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أمان
AMAN

Fourth
Annual Report
2006

Dubai Islamic Insurance & Reinsurance Company P.S.C

www.aman.ae

بسم الله الرحمن الرحيم

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Dubai Islamic Insurance & Reinsurance Company P.S.C

Fourth Annual Report 2006

Dubia Islamic Insurance & Reinsurance Company P.S.C

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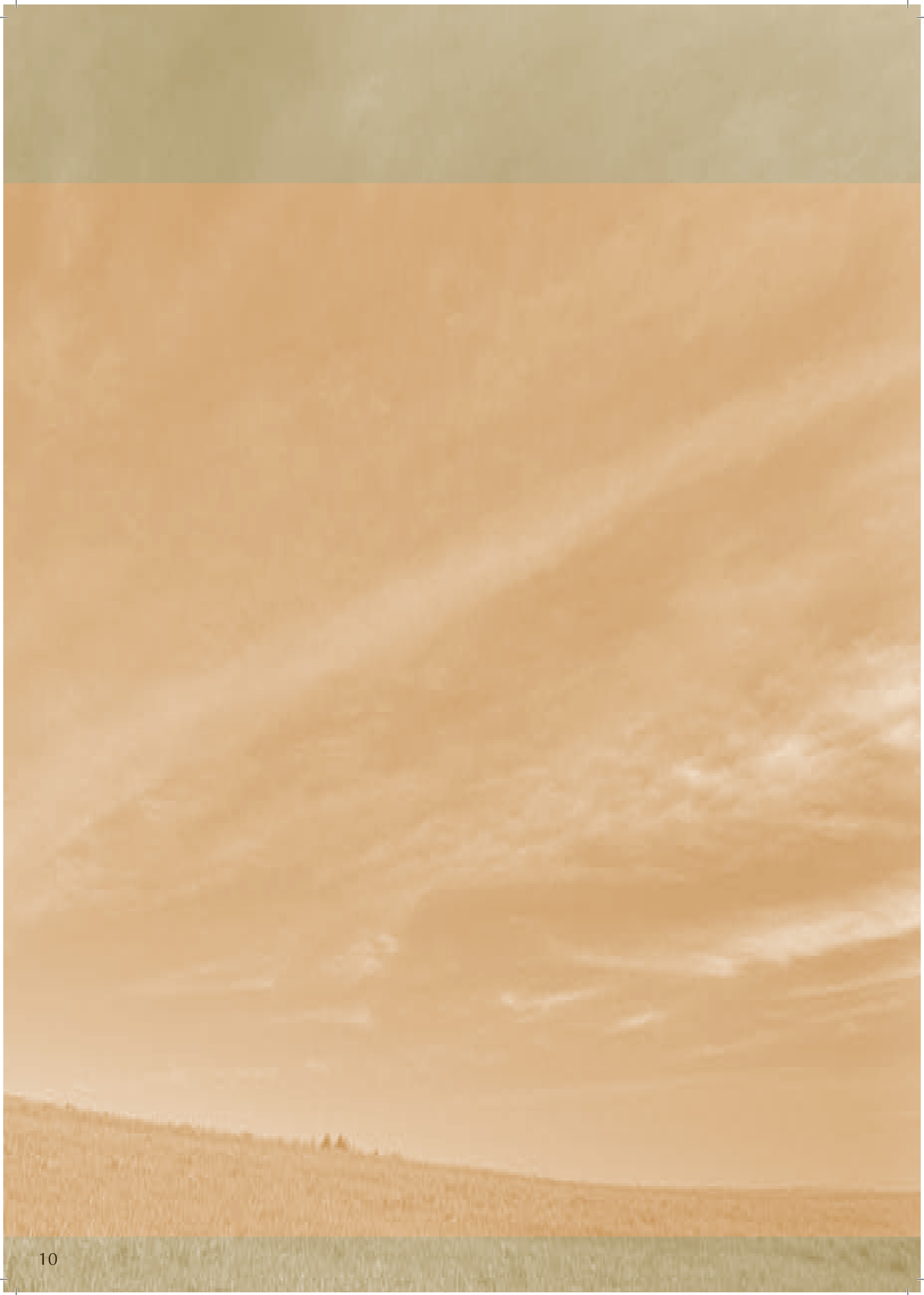
CONTENTS

MISSION STATEMENT

Aman's mission is to offer a comprehensive system of Islamic insurance and investment products and services that enhance the stability and well-being of local and regional communities.

Our goal is to create a new paradigm in Islamic Financial Services, delivering in harmony with the Shariah law, innovative solutions that meet our customers' evolving needs and healthy returns on our shareholders' investment.



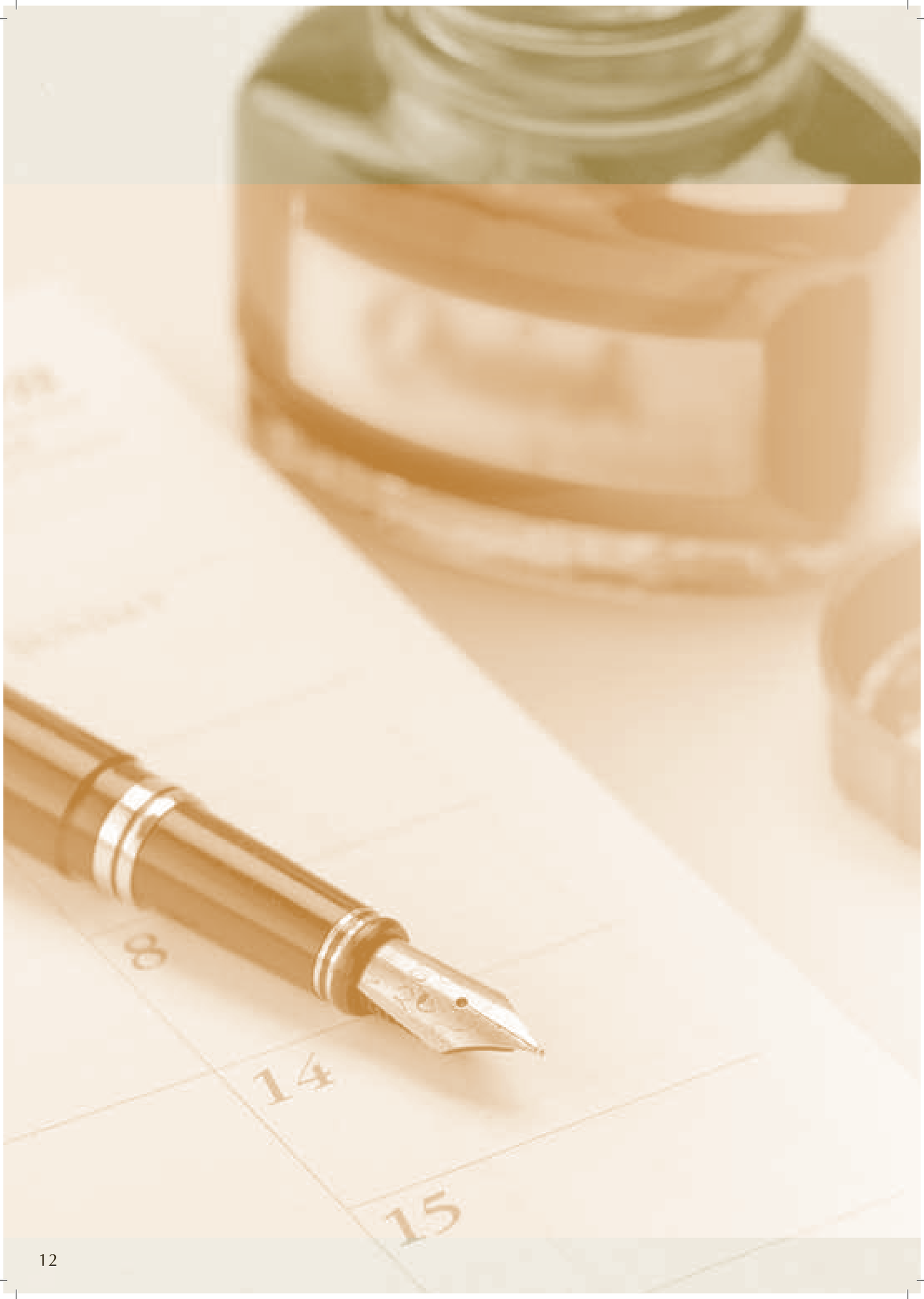
CUSTOMER CARE

Aman strives to exceed expectations by committing to the highest standards of professionalism, efficiency, flexibility and fairness.

At Aman, we are committed to our customers for the highest quality of service supported by a team of professionally qualified staff.

Aman draws its strength from its customer's and is fully conscious of their requirements.

Aman's products are tailor made to suit each customers' requirements. Along with a high standard of service, Aman's Policies are backed by Reinsurers of the highest repute in the world.


8
14
15

BOARD OF DIRECTORS, EXECUTIVE MANAGEMENT AND SHARI'A SUPERVISORY BOARD

Board of Directors

H.E. Mr. Sultan Saeed Al Mansoori	Chairman
Mr. Mohamed Ali Al Abbar	Vice Chairman
Mr. Hussein M. Al Meeza	Board Member & Managing Director
Mr. Mohamed Ali Al Hashimi	Board Member
Mr. Mohamed Omeir Al Mehairi	Board Member
Mr. Saleh Saeed Lootah	Board Member
Mr. Abdullah Ibrahim Al Daboos	Board Member

Executive Management

Jihad A. Feitrouni	General Manager

General Division

M. Iqbal Mankani	Assistant General Manager

Reinsurance Division

Rached Diab	Technical Manager

Medical and Life Division

Khawaja Zafarulla	Assistant General Manager

Finance Division

Basel Al Kufairy	Finance Manager

Legal Department

Ali Al Sayed	Legal Advisor

Shari'a Supervisory Board

Sheikh. Prof. Hussein Hamid Hassan	Chairman
Sheikh Mohammad Abdul Razzaq Al Siddiq	Board Member
Sheikh Mohammad Abdul Hakim Zuair	Board Member
Sheikh. Prof. Ali Muhy Al Deen Al-Quradagi	Board Member

THE BOARD OF DIRECTORS' REPORT FOR THE FISCAL YEAR 2006

In the name of God, Most Compassionate, Most Merciful

Dear shareholders,

As Salam Alaikum Wa Rahmatu Allah Wa Barakatu.

It is my pleasure to be with you today in the 4th Ordinary General Assembly meeting of Dubai Islamic Insurance and Re-insurance (AMAN), and we are pleased to review together the Managements' report on business activities and the results of your company for the year 2006.

At the outset, we would like to praise Allah and thank him for His Bountiful Blessings, and for the achievements that were made with His help and the support you provided to Your Company (AMAN) in a manner that will make it continue to pursue its endeavors; namely the implementation of all plans drawn by the Board of Directors in numerous fields to ultimately achieve excellence and leadership in Islamic Cooperative Insurance.

Cooperative Insurance is no longer limited to the Islamic Financial Sector in the Middle East and South Asia; and investment in this sector is no loger restricted to the elite investors who are committed to investing according to the principles of Islamic Sharia. This went beyond the Arab Muslim region to cover other sectors as evidenced by the fact that three companies, who are regarded among giants in the traditional insurance worldwide announced the opening of branches and outlets for Islamic Insurance.

Islamic money exchange is considered the prime dynamo of cooperative insurance. It proved to be the phenomenon of the century that is able to attract all types of financial resources. It also proved its ability to constantly develop and utilize its resources rationally, create and innovate to meet the needs of this vital sector. Therefore, these two sectors work hand in hand and complement each other.

We at (AMAN) monitor all changes affecting the regional, Arab and International Insurance markets. We do our utmost to become the pioneers in this field and this can never happen without your support to Your Company. We take all measures to be ready for the next period and to be ready to seize hidden and available opportunities at the right time.

Dear Shareholder:

(AMAN) was able to exceed the estimated budget for expected total output for the year 2006. It went up from (120,000,000) million Dirhams to the actual realized output of (165,301,650) million Dirhams representing an increase of (37.75%). This is attributed to our ability to utilize all available opportunities and the hardwork of our people.

Company's assets amounted to (413) million Dirhams compared to (273.5) million dirhams representing an increase of (50.98%) from what it was in 2005. In addition, shareholders' equity totalled (215.8) million dirhams compared to (132.3) million dirhams representing an increase of (63.2%).

Retained technical reserves amounted to (126.5) million dirhams against (70.6) million dirhams representing (55.9) million or (79.1%).

The technical profits for the year 2006 before deducting administrative costs where (33.6) million dirhams against (7.5) million dirhams with an increase of (26.1) million dirhams, representing an increase % (3.45%).

Due to sharp fluctuations in the stock markets on the local, regional and international levels, a large number of investors sustained considerable losses during 2006, and among them was AMAN (Aman Company) as our investment losses amounted to (28.5) million dirhams which was adversely reflected on the final results of the company after having deducted the administrative costs. This led to a loss of (13.7) million dirhams.

On the other hand, the year 2006 witnessed many achievements that (AMAN) made, which can be summarized as follows:

1. (AMAN) is the first cooperative insurance company that succeeded in providing innovative cooperative insurance programs to cover the financing transactions of the Islamic banks.

   It also succeeded in creating a network of connections and strategic partnerships in light of its belief that such relationships are of great importance and significant effect on the overall operation of the company. This helps it to provide the best at all times and to ensure that its customers receive excellent service in terms of the quality and the product that meet their requirements.

2. Innovative online services through company website. This involves the establishment of a general database and providing the selected customers with a name and a password that will enable them to enter the required information and deliver it to the company then receive the insurance policy for the purpose of registering vehicles with the competent traffic departments.

   It must be mentioned that (AMAN) was able to activate e-ommerce online by integrating into its website facilities and services that the visitor can use to obtain insurance offers automatically and instantly. The number of our website visitors is about (100) daily. Also, we began SMS services for our customers which will help ongoing communication with them and with our shareholders. In the future (AMAN) website will be upgraded to include a list of valid contracts instantly.

3. We implemented quality control management (ISO 9001- 2000) which makes (AMAN) the first cooperative insurance company accredited according to this system in the UAE.

4. (AMAN) received the rating of Ani (M/s Muhamma & Co., Rating Services).

5. (AMAN) succeeded in implementing worldclass human resource management system, and was able to exceed the emiratization rate of employing UAE nationals which amounted to 29% of its total company employees of (120). It is planned to raise the emiratization rate to 50% during the next 5 years and to continue to send its UAE national employees on training sessions with its strategic partners in insurance and re-insurance as well as international insurance brokers worldwide.

   It should be noted that (AMAN) was honored on 14/6/2006 by the Human Resource Development Committee in the banking and insurance industries because it ranked first in emiratization nationwide within the insurance companies.

6. We achieved leadership and excellence with the launching of (BOT) projects with the Bank of Bubian in Kuwait to build, operate and deliver a cooperative insurance company, and this project will start during 2007.
7. We established quality control department at the company to ensure that all its activities and operations are carried out according to worldclass quality standards and institute key performance indicators for all tasks and operations carried out by the company.
8. As for expansion and penetration on the regional level, approval has been issued to setup (AMAN) company in the Kingdom of Bahrain by Bahrain Central Bank after having met all licensing requirements.

   Through good relations with our strategic partners in various insurance markets, this will have a positive impact that will enable us to meet the insurance requirements for the Kingdom of Bahrain, Kingdom of Saudi Arabi, State of Kuwait and others. This is among our primary objectives that can be achieved through exchanging insurance activities and acquire market shares in these markets.

Dear Shareholders,

Due to the keen interest of the Board of Directors in the aftermath of price fluctuation of local stocks and the adverse effects they had on investment resources, and due to our keen interest and serious endeavors to diversify our interests according to scientific principles and standards, we recognize the need to invest in other industries, including real estate which will have positive and sure return on the assets of the company (properties) as well as founders equity, policy holders and company rating in the near future, or in terms of practical returns as this will reflect positively on the company's financial standing. This will provide the company with fixed revenues; therefore, in line with this policy and after having obtained the approval of the Board of Directors a piece of land was purchased in the Garhoud area in Dubai on which a commercial building has been licensed to be construction

We are facing a different era in all of its details. The world around is constantly changing, and there is no place for the lazy or the hesitant. We at (AMAN) look forward for your ongoing support until we realize what we are trying to achieve; namely, success of our strategic plans until we arrive at (AMAN International) and (AMAN RE) which we know for sure will happen with your support in the near future.

Finally, we would like to emphasize that the company will go ahead with developing its business activities and expand them at all levels and in the various fields of Islamic insurance market at the local and international level guided by the instructions of its esteemed Board of Directors to achieve results in line with the requirements of the founders and shareholders of this company with the assistance and support of Allah.

May Allah bless our endeavors and bring us success to this pursuit.

Assalamu Aleikum Wa Rahmatullahi Wa Barakatu

Sultan Saeed Al Mansouri

Chairman of the Board of Directors

REPORT ISSUED BY THE FATWA AND SHARIA AUDIT PANEL OF DUBAI ISLAMIC INSURANCE & RE-INSURANCE COMPANY (AMAN) SUBMITTED TO THE GENERAL ASSEMBLY CONCERNING THE ACTIVITIES OF FISCAL YEAR 2006

First: Document and Contracts samples

The Panel examined the contract forms and insurance policies prepared by the Company during the year and endorsed them after having made some amendments, which the Panel deemed essential. The Panel is working hard to issue a new comprehensive set of contracts and policies which will serve the interest, meet the needs and comply with rules of the Islamic law (Sharia). The rules will cover all risks affecting individuals and institutions so that the Islamic insurance umbrella covers all fields to put cooperation in place and comply with the Quranic verse: "Cooperate on Bir and Taqwa".

Second: Company Activity

A. The Panel examined the Company's role in managing the insurance operations and the investment of its funds on behalf of the holders of insurance policies as well as what the Company is getting as fees for being agents and in terms of profit share in return for the investment. The Panel has given its remarks on this and the Company's management made a commitment to put those remarks into action.

B. The Company invested the shareholders and policyholders funds in a joint investment package, defining the incoming funds in favor of the shareholders and policyholders and how profit made by the package is distributed over them. The Panel made its remarks on the above and the Company promised to take the same into consideration.

Third:

A. The Panel monitored the Company's activities and formalities during the year and exercised its role in advising the various departments to comply with the rules of Islamic Sharia and the Panel's fatwas concerning those activities and formalities. For that purpose a number of meetings had been held with Company officials and the Panel had recognized the Company's keen interest to comply with the rules of Islamic Sharia and the Panel fatwas.

B. The Panel obtained statements and information, which it deemed necessary to perform it monitoring and control task.

Fourth:

The Panel temporarily deputized its Secretary General to undertake the religious audit of the Company's operations for the year 2006. The Panel Secretary submitted his findings in the form of a report to the Panel. The

Panel made a number of points on certain transactions and urged the various Company departments to take note of the same in the future. The Company expressed willingness to comply.

Fifth: The Religious Audit of the Company
As per the Company's memorandum of association which requires the Company to appoint a religious audit in accordance with the Panel's recommendation to undertake the religious review and audit of the Company's transactions and submit reports in this connection to the religious Panel to take necessary decision, the Panel is currently considering its candidate in this regard to clear the way for the Company's decision to appoint him.

Sixth: The Company's Balancesheet
The Panel reviewed the Company's balancesheet and its final statement for the year 2006 and noted the following:

A. The Company is holding two independent accounts one for shareholders and another for policyholders as per the Company's memorandum of association. The balancesheet indicated the sources and deductions of the two accounts and the Panel gave its remarks thereon.

B. Distribution of return on joint investment package among shareholders and policyholders is done according to guidelines envisaged by the Company. Regulations have been prepared by the Company to that effect to be forwarded to the board of directors following the Panel's approval.

C. As per the Company bylaws, Zakat was paid on shareholders' funds that the Company retains.

The Panel made comments on all the above and it is in the process of drafting detailed regulations to organize all the above to be adopted by the board of directors.
As the Panel confirms that application of rules of Islamic Sharia to all Company activities and transactions lies with the management and decided that company transactions conducted during the year do not contradict with the rules of Islamic Sharia within the scope of what was presented to it, the cases it examined, remarks it made thereupon and the willingness expressed by the management to put such remarks into action.

Sheikh Dr. Hussain Hamed Hasan
Aman

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

OF DUBAI ISLAMIC INSURANCE & REINSURANCE COMPANY (AMAN) (PSC)

Report on the Financial Statements

We have audited the accompanying financial statements of Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC), which comprise the balance sheet as at 31 December 2006 and the income statement, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the consolidated financial statements

The Directors are 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 Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC), the UAE Commercial Companies Law of 1984 (as amended) and the UAE Federal Law No. (9) of 1984 (as amended). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 2006 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

ERNST & YOUNG

Ernst & Young

Edward Quinlan
Partner

Registration No. 93
28 March 2007
Dubai

FINANCIAL STATEMENTS

Year ended 31 December 2006

STATEMENT OF INCOME Year ended 31 December 2006

	Notes	2006 AED	2005 AED
ATTRIBUTABLE TO POLICYHOLDERS			
UNDERWRITING INCOME			
Insurance premiums revenue	3	**138,629,727**	73,146,877
Insurance premiums ceded to reinsurers	3	**(61,915,861)**	(34,868,295)
Net insurance premiums revenue	3	**76,713,866**	38,278,582
Commission received on ceded reinsurance		**10,505,198**	7,763,664
Policy and survey fees		**711,376**	98,444
		87,930,440	46,140,690
UNDERWRITING EXPENSES			
Claims	17	**68,715,208**	39,245,806
Reinsurers' share of claims	17	**(25,705,523)**	(8,473,319)
Claims incurred	17	**43,009,685**	30,772,487
Commission paid		**9,463,251**	6,036,348
Excess of loss insurance premiums		**1,861,999**	1,789,654
		54,334,935	38,598,489
NET UNDERWRITING INCOME		**33,595,505**	7,542,201
Wakala fees	4	**(36,349,427)**	(23,731,056)
NET DEFICIT FROM INSURANCE OPERATIONS		**(2,753,922)**	(16,188,855)
Investment (loss) income	5	**(10,618,745)**	41,478,558
Mudarib fees	4	**-**	(10,369,640)
(DEFICIT) SURPLUS FOR THE YEAR		**(13,372,667)**	14,920,063
ATTRIBUTABLE TO SHAREHOLDERS			
INCOME			
Investment (loss) income	5	**(17,938,176)**	52,417,782
Wakala fees from policyholders	4	**36,349,427**	23,731,056
Mudarib fees from policyholders	4	**-**	10,369,640
		18,411,251	86,518,478
EXPENSES			
General and administrative expenses		**(25,291,562)**	(20,198,210)
Provision against loan to policyholders' fund (made) reversed	16	**(6,854,584)**	6,331,030
(LOSS) PROFIT FOR THE YEAR		**(13,734,895)**	72,651,298
Basic and diluted earnings per share	6	**(0.79)**	4.98

The attached notes 1 to 29 form part of these financial statements.

BALANCE SHEET At 31 December 2006

	Notes	2006 AED	2005 AED
ASSETS			
Bank balances and cash		**26,011,362**	9,169,152
Investment deposits	7	**42,290,380**	18,525,000
Murabaha receivable	8	**-**	2,431,516
Investments	9	**240,337,803**	192,681,508
		308,639,545	222,807,176
Premiums and insurance balances receivable	10	**48,868,104**	22,516,984
Recoverable from reinsurers in connection with claims payable	17	**22,957,050**	5,971,640
Reinsurers share of unexpired risks		**25,654,188**	15,488,437
Furniture and equipment	11	**2,123,581**	3,048,117
Other assets	12	**4,781,044**	3,723,560
		104,383,967	50,748,738
TOTAL ASSETS		**413,023,512**	273,555,914
EQUITY, POLICYHOLDERS' FUND AND LIABILITIES			
Equity			
Share capital	13	**200,000,000**	60,000,000
Statutory reserve	14	**8,122,205**	8,122,205
Proposed scrip dividend	24	**-**	9,000,000
General reserve	15	**8,122,205**	8,122,205
Retained earnings		**23,673,409**	38,019,195
Proposed cash dividends	24	**-**	9,000,000
Cumulative changes in fair value of securities		**(24,704,293)**	-
Total equity		**215,213,526**	132,263,605
Policyholders' fund and liabilities			
Policyholders' fund			
(Deficit) surplus in policyholders' fund	16	**(6,854,584)**	6,518,083
Loan from shareholders	16	**6,854,584**	-
Proposed profit distribution to policyholders	16	**1,898,484**	1,898,484
		1,898,484	8,416,567
Liabilities			
Insurance funds:			
Unearned premiums		**60,817,499**	36,145,576
Additional reserve		**16,000,000**	14,000,000
Gross outstanding claims	17	**49,721,460**	20,502,179
		126,538,959	70,647,755
Murabaha loan	18	**34,212,500**	35,000,000
Insurance and reinsurance balances payable		**21,355,874**	14,314,045
Other payables and accruals	19	**11,540,493**	10,788,559
Employees' end of service benefits	20	**813,903**	503,953
Accrued Zakat		**1,449,773**	1,621,430
		195,911,502	132,875,742
Total liabilities		**197,809,986**	141,292,309
TOTAL EQUITY AND LIABILITIES		**413,023,512**	273,555,914

The financial statements were authorised for issue in accordance with a resolution of the directors on 28 March 2007.

Sultan Saeed Al Mansouri
Chairman

Hussien Mohammed Al Meeza
Managing Director

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF CASH FLOWS Year ended 31 December 2006

	Notes	2006 AED	2005 AED
OPERATING ACTIVITIES			
(Loss) profit for the year		**(13,734,895)**	72,651,298
Adjustments for:			
Movement in unearned premiums	3	**24,671,923**	14,777,347
Reinsurers' share of unearned premiums		**(10,165,751)**	(4,980,218)
Movements in additional reserve		**2,000,000**	7,000,000
Depreciation	11	**1,486,421**	1,221,137
Changes in fair value of investments carried at fair value through income statement	5	**21,369,445**	(60,896,030)
Provision for employees' end of service benefits	20	**450,972**	202,588
		26,078,115	29,976,122
Changes in operating assets and liabilities:			
Premiums, insurance and reinsurance balances receivable		**(43,336,530)**	(15,491,726)
Other assets		**(1,057,484)**	(993,784)
Outstanding claims		**29,219,281**	13,356,470
Insurance and reinsurance balances payable		**7,041,829**	7,311,260
Other payables and accruals		**751,934**	5,983,554
Cash from operations		**18,697,145**	40,141,896
Employees' end of service benefits paid	20	**(141,022)**	-
Net cash from operating activities		**18,556,123**	40,141,896
INVESTING ACTIVITIES			
Purchase of furniture and equipment	11	**(561,885)**	(1,385,390)
Proceeds from sale of furniture and equipment		**-**	5,268
Realisation of investment deposits		**11,025,000**	31,500,000
New investment deposits		**(34,790,380)**	(11,025,000)
Increase in cost of investments (net)		**(93,730,033)**	(95,981,791)
Murabaha receivable		**2,431,516**	1,243,484
Net cash used in investing activities		**(115,625,782)**	(75,643,429)
FINANCING ACTIVITIES			
Murabaha loan taken		**34,212,500**	35,000,000
Murabaha loan repaid		**(35,000,000)**	-
(Decrease) increase in policyholders funds before Zakat		**(6,518,083)**	8,589,033
Issue of rights shares		**131,000,000**	-
Cash dividend paid		**(9,000,000)**	(6,000,000)
Directors' fees	25	**-**	(980,000)
Zakat paid		**(782,548)**	(229,479)
Net cash from financing activities		**113,911,869**	36,379,554
INCREASE IN BANK BALANCES AND CASH		**16,842,210**	878,021
Bank balances and cash at the beginning of the year		**9,169,152**	8,291,131
BANK BALANCES AND CASH AT THE END OF THE YEAR		**26,011,362**	9,169,152

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2006

	Share capital (Note 13) AED	Statutory reserve (Note 14) AED	Proposed scrip dividend (Note 24) AED	General reserve (Note 15) AED	Retained earnings AED	Proposed cash dividend (Note 24) AED	Cumulative changes in fair value of securities AED	Total AED
Balance at 31 December 2004	60,000,000	857,075	-	857,075	327,121	6,000,000	-	68,041,271
Profit for the year	-	-	-	-	72,651,298	-	-	72,651,298
Directors' fees (note 25)	-	-	-	-	(980,000)	-	-	(980,000)
Cash dividend paid	-	-	-	-	-	(6,000,000)	-	(6,000,000)
Transfer to statutory reserve	-	7,265,130	-	-	(7,265,130)	-	-	-
Transfer to general reserve	-	-	-	7,265,130	(7,265,130)	-	-	-
Zakat	-	-	-	-	(1,448,964)	-	-	(1,448,964)
Proposed scrip dividend	-	-	9,000,000	-	(9,000,000)	-	-	-
Proposed cash dividend	-	-	-	-	(9,000,000)	9,000,000	-	-
Balance at 31 December 2005	60,000,000	8,122,205	9,000,000	8,122,205	38,019,195	9,000,000	-	132,263,605
Net movement in fair value of								
available for sale investments	-	-	-	-	-	-	(24,704,293)	(24,704,293)
Total income and expenses for the year								
recognised directly in equity	-	-	-	-	-	-	(24,704,293)	(24,704,293)
Loss for the year	-	-	-	-	(13,734,895)	-	-	(13,734,895)
Total expenses for the year	-	-	-	-	(13,734,895)	-	(24,704,293)	(38,439,188)
Scrip dividend issued	9,000,000	-	(9,000,000)	-	-	-	-	-
Rights issue	131,000,000	-	-	-	-	-	-	131,000,000
Cash dividend paid	-	-	-	-	-	(9,000,000)	-	(9,000,000)
Zakat	-	-	-	-	(610,891)	-	-	(610,891)
Balance at 31 December 2006	200,000,000	8,122,205	-	8,122,205	23,673,409	-	(24,704,293)	215,213,526

The attached notes 1 to 29 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1-ACTIVITIES

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC) is a public shareholding company and is registered under the Commercial Companies Law of 1984 (as amended). The company carries out general and medical insurance business in accordance with the teachings of Islamic Sharia'a. The company is also licensed to engage in reinsurance and life assurance business. The registered address of the company is PO Box 157, Dubai, United Arab Emirates.

The company obtained its commercial license on 12 March 2003 and commenced operations on 8 April 2003.

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

2- SUMMARY OF 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 articles of association of the company require that separate accounts be maintained for insurance operations on behalf of the policyholders. Accordingly, the directors have resolved to present the financial statements on that basis and comply with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) to the extent that these are compatible with International Financial Reporting Standards.

The financial statements have been presented in UAE Dirhams.

Accounting convention

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investments carried at fair value through income statement and available for sale quoted investments.

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.

Premiums earned

Premiums are accounted for on the date of writing of policies after adjusting for unearned premiums.

Claims

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

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

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 additional reserve created.

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

Reinsurance

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

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

At each reporting date, the company assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the company 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.

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.

Commissions earned and paid

Commissions earned and paid are recognised at the time policies are written.

Investment income

(i) Income from investment deposits is recognised on an accrual basis.
(ii) Dividend income is accounted for when the right-to- receive payment is established.

Murabaha receivable

Murabaha receivable is stated at cost less provision for impairment and deferred profits.

Investments

These are classified as:

- Available-for-sale
- Investments carried at fair value through income statement

All investments are initially recognised at cost, being the fair value of the consideration given, and in the case of available-for-sale investments include directly attributable transaction costs.

Available-for-sale

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 where fair value cannot be measured reliably, such investments are carried at cost less any provision for impairment.

Investments carried at fair value through income statement
Investments are classified as fair value through income statement if the fair value of the investment can be reliably measured and the classification as fair value through income statement is as per the strategy of the company and information about the investment is presented internally on the same basis. Investments classified as "Investments at fair value through income statement" following initial recognition are remeasured at fair value with all changes in fair value being recorded in the income statement.

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

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

Furniture and equipment
Furniture and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives of furniture and equipment as follows:

Furniture and fixtures	4 years
Office equipment	4 years

The carrying values of furniture and equipment are reviewed for impairment when events or changes in circumstances indicate 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.

Deficit in policyholders' fund
Any deficit in the policyholders' fund is financed by the shareholders through loans. The company maintains a full provision against such loans.

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

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

The reserve reflects the management's best estimates on the basis of:

a) claims reported during the year
b) delay in reporting these claims
c) shortfall in unearned premium reserve by reference to the 1/8th method.
d) age analysis of receivable balances and delays in settlement of outstanding amounts.

Payables and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the suppliers or not.

Provisions

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

Murabaha payable

Murabaha payable is stated net of deferred profit payable.

Zakat

Zakat as approved by the company's Sharia'a Supervisory Committee is computed on the following basis:

- Zakat on shareholders' equity is deducted from retained earnings and is computed on their Zakat Pool (shareholders' equity less paid up capital and proposed dividend plus loan to policyholders and employees' end of service benefits).
- Zakat is distributed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board.
- Zakat on policyholders' fund is computed on their Zakat-Pool (Policyholders' fund less proposed profit distribution).
- Zakat on paid up capital and proposed dividend is not included in the Zakat computation and is payable directly by the shareholders themselves. Similarly, Zakat on proposed profit distribution to policyholders is not included in the Zakat computation and is payable directly by the policyholders themselves.

Employees' end of service benefits

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

With respect to its national employees, the company makes contributions to a government Social Insurance Scheme calculated as a percentage of the employees' salaries. The company's obligations are limited to these contributions, which are expensed when due.

Foreign currencies

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

Fair value

Fair values of quoted investments are based on quoted bid prices.

2A- SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Judgements

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

Classification of investments

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

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

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

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

All other investments are classified as available for sale.

Impairment of equity investments
The company treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. 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.

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation of 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 possibly significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

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

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

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

Additional reserve
The management, based on past experience, uses the 1/8th method to assess potential shortfall in unearned premium reserve.

3- PREMIUMS EARNED

	2006 AED	2005 AED
Insurance contracts premium receivable	**165,301,650**	94,924,224
Movement in provision for unearned premium	**(24,671,923)**	(14,777,347)
Movement in additional reserve	**(2,000,000)**	(7,000,000)
Insurance premium revenue	**138,629,727**	73,146,877
Reinsurance contracts premium payable	**(72,081,612)**	(39,848,513)
Movement in provision for unexpired risk	**10,165,751**	4,980,218
Insurance premium ceded to reinsurers	**(61,915,861)**	(34,868,295)
	76,713,866	38,278,582

4- WAKALA AND MUDARIB FEES

The shareholders manage the insurance operations for the policyholders and charge 25% (2005:25%) of gross written premium as Wakala fees. During the year, no Wakala fee was charged on gross written premium amounting to AED 19,903,942 as the company retained insignificant risk on such premiums and commission income from such business was significantly lower than the normal commission. Management therefore decided not to charge Wakala fee on these premiums.

The shareholders also manage the policyholders' investment funds and charge a fixed percentage of investment income earned by the policyholders' investment funds as Mudarib fees. No Mudarib fee has been charged in the current year in view of investment losses for the year (2005: 25%).

Wakala and Mudarib fees have been approved by the company's Sharia'a Supervisory Board.

5- INVESTMENT (LOSSES) INCOME

	2006 AED	2005 AED
Investment (losses) income consists of:		
Fair value (loss) gain on investments carried at fair value through income statement	**(21,369,445)**	60,896,030
(Loss) income from sale of investments carried at fair value through income statement	**(8,503,932)**	31,065,612
Income from investment deposits	**1,660,732**	643,905
Income from investment in real estate funds	**1,538,947**	1,173,646
Dividend received	**1,325,687**	596,000
Murabaha income	**275,687**	177,397
Investment financing	**(3,484,597)**	(656,250)
	(28,556,921)	93,896,340
Allocated to:		
Shareholders	**(17,938,176)**	52,417,782
Policyholders	**(10,618,745)**	41,478,558
	(28,556,921)	93,896,340

Investment (losses) income have been allocated to the shareholders in the ratio of equity at beginning of the year to total assets at the end of the year excluding the current year (loss) profit, fixed assets and end of service benefits. The remaining (loss) income has been allocated to the policyholders. Allocation of investment (losses) income to the shareholders and policyholders has been approved by the company's Sharia'a Supervisory Board.

6- BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is calculated by dividing profit attributable to the shareholders for the year, net of directors' remuneration, of AED Nil (2005: AED 980,000) by weighted average number of shares outstanding during the year, adjusted for the bonus element included in the rights issue (the bonus element being the impact of issuing rights shares at value lower than the prevailing market price) and bonus shares issued during the year as required by International Financial Reporting Standards (IFRS).

	2006 AED	2005 AED
Net (loss) profit for the year, net of directors' fees	**(13,734,895)**	71,671,298
Weighted average number of shares outstanding during the period	**17,309,581**	14,388,556
Earnings per share	**(0.79)**	4.98

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.

7- INVESTMENT DEPOSITS

	2006 AED	2005 AED
Dubai Islamic Bank PJSC (note i)	**7,500,000**	7,500,000
Al Salam Bank, Bahrain (note ii)	**34,790,380**	-
Al Salam Bank, Sudan	**-**	11,025,000
	42,290,380	18,525,000

Notes:

(i) Investment deposits with Dubai Islamic Bank PJSC have a fixed maturity of one year from the date of deposit. These represent the amounts that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with Article 41 of the Federal Law No. 9 of 1984.

(ii) Investments deposit with Al Salam Bank, Bahrain has a fixed maturity of one year from the date of deposit.

8- MURABAHA RECEIVABLE

Murabaha receivable represented the company's participation in a syndicated Murabaha. The Murabaha receivable carried a profit rate of approximately 8% per annum.

9- INVESTMENTS

	2006 AED	2005 AED
Investments carried at fair value through income statement		
Quoted securities at cost (note i)	**44,142,914**	91,367,812
Cumulative fair value adjustments recognised in the income statement	**11,615,635**	78,871,678
Unquoted securities at cost (note ii)	**69,869,819**	-
Cumulative fair value adjustments recognised in the income statement	**23,390,660**	-
	149,019,028	170,239,490
Available-for-sale investments		
Quoted securities (note i)	**67,152,003**	-
Unquoted funds (at cost) (note iii)	**21,685,810**	17,301,483
Unquoted securities at cost (note iv)	**2,480,962**	5,140,535
	91,318,775	22,442,018
	240,337,803	192,681,508

Notes:

i. Investment in quoted securities represents the company's investment in shares quoted in the UAE and Bahrain.

ii. Unquoted securities carried at fair value through income statement represent a 3% investment in a real estate development company in Bahrain purchased from Al Salam Bank, Bahrain, a related party.

The investment was partly financed by Murabaha loan of AED 34,212,500 from Al Salam Bank, Bahrain (note 18). The investment is registered in the name of Al Salam Bank, Bahrain as a security against the borrowing.

iii. Unquoted available for sale funds represent the company's investment in the Real Estate Funds of Dubai Islamic Bank PJSC, Amlak Finance PJSC and Emirates Islamic Bank PJSC which have a maturity of four to five years. The company expects to earn approximately 3% to 7% return on these investments.

iv. Unquoted available for sale securities represents the company's investment in ordinary shares in Dubai and Bahrain.

The unquoted available for sale investments are carried at cost less any impairment in value due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value.

v. Negative cumulative changes in fair value in respect of available for sale investments as of 31 December 2006 is allocated to the policyholders when the investment is sold or derecognised. Until such times, the cumulative changes in fair value is shown under equity.

10- PREMIUMS AND INSURANCE BALANCES RECEIVABLE

	2006 AED	2005 AED
Insurance premiums receivable	**36,627,600**	17,138,121
Amounts due from insurance companies	**12,240,504**	5,378,863
	48,868,104	22,516,984

The above amounts are due within twelve months of the balance sheet date.

11- FURNITURE AND EQUIPMENT

	Motor vehicles AED	Furniture and fixtures AED	Office equipment AED	Total AED
Cost:				
At 1 January 2006	249,370	2,677,583	2,667,439	5,594,392
Additions	11,500	356,422	193,963	561,885
At 31 December 2006	**260,870**	**3,034,005**	**2,861,402**	**6,156,277**
Depreciation:				
At 1 January 2006	40,038	1,364,113	1,142,124	2,546,275
Provided during the year	65,395	725,870	695,156	1,486,421
At 31 December 2006	**105,433**	**2,089,983**	**1,837,280**	**4,032,696**
Net carrying amount:				
At 31 December 2006	**155,437**	**944,022**	**1,024,122**	**2,123,581**
At 31 December 2005	209,332	1,313,470	1,525,315	3,048,117

12- OTHER ASSETS

	2006 AED	2005 AED
Other receivables	**3,072,394**	1,655,064
Prepaid expenses	**1,708,650**	2,068,496
	4,781,044	3,723,560

13- SHARE CAPITAL

	2006 AED	2005 AED
Issued and fully paid – 20,000,000 (2005: 6,000,000) shares of AED 10 each	**200,000,000**	60,000,000

During the year, shareholders approved a scrip dividend of AED 1.5 per share and a rights issue of 1.899 share for every share held, which increased the share capital from AED 60 million to AED 200 million.

14- STATUTORY RESERVE

As required by the Commercial Companies Law of 1984 (as amended) and the company's articles of association, no transfer has been made to statutory reserve in view of loss incurred in the current year. The reserve is not available for distribution except in the circumstances prescribed by the law.

15-GENERAL RESERVE

As required by the company's articles of association, no transfer has been made to general reserve in view of loss incurred in the current year. The reserve is available for distribution by a resolution of the shareholders of the company at an ordinary general meeting, on recommendation of the Board of Directors.

16- POLICYHOLDERS' FUND

	2006 AED	2005 AED
Balance at 1 January	**6,518,083**	(6,331,030)
Net (deficit) surplus for the year	**(13,372,667)**	14,920,063
	(6,854,584)	8,589,033
Zakat	**-**	(172,466)
Proposed profit distribution to policyholders	**-**	(1,898,484)
Balance at 31 December	**(6,854,584)**	6,518,083

Notes:

(i) The shareholders have financed the policyholders' deficit in accordance with the company's policy through a loan with no return. Full provision has been maintained against such a loan.

(ii) Proposed profit distribution to policyholders for 2005 was approved by the shareholders at the annual general meeting held on 29 March 2006.

17- CLAIMS

	2006			2005		
		Reinsurers'			Reinsurers'	
	Gross	share	Net	Gross	share	Net
	AED	AED	AED	AED	AED	AED
Outstanding at end of year	**49,721,460**	**22,957,050**	**26,764,410**	20,502,179	5,971,640	14,530,539
Insurance claims paid in the year	**39,495,927**	**8,720,113**	**30,775,814**	25,889,336	5,888,537	20,000,799
Outstanding at beginning of year	**20,502,179**	**5,971,640**	**14,530,539**	7,145,709	3,386,858	3,758,851
Claims recorded in income statement	**68,715,208**	**25,705,523**	**43,009,685**	39,245,806	8,473,319	30,772,487

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

18- MURABAHA LOAN

The company has obtained a Murabaha loan of AED 34,212,500 from Al Salam Bank, Bahrain (note 9). The loan carries profit rate of 8% and is repayable in eight semi annual instalments commencing from February 2007.

The previous year loan of AED 35,000,000 from Amlak Finance PJSC which carried maximum profit rate of 7.5% has been repaid during the year.

19- OTHER PAYABLES AND ACCRUALS

	2006 AED	2005 AED
Other payables	**7,915,653**	5,917,588
Accrued expenses	**3,624,858**	4,870,971
	11,540,493	10,788,559

20- EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision recognised in the balance sheet are as follows:

	2006 AED	2005 AED
Provision at 1 January	**503,953**	301,365
Provided during the year	**450,972**	202,588
Less: paid during the year	**(141,022)**	-
Provision at 31 December	**813,903**	503,953

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.

21- RELATED PARTY TRANSACTIONS

Related parties represent major shareholders (including Dubai Islamic Bank PJSC), directors and key management personnel of the company, and entities controlled, jointly controlled or significantly influenced by such parties. The company's banker, Dubai Islamic Bank PJSC (DIB) and its subsidiaries own an equity interest of 9.5 % in the company. The Managing Director of the company is also a key management executive of Al Salam Bank in Sudan and Al Salam Bank in Bahrain. The pricing policies and terms of these transactions are approved by the Board of Directors.

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

	Major shareholders	Other related	Total 2006 AED'000	2005 AED'000
Investment deposits	7,500,000	34,790,380	**42,290,380**	18,525,000
Carrying value of investments in ordinary shares	53,540,001	51,119,696	**104,659,697**	87,451,449
Cost of investment in Real Estate Funds	19,830,945	-	**19,830,945**	15,446,618
Amount due from related parties (included within premiums receivable)	886,612	941,183	**1,827,795**	1,395,420
Murabaha loan	-	34,212,500	**34,212,500**	35,000,000

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

	Major shareholders	Other related parties	2006 AED'000	2005 AED'000
Premiums net of re-insurance	14,236,911	1,928,537	**16,165,448**	18,461,087
Claims net of re-insurance	10,685,975	1,123,335	**11,809,310**	12,557,506
Profit share on investment deposits and real estate funds	2,642,184	701,022	**3,343,206**	1,920,143
Dividend income	400,000	86,000	**486,000**	596,000
Profit share on Murabaha loan	1,647,189	1,094,992	**2,742,181**	656,250

During the year, the company purchased a 3% investment in a real estate development company in Bahrain from Al Salam Bank, Bahrain. Refer to note 9.

Compensation of the key management personnel is as follows:

	2006 AED'000	2005 AED'000
Short term employee benefits	**2,264,343**	4,124,930
End of service benefits	**132,000**	63,000
Total compensation paid to key management personnel	**2,396,343**	4,187,930

22- SHARIA'A SUPERVISORY COMMITTEE

The company's business activities are subject to the supervision of a Sharia'a Committee consisting of three members appointed by the shareholders. The Sharia'a Committee performs a supervisory role in order to determine whether the operations of the company are conducted in accordance with Sharia'a rules and principles.

23 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 the insurance business undertaken by the company. 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		2005			
	Attributable to		Attributable to		Total	
	Policyholders	Shareholders	Policyholders	Shareholders	2006	2005
	AED	AED	AED	AED	AED	AED
General Insurance						
Underwriting income	**87,930,440**	**-**	46,140,690	-	**87,930,440**	46,140,690
Underwriting expenses	**(54,334,935)**	**-**	(38,598,489)	-	**(54,334,935)**	(38,598,489)
Net underwriting income	**33,595,505**	**-**	7,542,201	-	**33,595,505**	7,542,201
Wakala fee	**(36,349,427)**	**36,349,427**	(23,731,056)	23,731,056	**-**	-
Mudarib fee	**-**	**-**	(10,369,640)	10,369,640	**-**	-
	(2,753,922)	**36,349,427**	(26,558,495)	34,100,696	**33,595,505**	7,542,201
Investment						
Investment (loss) income	**(10,618,745)**	**(17,938,176)**	41,478,558	52,417,782	**(28,556,921)**	93,896,340
Unallocated other income and expenses	**-**	**(25,291,562)**	-	(20,198,210)	**(25,291,562)**	(20,198,210)
Reversal of provision against loan to policyholders' fund	**-**	**-**	-	6,331,030	**-**	6,331,030
Provision against loan to policyholders' fund	**-**	**(6,854,584)**	-	-	**(6,854,584)**	-
(Loss) profit for the year	**(13,372,667)**	**(13,734,895)**	14,920,063	72,651,298	**(27,107,562)**	87,571,361

OTHER INFORMATION

	General Insurance		Investment		Total	
	2006	2005	2006	2005	2006	2005
	AED	AED	AED	AED	AED	AED
Segment assets	**137,895,329**	67,417,890	**275,128,183**	206,138,024	**413,023,512**	273,555,914
Segment liabilities	**163,597,486**	106,292,309	**34,212,500**	35,000,000	**197,809,986**	141,292,309
Capital expenditure	**561,885**	1,385,390	**-**	-	**561,885**	1,385,390
Depreciation	**1,486,421**	1,221,137	**-**	-	**1,486,421**	1,221,137

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.

24- PROPOSED DIVIDEND

	2006 AED'000	2005 AED'000
Approved and paid or issued:		
Cash dividend for 2005 of AED 1.5 per share of AED 10 each	**9,000,000**	6,000,000
Scrip dividend for 2005 of AED 1.5 per share of AED 10 each	**9,000,000**	-
	18,000,000	6,000,000
Proposed for approval at Annual General Meeting:		
Scrip dividend of AED Nil per share of AED 10 each (2005: AED 1.5 per share of AED 10 each)	-	9,000,000
Cash dividend of AED Nil per share of AED 10 each (2005: AED 1.5 per share of AED 10 each)	-	9,000,000
	-	18,000,000

25- DIRECTORS' FEES

No directors' fee will be paid in view of loss incurred in the current year. Directors' fees for 2005 have been included as an appropriation of the profit for the year in accordance with the interpretation of the Commercial Companies Law of 1984 (as amended) by the Ministry of Economy.

26- RISK MANAGEMENT

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

26A- INSURANCE RISK

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

Frequency and amounts of claims

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

Property

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

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

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The company has reinsurance cover for such damage to limit losses for any individual claim or a series of claims arising out of one event to AED 200,000 depending upon the type of risk covered.

Motor

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

For motor contracts, the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The company has reinsurance cover for such claims to limit losses for any individual claim to AED 200,000.

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

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

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The company has reinsurance to limit losses for any individual claim or a series of claims arising out of one event to AED 200,000.

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

For medical insurance, the main risks are illness and related healthcare costs. For group life and personal accident the main risks are claims from death and permanent or partial disability. The company generally does not offer medical insurance to walk-in customers. Medical, group life and personal accident insurance is generally offered to corporate customers with medium to large populations to be covered under the policy.

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

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

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

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

26B- FINANCIAL RISK

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

The company does not enter into derivative transactions.

The main risks arising from the company's financial instruments are profit margin risk on investment deposits and Murabaha loan, foreign currency risk, market price risk, credit risk, and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Profit margin risk on investment deposits and Murabaha loan
The return on investment deposits placed with banks is based on the principle of the Mudaraba contract by which the company agrees to share the profit or loss made by the bank over a given period. Any change in the market profit margin rates will determine both the profit margins the bank is able to charge on its assets and the returns on investment deposit certificates. The company limits profit margin risk by monitoring changes in market profit margin rates.

Investment deposits with banks are denominated in UAE Dirhams and US Dollars and had an original maturity of one year.

The profit rate on investment deposits is expected to be 2.5% to 5.5% (2005 2.5% to 5.5%).

The maximum profit share payable on Murabaha loan is restricted to 8% (2005:7.5%) per annum.

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 foreign currency exposure.

Other than balances in United States Dollars, to which the UAE Dirham is pegged, there are no foreign currency financial assets or liabilities.

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.

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 investments. Most of the company's investments are within the United Arab Emirates and Bahrain.

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

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

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

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

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

Premiums and insurance balances receivable comprise a large number of customers and insurance companies mainly within the United Arab Emirates as well as reinsurance companies mainly in Europe. The ten largest receivables account for 40% of the insurance premiums receivable at 31 December 2006 (2005: 34%).

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 the balance.

27-CONTINGENCIES

Contingent liabilities
At 31 December 2006, the company had contingent liabilities in respect of bank and other guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to AED 173,625 (2005: AED 1,510,000).

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 position.

28-FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of bank balances and cash, investment deposits, investments, premium, insurance and reinsurance balances receivable, due from related parties and other receivables. Financial liabilities consist of outstanding claims, payables and Murabaha loans.

The fair values of the financial assets and liabilities with the exception of unquoted investment which is carried at cost (note 9), are not materially different from their carrying values.

29- COMPARATIVE INFORMATION

Reinsurers' share of unearned premium was offset from unearned premium in 2005. These have now been shown on a gross basis on the face of the balance sheet. The change has been made to improve the quality of information presented.