment for:		
Depreciation	5,554	4,370
Net movement in unearned premium reserve	28,946	21,475
Unrealised gain/loss on investments	(34,762)	22,145
Unrealised gain/loss on investment property	(15,188)	(3,470)
Amortisation of intangible assets	3,600	518
Share of profit/(loss) from associates	3,933	(163)
Dividend income	(1,052)	(355)
Operating profit before changes in working capital	145,798	226,661
Increase in deposits with insurance and reinsurance companies	(21,478)	(9,927)
Increase in premiums and insurance balance receivable	(138,356)	(92,791)
(Increase)/decrease in due from/to related parties	(42,233)	87,875
(Increase)/decrease in other assets and receivables	(67,238)	15,149
Increase in outstanding claims (net of reinsurance)	104,645	63,110
Increase in insurance payables and other payables	32,773	35,838
(Increase)/ Decrease in due to related parties	(9,057)	13,497
Cash flows from operating activities	4,854	339,412
Investing activities		
Property and equipment-net	(18,081)	(8,937)
Net movement in intangible assets	(1,148)	(7,236)
Investment properties	-	(61,908)
Net movement in associates	-	26,516
Statutory deposits	(5,335)	(25,271)
Investments-net	(588,035)	78,817
Dividends received	1,052	355
Cash flows from investing activities	*(611,547)*	2,336
Financing activities		
Decrease from buyback of share capital	(24,759)	-
Bank finance-net	15,519	154,336
Net movement in minority interest	(16,151)	(138,643)
Cash flows from financing activities	(25,391)	15,693
(Decrease)/increase in cash and cash equivalents	(632,084)	394,698
Cash and cash equivalents at the beginning of the year	809,172	414,474
Cash and cash equivalents at the end of the year (note 20)	177,088	809,172

The notes on pages 9 to 54 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on page 3.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of changes in shareholders' equity
for the year ended 31 December 2007

	Share capital AED'000	Statutory reserve AED'000	Revaluation reserve AED'000	Foreign exchange translation AED'000	Investment fair value reserve AED'000	Treasury stock AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2006	1,000,000	16,878	6,855	(3,942)	-	-	88,059	1,107,850
Bonus shares issued (note 29)	100,000	-	-	-	-	-	(100,000)	-
Share in revaluation surplus of property and equipment (note 31)	-	-	(158)	-	-	-	-	(158)
Share in foreign exchange translation reserve	-	-	-	437	-	-	-	437
Share in net change in fair value of available-for-sale investments	-	-	-	-	3,217	-	-	3,217
Movement upon further acquisition of subsidiaries (note 5)	-	-	-	-	-	-	(16,520)	(16,520)
Net profit for the year	-	-	-	-	-	-	177,231	177,231
Transfer to statutory reserve (note 30)	-	17,723	-	-	-	-	(17,723)	-
Balance at 31 December 2006	**1,100,000**	**34,601**	**6,697**	**(3,505)**	**3,217**	**-**	**131,047**	**1,272,057**

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of changes in shareholders' equity (continued)
for the year ended 31 December 2007

	Share Capital AED'000	Statutory reserve AED'000	Revaluation reserve AED'000	Foreign exchange translation AED'000	Investment fair value reserve AED'000	Treasury stock AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2007	1,100,000	34,601	6,697	(3,505)	3,217	-	131,047	1,272,057
Buy back of own shares (note 32)	-	-	-	-	-	(24,759)	-	(24,759)
Share in revaluation surplus of property and equipment (note 31)	-	-	4,930	-	-	-	-	4,930
Share in foreign exchange translation reserve	-	-	-	5,807	-	-	-	5,807
Share in net change in fair value of available-for-sale investments	-	-	-	-	3,375	-	-	3,375
Movement upon further acquisition of subsidiaries (note 5)	-	-	-	-	-	-	(2,616)	(2,616)
Net profit for the year	-	-	-	-	-	-	153,029	153,029
Transfer to statutory reserve (note 30)	-	15,303	-	-	-	-	(15,303)	-
Balance at 31 December 2007	**1,100,000**	**49,904**	**11,627**	**2,302**	**6,592**	**(24,759)**	**266,157**	**1,411,823**

The notes on pages 9 to 54 form an integral part of these consolidated financial statements.
The independent auditor's report is set out on page 3.

Notes
(forming part of the consolidated financial statements)

1. Legal status and activities

Islamic Arab Insurance Co. (Salama) ("the Company") is a public shareholding company, registered in the Emirate of Dubai, United Arab Emirates (UAE) and operates through various branches in the UAE. The registered office of the Company is P O Box 10214, Dubai, United Arab Emirates. The principal activity of the Company is the writing of all classes of general insurance and life insurance business (started 2006), principally motor insurance, in accordance with Islamic Sharia'a principles and in accordance with UAE Federal Law no. 9 of 1984 relating to insurance companies and insurance agents.

In September 2005, the Company acquired 82.21% of Takaful & Retakaful International Investment Company BSC (c) ("Tariic") ("the Subsidiary"), a closed Bahrain Joint Stock Company incorporated in the Kingdom of Bahrain, with the control transferring with effect from 1 January 2005 in accordance with a Sale and Purchase Agreement (refer note 5). After the initial purchase, further acquisitions were made in Tariic. After purchasing additional 4,080,465 shares in 2007, the holding of the Company increased to 99.40% as at 31 December 2007.

In addition, the Company acquired 222,494 shares in Best Re which is one of the subsidiaries of Tariic. The shares acquired represents 40.45 % holding in Best Re. During the third quarter of 2006, Best Re has increased its share capital from 550,000 to 1 million shares which all were allotted to Tariic. The shareholdings of the Company decreased to 22.25%.

The Company and its subsidiaries are referred to as "the Group". Tariic is a holding company and no commercial activities are carried out in the Kingdom of Bahrain. It has the following subsidiaries which are engaged in insurance and reinsurance under Islamic Sharia'a principles:

	Tariic Ownership		
Subsidiaries	**31 December 2007**	**31 December 2006**	**Country of Incorporation**
Best Re	**77.75%**	77.75%	Tunisia
Salama Senegal Sosar	**52.66%**	52.66%	Senegal
Salama Assurances Algerie (formerly Al Baraka Oua Al Amane)	**89.11%**	89.11%	Algeria
Egypt Saudi Insurance Home	**51.15%**	51.15%	Egypt

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.

2 Basis of preparation (continued)

b) Basis of measurement

The consolidated 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.

iv) land and buildings are measured at fair value.

c) Functional and reporting currency

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

d) Critical accounting estimates and judgement in applying accounting policies

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

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimating the liability that the Group will ultimately pay for such claims. The provision for claims incurred but not reported ("IBNR") is an estimation of claims which are expected to be reported subsequent to the balance sheet date, for which the insured event has occurred prior to the balance sheet date.

Impairment losses on receivables

The Group assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Group evaluates credit risk characteristics that consider industry, past-due status and an estimation of future cash flows being indicative of the ability to pay all amounts due as per the contractual terms.

Impairment losses on available-for-sale investments

The Group determines that available-for-sale unquoted equity securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. Where fair values are not available, the recoverable amount of such investment is estimated to test for impairment. In making this judgement, the Group evaluates credit risk characteristics that consider industry, past due status and an estimation of future cash flows being indicative of the ability to pay all amounts due as per the contractual terms.

2 Basis of preparation (continued)

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 Group's consolidated financial statements in the period of initial application.

f) Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The consolidated financial statements of the subsidiary are included in the Group's consolidated financial statements from the date that control commences until the date that control ceases.

Minority interests in the equity and results of the entities that are controlled by the Group are shown as a part of consolidated statements of changes in shareholders equity in the Group's consolidated financial statements.

Any premiums or discounts on subsequent acquisition, after control is obtained, of equity instruments from (or sale of equity instruments to) minority interests is recognised directly in shareholders' equity.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the Group's consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated, wherever practicable, to the extent of the Group's interest in the enterprise. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. Significant accounting policies

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

a) Insurance contracts

Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Such contracts may also transfer financial risk. As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event.

b) Reinsurance contracts

Reinsurance contracts are contracts entered into by the Group with reinsurers under which the Group is compensated for losses on insurance contracts issued.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consists of balances due from reinsurers on settlement of claims and other receivables such as profit commissions and reinsurers share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are recognised consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums (i.e. contributions) payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statements of income. Objective evidence for impairment is assessed as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not be able to receive all the amounts due under the terms of the contract and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

c) Revenue recognition

Gross written premiums
Gross written premiums, in respect of annual policies, are recognised in the statement of income at policy inception. In respect to policies with a term of more than one year, the contributions are spread over the tenure of the policies on a straight line basis, and the unexpired portion of such contributions is included under "unearned premiums" in the balance sheet.

Reinsurance ceded
Reinsurance ceded are amounts paid to reinsurers in accordance with the reinsurance contracts of the Group. In respect of proportional reinsurance contracts and non-proportional reinsurance contracts, the amounts are recognised in the statement of income as per the terms of these contracts.

Commissions earned
Commissions earned are recognised on accrual basis.

3. Significant accounting policies (continued)

c) Revenue recognition (Continued)

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 1/24th method on all insurance business except marine and cargo where 1/6th method has been applied. 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.

d) Claims

Gross claims paid
Gross claims paid are recognised in the statement of income when the claim amount payable to policyholders and third parties is determined as per the terms of the insurance contracts.

Claims recovered
Claims recovered include amounts recovered from reinsurance companies in respect of the gross claims paid by the Group, in accordance with the reinsurance contracts held by the Group. It also includes salvage and other claims recoveries.

Gross outstanding and IBNR claims
Gross outstanding claims comprise the estimated costs of claims incurred but not settled at the balance sheet date. Provisions for reported claims not paid as at the consolidated balance sheet date are made on the basis of individual case estimates. This provision is based on the estimate of the loss, which will eventually be payable on each unpaid claim, established by the management in the light of currently available information and past experience. An additional net provision is also made for any claims incurred but not reported ("IBNR") at the consolidated balance sheet date on the basis of management estimates. The basis of estimating outstanding claims and IBNR are detailed in note 21.

The reinsurance share of the gross outstanding claims is estimated and shown separately.

Policy acquisition costs
Policy acquisition costs are those expenses incurred in the acquisition of business, and comprise commissions paid, and an allocation of variable policy issue and underwriting expenses which relate directly to the production of the business. Policy acquisition costs are fully charged to the statement if income, in the period in which they are incurred.

Salvage and subrogation reimbursements
Some insurance contracts permit the Group to sell property (usually damaged) acquired in settling a claim (salvage). The Group may also have the right to pursue third parties for payment of some or all costs (subrogation). Estimates of salvage recoveries and subrogation reimbursements are recognised as an allowance in the measurement of the insurance liability for claims.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes *(continued)*

3. Significant accounting policies (continued)

e) Income on deposits, lease and dividend income

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

Income from statutory and investment deposits
Income from statutory and investment deposits is recognised on accrual basis.

f) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities using current estimates of future cash flows under insurance contracts. In performing these, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets supporting such liabilities are used. Any deficiency in the carrying amounts is immediately charged to the statement of insurance operations by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

g) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

3. Significant accounting policies (continued)

g) Financial instruments (continued)

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Held-to-maturity investments
If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective profit method, less any impairment losses.

Available-for-sale financial assets
The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Investments at fair value through profit or loss
An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other
Other non-derivative financial instruments are measured at amortised cost using the effective profit method, less any impairment losses.

h) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

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 consolidated balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to AED at the foreign exchange rates ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the statement of income. The assets and liabilities of foreign subsidiaries and the equity of associates are translated at the rate of exchange ruling at the consolidated balance sheet date.

3. Significant accounting policies (continued)

i) Foreign currency transactions (continued)

The statements of income of foreign subsidiaries and the results of associates are translated at the average exchange rates for the year. The exchange differences on the retranslation are taken directly to equity.

j) Share capital

Ordinary shares
Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

Treasury shares
When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

k) Property and equipment and depreciation

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any except for land and building which are stated at revalued amount.

Capital work in progress

Capital work in progress is stated at cost until the construction is complete. Upon the completion of construction, the cost of such assets together with the cost directly attributable to construction, including capitalized borrowing costs are transferred to the respective class of asset. Depreciation is charged if use of the asset commences before construction is complete.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized. All other expenditure is recognized in the consolidated statement of income as an expense.

Depreciation

Depreciation is charged to the consolidated income statement on a straight line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated. The depreciation methods, useful lives and residual value of property and equipment are reassessed annually. The estimated useful lives of these assets (except for land) are 4-10 years.

l) Leased Assets

Capitalised leased assets are depreciated over the lease period.

3. Significant accounting policies (continued)

m) Employee terminal benefits

The Group provides end of service benefits to its 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.

n) Trade and other receivables

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

o) Accounts payable and accruals

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

p) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current accounts with banks and bank deposits with maturities of less than three months, net of revolving bank finance and excluding deposits under lien.

q) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event and 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.

r) Impairment

Financial assets
A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective profit rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

3. Significant accounting policies (continued)

s) 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 statement of income on a straight-line basis over the lease term.

t) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised directly in equity.

Acquisitions of minority interests
Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Software

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the statement of income on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets comprise of software costs, which are amortised over a period of 1-5 years. Expenditure on internally generated intangible assets is recognised in the income statement as an expense as incurred.

u) Income tax

The Group is not subject to any taxes in the UAE. Taxation on foreign operations of the subsidiaries is provided for in accordance with fiscal regulations applicable in each location.

v) Deficiency in policyholders' fund

Any deficit in the policyholders' fund is financed by the shareholders through loans. The Group maintains a full provision against such loans (refer note 28).

w) Underwriting income attributable to policyholders and shareholders

As stated in note 1, the Group operates in accordance with Islamic Sharia'a principles. As a result, the net underwriting income from the operations of the Group is attributable to policyholders in accordance with the terms and conditions of insurance contracts acquired by the policyholder which stipulates that the insured on taking out this policy from the Group becomes entitled to participate in the premium pool with insured parties in the class of insurance on cooperative (mutual basis).

3. Significant accounting policies (continued)

w) Underwriting income attributable to policyholders and shareholders (continued)

The relationship of the insured with the Company will be determined particularly as to his share in the surplus net of management expenses, liabilities for claims and necessary reserves by the Board of Directors of the Company for the class of insurance at the end of fiscal year of the Company. The Company undertakes to pay such share to the insured in the net profits in accordance with the resolution of the Board of Directors of the Company after the close of fiscal year of the Company. However, the net underwriting income from the operations of subsidiaries is attributable to the shareholders in accordance with the regulations prevailing in the jurisdiction of the subsidiary.

Therefore, the Company maintains separate accounts for insurance operations on behalf of the policyholders. Accordingly, the financial statements have been prepared on that basis and comply with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) to the extent that these are compatible with International Financial Reporting Standards.

x) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

z) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

i) Property and equipment

The fair value of property and equipment, where relevant is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of equipment, fixtures and fittings is based on the quoted market prices for similar items.

3. Significant accounting policies (continued)

z) Determination of fair values (continued)

(ii) Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every one year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, where appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Group and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and where appropriate counter-notices have been served validly and within the appropriate time.

(iii) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(iv) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of profit at the reporting date.

(v) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and profit cash flows, discounted at the market rate of profit at the reporting date. In respect of the liability component of convertible notes, the market rate of profit is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of profit is determined by reference to similar lease agreements.

4. Risk management

The Group issues contracts that transfer insurance risk or financial risk or both. This section summarizes these risks and the way the Group manages them.

a) Introduction and overview

Governance framework
The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of the set financial performance objectives. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

The Group 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.

Capital management framework
The Group has an internal risk management framework for identifying risks to which each of its business units and the Group as a whole are 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.

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

The operations of the Group 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.

Asset liability management (ALM) framework
Financial risks arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Group faces due to the nature of its investments and liabilities is the equity price risk. The Group manages these positions within an ALM framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts.

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

The Group's ALM framework 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.

4. Risk management (continued)

b) Insurance risk

Insurance risk is where the Group agrees to indemnify the insured parties against happening of unforeseen future insured events. The frequency and severity of claims are the main risk factors. As per the practices adopted by the Group, actual claim amounts can vary marginally compared to the outstanding claim reserves but are not expected to have a material impact.

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The Group underwrites mainly property, engineering, motor, miscellaneous accident, marines and personal accident classes. These classes of insurance are generally regarded as short-term insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

Property

For property insurance contracts, the main perils are fire damage and other allied perils and business interruption resulting there from.

These contracts are underwritten either on replacement value or indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, the time taken to reinstate the operations to its pre-loss position in the case of business interruption and the basis of insurance are the main factors that influence the level of claims.

Engineering

For engineering insurance contracts, the main elements of risks are loss or damaged to insured project works and resultant third party liabilities, loss or damage to insured plants, machinery and equipment and resultant business interruption losses. The extent of the loss or damage is the main factor that influences the level of claims.

Motor

For motor insurance contracts, the main elements of risks are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles.

The potential court awards for death and bodily injury and the extent of damage to properties are the key factors that influence the level of claims.

Miscellaneous accident

For miscellaneous accident classes of insurance such as loss of money, infidelity of employees, personal accident, workmen's compensation, travel, general third party liability and professional indemnity are underwritten.

The extent of loss or damage and the potential court awards for liability classes are the main factors that influence the level of claims.

4. Risk management (continued)

b) Insurance risk (continued)

Marine

In marine insurance the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in the total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

Reinsurance risk

In line with other insurance and reinsurance companies, in order to minimise financial exposure arising from large claims, the Group, in the normal course of business, enters into agreements with other parties for reinsurance purposes. Such reinsurance arrangement provides for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth.

To minimise its exposure to significant losses from reinsurers' insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

Reinsurance ceded contracts do not relieve the Group from its obligations and as a result the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

Concentration of insurance risk

The Group does not have any single insurance contract or a small number of related contracts that cover low frequency, high-severity risks such as earthquakes, or insurance contracts covering risks for single incidents that expose the Group to multiple insurance risks. The Group has adequately reinsured for insurance risks that may involve significant litigation.

Terms and conditions of insurance contracts

Insurance is based on uncertainty of event. As such the terms and conditions of insurance contracts varies but are normally based on the international guidance and policy wordings as followed by all insurance companies in the market.

Normally an insurance contract contains the coverage of the subject of insurance, the exclusions and obligations of the insured and the insurers. Deviations are reported forthwith to the insurer by the insured and any accident event to be reported immediately. Long tail business is generally that where the time period to ultimately finalise and settled claims could take a number of years.

The Group's estimates for reported and unreported losses and establishing resulting provisions and related reinsurance recoverables are continually reviewed and updated, and adjustments resulting from this review are reflected in the 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 claims.

Reserving risks are addressed by ensuring prudent and appropriate reserving for business written by the Group, 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.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

4. Risk management (continued)

b) Insurance risk (continued)

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.

The concentration of the insurance risk before and after reinsurance by the territory in relation to the type of risk accepted is summarized below:

31 December 2007	**Gross outstanding claims AED'000**	**Reinsurance AED'000**	**Net outstanding claims AED'000**
Africa	**131,359**	**(15,419)**	**115,940**
Far east	**242,851**	**(80,865)**	**161,986**
Middle east	**93,288**	**(4,882)**	**88,406**
Other	**50,471**	**-**	**50,471**
Total	**517,969**	**(101,166)**	**416,803**

31 December 2006	Gross outstanding claims AED'000	Reinsurance AED'000	Net outstanding claims AED'000
Africa	97,402	(13,675)	83,727
Far east	157,080	(43,184)	113,896
Middle east	84,938	(10,456)	74,482
Other	40,053	-	40,053
Total	379,473	(67,315)	312,158

The concentration of the insurance risk before and after reinsurance by the line of business in relation to the type of risk accepted is summarized below:

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

4. Risk management (continued)

b) Insurance risk (continued)

31 December 2007

	Gross outstanding claims	Reinsurance	Net outstanding claims
	AED'000	AED'000	AED'000
Motor	117,125	(4,716)	112,409
Non-motor	397,378	(96,082)	301,296
Medical	1,884	(368)	1,516
Life	1,582	-	1,582
Total	517,969	(101,166)	416,803

31 December 2006

	Gross outstanding claims	Reinsurance	Net outstanding claims
	AED'000	AED'000	AED'000
Motor	85,926	(1,842)	84,084
Non-motor	292,791	(65,234)	227,557
Medical	726	(239)	487
Life	30	-	30
Total	379,473	(67,315)	312,158

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

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes *(continued)*

4. Risk management

b) Insurance risk (continued)

Claims development

The Group 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.

Insurance claims-Gross

Underwriting Year	2005	2006	2007	Total
	AED'000	AED'000	AED'000	AED'000
Estimate of ultimate claims cost :				
At end of reporting year	253,022	337,732	423,807	1,014,561
Current estimate of cumulative claims (A)	253,022	337,732	423,807	1,014,561
Cumulative payments to date (B)	(206,949)	(214,576)	(110,268)	(531,793)
Net (A-B)	46,073	123,156	313,539	482,768
Liability recognized in the balance sheet as part of gross claim				482,768
Reserve in respect of years prior to 2005 part of the gross claim				35,201
Total reserve included in the balance sheet as part of the gross claim				517,969

4. Risk management

b) Insurance risk (continued)

Claims development (continued)

Insurance claims-Net

Underwriting Year	2005	2006	2007	Total
	AED'000	AED'000	AED'000	AED'000
Estimate of ultimate claims cost :				
At end of reporting year	214,822	286,122	346,620	847,564
Current estimate of cumulative claims (A)	214,822	286,122	346,620	847,564
Cumulative payments to date (B)	(180,814)	(181,635)	(93,207)	(455,656)
Net (A-B)	34,008	104,487	253,413	391,908
Liability recognized in the balance sheet as part of gross claim				391,908
Reserve in respect of years prior to 2005 part of the net claim				24,895
Total reserve included in the balance sheet as part of the net claim				416,803

It is not practicable for the Group to provide the past five year's claims development details as required by IFRS 4. However, an analysis for claims for the past three years have been presented.

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 gross liabilities AED'000	*Impact on net profit AED'000
Current claims	**+ 10%**	**+ 51,796**	**-32,312**
	- 10%	**- 51,796**	**+32,312**

31 December 2006

	Change in Assumption	Impact on gross liabilities AED'000	*Impact on net profit AED'000
Incurred claims	+ 10%	+ 37,947	-23,254
	- 10%	- 37,947	+23,254

* the impact on net profit is net of reinsurance.

4. Risk management (continued)

c) Financial risks

The Group 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 Group has been established and policies and procedures are in place to mitigate the Group'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.

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

Reinsurance is placed with reinsures 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 Group evaluates the financial condition of its reinsures and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsures.

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

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is not available.

ii) Liquidity risk

Liquidity risk is the risk that a Group 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.

4 Risk management (continued)

c) Financial risks (continued)

ii) Liquidity risk (continued)

Maturity profiles

The table below summarizes the maturity profile of the financial liabilities of the Group 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	**Carrying value**	**Contractual cash outflows**	**Less than 180 days**	**180 days to 1 year**	**1-5 Year**	**Over 5 Year**	**No stated maturity**
				AED '000			
Outstanding claims reserve	517,969	(517,969)	(31,559)	(152,803)	(320,235)	(1,461)	(11,911)
Insurance balance payable	108,082	(108,082)	(19,811)	(43,205)	(25,570)	-	(19,496)
Other payables	81,205	(81,205)	(39,551)	(16,052)	(3,254)	-	(22,348)
Amount due to related parties	4,957	(4,957)	(1,609)	-	(3,348)	-	-
Bank finance	178,142	(471,998)	(7,314)	(7,463)	(65,108)	(392,113)	-
Total liabilities	**890,355**	**(1,184,211)**	**(99,844)**	**(219,523)**	**(417,515)**	**(393,574)**	**(53,755)**

31 December 2006							
				AED '000			
Outstanding claims reserve	379,473	(379,473)	(24,109)	(108,741)	(236,352)	(1,026)	(9,245)
Insurance balance payable	76,713	(76,713)	(14,991)	(30,762)	(18,503)	-	(12,457)
Other payables	81,353	(81,353)	(34,939)	(27,193)	(2,379)	-	(16,842)
Amount due to related parties	14,014	(14,014)	(10,779)	-	(3,235)	-	-
Bank finance	162,623	(403,625)	(12,785)	(6,030)	(48,241)	(336,569)	-
Total liabilities	714,176	(955,178)	(97,603)	(172,726)	(308,710)	(337,595)	(38,544)

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 Group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in local equity and bond markets. In addition, the Group actively monitors the key factors that affect stock and bond market movements, including analysis of the operational and financial performance of investees.

4 Risk management (continued)

c) Financial risks (continued)

(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 Company's functional currency is the UAE Dirham.

The significant financial assets and liabilities exposed to currency risk in equivalent thousand of Dirham are as under:

31 December 2007	**Financial Assets**	**Financial liabilities**	**Net**
Currency			
EURO	195,331	(171,758)	23,573
US$	1,110,919	(162,340)	948,579
EGP	51,418	(30,706)	20,712
TND	159,255	(43,442)	115,813
CFA	105,134	(59,725)	45,409
DZD	168,071	(108,247)	59,824
Others	154,872	(142,529)	12,343
31 December 2006			
Currency			
EURO	137,542	(150,166)	(12,624)
US$	893,422	(439,529)	453,893
EGP	20,787	(7,888)	12,899
TND	147,921	(45,571)	102,350
CFA	127,211	(63,607)	63,604
DZD	129,135	(57,580)	71,555
Others	90,187	(45,498)	44,689

4. **Risk management** (continued)

c) **Financial risks** (continued)

iii) Market risk (continued)

Sensitivities

The analysis below is performed for reasonably possible movements in foreign exchange rate with all other assumptions held constant showing the impact on net profit or equity. The sensitivities carried out for subsidiaries only as the impact of currency risk on the Company's own assets and liabilities is considered insignificant.

31 December 2007

	Change in forex	Impact on net profit AED'000	Impact on equity AED'000
Financial assets	**+ 10%**	-	**+194,500**
	- 10%	-	**-194,500**
Financial liabilities	**+ 10%**	-	**+71,874**
	- 10%	-	**-71,874**

31 December 2006

	Change in forex	Impact on net profit AED'000	Impact on equity AED'000
Financial assets	+ 10%	-	+154,620
	- 10%	-	-154,620
Financial liabilities	+ 10%	-	+80,984
	- 10%	-	- 80,984

(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 Group is not exposed to any interest rate risk in terms of the re-pricing of its liabilities since in accordance with Islamic Shari'a, the Group does not entered into any interest bearing liabilities.

(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 Group'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.

4. Risk management (continued)

c) Financial risks (continued)

iii) Market risk (continued)

The Group'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.

Sensitivities

The analysis below is performed for reasonably possible movements in equity prices with all other assumptions held constant showing the impact on net profit or equity.

31 December 2007

Change in equity prices	Impact on net profit AED'000	Impact on equity AED'000
+ 10%	+32,283	+18,387
- 10%	-32,283	-18,387

31 December 2006

Change in equity prices	Impact on net profit AED'000	Impact on equity AED'000
+ 10%	+6,639	12,117
- 10%	-6,639	-12,117

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

The Group 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 Group's strategic planning and budgeting process.

5. Acquisition of subsidiaries

As stated in note 1, with effect from 1 January 2005, the Company acquired 82.21% share in Tariic. The operating results and financial position of Tariic for the year ended 31 December 2005 have been consolidated with the financial statements of the Company as the Group has control over the operating and financial policies of Tariic. The above acquisition resulted in recognition of Goodwill in balance sheet amounting to AED 186.19 million.

Subsequent to the above acquisition, as stated in note 1, the Company increased its holding in Tariic to 99.40% as at September 30, 2007 by further acquisitions of 4,080,465 shares. The net resultant discount of AED 2.62 million on these acquisitions was recognised directly in Company's shareholder's equity.

In addition to the acquisitions in Tariic, as stated in note 1, Company acquired shares in Best Re, subsidiary of Tariic. The goodwill amounting to AED 25.6 million was recognised in Company's shareholder's equity. After the acquisition, Tariic acquired further holding in Best Re and recognised AED 7.4 million discount directly in Tariic's shareholder's equity. Consequently, the share of Company to the above discount of AED 7.0 million was recognised directly in shareholders' equity.

6. Allocation of the net profit for the year

	For the year ended 31 December 2007				For the year ended 31December 2006			
	Shareholder AED'000	Policyholder AED'000	Minority interest AED'000	Total AED'000	Shareholder AED'000	Policyholder AED'000	Minority interest AED'000	Total AED'000
Net underwriting income								
Net underwriting income of the Company	-	20,161	-	20,161	-	11,937	-	11,937
Net underwriting income from subsidiaries	98,323	-	-	98,323	97,414	-	-	97,414
Total net underwriting income	98,323	20,161	-	118,484	97,414	11,937	-	109,351
Income								
Wakala fees (note 7)	20,503	(20,503)	-	-	11,541	(11,541)	-	-
Mudarib fees (note 7)	83	(83)	-	-	141	(141)	-	-
Investment income (note 8)	153,981	551	-	154,532	162,696	943	-	163,639
Other income	9,633	-	-	9,633	8,522	41	-	8,563
	282,523	126	-	282,649	280,314	1,239	-	281,553
Expenses								
General and administrative expenses	(102,761)	-	-	(102,761)	(86,238)	-	-	(86,238)
Finance expenses	(19,084)	-	-	(19,084)	(8,245)	-	-	(8,245)
Provision for charitable donations	(2,703)	-	-	(2,703)	(2,492)	-	-	(2,492)
Net profit before tax for the year	157,975	126	-	158,101	183,339	1,239	-	184,578
Tax	(3,334)	-	-	(3,334)	(2,437)	-	-	(2,437)
Net profit after tax for the year	154,641	126	-	154,767	180,902	1,239	-	182,141
Share of minority interest	(1,738)	-	1,738	-	(4,910)	-	4,910	-
Chargeback of funding provided	126	(126)	-	-	1,239	(1,239)	-	-
Net profit for the year	153,029	-	1,738	154,767	177,231	-	4,910	182,141

7. Wakala and mudarib fees

The shareholders manage the insurance operations of the Group for the policyholders and charge 15% *(2006: 15%)* of gross written premium of non life insurance business (excluding subsidiaries) as Wakala fees. For life insurance business, Wakala fees are being charged at 15% of mortality costs.

The shareholders of the Group also manage the policyholders' investment funds and charge 15% *(2006: 15%)* of investment income earned by the policyholders as Mudarib fees.

8. Investment income

	For the year ended 31 December 2007		
	Shareholders AED'000	**Policyholders AED'000**	**Total AED'000**
Income from investments in Modaraba and IPO Fund	**91,967**	**-**	**91,967**
Realised gain on sale of investments	**7,452**	**-**	**7,452**
Unrealised gain on investments	**34,762**	**-**	**34,762**
Unrealised gain on investments properties	**15,062**	**126**	**15,188**
Income from bank deposits and loans and receivables	**6,909**	**208**	**7,117**
Dividend income	**1,052**	**-**	**1,052**
Share of loss in associates	**(3,933)**	**-**	**(3,933)**
Rental income	**710**	**217**	**927**
	153,981	**551**	**154,532**

	For the year ended 31 December 2006		
	Shareholders AED'000	Policyholders AED'000	Total AED'000
Income from investments in Modaraba and IPO Fund	162,283	-	162,283
Realised gain on sale of investments	2,050	-	2,050
Unrealised loss on investments	(22,145)	-	(22,145)
Unrealised gain on investments properties	2,811	659	3,470
Impairment allowance on available-for-sale Investments	(1,800)	-	(1,800)
Income from bank deposits and loans and receivables	17,655	123	17,778
Dividend income	355	-	355
Share of profit in associates	163	-	163
Rental income	1,324	161	1,485
	162,696	943	163,639

Investment income of the Group has been allocated to the shareholders in the ratio of capital to total assets of the Group as at latest audited balance sheet date. The remaining income has been allocated to the policyholders.

In July 2005, the Company increased its share capital from AED 50 million to AED 1 billion. Investment income generated by investing these funds have not been allocated to the policyholders as these funds pertain to shareholders and are not generated from the operations of the Group.

9. General & administrative expenses

These include:

	2007 AED'000	2006 AED'000
Staff costs	**47,246**	29,527
Rent, rates and service charges	**6,878**	4,212
Utilities	**893**	3,217
Travelling and conveyance	**2,933**	3,698
Printing and stationery	**2,538**	1,934
Licenses and other government expenses	**1,314**	1,122
Depreciation	**5,554**	4,370
Amortisation	**3,724**	518
Marketing and advertising	**4,038**	3,237
Audit, legal and professional	**4,266**	4,263

10. Provision for charitable donations

In accordance with Islamic Sharia'a requirements, certain profits earned by the subsidiaries have been reduced from income and transferred to a separate provision which are utilised for charitable donations. Movement in the provision recognised in the balance sheet are as follows:

	2007 AED'000	2006 AED'000
Balance at 1 January	**16,811**	14,981
Provided during the year	**2,703**	2,492
Utilised during the year	**-**	(662)
Balance at 31 December (included in Other payables and accruals) (note 24)	**19,514**	16,811

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes *(continued)*

11. Property and equipment

	Land AED'000	Building AED'000	Furniture & fixtures AED'000	Computer AED'000	Motor Vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost							
At 1 January 2006	8,358	34,609	13,532	5,459	2,954	451	65,363
Additions	35	3,504	2,623	1,317	623	55	8,157
Disposals	-	-	(1)	-	(118)	-	(119)
Foreign exchange translation	288	342	136	126	33	57	982
Revaluation	-	(202)	-	-	-	-	(202)
Reclassification	-	-	(1,453)	(28)	1	1,042	(438)
At 31 December 2006	8,681	38,253	14,837	6,874	3,493	1,605	73,743
At 1 January 2007	8,681	38,253	14,837	6,874	3,493	1,605	73,743
Revaluations	329	942	410	529	57	58	2,325
Additions	-	2,634	3,967	1,879	588	432	9,500
Revaluation	-	5,532	-	-	-	-	5,532
Disposals	-	(653)	(173)	(57)	(177)	-	(1,060)
Others	8,691	(10,229)	421	2,221	-	(1,534)	(430)
At 31 December 2007	17,701	36,479	19,462	11,446	3,961	561	89,610
Depreciation							
At 1 January 2006	-	2,164	7,926	3,678	2,038	264	16,070
Charge for the year	-	826	1,846	871	492	335	4,370
On disposals	-	-	-	-	(118)	-	(118)
Foreign exchange translation	-	36	99	92	33	49	309
Reclassification	-	-	(690)	13	1	320	(356)
At 31 December 2006	-	3,026	9,181	4,654	2,446	968	20,275
At 1 January 2007	-	3,026	9,181	4,654	2,446	968	20,275
Revaluations	-	90	193	166	31	58	538
Charge for the year	-	964	2,801	1,084	705	-	5,554
On disposals	-	-	(31)	(8)	(177)	-	(216)
Foreign exchange translation	-	2	30	24	7	-	63
Adjustment on revaluation	-	(633)	-	-	-	-	(633)
Others	-	-	(3,206)	1,643	62	(465)	(1,966)
At 31 December 2007	-	3,449	8,968	7,563	3,074	561	23,615
Net book value							
At 31 December 2007	**17,701**	**33,030**	**10,494**	**3,883**	**887**	**-**	**65,995**
At 31 December 2006	8,681	35,227	5,656	2,220	1,047	637	53,468

Land and building of subsidiaries is being revalued on an open market basis by a professional firm of independent property valuers and the Group's share of the surplus of AED 4.9 million *(2006: AED (0.2) million)* has been credited to revaluation reserve.

12. Intangible assets

	2007 AED'000	2006 AED'000
Cost		
Balance at 1 January	**12,253**	4,499
Additions during the year	**3,050**	7,754
Others	**3,312**	-
Balance at 31 December	**18,615**	12,253
Accumulated amortisation		
Balance at 1 January	**1,260**	742
Charge for the year	**3,630**	518
Others	**5,184**	-
Balance at 31 December	**10,074**	1,260
Net book value at 31 December	**8,541**	10,993

The intangible assets represent computer software licences acquired by the Group and are capitalized on the basis of the costs incurred to acquire and bring into use the specific software.

13. Investment properties

In 2006, investment properties comprise of land and building acquired by the Company in UAE in 1997, and lands in Kingdom of Saudi Arabia (KSA) acquired in 2006. The value of investment properties, as determined by independent valuers as at 31 December 2007, is AED 16.97 million and AED 73.12 million for properties in UAE and KSA respectively.

The rental income of UAE properties amount to AED 0.8 million in 2007 (2006: AED 0.8 million), there is no direct related expenses in respect of investment property.

The investments made in KSA are three different lands and jointly owned by the Company with Saudi Arabia local partners. The lands are owned by the Company through a nominee agreement for and on behalf of the Company.

General and administrative expenses includes AED 13,000 (2006: AED 11,000) incurred in respect of repairs and maintenance of investment property.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

14. Investment in associates

The principal associates of the Group, all of which have 31 December as their year end are as follows:

Associates	Ownership 2007	Ownership 2006	Country of incorporation	31 December 2007 AED'000	31 December 2006 AED'000
GEPAR	**19.06%**	19.06%	Tunisia	**92**	92
Saudi IAIC Cooperative Insurance Co. (Saudi IAIC)*	**30.00%**	30.00%	KSA	**29,472**	33,404
ITE	**46.71%**	46.71%	Tunisia	**43**	43
Lloyds Tunisia	**23.77%**	23.77%	Tunisia	-	-
Best Invest	**23.83%**	23.83%	Tunisia	-	-
				29,607	33,539

Movements during the year	2007 AED'000	2006 AED'000
Balance at 1 January	**33,539**	60,055
Investments reclassified as available-for-sale	-	(2,826)
Disposal of associates	-	(23,853)
Share of (losses)/profit in associates	**(3,933)**	163
Balance at 31 December	**29,607**	33,539

*In 2005, this represented an investment in Saudi IAIC as a result of ownership by Tariic of 41% and by the Company of 8% and is carried at cost. In 2006, Tariic has entirely sold its ownership in Saudi IAIC to the Company (22%) and the remaining balance to other promoters of the IAIC Gulf (19%). There was no gain or loss on the disposal of Saudi IAIC shares.

15. Statutory deposits

Company	Country of incorporation	2007 AED'000	2006 AED'000
IAIC	UAE	**8,036**	8,036
Tariic	Bahrain	**195**	195
Egypt Saudi Insurance Home	Egypt	**15,298**	10,491
Salama Senegal (Sosar)	Senegal	**4,678**	4,150
Salama Algeria	Algeria	-	-
		28,207	22,872

15. **Statutory deposits** (continued)

These statutory deposits are required to be placed by all insurance companies operating in respective countries mentioned above with the designated National Banks. Statutory deposits, which depend on the nature of insurance activities, cannot be withdrawn except with the prior approval of the regulatory authorities.

16. **Investments**

	2007 AED'000	2006 AED'000
Available-for-sale	**222,411**	86,944
Financial assets through profit or loss	**322,772**	73,144
Held-to-maturity	**310,658**	62,614
	855,841	222,732

	2007 AED'000	2006 AED'000
Available-for-sale investments		
Shares and mutual funds - Unquoted	222,411	86,944
	222,411	86,944

Movements in available-for-sale investments

	2007 AED'000	2006 AED'000
Balance at 1 January	**86,944**	73,331
Investments reclassified as available-for-sale	-	2,826
Investments reclassified as financial assets through profit & loss	-	(11,912)
Investments reclassified to held to maturity	-	(1,093)
Purchases during the year	**135,003**	26,418
Disposals during the year	**(2,911)**	(5,843)
Increase in fair value during the year	**3,375**	3,217
Balance at 31 December	**222,411**	86,944

	2007 AED'000	2006 AED'000
Financial assets at fair value through profit or loss		
Shares and mutual funds - Quoted	**312,546**	66,794
Shares and mutual funds - Unquoted	**10,226**	6,350
	322,772	73,144

16. **Investments** (continued)

Movements in financial assets at fair value through profit or loss:

	2007 AED'000	2006 AED'000
Balance at 1 January	**73,144**	70,172
Purchases during the year	**713,784**	307,442
Investments reclassified as financial assets through profit & loss	-	11,912
Disposals during the year	**(502,370)**	(294,237)
Increase/(decline) in fair value during the year	**34,762**	(22,145)
Balance at 31 December	**322,772**	73,144

	2007 AED'000	2006 AED'000
Held-to-maturity		
SUKUK and Govt Bonds	**39,722**	56,405
Others	**270,936**	6,209
	310,658	62,614

17. Deposits with insurance and reinsurance companies

	2007 AED'000	2006 AED'000
Premium deposits	**103,629**	100,212
Claim deposits	**203,159**	185,098
	306,788	285,310

Premium deposits with insurance companies primarily pertain to Best Re amounting to AED 100 million *(2006: AED 96 million)*. Claim deposits also pertain mainly to Best Re amounting to AED 201 million *(2006: AED 183 million)*. As per the relevant local regulations, the ceding company retains a portion of unearned premium and outstanding claims after net payments to Best Re.

18. Premiums and insurance balance receivables

	2007 AED'000	2006 AED'000
Insurance premiums receivables	**338,033**	252,381
Due from insurance and reinsurance companies	**122,237**	67,860
	460,270	320,241
Provision for impairment losses		
Insurance premiums receivables	**(2,204)**	(1,390)
Due from insurance and reinsurance companies	**(2,859)**	(2,000)
	455,207	316,851

Aging of premiums and insurance balance receivables

	31 December 2007 Gross amount (AED'000)	Impairment (AED'000)
Not Past Due	272,623	-
Past Due over 0 to 60 days	57,051	-
Past Due over 60 to 120 days	29,547	-
Past Due over 120 to 180 days	23,337	-
Past Due over 180 days to 1 year	34,393	-
Over 1 year	43,319	(5,063)
Total Premiums and insurance balance receivables	460,270	(5,063)
Net Premiums and insurance balance receivables	455,207	

It is not practical to show the comparative age analysis of premiums and insurance balances receivables as required by IFRS 7. The management have reviewed the provision for impairment and have concluded that, given the long term nature of the business, it is adequate.

19. Other assets and receivables

	2007 AED'000	2006 AED'000
Receivable from RUSD Investment Bank, Inc.	**44,520**	-
Receivable from RUSD International Marketing	-	7,080
Operating advances	-	9,347
Utility, security and other deposits	**2,684**	114
Due from employees	**6,601**	5,292
Other prepayments	**2,917**	2,209
Lease rental receivables	**55**	54
Advance taxes paid	**127**	820
Income receivable on investments	**9,719**	462
PDC's, cheques and credit cards	**696**	321
Subrogation	**21,312**	-
Others	**18,974**	14,668
	107,605	40,367

20. Cash and bank balances

	2007 AED'000	2006 AED'000
Cash in hand	**138**	482
Cash at bank	**25,911**	131,039
Term deposits	**121,721**	647,158
Cash in IPO Fund	**29,318**	30,493
	177,088	809,172

21. Outstanding claims reserve

	2007 AED'000	2006 AED'000
Reserve for outstanding claims	**418,305**	293,156
Reserve for incurred but not reported claims	**99,664**	86,317
	517,969	379,473
Less: Reinsurers' share of outstanding claims	**(101,166)**	(67,315)
	416,803	312,158

Movements in outstanding claims reserve

	2007			
	Gross AED'000	**Reinsurance AED'000**	**Adjustment AED'000**	**Net AED'000**
Balance at 1 January	**379,473**	**(67,315)**	-	**312,158**
Foreign exchange differences	-	-	**4,267**	**4,267**
Net movement during the year	**138,496**	**(33,851)**	**(4,267)**	**100,378**
Balance at 31 December	**517,969**	**(101,166)**	-	**416,803**

	2006			
	Gross AED'000	Reinsurance AED'000	Adjustment AED'000	Net AED'000
Balance at 1 January	307,245	(58,197)	-	249,048
Foreign exchange differences	-	-	35	35
Net movement during the year	72,228	(9,118)	(35)	63,075
Balance at 31 December	379,473	(67,315)	-	312,158

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 reviewed annually.

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.

21. **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 Group 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. These are used for assessing the IBNR for the 2006 and 2007 accident years.

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 Group's estimation process. The Group 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.

22. Unearned premium reserve

Movements in unearned premium reserve:

	2007			
	Gross AED'000	**Reinsurance AED'000**	**Adjustment AED'000**	**Net AED'000**
Balance at 1 January	**115,172**	**(20,822)**	**-**	**94,350**
Foreign exchange differences	**-**	**-**	**553**	**553**
Provision made during the year	**172,621**	**(48,772)**	**(553)**	**123,296**
Provision released during the year	**(115,172)**	**20,823**	**-**	**(94,350)**
Balance at 31 December	**172,621**	**(48,772)**	**-**	**123,849**

	2006			
	Gross AED'000	Reinsurance AED'000	Adjustment AED'000	Net AED'000
Balance at 1 January	83,222	(10,348)	-	72,874
Foreign exchange differences	-	-	(495)	(495)
Provision made during the year	115,172	(20,823)	495	94,844
Provision released during the year	(83,222)	10,348	-	(72,874)
Balance at 31 December	115,172	(20,823)	-	94,349

23. Insurance balances payable

	2007 AED'000	2006 AED'000
Insurance companies	**14,606**	66,122
Customers and others	**76,751**	-
Reinsurance companies	**16,725**	10,591
	108,082	76,713

24. Other payables and accruals

	2007 AED'000	2006 AED'000
Payable to garages and brokers	**2,334**	1,575
Payable to RUSD Investment Bank	**5,661**	29,668
Provision for charitable donations (note 10)	**19,514**	16,811
Payable to suppliers	**3,212**	1,356
Staff related accruals	**9,336**	7,107
Post dated cheques	**1,209**	2,313
Accrued expenses	**799**	937
Other provisions	**22,395**	305
Taxes payable	**13,369**	11,233
Other payables	**14,714**	19,834
	92,543	91,139

25. Bank finance

	2007 AED'000	2006 AED'000
Long-term portion	172,271	155,142
Short-term portion	5,871	7,481
	178,142	162,623

During the year 2006, Best Re, one of the Group's subsidiaries acquired a loan amounting to AED 154.85 million arranged by Merrill Lynch International. The loan has a repayment period of 20 years with an early redemption option after 10 years. The profit is payable at variable rate approximating 375 basis points above three month EURIBOR. The profit is payable at each quarter end.

26. Related party transactions

The Group, in the normal course of business, collects premiums, settles claims and enters into other transactions with other businesses that fall within the definition of related parties contained in the International Accounting Standard 24. The management believes that the terms of such transactions are not significantly different from those that could have been obtained from third parties. The following are the details of significant transactions with related parties.

	2007 AED'000	2006 AED'000
General and administrative expenses	**4,314**	453
Reinsurance on premiums	**17,365**	8,391
Reinsurance on claims	**3,668**	905
Commission	**3,672**	1,370
Purchase of investments	**545,859**	300,753
Sale of investments	**414,335**	293,617
Sale of investments with other entities under common management with the Group	-	21,566

Transactions and receivables relative to Bin Zayed Group are in respect of management of the Group's investment portfolio.

Amounts due from related parties	2007 AED'000	2006 AED'000
Bin Zayed Group	**41,636**	-
IAIC Labuan	**5,961**	7,004
IAIC Bahrain	**23**	22
Other entities under common management with the Group	**2,439**	800
	50,059	7,826

Amounts due to related parties

IAIC Bahrain-Current account	**1,624**	2,848
Bin Zayed Group	-	7,859
Other entities under common management with the Group	**3,333**	3,307
	4,957	14,014

Compensation of key management personnel

Short term benefits	**5,690**	4,905
Employees end of service benefits	**1,818**	424
	7,508	5,329

27. Minority interest

	2007 AED'000	2006 AED'000
Balance at 1 January	**41,179**	158,392
Movement upon acquisition of minority interest in subsidiaries	**(19,233)**	(119,645)
Dividends paid	**(699)**	(3,467)
Share in revaluation surplus of property and equipment	**603**	(42)
Share in foreign exchange translation reserve	**1,442**	327
Share in net change in fair value of available for sale investments	**(2)**	704
Minority's share of profit for the year	**1,738**	4,910
Balance at 31 December	**25,028**	41,179

28. Policyholders' fund

	2007 AED'000	2006 AED'000
Deficiency of policyholders' fund		
Balance at 1 January	**(11,681)**	(12,921)
Net surplus attributable to policyholders for the year	**126**	1,240
	(11,555)	(11,681)
Proposed profit distribution to policy holders of Family Takaful	**(835)**	-
	(12,390)	(11,681)
General		
Balance at 1 January	**(11,681)**	(12,921)
(Loss)/surplus for the year	**(785)**	1,240
	(12,466)	(11,681)
Life		
Balance at 1 January	-	-
Surplus in Family Takaful for the year	**911**	-
Proposed profit distribution to policyholder of Family Takaful	**(835)**	-
	76	-
Balance at 31 December	**(12,390)**	(11,681)

The shareholders of the Company have financed the policyholders' deficit in accordance with the Company's policy.

29. Share capital

	2007 AED'000	2006 AED'000
Authorised, issued and fully paid up capital		
1,100,000,000 shares of AED 1 each *(2006: 1,100,000,000 shares of AED 1)*	**1,100,000**	1,100,000

During the Annual General Meeting held on 29 April 2006, the shareholders approved a 10% bonus share issue.

30. Statutory reserve

In accordance with Article 255 of the UAE Federal Commercial Companies Law, a minimum of 10% of the net profit of the Company is required to be allocated every year to a statutory reserve, which is not distributable. Such allocations may be ceased when the statutory reserve equals half of the paid up share capital of the Company.

31. Revaluation reserve

The Group's share of surplus on revaluation amounting to AED 4.9 million *(2006: AED (0.16) million)* on land and building during the year has been credited to a non distributable reserve (refer note 2 and 11).

32. Treasury shares

During the year, the Company bought back 8,221,454 shares amounting to AED 24.8 million. The buy back of shares was approved by the Board of Directors on 7 February 2007.

The treasury shares are debited as a separate category of shareholders' equity at cost.

33. Earnings per share

The calculation of earnings per share for the year ended 31 December 2007 is based on earnings of AED 153 million *(2006: AED 177.23 million)* divided by the weighted average number of shares of 1,094 million *(2006: 1,100 million)* outstanding during the year after taking into account the treasury shares held.

34. Taxation on foreign operations

In view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide reconciliation between the accounting and taxable profits together with details with effective tax rates.

35. Contingent liabilities and capital commitments

	2007 AED'000	2006 AED'000
Letters of guarantee	9,525	9,518

Statutory deposits of AED 7.35 million (2006: AED 7.12 million) are held as lien by the bank against the above guarantees.

35. Contingent liabilities and capital commitments (continued)

The Group, in common with other insurance companies, is involved as a 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 Group in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made.

There are no significant capital commitments at 31 December 2007 (2006: Nil).

36. Operating lease commitments

The Group's non-cancellable operating lease commitments are payable as follows:

	2007 **AED'000**	2006 AED'000
Less than one year	**1,648**	1,050
Between one to five years	-	80
	1,648	1,130

The Group also leases out its investment property under operating leases. Non-cancellable operating lease rentals are receivable as follows:

	2007 **AED'000**	2006 AED'000
Less than one year	**148**	355
Between one to five years	-	430
	148	785

Notes *(continued)*

37. Segmental information

By Business
(for the year ended 31 December 2007)

	Fire AED'000	Accident AED'000	Engineering AED'000	Marine AED'000	Motor AED'000	Health AED'000	Transport AED'000	Life AED'000	Others AED'000	Total AED'000
Gross written premium	381,211	106,252	102,349	91,496	199,149	22,815	753	20,142	9,055	933,222
Net premiums earned	296,532	83,625	72,176	76,486	185,879	10,452	79	10,051	5,659	740,939
Commissions received on ceded reinsurance	11,706	2,749	4,834	2,308	252	434	257	-	482	23,022
	308,238	86,374	77,010	78,794	186,131	10,886	336	10,051	6,141	763,961
Net claims incurred	142,793	38,635	39,035	46,985	148,250	4,724	(599)	1,546	2,137	423,506
Commissions paid and other costs	106,567	31,556	27,841	25,056	17,938	3,751	56	627	8,579	221,971
Net underwriting income	**58,878**	**16,183**	**10,134**	**6,753**	**19,943**	**2,411**	**879**	**7,878**	**(4,575)**	**118,484**

Segment reporting by business in respect of assets and liabilities are not available for disclosure purposes.

37. Segmental information (continued)

By Business
(for the year ended 31 December 2006)

	Fire AED'000	Accident AED'000	Engineering AED'000	Marine AED'000	Motor AED'000	Health AED'000	Transport AED'000	Life AED'000	Others AED'000	Total AED'000
Gross written premium	266,934	58,727	68,125	64,248	173,748	9,905	4,119	3,041	8,745	657,592
Net premiums earned	214,679	47,664	49,585	48,914	168,242	5,753	1,956	1,228	6,184	544,205
Commissions received on ceded reinsurance	7,355	1,935	2,717	2,856	342	440	679	-	186	16,510
	222,034	49,599	52,302	51,770	168,584	6,193	2,635	1,228	6,370	560,715
Net claims incurred	(116,489)	(19,732)	(23,009)	(27,709)	(103,111)	(3,769)	(164)	(396)	(1,244)	(295,623)
Commissions paid and other costs	(77,229)	(18,528)	(17,921)	(18,400)	(19,572)	(1,347)	(101)	(37)	(2,606)	(155,741)
Net underwriting income	**28,316**	**11,339**	**11,372**	**5,661**	**45,901**	**1,077**	**2,370**	**795**	**2,520**	**109,351**

Segment reporting by business in respect of assets and liabilities are not available for disclosure purposes.

37. Segmental information (continued)

By Geography
(for the year ended 31 December 2007)

	Africa AED'000	Far East AED'000	Middle East AED'000	Turkey and Central Asia AED'000	Total AED'000
Gross written premium	237,291	405,365	192,323	98,243	933,222
Net premiums earned	193,405	316,391	143,446	87,697	740,939
Commissions received on ceded reinsurance	7,258	12,028	3,736	-	23,022
	200,663	328,419	147,182	87,697	763,961
Net claims incurred	(95,413)	(177,328)	(999,308)	(51,457)	(423,506)
Commissions paid and other cost	(46,052)	(121,909)	(29,654)	(24,356)	(221,971)
Net underwriting income	**59,198**	**29,182**	**18,220**	**11,884**	**118,484**

By Geography
(for the year ended 31 December 2006)

	Africa AED'000	Far East AED'000	Middle East AED'000	Turkey and Central Asia AED'000	Total AED'000
Gross written premium	167,765	264,418	141,699	83,710	657,592
Net premiums earned	135,914	203,896	126,119	78,276	544,205
Commissions received on ceded reinsurance	6,086	8,829	1,595	-	16,510
	142,000	212,725	127,714	78,276	560,715
Net claims incurred	(44,144)	(107,100)	(95,601)	(48,778)	(295,623)
Commissions paid and other cost	(30,991)	(80,821)	(24,091)	(19,838)	(155,741)
Net underwriting income	**66,865**	**24,804**	**8,022**	**9,660**	**109,351**

Segment reporting by geography in respect of assets and liabilities are not available for disclosure purposes.

37. Comparative figures

Certain comparative figures have been reclassified, where necessary, to conform with the presentation adopted in these financial statements. In particular, held to maturity investments have been disclosed separately from deposits and loans & advances. There is no impact on opening retained earnings.