

H. H. SHEIKH KHALIFA BIN ZAYED AL NAHYAN
President of the United Arab Emirates
Ruler of Abu Dhabi



H. H. SHEIKH MOHAMED BIN RASHID AL MAKTOUM
Vice President and Prime Minister of the United Arab Emirates
Ruler of Dubai

Directors and Management

BOARD OF DIRECTORS

Chairman	Abdulla Hamad Al-Futtaim (representative of Al-Futtaim Company (L.L.C.))
Vice Chairman	Omar Abdulla Al-Futtaim (representative of Al-Futtaim Development Services Co (L.L.C.))
Director	C.K.Jeang (representative of Al-Futtaim Private Company (L.L.C.))

MANAGEMENT

Senior Managing Director	Omer Hassan Elamin

Departments, Branches

Assistant General Manager – Technical
Rohana Alagiyage – F.C.I.I.
Chartered Insurer

Assistant General Manager – Agency
K.V Suresh Msc(E), FIII.

Assistant General Manager – Sales & Marketing
Nidal Assad Mohamad Ershaid, B.L.

Assistant General Manager – Medical
Xavier S. Arputharaj – A.C.I.I.
Chartered Insurer

Assistant General Manager – Life
Mohammad Naseem – B.Com, L.L.B, A.C.S.

Assistant General Manager – Finance
Mohammed Husain Suleman, B.Com, F.C.A.

Assistant General Manager – Operations Control
G. Giridharan, ACA, FIII, ACII.

BRANCHES:

Bur Dubai
P.O. Box 27966, Suite No. 24, 3rd Floor,
Al Abbar Building
Bur Dubai
Tel: (04) 3352400, Fax: (04) 3352015

Dubai Health Care City
P.O. Box 27966, Office No.1, 1st Floor,
Building No.AP24
Tel: (04) 3635321, Fax: (04) 3635318

Abu Dhabi
P.O. Box 37035, Suite No. 1, Mezzanine Floor,
New Honda Showroom Building,
Zayed the 1st Street, Abu Dhabi
Tel: (02) 6763222, Fax: (02) 6722236

Sharjah
P.O. Box 6654, Flat No. 203, 2nd Floor,
Al Hisn Tower, Bank Street, Sharjah
Tel: (06) 5682045, Fax: (06) 5681334

Jebel Ali
P.O. Box 17292
LOB 1206
Jebel Ali
Tel: (04) 8812533, Fax: (04) 8812530

Sheikh Zayed Road
P.O. Box 27966
Office No.117, Al Quoz Business Centre
Tel: (04) 3381880, Fax: (04) 3380363

Al Ain
P.O.Box 18800, Flat No. 1, 2nd Floor
Al Ain Paradise Centre (City Centre)
Tel: (03) 7658787, Fax: (03) 7657619

Ras Al-Khaimah
Al-Naeem Tower, Floor No. 11, Flat No. 1101
Corniche Street, Ras Al-Khaimah
Tel: (07) 2335098, Fax: (07) 2335091

Report of the directors

The Board of Directors has pleasure in presenting the 26th Annual Report of the Company, together with the audited financial statement for the year ended 31st December 2007.

BUSINESS REVIEW

2007 was another strong year of performance for the UAE economy. The construction boom has continued giving a major increase to the engineering premium whilst the completed projects have boasted the property portfolio.

With such an active economic scenario all other insurance classes have also witnessed a good increase. The Marine premium is showing an increase due to the high volume of imports of consumer goods to cater for the increase in population. The increase of imports of building materials and other necessary plants & equipments have also helped in increasing the marine business. The motor insurance has also shown a major increase due to the increase in car sales. More medical, life and workmen compensation policies have been issued with the privatization of health insurance in Abu Dhabi and the expectation for Dubai to follow. This is in addition to the increase in the labour force in general and more foreign companies setting up business in the UAE.

Regrettably with all such good increase in volume of business the premium rates are declining. With high rate of inflation, high cost of living the insurance premium rates are moving in the opposite direction. The cost of automobile parts has increased due to the currency fluctuation and the cost of labour has been jacked up by almost one third. On the medical insurance, this class of business is under tremendous pressure due to competition, continuous increase of medical cost by providers and a limited number of hospitals in the country with an increase in population. It is expected that most current medical schemes will run in a loss by the end of the following year before a general market rate adjustment can take place. On the construction and property sectors, the rates and deductibles have reached simply uneconomical levels. The recent heavy rains at the beginning of 2008 have caused the industry an estimated loss of 400 million dirham. This is mainly due to various projects currently under execution. This is likely to have on effect reinsurance renewal terms due 1st July 2008.

It is estimated that the rates in general have dropped by almost 30% during 2007 in a market that is already very competitive. The increase in local rates following the 11th of September as a result of a hard international market has continuously softened since 2003, but they have gained momentum in the past 2 years.

The stock market has somehow partially recovered the 2006 crash. We hope that this recovery will not encourage underwriting of business at more uneconomical rates for generation of liquidity. An aggressive investment policy can prove to be on long term basis a very dangerous business practice. The local insurance companies should not drift from focusing on their main core activity where they are supposed to be generating technical profit.

AOIC PERFORMANCE

The year 2007 has been an excellent year for the company. Gross premium, underwriting profit, investment income and bank deposits have all recorded substantial increase. Our gross premium has increased from 558 million in 2006 to 767 million in 2007 showing an increase of 37%. The underwriting profit jumped from 67 million to 91 million with an increase of 36%. The increases in premium and technical profit ratio have been identical showing a prudent underwriting policy and clearly demonstrate a wise balance between growth and profitability. Our net profit jumped 43% from 95 million in 2006 to 136 million in 2007. In a deliberate approach to motor business our net motor portfolio has dropped again from 16% to 14%. This is a consistent policy adopted year after year. In 2005 the ratio of our net motor portfolio was 18%. Whilst the other classes of business are growing in a healthy and balanced manner, the motor business remains under firm control.

REINSURANCE TREATIES

We have been able to conclude the renewal of our reinsurance treaties successfully. There is an increase in capacity and satisfactory terms in general. The prestigious list of our re-insurers is showing clearly the quality of our panel of security. We are in discussions with our main partners and treaty leader Swiss Re for concluding a new health care treaty as well as an energy treaty. We would like to record our appreciation to our treaty leader Swiss Re and the other following re-insurers for their continuous support and cooperation.

S&P RATING/ISO 9001 CERTIFICATION

We are pleased to report that we have retained our A- S&P rating. In addition we have been certified an ISO 9001 during 2007. These two achievements show our commitment to excellence, quality of management, financial strength and a prestigious re-insurers panel.

PROSPECTS & TREATORIAL EXPANSION

As stated in our earlier 2006 report 2007 was very promising year. We are looking forward with confidence to the year 2008. Our new network of branches in Dubai Health Care City, Sheikh Zayed Road and Ras-Al Khaimah is now fully equipped to perform. We are expecting their contribution to be excellent and profitable. In addition, our sister company in Syria has done exceptionally well and has exceeded our expectation with 11 million dirham premium and 2.5 million net profit. We are confident that the good performance of the company will continue during 2008 and the returns on our foreign investment will be very rewarding. Our plans for expansion locally and abroad are continuing. We are hopeful to open another branch in Abu Dhabi in 2008, we are also expanding in Muscat and our eyes are on Egypt and Saudi Arabia. However, all the overseas expansion plans are subject to approval from regulatory authorities.

FINANCIAL HIGHLIGHTS

The highlights of the company's financial performance of the year ended December 2005, 2006 and 2007 are set below:

	2005 AED'000	2006 AED'000	**2007 AED'000**	%Increase over 2006
Gross Premium written	391,233	557,998	**766,643**	37%
Net Premium written	122,195	168,280	**213,463**	27%
Net claims incurred	53,192	72,403	**98,056**	35%
Net Profit	73,038	95,075	**136,105**	43%
Dividend to shareholders	20,000	30,000	**40,000**	33%
Provision for unearned premiums	48,123	68,650	**87,951**	28%
Share Capital	100,000	150,000	**200,000**	33%
Reserves	194,592	202,748	**251,661**	24%

We would like to thank our valuable clients/brokers for their strong support in 2007. We also would like to thank the management and staff for their dedication, loyalty and hard work and we look forward to their continuous commitment in the following year.

Independent Auditors' Report to the Shareholders of Arab Orient Insurance Company (PSC)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Arab Orient Insurance Company (PSC), which comprise the balance sheet as at 31 December 2007 and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENTS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2007 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the applicable provisions of the UAE Commercial Companies Law of 1984 (as amended) and its articles of association.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We also confirm that, in our opinion, the financial statements include in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended), UAE Federal Law No. (6) of 2007 and the articles of association of Arab Orient Insurance Company (PSC); proper books of account have been kept by Arab Orient Insurance Company (PSC); an inventory was duly carried out and the contents of the report of the Board of Directors relating to these financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended), UAE Federal Law No. (6) of 2007 or of the articles of association of Arab Orient Insurance Company (PSC) have occurred during the year which would have had a material effect on the business of Arab Orient Insurance Company (PSC) or on its financial position.

ERNST & YOUNG

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

30 January 2008

Dubai
United Arab Emirates

Balance sheet at 31 December 2007

	Notes	2007 AED'000	2006 AED'000
ASSETS			
Cash and investments:			
Bank balances and cash		4,865	11,933
Deposits with banks	3	603,236	547,115
Investment securities	4	31,541	41,686
Investment in associated company	5	25,383	24,351
		665,025	625,085
Receivables arising from insurance and reinsurance contracts	6	195,040	140,763
Reinsurers' share of unearned premiums		232,962	160,718
Reinsurers' share of outstanding claims	14	231,444	211,877
Property and equipment	7	3,022	1,307
Prepayments and other receivables		4,949	5,169
		667,417	519,834
TOTAL ASSETS		1,332,442	1,144,919
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	8	200,000	150,000
Statutory reserve	9	47,917	34,307
Legal reserve	10	58,042	44,432
Exceptional loss reserve	11	42,324	33,269
General reserve	12	101,388	91,588
Retained earnings		46	16
Proposed dividends	13	40,000	30,000
Cumulative changes in fair values of securities		1,944	(864)
Total equity		491,661	382,748
LIABILITIES			
Liabilities arising from insurance contracts:			
Unearned premiums		320,913	229,368
Outstanding claims	14	325,278	295,128
		646,191	524,496
Reinsurance balances payable		91,766	160,208
Amounts held under reinsurance treaties		69,844	46,926
Other payables and accruals	15	32,980	30,541
Total liabilities		840,781	762,171
TOTAL EQUITY AND LIABILITIES		1,332,442	1,144,919

These financial statements were approved by the Board of Directors on 30 January 2008 and signed on its behalf by:

ABDULLA HAMAD AL-FUTTAIM
Chairman

OMAR ABDULLA AL-FUTTAIM
Vice Chairman

The attached notes 1 to 22 form part of these financial statements.

Income statement year ended 31 December 2007

	Notes	2007 AED'000	2006 AED'000
UNDERWRITING INCOME			
Gross premiums			
Insurance contracts premium receivable		**766,643**	557,998
Movement in provision for unearned premiums		**(89,507)**	(73,794)
Insurance premium revenue		**677,136**	484,204
Less: **Reinsurers' share of premium**			
Insurance contracts premium receivable		**553,180**	389,718
Movement in provision for unearned premiums		**(70,206)**	(53,267)
		482,974	336,451
Net insurance premium revenue		**194,162**	147,753
Commission income		**92,129**	65,857
		286,291	213,610
UNDERWRITING EXPENSES			
Claims paid	14	**417,614**	163,397
Less: re-insurance share	14	**(330,141)**	(104,686)
Net claims	14	**87,473**	58,711
Increase in outstanding claims		**10,583**	13,692
Claims incurred		**98,056**	72,403
Commission expenses		**57,104**	43,090
General and administration		**40,482**	30,737
		195,642	146,230
NET UNDERWRITING INCOME		**90,649**	67,380
INVESTMENT INCOME			
Interest income		**32,589**	25,348
Gain on sale of trading securities		**6,047**	-
Fair value gain on trading securities		**2,954**	10,118
Gain on sale of available for sale securities		**2,834**	4,827
Investment expenses - finance costs		**-**	(12,598)
		44,424	27,695
Share of profit of an associate	5	**1,032**	-
PROFIT FOR THE YEAR	17	**136,105**	95,075
Basic and diluted earnings per share (AED)	18	**68.05**	47.53

The attached notes 1 to 22 form part of these financial statements.

Statement of cash flows year ended 31 December 2007

	Note	2007 AED'000	2006 AED'000
OPERATING ACTIVITIES			
Profit for the year		136,105	95,075
Adjustments for:			
Depreciation	7	763	729
(Gain) / loss on sale of fixed assets		(78)	70
Interest income		(32,589)	(25,348)
Share of associate's profit	5	(1,032)	-
Finance costs		-	12,598
Gain on sale of trading securities		(6,047)	-
Gain on sale of available for sale securities		(2,834)	(4,827)
Unrealised gain on trading securities		(2,954)	(10,118)
Reinsurers' share of unearned premiums		(72,244)	(53,267)
Movement in unearned premiums		91,545	73,794
Operating profit before changes in operating assets and liabilities		110,635	88,706
Receivables arising from insurance and reinsurance contracts		(54,277)	(77,083)
Re-insurers' share of outstanding claims		(19,567)	(138,278)
Prepayments and other receivables		220	(1,580)
Outstanding claims		30,150	151,970
Reinsurance balances payable		(45,524)	129,748
Other payables and accruals		2,439	11,737
Cash from operations		24,076	165,220
Investment expenses paid		-	(12,598)
Net cash from operating activities		24,076	152,622
INVESTING ACTIVITIES			
Purchase of property and equipment	7	(2,737)	(650)
Proceeds from sale of property and equipment		337	120
Interest income		32,589	25,348
Bank deposits		(56,121)	(97,005)
Investment in associate company		-	(24,351)
Purchase of available for sale investments		(11,006)	(24,405)
Sale of available for sale investments		23,598	7,288
Purchase of trading securities		(526)	(8,736)
Sale of trading securities		12,722	-
Net cash used in investing activities		(1,144)	(122,391)
FINANCING ACTIVITY			
Dividends paid		(30,000)	(20,000)
Net cash used in financing activity		(30,000)	(20,000)
(DECREASE) / INCREASE IN BANK BALANCES AND CASH		(7,068)	10,231
Bank balances and cash at 1 January		11,933	1,702
BANK BALANCES AND CASH AT 31 DECEMBER		4,865	11,933

The attached notes 1 to 22 form part of these financial statements.

Statement of changes in equity year ended 31 December 2007

	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	Exceptional loss reserve AED'000	General reserve AED'000	Retained earnings AED'000	Proposed dividend AED'000	Cumulative changes in fair values AED'000	Total AED'000
Balance at 1 January 2007	150,000	34,307	44,432	33,269	91,588	16	30,000	(864)	382,748
Net movement in cumulative changes in fair value	-	-	-	-	-	-	-	2,808	2,808
Total income and expenses recognised directly in equity	-	-	-	-	-	-	-	2,808	2,808
Profit for the year	-	-	-	-	-	136,105	-	-	136,105
Total income and expenses for the year	-	-	-	-	-	136,105	-	2,808	138,913
Transfers	50,000	-	-	-	(50,000)	-	-	-	-
Transfers	-	13,610	13,610	9,055	59,800	(96,075)	-	-	-
Dividend paid	-	-	-	-	-	-	(30,000)	-	(30,000)
Dividend proposed	-	-	-	-	-	(40,000)	40,000	-	-
Balance at 31 December 2007	**200,000**	**47,917**	**58,042**	**42,324**	**101,388**	**46**	**40,000**	**1,944**	**491,661**
	(Note 8)	(Note 9)	(Note 10)	(Note 11)	(Note 12)		(Note 13)		
Balance at 1 January 2006	100,000	24,807	34,932	26,539	102,248	11	20,000	6,055	314,592
Net movement in cumulative changes in fair values	-	-	-	-	-	-	-	(6,919)	(6,919)
Total income and expenses recognised directly in equity	-	-	-	-	-	-	-	(6,919)	(6,919)
Profit for the year	-	-	-	-	-	95,075	-	-	95,075
Total income and expenses for the year	-	-	-	-	-	95,075	-	(6,919)	88,156
Transfers	50,000	9,500	9,500	6,730	(10,660)	(65,070)	-	-	-
Dividend paid	-	-	-	-	-	-	(20,000)	-	(20,000)
Dividend proposed	-	-	-	-	-	(30,000)	30,000	-	-
Balance at 31 December 2006	150,000	34,307	44,432	33,269	91,588	16	30,000	(864)	382,748
	(Note 8)	(Note 9)	(Note 10)	(Note 11)	(Note 12)		(Note 13)		

The attached notes 1 to 22 form part of these financial statements.

Notes to the financial statements at 31 December 2007

1 ACTIVITIES

Arab Orient Insurance Company (PSC) ("the company") was incorporated with limited liability on 22 July 1980 in the Emirate of Dubai by a decree of His Highness The Ruler of Dubai and commenced operations on 1 January 1982. The company was registered in accordance with the UAE Federal Law No.(9) of 1984, as amended ("The Insurance Companies Law") on 29 December 1984 with registration No.14. On 2 May 1988 the company was converted into a public shareholding company in accordance with the requirements of the Insurance Companies Law and has since been registered under UAE Federal Law No.(8) of 1984, as amended, relating to commercial companies. The registered address of the company is P.O. Box 27966, Dubai, United Arab Emirates.

The company operates in the United Arab Emirates and employed 239 employees as of 31 December 2007 (2006: 184). The company's shares are listed on the Dubai Financial Market.

The company mainly issues short term insurance contracts in connection with property, engineering, motor, marine, miscellaneous accident, medical, group life and personal accident classes (collectively known as general insurance). The company also invests its funds in investment securities.

2 SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been presented in UAE Dirhams which is the financial currency of the company and all values are rounded to the nearest thousand except when otherwise indicated.

Accounting convention
The financial statements are prepared under the historical cost convention except for the measurement at fair value of investment securities.

Changes in accounting policies
The accounting policies are consistent with those used in the previous year. As of 1 January 2007, the company adopted and applied following new IASB standards and interpretations. These changes have resulted in additional disclosures being included for the years ended 31 December 2007 and 31 December 2006.

Amendments to IAS 1 – Capital Disclosures
Amendments to IAS 1 Presentation of Financial Statements were issued by the IASB as Capital Disclosures in August 2006. They were required to be applied for periods beginning on or after 1 January 2007. As a result of these amendments, disclosure of information enabling evaluation of the company's objectives, policies and processes for managing capital has been made.

IFRS 7 Financial Instruments: Disclosures
IFRS 7 Financial Instruments: Disclosures was issued by the IASB in August 2006, becoming effective for periods beginning on or after 1 January 2007. As a result of the adoption, additional disclosures of the significance of financial instruments of the company's financial position and performance and information about exposure to risks arising from financial instruments have been made.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

IASB Standards and Interpretations issued but not adopted
The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the company:

IFRS 8 Operating Segments
IFRS 8 Operating Segments was issued by the IASB in November 2007, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the company discloses information about its operating segments.

IAS 1 Presentation of Financial Statements
A revised IAS 1 Presentation of Financial Statements was issued on 6 September 2007 and becomes effective for the annual periods commencing on or after 1 January 2009. The application of the standard will result in amendments to the presentation of financial statements.

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

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

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

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

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

Investments in associates
The company's investments in associates are accounted for under the equity method of accounting. These are entities over which the company exercises significant influence and which are neither subsidiaries nor joint ventures. Investments in associates are carried in the balance sheet at cost, plus post-acquisition changes in the company's share of net assets of the associate, less any impairment in value. The income statement reflects the company's share of the results of its associates.

Unrealised profits and losses resulting from transactions between the company and its associate are eliminated to the extent of the company's interest in the associate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment
Property and equipment are recorded at cost less accumulated depreciation and any impairment in value.

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

Furniture and fixtures	4 to 7 years
Office equipment	3 to 5 years
Motor vehicles	5 years

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell their value in use.

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

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

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

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

Insurance funds
Unearned premium reserve
Unearned premiums relating to general insurance business are computed based on percentages of net premium written and are at least equal to the minimum stipulated in the UAE Insurance Companies Law. Unearned premium reserves for medical and group life business are calculated based on independent actuarial valuation as required by Article 44 of the UAE Insurance Companies Law.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits
The company provides end of service benefits to its employees in accordance with the UAE Labour Law. The entitlement of these benefits is based upon employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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

Insurance premium revenue
Net premiums written are taken into income at the time policies are written and adjusted for unearned premiums. Unearned premiums represent the portion of the premium written relating to the unexpired period of coverage.

Claims
Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries made are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the company and those not reported at the balance sheet date.

The company generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. In addition a provision based on management's judgement and the company's prior experience is maintained for the cost of settling claims incurred but not reported at the balance sheet date. Any difference between the provisions at the balance sheet date and settlements and provisions for the following year is included in the underwriting account for that year.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Interest income and expenses
Interest income and interest expenses are recognised on a time apportionment basis.

Offsetting
Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is legally enforceable right to offset the recognised amounts and there is no intention to settle on net basis, or to realise the assets and settle the liabilities simultaneously. Income and expense will not be offset in the income statement unless required or permitted by an accounting standard or interpretation.

Fair values
For investments traded in organised markets, fair value is determined by reference to Stock Exchange quoted market bid prices.

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

2a SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

2a SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgements (continued)

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

All other investments are classified as available for sale.

Impairment of investments
The company treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and discount factors for unquoted equities.

Medical and Group life insurance
The assumptions used in actuarial valuations for unearned premium reserves for medical and group life business are based on experience.

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

Provision for outstanding claims, whether reported or not
Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainity and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

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

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

Notes to the financial statements at 31 December 2007 (continued)

3 DEPOSITS WITH BANKS

Deposits with banks include the following:

	2007 AED'000	2006 AED'000
a) Amounts that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with Article 41 of Federal Law No.9 of 1984	7,500	7,500
b) Fixed term deposits	595,736	539,615
	603,236	547,115

4 INVESTMENT SECURITIES

	2007 AED'000	2006 AED'000
Investments in securities held for trading		
Equity		
Quoted	15,659	18,854
Available-for-sale investments		
Debt		
Quoted	10,000	10,000
Equity		
Quoted	5,882	10,237
Unquoted	-	2,595
	5,882	12,832
	15,882	22,832
Total	31,541	41,686

5 INVESTMENT IN ASSOCIATED COMPANY

	2007 AED'000	2006 AED'000
Cost	**24,351**	24,351
Add: share of associated company's retained earnings	**1,032**	-
	25,383	24,351

The investment in associated company represents a 40% interest in Arab Orient Insurance Company, Syria, a public shareholding company registered and incorporated in Syria. The company commenced its commercial operations effective 2 April 2007.

The following table illustrates summarised financial information of the company's investment in associated Company:

	2007 AED'000	2006 AED'000
Share of associates' balance sheets:		
Current assets	28,093	23,788
Non-current assets	1,379	776
Current liabilities	**(4089)**	(213)
Non-current liabilities	-	-
Net assets	25,383	24,351
Share of associates' revenues and profit:		
Revenues	**2,595**	-
Profit	**1,032**	-

6 RECEIVABLES ARISING FROM INSURANCE AND REINSURANCE CONTRACTS

	2007 AED'000	2006 AED'000
Insurance premiums receivable	**116,559**	107,356
Due from reinsurance companies in respect of claims paid	**45,456**	9,054
Due from related parties (note 19)	**33,025**	24,353
	195,040	140,763

All the above amounts are due within twelve months of the balance sheet date. The reinsurers' shares of claims not paid by the company at the balance sheet date are disclosed in note 14.

Notes to the financial statements at 31 December 2007 (continued)

7 FIXED ASSETS

	Office equipment and furniture and fixtures AED'000	Motor vehicles AED'000	Total AED'000
Cost:			
At 1 January 2007	4,471	1,396	5,867
Additions	1,928	809	2,737
Disposals	(116)	(661)	(777)
At 31 December 2007	**6,283**	**1,544**	**7,827**
Depreciation:			
At 1 January 2007	3,910	650	4,560
Depreciation charge for the year	443	320	763
Relating to disposals	(95)	(423)	(518)
At 31 December 2007	**4,258**	**547**	**4,805**
Net carrying amount:			
At 31 December 2007	**2,025**	**997**	**3,022**
At 31 December 2006	561	746	1,307

	Office equipment and furniture and fixtures AED'000	Motor vehicles AED'000	Total AED'000
Cost:			
At 1 January 2006	4,192	1,362	5,554
Additions	397	253	650
Disposals	(118)	(219)	(337)
At 31 December 2006	**4,471**	**1,396**	**5,867**
Depreciation:			
At 1 January 2006	3,521	457	3,978
Depreciation charge for the year	420	309	729
Relating to disposals	(31)	(116)	(147)
At 31 December 2006	**3,910**	**650**	**4,560**
Net carrying amount:			
At 31 December 2006	**561**	**746**	**1,307**
At 31 December 2005	671	905	1,576

The depreciation charge for the year of AED 763 thousand (2006: AED 729 thousand) has been included in general and administrative expenses

8 SHARE CAPITAL

	2007 AED'000	2006 AED'000
Issued and fully paid – 2,000,000 shares of AED 100 each (2006: 1,500,000 shares of AED 100 each)	**200,000**	150,000

The shareholders approved an increase in the share capital by AED 50 million by the capitalisation of general reserve in the extraordinary meeting held on 22 February 2007. The formalities in respect of the increase in the share capital were completed during the year.

9 STATUTORY RESERVE

In accordance with the Company's Articles of Association, the company has transferred 10% of the net profit for the year to statutory reserve. The company may resolve to discontinue such annual transfers when the statutory reserve is equal to 25% of paid up capital. The reserve can be used for any purpose to be decided by the shareholders upon the recommendation of the Board of Directors.

10 LEGAL RESERVE

In accordance with the Commercial Companies Law and the company's Articles of Association, 10% of the profit for the year has been transferred to the legal reserve. The company may resolve to discontinue such transfers when the reserve totals 50% of the paid up share capital. The reserve is not available for distribution except in the circumstances stipulated by the law.

11 EXCEPTIONAL LOSS RESERVE

An amount equal to 10% of the net underwriting income for the year is transferred to an exceptional loss reserve to ensure that the company has sufficient solvency to meet exceptional, non-recurring claims which may arise in future years.

12 GENERAL RESERVE

Transfers to the general reserve are made on the recommendation of the Board of Directors. This reserve may be used for such purposes as deemed appropriate by the Board of Directors.

13 PROPOSED DIVIDEND

Dividends of AED 20.00 per share (totalling AED 30 million) relating to the year 2006 were declared and paid during the year. During 2006, dividends of AED 20 per share (totalling AED 20 million) relating to the year 2005 were declared and paid.

The Board of Directors has proposed a cash dividend amounting to AED 40 million at AED 20 per share for the year 2007. This is subject to the approval of the shareholders at the Annual General Meeting to be held during February 2008.

14 OUTSTANDING CLAIMS

The movement in the provision for outstanding claims, and the related reinsurers' share, was as follows:

	2007			2006		
	Gross AED'000	Reinsurers' share AED'000	Net AED'000	Gross AED'000	Reinsurers' share AED'000	Net AED'000
At 1 January						
Claims incurred	288,078	(211,877)	76,201	137,608	(73,599)	64,009
Claims incurred but not reported	7,050	-	7,050	5,550	-	5,550
	295,128	(211,877)	83,251	143,158	(73,599)	69,559
Insurance claims paid in the year	(417,614)	330,141	(87,473)	(163,397)	104,686	(58,711)
At 31 December	447,764	(349,708)	98,056	315,367	(242,964)	72,403
	325,278	(231,444)	93,834	295,128	(211,877)	83,251
Analysis of outstanding claims At 31 December						
Claims incurred	318,228	(231,444)	86,784	288,078	(211,877)	76,201
Claims incurred but not reported	7,050	-	7,050	7,050	-	7,050
	325,278	(231,444)	93,834	295,128	(211,877)	83,251

The amounts due from reinsurers are contractually due as per the terms of reinsurance agreements from the date of payment of the claims.

Amounts due from reinsurers relating to claims already paid by the company are included in "receivables arising from insurance and reinsurance contracts" (note 6). There are no material amounts for which amount and timing of claims payment is not resolved within one year of the balance sheet date.

The carrying amount disclosed above reasonably approximate fair value at balance sheet date.

14 OUTSTANDING CLAIMS (continued)

14a Claims development table

The following table reflects the cumulative incurred claims, including both claims notified and claims incurred but not reported (IBNR) for each successive accident year at each balance sheet date, together with cumulative payments to date:

Accident year at the end of	Before 2004 AED'000	2004 AED'000	2005 AED'000	2006 AED'000	2007 AED'000	Total AED'000
Accident year	-	137,788	196,067	289,159	**420,157**	
One year later	-	117,241	169,112	323,934	-	
Two years later	-	136,820	186,133	-	-	
Three years later	-	113,870	-	-	-	
Four years later	166,200	-	-	-	-	
Current estimate of cumulative claims	**166,200**	**113,870**	**186,133**	**323,934**	**420,157**	
Accident year	-	(78,628)	(121,985)	(139,907)	**(238,439)**	
One year later	-	(97,384)	(141,343)	(239,842)	-	
Two years later	-	(99,746)	(152,539)	-	-	
Three years later	-	(100,304)	-	-	-	
Four years later	(153,892)	-	-	-	-	
Cumulative payments to date	(153,892)	(100,304)	(152,539)	(239,842)	**(238,439)**	
Total Gross outstanding claims	**12,308**	**13,566**	**33,594**	**84,092**	**181,718**	**325,278**
						(note 14)

15 OTHER PAYABLES AND ACCRUALS

	2007 AED'000	2006 AED'000
Provision for staff costs	**6,819**	4,244
Other creditors and accruals	**16,782**	17,859
Employees' end of service benefits (Note 16)	**6,718**	5,642
Due to related parties (Note 19)	**2,661**	2,796
	32,980	30,541

16 EMPLOYEES' END OF SERVICE BENEFITS

Movement in the provision recognised in the balance sheet is as follows:

	2007 AED'000	2006 AED'000
Provision as at 1 January	**5,642**	4,881
Provided during the year	**1,449**	1,050
End of service benefits paid	**(373)**	(289)
Provision as at 31 December	**6,718**	5,642

An actuarial valuation has not been performed as the net impact of discount rates and future increases in benefits is not likely to be material.

Notes to the financial statements at 31 December 2007 (continued)

17 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2007 AED'000	2006 AED'000
Staff costs	30,287	22,523
Rental costs – Operating leases	2,706	1,596

18 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is computed by dividing the profit attributable to the shareholders by the weighted average number of shares outstanding during the year of 2,000,000 shares. The number of shares outstanding has been adjusted for all periods since the capitalisation of general reserves did not increase the total available resources.

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

19 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the company's management.

Transactions with related parties included in the income statement are as follows:

	Al-Futtaim Group companies AED'000	Directors and Key Management AED'000	2007 AED'000	2006 AED'000
Administration expenses	11,570	-	11,570	10,295
Gross premium written	64,269	-	64,269	50,318
Motor vehicle repair charges paid relating to claims	46,955	-	46,955	33,526

Balances with related parties included in the balance sheet are as follows:

	2007		2006	
	Amounts owed by related parties AED'000	Amounts owed to related parties AED'000	Amount owed by related parties AED'000	Amount owed to related parties AED'000
Al-Futtaim Group Companies	33,025	2,661	24,353	2,796

Amounts due from and due to related parties are disclosed in notes 6 and 15 respectively.

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

19 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel
The remuneration of key management personnel during the year was as follows:

	2007 AED'000	2006 AED'000
Short-term benefits	**4,946**	3,983
Employees' end of service benefits	**493**	324
	5,439	4,307

20 SEGMENTAL INFORMATION

Primary segment information
For management purposes the company is organised into two business segments, general insurance and investment. The general insurance segment comprises property, engineering, motor, marine, miscellaneous accident, medical, group life and personal accident classes. Investment comprises investment and cash management for the company's own account. These segments are the basis on which the company reports its primary segment information. Segmental information is presented below:

	2007 AED'000	2006 AED'000
General Insurance		
Underwriting income	**286,291**	213,610
Underwriting expenses	**(195,642)**	(146,230)
Net underwriting income	**90,649**	67,380
Investment		
Investment income	**44,424**	27,695
Share of associate's profit	**1,032**	-
	45,456	27,695
Profit for the year	**136,105**	95,075

Notes to the financial statements at 31 December 2007 (continued)

20 SEGMENTAL INFORMATION (continued)

OTHER INFORMATION

	General Insurance		Investment		Total	
	2007 AED'000	2006 AED'000	2007 AED'000	2006 AED'000	2007 AED'000	2006 AED'000
Segment assets	672,282	531,767	660,160	613,152	1,332,442	1,144,919
Segment liabilities	840,781	762,171	-	-	840,781	762,171
Capital expenditure	2,737	650	-	-	2,737	650
Depreciation	763	729	-	-	763	729

Secondary segment information
For operational and management reporting purposes, the company is organised as one geographical segment. Consequently, no secondary segment information is provided.

21 RISK MANAGEMENT

The risks faced by the Company and the manner these risks are managed by management are summarised below.

21 A Insurance risk
Insurance risk is where the company 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 company, 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 company underwrites mainly property, engineering, motor, miscellaneous accident, marine, medical and group life 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 therefrom.

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 damage to insured project works and resultant third party liabilities, loss or damage to insured plant, 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 deaths and bodily injury and the extent of damage to properties are the key factors that influence the level of claims.

21 RISK MANAGEMENT (continued)

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.

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.

Medical, Group Life and Personal Accident
In medical insurance, the main risk elements are illness and accidents and related healthcare costs. For group life and personal accident the main risks elements are claims arising from death and/or permanent or partial disability.

The company has adequate reinsurance arrangements to protect its financial viability against such claims for all the above classes.

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

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

Reinsurance ceded contracts do not relieve the company from its obligations to policyholders and as a result the company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The maximum theoretical credit risk exposure in this connection is mainly in Europe.

To minimise its exposure to significant losses from reinsurer insolvencies, the company 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.

The five largest reinsurers account for 68 % of the maximum credit exposure at 31 December 2007 (2006: 51%).

Regulatory framework risk
The operations of the company are subject to local regulatory requirements within the jurisdictions where it operates.

Notes to the financial statements at 31 December 2007 (continued)

21 RISK MANAGEMENT (continued)

21 B Financial risk

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

The company does not enter into derivative transactions.

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

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

The company's only exposure to interest rate risk is on account of its investment in floating rate bond included under available for sale investments. The company limits interest rate risk by monitoring changes in interest rates in the currencies in which its investment is denominated.

Details of maturities of the major classes of financial assets as at 31 December are as follows:

31 December 2007	Less than 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Non interest bearing items AED'000	Total AED'000	Effective interest rate (%)
Investment securities	-	10,000	-	21,541	31,541	5.15% - 5.75%
Receivables arising from insurance and reinsurance contracts	-	-	-	195,040	195,040	-
Other receivables	-	-	-	4,949	4,949	-
Deposits with Banks	603,236	-	-	-	603,236	3.75% – 6.25%
Bank balances and cash	-	-	-	4,865	4,865	-
	603,236	**10,000**	**-**	**226,395**	**839,631**	

31 December 2006	Less than 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Non interest bearing items AED'000	Total AED'000	Effective interest rate (%)
Investment securities	-	10,000	-	31,686	41,686	5.30% – 5.8%
Receivables arising from insurance and reinsurance contracts	-	-	-	140,763	140,763	-
Other receivables	-	-	-	5,169	5,169	-
Deposits with Banks	547,115	-	-	-	547,115	4.25% – 6.25%
Bank balances and cash	-	-	-	11,933	11,933	-
	547,115	10,000	-	189,551	746,666	

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

The sensitivity of company's income statement to reasonably possible changes in interest rates, with all other variables constant is considered insignificant.

21 RISK MANAGEMENT (continued)

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the company does not hedge its foreign currency exposure. Other than balances in United States Dollar, the company does not deal in any other foreign currency.

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

The company's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices.

The company's equity investments comprise securities quoted on the Stock Exchanges in United Arab Emirates.

The company is not exposed to any significant equity price risk.

21 RISK MANAGEMENT (continued)

Credit risk

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

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

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

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

- The company's bank balances are maintained with a range of local banks in accordance with limits set by the board of directors.

- There are no significant concentrations of credit risk within the company.

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

31 December 2007	*Neither past due nor impaired*				
	Investment grade AED'000	Non investment grade (satisfactory) AED'000	Non investment grade (unsatisfactory) AED'000	Past due or impaired AED'000	Total AED'000
Investment securities	31,541	-	-	-	31,541
Receivables arising from insurance and reinsurance contracts	-	190,097	-	4,943	195,040
Reinsurers' share of unexpired risks	-	232,962	-	-	232,962
Reinsurers' share of outstanding claims	-	231,444	-	-	231,444
Cash and deposits with banks	-	608,101	-	-	608,101
	31,541	**1,262,604**	**-**	**4,943**	**1,299,088**

31 December 2006	*Neither past due nor impaired*				
	Investment grade AED'000	Non Investment grade (satisfactory) AED'000	Non investment grade (unsatisfactory) AED'000	Past due or impaired AED'000	Total AED'000
Investment securities	41,686	-	-	-	41,686
Receivables arising from insurance and reinsurance contracts	-	136,300	-	4,463	140,763
Reinsurers' share of unexpired risks	-	160,718	-	-	160,718
Reinsurers' share of outstanding claims	-	211,877	-	-	211,877
Cash and deposits with banks	-	559,048	-	-	559,048
	41,686	**1,067,943**	**-**	**4,463**	**1,114,092**

21 RISK MANAGEMENT (continued)

Credit risk – continued

The following table provides an age analysis of receivables arising from insurance and reinsurance contracts past due but not impaired.

	Past due but not impaired					
	Up to 90 days AED'000	91 to 120 days AED'000	121 to 150 days AED'000	Total AED'000	Past due and impaired AED'000	Total AED'000
31 December 2007	**729**	**1,690**	**-**	**2,419**	**2,524**	**4,943**
31 December 2006	821	1,079	-	1,900	2,563	4,463

For assets to be classified as 'past due and impaired' contractual payments in arrears are more than 90 days and an impairment adjustment is recorded in the statement of income for this. When the credit exposure is adequately secured, arrears more than 120 days might still be classified as 'past due but not impaired', with no impairment adjustment recorded.

Liquidity risk

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

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

The table in the following page summarises, in AED 000 the maturity of the assets and liabilities of the company based on remaining undiscounted contractual obligations. As the company does not have any interest bearing liabilities, the totals in the table match the balance sheet.

Notes to the financial statements at 31 December 2007 (continued)

21 RISK MANAGEMENT (continued)

Liquidity risk (continued)

	31 December 2007				31 December 2006			
	Less than one year	More than one year	No term	Total	Less than one year	More than one year	No term	Total
ASSETS								
Premises and equipment	-	-	3,022	3,022	-	-	1,307	1,307
Investment in securities	-	10,000	21,541	31,541	-	10,000	31,686	41,686
Investment in associated company	-	-	25,383	25,383	-	-	24,351	24,351
Receivables arising from insurance and reinsurance contracts	195,040	-	-	195,040	140,763	-	-	140,763
Other receivables	4,949	-	-	4,949	5,169	-	-	5,169
Reinsurers' share of unexpired risks	232,962	-	-	232,962	160,718	-	-	160,718
Reinsurers' share of outstanding claims	231,444	-	-	231,444	211,877	-	-	211,877
Cash and short term deposits	608,101	-	-	608,101	559,048	-	-	559,048
TOTAL ASSETS	1,272,496	10,000	49,946	1,332,442	1,077,575	10,000	57,344	1,144,919
EQUITY AND LIABILITIES								
Equity								
Share capital	-	-	200,000	200,000	-	-	150,000	150,000
Statutory reserve	-	-	47,917	47,917	-	-	34,307	34,307
Legal reserve	-	-	58,042	58,042	-	-	44,432	44,432
Exceptional loss reserve	-	-	42,324	42,324	-	-	33,269	33,269
General reserve	-	-	101,388	101,388	-	-	91,588	91,588
Retained earnings	-	-	46	46	-	-	16	16
Proposed dividends	40,000	-	-	40,000	30,000	-	-	30,000
Cumulative changes in fair values	-	-	1,944	1,944	-	-	(864)	(864)
TOTAL EQUITY	40,000	-	451,661	491,661	30,000	-	352,748	382,748
LIABILITIES								
Liabilities arising from insurance contracts								
Unexpired risks	320,913	-	-	320,913	229,368	-	-	229,368
Outstanding claims	325,278	-	-	325,278	295,128	-	-	295,128
Reinsurance balances payable	91,766	-	-	91,766	160,208	-	-	160,208
Amounts held under reinsurance treaties	69,844	-	-	69,844	46,926	-	-	46,926
Other liabilities	26,262	-	6,718	32,980	24,899	-	5,642	30,541
TOTAL LIABILITIES	834,063	-	6,718	840,781	756,529	-	5,642	762,171
TOTAL EQUITY AND LIABILITIES	874,063	-	458,379	1,332,442	786,529	-	358,390	1,144,919

21 RISK MANAGEMENT (continued)

Capital management
Capital requirements are set and regulated by the regulatory requirements in the UAE. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the company's activities. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends to shareholders or issue capital securities.

The company fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its objectives, policies and processes from the previous year.

22 CONTINGENCIES

Contingent liabilities
At 31 December 2007, guarantees, other than those relating to claims for which provisions are held, amounting to AED 2,215,022 (2006: AED 1,642,744) had been issued on behalf of the company by its banker in the ordinary course of business.

Legal claims
The company, in common with the majority of insurers, is subject to litigation in the normal course of its business. Based on independent legal advice, the management does not believe that the outcome of these court cases will have a material impact on the company's income or financial condition.