Arab Orient Insurance Company (PSC)

FINANCIAL STATEMENTS

31 DECEMBER 2008

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB ORIENT INSURANCE COMPANY (PSC)

Report on the Financial Statements

We have audited the accompanying financial statements of Arab Orient Insurance Company (PSC), which comprise the balance sheet as at 31 December 2008 and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes

Management's Responsibility for the financial statements

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

Auditors' Responsibility

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

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

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

ERNST & YOUNG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2008 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the applicable provisions of the UAE Commercial Companies Law of 1984 (as amended) and its articles of association.

Report on Other Legal and Regulatory Requirements

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

Ernst & Young

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

3 February 2009

Dubai, United Arab Emirates

BALANCE SHEET
At 31 December 2008

	Notes	2008 AED'000	2007 AED'000
ASSETS			
Office equipment and vehicles	3	3,956	3,022
Investment property	4	127,802	-
Investment in associated company	5	27,141	25,383
Investment securities	6	51,132	31,541
Reinsurance share of outstanding claims	16	329,975	231,444
Reinsurance share of unearned premium reserve		308,138	232,962
Insurance receivables	7	225,122	195,040
Prepayment and other receivables		8,676	4,949
Deposits with banks	8	634,943	553,000
Cash and cash equivalents	9	61,045	55,101
		695,988	608,101
TOTAL ASSETS		1,777,930	1,332,442
EQUITY AND LIABILITIES			
Equity			
Share capital	10	250,000	200,000
Statutory reserve	11	62,500	47,917
Legal reserve	12	73,051	58,042
Exceptional loss reserve	13	55,880	42,324
General reserve	14	108,240	101,388
Retained earnings		139	46
Proposed dividends	15	50,000	40,000
Cumulative changes in fair values of securities		-	1,944
Total equity		599,810	491,661
Liabilities			
Insurance contracts liabilities			
Unearned premium		421,302	320,913
Outstanding claims	16	433,063	325,278
		854,365	646,191
Reinsurance payables		187,006	91,766
Amounts held under reinsurance treaties		93,783	69,844
Other payables and accruals	17	42,966	32,980
Total liabilities		1,178,120	840,781
TOTAL EQUITY AND LIABILITIES		1,777,930	1,332,442

These financial statements were approved by the Board of Directors on 3 February 2009 and signed on its behalf by:

.....
Chairman

.....
Vice Chairman

The attached notes 1 to 25 form part of these financial statements

STATEMENT OF INCOME
Year ended 31 December 2008

	Notes	2008 AED'000	2007 AED'000
UNDERWRITING INCOME			
Gross premiums			
Insurance contracts premium receivable		**1,000,322**	766,643
Movement in provision for unearned premiums		**(100,389)**	(91,545)
Insurance premium revenue		**899,933**	675,098
Less: **Reinsurers' share of premium**			
Insurance contracts premium receivable		**725,580**	553,180
Movement in provision for unearned premiums		**(75,176)**	(72,244)
		650,404	480,936
Net insurance premium revenue		**249,529**	194,162
Commission income		**127,454**	92,129
Total underwriting income		**376,983**	286,291
UNDERWRITING EXPENSES			
Claims paid	16	**383,228**	417,614
Less: re-insurance share	16	**(280,666)**	(330,141)
Net claims	16	**102,562**	87,473
Increase in outstanding claims		**9,254**	10,583
Claims incurred		**111,816**	98,056
Commission expenses		**74,779**	57,104
General and administration expenses		**54,834**	40,482
Total underwriting expenses		**241,429**	195,642
NET UNDERWRITING INCOME		**135,554**	90,649
INVESTMENT INCOME			
Interest income		**32,703**	32,589
Rental and other income		**12,470**	-
Gain on sale of trading securities		**76**	6,047
Fair value (loss) gain on trading securities		**(17,696)**	2,954
Impairment of available for sale securities		**(15,072)**	-
Gain on sale of available for sale securities		**300**	2,834
		12,781	44,424
Share of associate's profit	5	**1,758**	1,032
PROFIT FOR THE YEAR		**150,093**	136,105
Basic and diluted earnings per share (AED)	20	**60.04**	54.44

The attached notes 1 to 25 form part of these financial statements

STATEMENT OF CASH FLOW

Year ended 31 December 2008

	Note	2008 AED'000	2007 AED'000
OPERATING ACTIVITIES			
Profit for the year		**150,093**	136,105
Adjustments for:			
Depreciation	3	**1,144**	763
Gain on sale of office equipment and vehicles		**(59)**	(78)
Interest income		**(32,703)**	(32,589)
Share of associate's profit	5	**(1,758)**	(1,032)
Gain on sale of trading securities		**(76)**	(6,047)
Gain on sale of available for sale securities		**(300)**	(2,834)
Unrealised loss (gain) on investments at fair value through profit or loss		**17,696**	(2,954)
Impairment of available for sale securities		**15,072**	-
Reinsurers' share of unearned premiums		**(75,176)**	(72,244)
Movement in unearned premiums		**100,389**	91,545
Operating profit before changes in operating assets and liabilities		**174,322**	110,635
Receivables arising from insurance and reinsurance contracts		**(30,082)**	(54,277)
Re-insurers' share of outstanding claims		**(98,531)**	(19,567)
Prepayments and other receivables		**(3,727)**	220
Outstanding claims		**107,785**	30,150
Reinsurance balances payable		**119,179**	(45,524)
Other payables and accruals		**9,986**	2,439
Net cash from operating activities		**278,932**	24,076
INVESTING ACTIVITIES			
Purchase of investment property		**(127,802)**	-
Purchase of office equipment and vehicles	3	**(2,509)**	(2,737)
Proceeds from sale of office equipment and vehicles		**490**	337
Interest income		**32,703**	32,589
Bank deposits		**(81,943)**	(5,885)
Purchase of available for sale investments		**(31,256)**	(11,006)
Sale of available for sale investments		**2,002**	21,003
Purchase of investments at fair value through profit or loss		**(25,286)**	(526)
Sale of investments at fair value through profit or loss		**613**	15,317
Net cash (used in) from investing activities		**(232,988)**	49,042
FINANCING ACTIVITY			
Dividends paid		**(40,000)**	(30,000)
Net cash used in financing activity		**(40,000)**	(30,000)
INCREASE IN CASH AND CASH EQUIVALENTS		**5,944**	43,168
Cash and cash equivalents at 1 January	9	**55,101**	11,933
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**61,045**	55,101

The attached notes 1 to 25 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	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 2008	200,000	47,917	58,042	42,324	101,388	46	40,000	1,944	491,661
Net movement in cumulative changes in fair value	-	-	-	-	-	-	-	(1,944)	(1,944)
Total income and expenses recognised directly in equity	-	-	-	-	-	-	-	(1,944)	(1,944)
Profit for the year	-	-	-	-	-	150,093	-	-	150,093
Total income and expenses for the year	-	-	-	-	-	150,093	-	(1,944)	148,149
Capitalisation of reserves	50,000				(50,000)	-	-	-	-
Transfers		14,583	15,009	13,556	56,852	(100,000)	-	-	-
Dividend paid	-	-	-	-	-	-	(40,000)	-	(40,000)
Dividend proposed	-	-	-	-	-	(50,000)	50,000	-	-
Balance at 31 December 2008	**250,000**	**62,500**	**73,051**	**55,880**	**108,240**	**139**	**50,000**	**-**	**599,810**
	(Note 10)	(Note 11)	(Note 12)	(Note 13)	(Note 14)				

The attached notes 1 to 25 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Share capital AED'000	*Statutory reserve AED'000*	*Legal reserve AED'000*	*Exceptional loss reserve AED'000*	*General reserve AED'000*	*Retained earnings AED'000*	*Proposed dividend AED'000*	*Cumulative changes in fair values AED'000*	*Total AED'000*
Balance at 1 January 2007	150,000	34,307	44,432	33,269	91,588	16	30,000	(864)	382,748
Net movement in cumulative changes in fair value	-	-	-	-	-	-	-	2,808	2,808
Total income and expenses recognised directly in equity	-	-	-	-	-	-	-	2,808	2,808
Profit for the year	-	-	-	-	-	136,105	-	-	136,105
Total income and expenses for the year	-	-	-	-	-	136,105	-	2,808	138,913
Capitalisation of reserves	50,000	-	-	-	(50,000)	-	-	-	-
Transfers	-	13,610	13,610	9,055	59,800	(96,075)	-	-	-
Dividend paid	-	-	-	-	-	-	(30,000)	-	(30,000)
Dividend proposed	-	-	-	-	-	(40,000)	40,000	-	-
Balance at 31 December 2007	200,000	47,917	58,042	42,324	101,388	46	40,000	1,944	491,661
	(Note 10)	(Note 11)	(Note 12)	(Note 13)	(Note 14)				

The attached notes 1 to 25 form part of these financial statements

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 303 employees as of 31 December 2008 (2007: 239). During 2008, the company obtained a license to open a branch in Muscat, Oman to undertake insurance business in Oman.

The company primarily 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 and properties.

2A BASIS OF PREPARATION

Accounting convention
The financial statements are prepared under the historical cost convention except for the measurement at fair value of investment securities. The financial statements have been presented in UAE Dirhams and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates Law.

New accounting Standards and Interpretations
The company has adopted the following new and amended IFRIC Interpretations during the year. Adoption of these revised Standards and Interpretations did not have any significant effect on the financial performance or position of the company for the current year.

IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of these new Standards are as follows.

IFRIC 11 IFRS 2 - Company and Treasury Share Transactions
This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

IFRIC 12 Service Concession Arrangements
This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.

IFRIC 14 IAS19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 *Employee Benefits.*

2A BASIS OF PREPARATION (continued)

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

Amendments to IFRS 2 Share-based Payment
The IASB issued an amendment to IFRS 2 in January 2008 which becomes effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment is not expected to have any impact on the financial position or performance of the company as it does not have any share based payment scheme.

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements
The revised Standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact on the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended Standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*.

IFRS 8 Operating Segments
IFRS 8 *Operating Segments* was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new Standard may require changes in the way the company discloses information about its operating segments.

IAS 1 Revised Presentation of Financial Statements
The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The application of this standard will result in amendments to the presentation of the financial statements. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements.

IAS 23 Borrowing Costs
A revised IAS 23 *Borrowing Costs* was issued in March 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009.

2A BASIS OF PREPARATION (continued)

IASB Standards and Interpretations issued but not adopted (continued)

Improvements to IFRSs'

IFRS 7 Financial Instruments: Disclosures:
Removal of the reference to 'total interest income' as a component of finance costs.

IAS 8 Accounting Policies, Change in Accounting Estimates and Errors:
Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

IAS 10 Events after the Reporting Period:
Clarification that dividends declared after the end of the reporting period are not obligations.

IAS 16 Property, Plant and Equipment:
Replace the term "net selling price" with "fair value less costs to sell".

IAS 18 Revenue:
Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.

IAS 36 Impairment of Assets:
When discounted cash flows are used to estimate 'fair value less cost to sell additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use.

Significant management judgements, estimates and assumptions
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 relating to insurance industry.

2A BASIS OF PREPARATION (continued)

Significant management judgements, estimates and assuptions- 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:

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.

2B SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

Office equipment and vehicles
Office equipment and vehicles 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 office equipment and vehicles as follows:

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

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

Investment properties
Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses in accordance with the cost model of IAS 40.

No depreciation is charged on freehold land.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Fair value of investment property is determined by open market values based on valuations performed by independent surveyors and consultant or broker's quotes.

2B SIGNIFICANT ACCOUNTING POLICIES- continued

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

Financial assets
The company classifies its investments into financial assets at fair value through profit or loss, available-for-sale and held to maturity financial assets.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as at fair value through profit or loss, as the company's strategy is to manage financial investments acquired to cover its insurance and investments contract liabilities (including shareholders' funds), on the same bases, being fair value. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) are passively managed.

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

Financial assets at fair value through profit or loss, has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis.

Held to maturity
Securities which have fixed or determinable payments which are intended to be held to maturity are carried at amortised cost using the effective interest rate method, less provision for impairment in value.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or which are not classified in any of the above categories. After initial measurement, these investments are measured at fair value. Fair value gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to the income statement.

2B SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less in the balance sheet.

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

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

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

Employees' end of service benefits
The company provides end of service benefits to its employees in accordance with the UAE Labour Law and for employees employed in the Oman branch of the Company in accordance with Oman 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.

2B SIGNIFICANT ACCOUNTING POLICIES (continued)

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 "insurance receivables".

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.

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

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.

Other investment income
- Dividend income is accounted for when the right to receive payment is established.
- Rental income is recognised as income over the period to which it relates. Rent received in advance is included in current liabilities.

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

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

For unquoted equity investments, fair value is determined by reference to the current market value of a similar investment, recent arm's length market transactions or is based on the expected discounted cash flows.

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.

Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Product classification
Insurance contracts are those contracts when the company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

The Company does not have any investment contracts or any insurance contracts with Discretionary Participation Features (DPF).

3 OFFICE EQUIPMENT AND VEHICLES

	Office equipment and furniture and fixtures AED'000	*Motor vehicles AED'000*	*Total AED'000*
Cost:			
At 1 January 2008	6,283	1,544	7,827
Additions	1,316	1,193	2,509
Disposals	(358)	(537)	(895)
At 31 December 2008	**7,241**	**2,200**	**9,441**
Depreciation:			
At 1 January 2008	4,258	547	4,805
Depreciation charge for the year	733	411	1,144
Relating to disposals	(233)	(231)	(464)
At 31 December 2008	**4,758**	**727**	**5,485**
Net carrying amount:			
At 31 December 2008	**2,483**	**1,473**	**3,956**

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

The depreciation charge for the year of AED 1,444 thousand (2007: AED 763 thousand) has been included in general and administrative expenses.

4 INVESTMENT PROPERTY

	2008 AED'000	*2007 AED'000*
At cost (within UAE)	**127,802**	-

The fair value of the investment property amounted to AED 221 million based on a valuation done by an independent qualified valuer on 8 September 2008. The fair value of the investment property as of 31 December 2008 is not materially different from the value determined above.

5 INVESTMENT IN ASSOCIATED COMPANY

	2008 AED'000	*2007 AED'000*
Cost	**25,383**	24,351
Add: share of associated company's retained earnings	**1,758**	1,032
	27,141	25,383

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

The following table illustrates summarised information of the company's investments in associated company:

	2008 AED'000	*2007 AED'000*
Share of associates' balance sheet:		
Current assets	**41,180**	28,093
Non-current assets	**855**	1,379
Current liabilities	**(14,894)**	(4,089)
Net assets	**27,141**	25,383
Share of associates' revenues and results:		
Revenues	**14,034**	4,358
Results	**1,758**	1,032

6 INVESTMENT SECURITIES

	2008 AED'000	*2007 AED'000*
Investments carried at fair value through income statement		
Managed portfolios		
- within UAE	**4,672**	-
- outside UAE	**13,596**	-
	18,268	-
Held for trading-quoted shares (within UAE)	**4,444**	15,659
	22,712	15,659
Available-for-sale investments		
Debt		
Quoted (within UAE)	**10,000**	10,000
Equity		
Quoted (within UAE)	**5,223**	5,882
Unquoted (within UAE)	**13,197**	-
	28,420	15,882
	51,132	31,541

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

7 INSURANCE RECEIVABLES

	2008 AED'000	*2007 AED'000*
Premiums and insurance companies' balances receivable	**158,133**	116,559
Due from reinsurance companies in respect of claims settled	**37,796**	45,456
Due from related parties (note 21)	**29,193**	33,025
	225,122	195,040

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

As at 31 December 2008, premiums and insurance companies balance receivables at nominal value of AED 5,193 thousand (2007: AED 4,943 thousand) were impaired.

Movements in the allowance for impairment of receivables were as follows:

	2008 AED'000	*2007 AED'000*
At 1 January	**4,943**	4,463
Charge for the year	**250**	480
	5,193	4,943

8 DEPOSITS WITH BANKS

Deposits with banks include the following:

		2008 *AED'000*	*2007* *AED'000*
a)	Statutory deposit that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with Article 42 of Federal Law No.6 of 2007	**10,000**	7,500
b)	Amounts under lien with Capital Market Authority, Sultanate of Oman towards license of Muscat branch	**14,100**	-
c)	Amounts under lien with Omani Unified Bureau for the Orange Card (SAOC)	**478**	-
d)	Fixed term deposits	**610,365**	545,500
		634,943	553,000

9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2008 *AED'000*	*2007* *AED'000*
Deposits with banks maturing within three months	**57,500**	50,236
Bank balances and cash	**3,545**	4,865
	61,045	55,101

10 SHARE CAPITAL

	2008 *AED'000*	*2007* *AED'000*
Issued and fully paid 2,500,000 shares of AED 100 each (2007: 2,000,000 shares of AED 100 each)	**250,000**	200,000

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 24 February 2008. The legal formalities in respect of the increase in the share capital were completed during the year.

11 STATUTORY RESERVE

In accordance with the Company's Articles of Association, the company has resolved not to increase the statutory reserve above an amount equal to 25% of its paid up capital. Accordingly, the transfer to statutory reserve, which is less than 10% of the profit for the year is that amount required to raise the reserve to 25% of its 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.

12 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.

13 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.

14 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.

15 PROPOSED DIVIDENDS

Dividends of AED 20.00 per share (totalling AED 40 million) relating to the year 2007 were declared and paid during the year. During 2007, dividends of AED 20 per share (totalling AED 30 million) relating to the year 2006 were declared and paid.

The Board of Directors has proposed a cash dividend amounting to AED 50 million at AED 20 per share for the year 2008. This is subject to the approval of the shareholders at the Annual General Meeting to be held during February 2009.

16 INSURANCE CONTRACT LIABILITIES

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

	2008			*2007*		
	Gross	*Reinsurer's share*	*Net*	*Gross*	*Reinsurer's share*	*Net*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*
At 1 January						
Claims incurred	**318,228**	**(231,444)**	**86,784**	288,078	(211,877)	76,201
Claims incurred but not reported	**7,050**	**-**	**7,050**	7,050	-	7,050
	325,278	**(231,444)**	**93,834**	295,128	(211,877)	83,251
Insurance claims paid in the year	**(383,228)**	**280,666**	**(102,562)**	(417,614)	330,141	(87,473)
Claims incurred	**491,013**	**(379,197)**	**111,816**	447,764	(349,708)	98,056
At 31 December	433,063	(329,975)	103,088	325,278	(231,444)	93,834
Analysis of outstanding claims						
At 31 December						
Claims incurred	**426,013**	**(329,975)**	**96,038**	318,228	(231,444)	86,784
Claims incurred but not reported	**7,050**	**-**	**7,050**	7,050	-	7,050
	433,063	**(329,975)**	**103,088**	325,278	(231,444)	93,834

16 INSURANCE CONTRACT LIABILITIES (continued)

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

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

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

Accident year	***Before 2005 AED' 000***	***2005 AED' 000***	***2006 AED' 000***	***2007 AED' 000***	***2008 AED' 000***	*Total AED' 000*
At the end of accident year	-	196,067	289,159	420,157	531,892	
One year later	-	169,112	323,934	407,526	-	
Two years later	-	186,133	329,749	-	-	
Three years later	-	159,673	-	-	-	
Four years later	278,915	-	-	-	-	
Current estimate of cumulative claims	**278,915**	**159,673**	**329,749**	**407,526**	**531,892**	
At the end of accident year	-	(121,985)	(139,907)	(238,439)	(237,631)	
One year later	-	(141,343)	(239,842)	(355,898)	-	
Two years later	-	(152,539)	(272,482)	-	-	
Three years later	-	(152,721)	-	-	-	
Four years later	(255,960)	-	-	-	-	
Cumulative payments to date	(255,960)	(152,721)	(272,482)	(355,898)	(237,631)	
Total gross outstanding claims	**22,955**	**6,952**	**57,267**	**51,628**	**294,261**	**433,063**
						(note 16)

17 OTHER PAYABLES AND ACCRUALS

	2008 AED'000	*2007 AED'000*
Provision for staff costs	**5,971**	6,819
Other creditors and accruals	**22,619**	16,782
Employees' end of service benefits (Note 18)	**7,767**	6,718
Due to related parties (Note 21)	**6,609**	2,661
	42,966	32,980

18 EMPLOYEES' END OF SERVICE BENEFITS

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

	2008 AED'000	*2007 AED'000*
Provision as at 1 January	**6,718**	5,642
Provided during the year	**2,278**	1,449
End of service benefits paid	**(1,229)**	(373)
Provision as at 31 December	**7,767**	6,718

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

19 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2008 AED'000	*2007 AED'000*
Staff costs	**39,813**	30,287
Rental costs – Operating leases	**3,338**	2,706

20 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is computed by dividing the profit attributable to the shareholders by the weighted average number of shares outstanding during the year of 2,500,000 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.

21 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*	*2008 AED'000*	*2007 AED'000*
Administration expenses	17,166	-	17,166	11,570
Gross premium written	95,568	-	95,568	64,269
Motor vehicle repair charges paid relating to claims	56,625	-	56,625	46,955
Rental income	10,500	-	10,500	-

21 RELATED PARTY TRANSACTIONS (continued)

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

	2008		*2007*	
	Amounts owed by related parties AED'000	***Amounts owed to related parties AED'000***	*Amounts owed by related parties AED'000*	*Amounts owed to related parties AED'000*
Al Futtaim Group Companies	**29,193**	**6,609**	33,025	2,661

Amounts due from and due to related parties are disclosed in notes 7 and 17 respectively.

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

	2008 AED'000	*2007 AED'000*
Short-term benefits	**6,185**	4,946
Employees' end of service benefits	**716**	493
	6,901	5,439

22 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:

	2008 AED'000	*2007 AED'000*
General Insurance		
Underwriting income	**376,983**	286,291
Underwriting expenses	**(241,429)**	(195,642)
Net underwriting income	**135,554**	90,649
Investment		
Investment income	**12,781**	44,424
Share of associate's profit	**1,758**	1,032
	14,539	45,456
Profit for the year	**150,093**	136,105

22 SEGMENTAL INFORMATION (continued)

OTHER INFORMATION

	General Insurance		*Investment*		*Total*	
	2008 AED'000	*2007 AED'000*	***2008 AED'000***	*2007 AED'000*	***2008 AED'000***	*2007 AED'000*
Segment assets	**897,412**	672,282	**898,518**	660,160	**1,777,930**	1,332,442
Segment liabilities	**1,178,120**	840,781	-	-	**1,178,120**	840,781
Capital expenditure	**2,509**	2,737	-	-	**2,509**	2,737
Depreciation	**1,144**	763	-	-	**1,144**	763

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.

23 RISK MANAGEMENT

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

(a) Governance framework
The primary objective of the company's risk and financial management framework is to protect the company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The company's risk management function is carried out by the board of directors, with its associated committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to the Senior Managing Director and senior managers.

The board of directors meets regularly to approve any commercial, regulatory and organisational decisions. The Senior Managing Director under the authority delegated from the board of directors defines the company's risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

(b) Capital management framework
The primary objective of the company's capital management is to comply with the regulatory requirements in the UAE and to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The company fully complied with the externally imposed capital requirements and no changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007.

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

23 RISK MANAGEMENT (continued)

(c) Regulatory framework (continued)

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

(d) Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The company manages these positions to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

The Senior Managing Director actively monitors the ALM to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance contracts.

The Senior Managing Director regularly monitors the financial risks associated with the company's other financial assets and liabilities not directly associated with insurance liabilities.

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

23 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.

23 RISK MANAGEMENT (continued)

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

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

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

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

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

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

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

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

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

The five largest reinsurers account for 31 % of the maximum credit exposure at 31 December 2008 (2007: 68%).

23 B Financial risk
The company's principal financial instruments are financial 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, equity price risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised in the following page.

23 RISK MANAGEMENT (continued)

23 B Financial risk (continued)

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

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

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

31 December 2008	*Less than 1 year AED' 000*	*1 to 5 years AED' 000*	*Over 5 years AED' 000*	*Non interest bearing items AED' 000*	*Total AED' 000*	*Effective interest rate AED' 000*
Investment securities	-	10,000	-	41,132	51,132	(2.7%-5%)
Insurance receivables	-	-	-	225,122	225,122	-
Other receivables	-	-	-	8,676	8,676	
Deposits with banks	692,443	-	-	-	692,443	(6.0%- 7.5%)
Bank balances and cash	-	-	-	3,545	3,545	
	692,443	10,000	-	278,475	980,918	

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

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

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

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 and Omani Riyals, to which the UAE Dirham is effectively pegged, the company does not deal in any other foreign currency.

23 RISK MANAGEMENT (continued)

23 B Financial risk (continued)

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

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

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

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

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

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

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

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

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

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

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

31 December 2008	*Neither past due nor impaired*				
	Investment grade AED'000	*Non Investment grade (satisfactory) AED'000*	*Non investment grade (unsatisfactory) AED'000*	*Past due or impaired AED'000*	*Total AED'000*
Investment securities	51,132	-	-	-	51,132
Insurance receivables	-	225,122	-	5,193	230,315
Reinsurance share of unexpired risks	-	308,138	-	-	308,138
Reinsurance share of outstanding claims	-	329,975	-	-	329,975
Cash and deposits with banks	-	695,988	-	-	695,988
	51,132	1,559,223	-	5,193	1,615,548
Less: impairment provision					(5,193)
					1,610,355

23 RISK MANAGEMENT (continued)

31 December 2007	*Neither past due nor impaired*				
	Investment grade AED'000	*Non Investment grade (satisfactory) AED'000*	*Non investment grade (unsatisfactory) AED'000*	*Past due or impaired AED'000*	*Total AED'000*
Investment securities	31,541	-	-	-	31,541
Insurance receivables	-	195,040	-	4,943	199,983
Reinsurance share of unearned premiums	-	232,962	-	-	232,962
Reinsurance share of outstanding claims	-	231,444	-	-	231,444
Cash and deposits with banks	-	608,101	-	-	608,101
	31,541	1,267,547	-	4,943	1,304,031
Less: impairment provision					(4,943)
					1,299,088

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

	Neither past due nor impaired AED'000	***Past due but not impaired***					
		<120 days AED'000	*120-180 days AED'000*	*>180 days AED'000*	*Total AED'000*	*Past due and impaired AED'000*	*Total AED'000*
31 December 2008	**11,134**	**121,459**	**16,219**	**14,514**	**163,326**	**(5,193)**	**158,133**
31 December 2007	7,213	91,873	14,053	8,363	121,502	(4,943)	116,559

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

Liquidity risk

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

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

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

23 RISK MANAGEMENT (continued)

***Liquidity risk* (continued)**

	31 December 2008				*31 December 2007*			
	Less than one year	*More than one year*	*No term*	*Total*	*Less than one year*	*More than one year*	*No term*	*Total*
ASSETS								
Office equipment and vehicles	-	-	3,956	3,956	-	-	3,022	3,022
Investment property	-	-	127,802	127,802				
Investment in securities	-	10,000	41,132	51,132	-	10,000	21,541	31,541
Investment in associated company	-	-	27,141	27,141	-	-	25,383	25,383
Insurance receivables	225,122	-	-	225,122	195,040	-	-	195,040
Prepayments and other receivables	8,676	-	-	8,676	4,949	-	-	4,949
Reinsurers' share of unearned premium reserve	308,138	-	-	308,138	232,962	-	-	232,962
Reinsurers' share of outstanding claims	329,975	-	-	329,975	231,444	-	-	231,444
Cash and short term deposits	695,988	-	-	695,988	608,101	-	-	608,101
TOTAL ASSETS	1,567,899	10,000	200,031	1,777,930	1,272,496	10,000	49,946	1,332,442
EQUITY AND LIABILITIES								
Equity								
Share capital	-	-	250,000	250,000	-	-	200,000	200,000
Statutory reserve	-	-	62,500	62,500	-	-	47,917	47,917
Legal reserve	-	-	73,051	73,051	-	-	58,042	58,042
Exceptional loss reserve	-	-	55,880	55,880	-	-	42,324	42,324
General reserve	-	-	108,240	108,240	-	-	101,388	101,388
Retained earnings	-	-	139	139	-	-	46	46
Proposed dividends	50,000	-	-	50,000	40,000	-	-	40,000
Cumulative changes in fair values of securities	-	-	-	-	-	-	1,944	1,944
Total equity	50,000	-	549,810	599,810	40,000	-	451,661	491,661
Liabilities								
Insurance contract liabilities								
Unearned premiums	421,302	-	-	421,302	320,913	-		320,913
Outstanding claims	433,063	-	-	433,063	325,278	-	-	325,278
Insurance payables	187,006	-	-	187,006	91,766	-	-	91,766
Amounts held under reinsurance treaties	93,783	-	-	93,783	69,844	-	-	69,844
Other payables and accruals	35,199	-	7,767	42,966	26,262	-	6,718	32,980
Total liabilities	1,170,353	-	7,767	1,178,120	834,063	-	6,718	840,781
TOTAL EQUITY AND LIABILITIES	1,220,353	-	557,577	1,777,930	874,063	-	458,379	1,332,442

23 RISK MANAGEMENT (continued)

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

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

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

Operational risk
Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The company cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the company is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

24 CONTINGENCIES

Contingent liabilities
At 31 December 2008, guarantees, other than those relating to claims for which provisions are held, amounting to AED 3,207,837 (2007: AED 2,215,022) 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.

	2008 AED'000	*2007 AED'000*
Capital commitment		
Commitment for investments	43,972	-

25 COMPARATIVE INFORMATION

The company has changed the order of presentation of assets on its balance sheet to align it with the order adopted for presentation of its liabilities with less liquid items presented before more liquid items. Bank deposits with maturity period less than 90 days have been included under cash and cash equivalents.

The above changes have been made to improve the quality of information presented and do not affect previously reported income statement or equity amounts.