Arab Orient Insurance Company (PSC)

FINANCIAL STATEMENTS

31 DECEMBER 2006

BALANCE SHEET
At 31 December 2006

	Notes	2006 AED'000	2005 AED'000
ASSETS			
Cash and investments:			
Bank balances and cash		11,933	1,702
Deposits with banks	3	547,115	450,110
Investment securities	4	41,686	7,807
Investment in associated company	5	24,351	-
		625,085	459,619
Receivables arising from insurance and reinsurance contracts	6	140,763	63,680
Reinsurers' share of unearned premiums		160,718	107,451
Reinsurers' share of outstanding claims	14	211,877	73,599
Fixed assets	7	1,307	1,576
Prepayments and other receivables		5,169	3,589
		519,834	249,895
TOTAL ASSETS		1,144,919	709,514
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	8	150,000	100,000
Statutory reserve	9	34,307	24,807
Legal reserve	10	44,432	34,932
Exceptional loss reserve	11	33,269	26,539
General reserve	12	91,588	102,248
Retained earnings		16	11
Proposed dividends	13	30,000	20,000
Cumulative changes in fair values of securities		(864)	6,055
Total equity		382,748	314,592
Liabilities			
Liabilities arising from insurance contracts:			
Unearned premiums		229,368	155,574
Outstanding claims	14	295,128	143,158
		524,496	298,732
Reinsurance balances payable		160,208	54,371
Amounts held under reinsurance treaties		46,926	23,015
Other payables and accruals	15	30,541	18,804
Total liabilities		762,171	394,922
TOTAL EQUITY AND LIABILITIES		1,144,919	709,514

These financial statements were approved by the Board of Directors on 31 January 2007 and signed on its behalf by:

CHAIRMAN DIRECTOR

The attached notes 1 to 23 form part of these financial statements

INCOME STATEMENT
Year ended 31 December 2006

	Note	2006 AED'000	2005 AED'000
UNDERWRITING INCOME			
Gross premium			
Insurance contracts premium receivable		557,998	391,233
Movement in provision for unearned premiums		(73,794)	(24,764)
Insurance premium revenue		484,204	366,469
Less: **Reinsurers' share of premium**			
Insurance contracts premium receivable		389,718	269,038
Movement in provision for unearned premiums		(53,267)	(13,377)
Insurance premium revenue		336,451	255,661
Net insurance premium revenue		147,753	110,808
Commission income		65,857	51,081
		213,610	161,889
UNDERWRITING EXPENSES			
Claims paid		163,397	211,007
Less: re-insurance share		(104,686)	(162,557)
Net claims		58,711	48,450
Increase in outstanding claims	14	13,692	4,742
Claims incurred		72,403	53,192
Commission expenses		43,090	31,775
General and administration		30,737	24,547
		146,230	109,514
NET UNDERWRITING INCOME		67,380	52,375
INVESTMENT INCOME			
Interest income		25,348	15,192
Gain on sale of trading securities		-	7,466
Fair value gain on trading securities		10,118	-
Gain on sale of available for sale securities		4,827	-
Investment expenses - finance costs		(12,598)	(1,995)
		27,695	20,663
PROFIT FOR THE YEAR	17	95,075	73,038
Basic and diluted earnings per share (AED)	18	63.38	48.69

The attached notes 1 to 23 form part of these financial statements

STATEMENT OF CASH FLOWS
Year ended 31 December 2006

	Notes	2006 AED'000	2005 AED'000
OPERATING ACTIVITIES			
Profit for the year		95,075	73,038
Adjustments for:			
Depreciation	7	729	691
Loss on sale of fixed assets		70	56
Interest income		(25,348)	(15,192)
Finance costs		12,598	1,995
Gain on sale of available for sale securities		(4,827)	-
Unrealised gain on trading securities		(10,118)	-
Reinsurers' share of unearned premiums		(53,267)	(13,377)
Movement in unearned premiums		73,794	24,764
Operating profit before changes in operating assets and liabilities		88,706	71,975
Receivables arising from insurance and reinsurance contracts		(77,083)	(7,126)
Re-insurers' share of outstanding claims		(138,278)	(8,349)
Prepayments and other receivables		(1,580)	(877)
Outstanding claims		151,970	13,091
Reinsurance balances payable		129,748	5,304
Other payables and accruals		11,737	3,687
Cash from operations		165,220	77,705
Investment expenses paid		(12,598)	(1,995)
Net cash from operating activities		152,622	75,710
INVESTING ACTIVITIES			
Purchase of fixed assets	7	(650)	(1,039)
Proceeds from sale of fixed assets		120	138
Interest income		25,348	15,192
Bank deposits		(97,005)	(67,885)
Investment in associate company		(24,351)	-
Purchase of available for sale investments		(24,405)	(1,752)
Sale of available for sale investments		7,288	-
Purchase of trading securities		(8,736)	-
Net cash used in investing activities		(122,391)	(55,346)
FINANCING ACTIVITY			
Dividend paid		(20,000)	(20,000)
Net cash used in financing activity		(20,000)	(20,000)
INCREASE IN BANK BALANCES AND CASH		10,231	364
Bank balances and cash at 1 January		1,702	1,338
BANK BALANCES AND CASH AT 31 DECEMBER		11,933	1,702

The attached notes 1 to 23 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	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 2005	100,000	17,507	27,632	21,309	69,048	3	20,000	-	255,499
Net movement in cumulative changes in fair value	-	-	-	-	-	-	-	6,055	6,055
Total income and expenses recognised directly in equity	-	-	-	-	-	-	-	6,055	6,055
Net profit for the year	-	-	-	-	-	73,038	-	-	73,038
Total income and expenses for the year	-	-	-	-	-	73,038	-	6,055	79,093
Transfers		7,300	7,300	5,230	33,200	(53,030)	-	-	-
Dividend paid	-	-	-	-	-	-	(20,000)	-	(20,000)
Dividend proposed	-	-	-	-	-	(20,000)	20,000	-	-
Balance at 31 December 2005	100,000	24,807	34,932	26,539	102,248	11	20,000	6,055	314,592
	(Note 8)	(Note 9)	(Note 10)	(Note 11)	(Note 12)				

The attached notes 1 to 23 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	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 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 value	-	-	-	-	-	-	-	(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)				

The attached notes 1 to 23 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2006

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 184 employees as of 31 December 2006 (2005: 142).

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 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.

IASB Standards and interpretation issued but not yet effective

IFRS 7 Financial Instruments: Disclosures	The application of IFRS 7, which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to financial instruments and associated risks.
IAS 1 Presentation of financial statements (amended)	The application of IAS 1 (amended), which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to the Company's objectives, policies and procedures for managing capital.

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.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Investment securities - continued
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.

Investment in associated company
Investment in associated company is accounted for under the equity method of accounting. This is an entity over which the company exercises significant influence and that is neither a subsidiary nor an interest in a joint venture.

Fixed assets
Fixed assets 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.

Impairment and uncollectibility of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment losses are 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;
b) For assets carried at cost, impairment is the difference between cost 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.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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".

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.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

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

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

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

3 DEPOSITS WITH BANKS

Deposits with banks include the following:

	2006 AED'000	*2005 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	539,615	442,610
	547,115	450,110

4 INVESTMENT SECURITIES

	2006 AED'000	2005 AED'000
Investments in securities held for trading		
Quoted shares	18,854	-
Available-for-sale investments		
Quoted shares	20,237	7,807
Unquoted shares	2,595	-
	22,832	7,807
	41,686	7,807

5 INVESTMENT IN ASSOCIATED COMPANY

	2006 AED'000	2005 AED'000
Cost	24,351	-
Add: share of associated company's retained earnings	-	-
	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. As of 31 December 2006, the company has not commenced commercial operations.

6 RECEIVABLES ARISING FROM INSURANCE AND REINSURANCE CONTRACTS

	2006 AED'000	2005 AED'000
Insurance Premiums receivable	107,356	50,229
Due from reinsurance companies in respect of claims paid	9,054	6,598
Due from related parties (note 19)	24,353	6,853
	140,763	63,680

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 2006

7 FIXED ASSETS

	Office equipment and furniture and fixtures AED'000	*Motor vehicles AED'000*	*Total AED'000*
Carrying value at 1 January 2006	671	905	1,576
Additions	397	253	650
Disposals	(88)	(102)	(190)
Depreciation	(420)	(309)	(729)
Carrying value at 31 December 2006	**560**	**747**	**1,307**
At cost	4,470	1,397	5,867
Accumulated depreciation	(3,910)	(650)	(4,560)
Net book value at 31 December 2006	**560**	**747**	**1,307**
Carrying value and net book value at 31 December 2005	671	905	1,576

8 SHARE CAPITAL

	2006 AED'000	*2005 AED'000*
Issued and fully paid –shares of AED 100 each	**150,000**	100,000

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 20 February 2006. 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 per share (totalling AED 20 million) relating to the year 2005 were declared and paid during the year. During 2005, dividends of AED 20 per share (totalling AED 20 million) relating to the year 2004 were declared and paid.

The Board of Directors has proposed a cash dividend amounting to AED 30 million at AED 20 per share for the year 2006. This is subject to the approval of the shareholders at the Annual General Meeting to be held during February 2007.

14 OUTSTANDING CLAIMS

	2006			*2005*		
	Gross AED'000	*Reinsurers' share AED'000*	*Net AED'000*	*Gross AED'000*	*Reinsurers' share AED'000*	*Net AED'000*
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

Substantially all of the claims are expected to be paid within twelve months of the balance sheet date. 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).

The company generally estimates its claims and reinsurers' share of claims principally based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims.

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

	2006 AED'000	*2005 AED'000*
At 1 January 2006:		
Outstanding claims	143,158	130,067
Due from reinsurers	(73,599)	(65,250)
	69,559	64,817
Net increase	13,692	4,742
At 31 December 2006:		
Outstanding claims	295,128	143,158
Due from reinsurers	(211,877)	(73,599)
	83,251	69,559

Amounts due from reinsurers are normally settled on a quarterly basis. There are no material amounts for which amount and timing of claims payment is not resolved within one year of the balance sheet date.

15 OTHER PAYABLES AND ACCRUALS

	2006 AED'000	2005 AED'000
Provision for staff costs	4,244	3,771
Other creditors and accruals	17,859	8,524
Employees' end of service benefits (Note 16)	5,642	4,881
Due to related parties (Note 19)	2,796	1,628
	30,541	18,804

16 EMPLOYEES' END OF SERVICE BENEFITS

	2006 AED'000	2005 AED'000
Movement in the provision recognised in the balance sheet is as follows:		
Provision as at 1 January	4,881	4,463
Provided during the year	1,050	799
End of service benefits paid	(289)	(381)
Provision as at 31 December	5,642	4,881

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.

17 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2006 AED'000	2005 AED'000
Staff costs	22,523	18,156
Rental costs – Operating leases	1,596	1,146

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 1,500,000 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	*Directors and Key Management*	*2006 AED'000*	*2005 AED'000*
Administration expenses	10,295	-	**10,295**	7,268
Gross premium written	50,318	-	**50,318**	33,687
Motor vehicle repair charges paid relating to claims	33,526	-	**33,526**	25,395

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

	2006		*2005*	
	Premium receivables AED'000	***Premium payables AED'000***	*Premium receivables AED'000*	*Premium payables AED'000*
Al Futtaim Group Companies	**24,353**	**2,796**	6,853	1,628

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

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

	2006 AED'000	*2005 AED'000*
Short-term benefits	**3,983**	3,473
Employees' end of service benefits	**324**	259
	4,307	3,732

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:

	2006 *AED'000*	*2005* *AED'000*
General Insurance		
Underwriting income	213,610	161,889
Underwriting expenses	(146,230)	(109,514)
Net underwriting income	67,380	52,375
Investment		
Investment income	27,695	20,663
Profit for the year	95,075	73,038

OTHER INFORMATION

	General Insurance		*Investment*		*Total*	
	2006 *AED'000*	*2005* *AED'000*	*2006* *AED'000*	*2005* *AED'000*	*2006* *AED'000*	*2005* *AED'000*
Segment assets	531,767	251,597	613,152	457,917	1,144,919	709,514
Segment liabilities	762,171	394,922	-	-	762,171	394,922
Capital expenditure	650		-	-	650	1,039
Depreciation	729		-	-	729	691

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

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.

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.

21 RISK MANAGEMENT - continued

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

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

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 reinsures.

The five largest reinsurers account for 51 % of the maximum credit exposure at 31 December 2006 (2005: 47%).

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

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 reviews and agrees policies for managing each of these risks and they are summarised below.

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

The company has deposits with banks which are subject to interest rate risk. The company limits interest rate risk by monitoring changes in interest rates in the currencies in which its deposits are denominated.

21 RISK MANAGEMENT - continued

Interest rate risk - continued

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

31 December 2006

	AED'000			
	Less than 1 year	*1 year*	*Total*	*Effective interest rate*
Time deposits	-	**547,115**	**547,115**	**6.15% to 6.25%**

31 December 2005

	Less than 1 year	*1 year*	*Total*	*Effective interest rate*
Time deposits	24,062	426,048	450,110	4.25% to 5.95%

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

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

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

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

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

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

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

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

The company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. Premiums and insurance balances receivable comprise a large number of customers and insurance companies mainly within the UAE as well as reinsurance companies mainly in Europe.

The ten largest receivables account for 42% of the insurance premiums receivable at 31 December 2006 (2005: 30%).

21 RISK MANAGEMENT - continued

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

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

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

22 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of deposits, cash, investments and receivables. Financial liabilities consist of payables, accrued expenses and liabilities arising from insurance contracts.

The fair values of financial assets and liabilities are not materially different from their carrying values.

23 CONTINGENCIES

Contingent liabilities
At 31 December 2006, guarantees, other than those relating to claims for which provisions are held, amounting to AED 1,642,744 (2005: AED 2,064,246) 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.