

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



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

Directors and Management

BOARD OF DIRECTORS

Chairman	Abdulla Hamad Al-Futtaim (representative of Al-Futtaim Company L.L.C.)
Vice Chairman	Omar Abdulla Al-Futtaim (representative of Al-Futtaim Development Services Co L.L.C.)
Director	Ahmed Zaky Haroun (representative of Al-Futtaim Private Company L.L.C.)
Director	Khalid Abdulla Al-Futtaim (representative of Al-Futtaim Development Services Co L.L.C.)
Director	Buti Obaid Buti Al Mulla

MANAGEMENT

Senior Managing Director	Omer Hassan Elamin

Departments and Branches

General Manager - Technical
Rohana Alagiyage – F.C.I.I

General Manager – Business Development
Syed Muhammad Asim – A.C.I.I., M.B.A

Country Manager – Oman
Adil Hassan Al Lawati – C.I.P, A.C.I.I, C.B.M

Assistant General Manager – Sales & Marketing
Fadi Awni Al Ahamdi – P.I.C

Assistant General Manager – Brokers
K.V. Suresh – M.sc (E), F.I.I.I.

Assistant General Manager – Medical
Wissam Khalifeh – F.L.M.I., Diploma in Actuarial Sciences

Assistant General Manager – Life & Bancassurance
Xavier Arputharaj – A.C.I.I

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

Assistant General Manager – Operations Control
S. Raj Gopal – A.C.A, A.I.I.I

Assistant General Manager – Claims
Natarajan Ramesh – F.C.I.I, M.I.R.M

Assistant General Manager – Reinsurance
Nadia Saleh – F.C.I.I

Assistant General Manager – Marine & Energy
Vijay Kumar Singh – A.C.I.I

Assistant General Manager – Human Resources & Administration
Gilbert Espiritu – B.Sc. Psychology

BRANCHES:

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

Jebel Ali
P.O. Box 17292
JAFZA View 19, Office. 2507, 25th Floor
Tel: (04) 884 7471, Fax: (04) 884 7449

Sharjah
P.O. Box 6654, Suite No. 203 and 204, 2nd Floor
Al Hisn Tower, Rolla Bank Street
Tel: (06) 5682045, Fax: (06) 5681334

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

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

Muscat
P.O. Box 1534, PC 133
5th Floor, Bait Al-Hamed Building,
Al Khuwair, Sultanate of Oman
Tel: (968) 24475410, Fax: (968) 24475262

Dubai Health Care City
P.O. Box 27966, Office No. 101, 1st Floor,
Building No.AP24
Tel: (04) 3635321, Fax: (04) 3635320

Deira
P.O. Box 27966, Business Point Building, Office 203
Behind Nissan Service Center, Port Saeed Deira
Tel: (04) 2942415, Fax: (04) 2989702

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

Ras Al-Khaimah
P.O Box 33217, Al-Naeem Tower,
Floor No. 11, Flat No. 1101, Corniche Street
Tel: (07) 2335098, Fax: (07) 2335091

Mussafah
P.O. Box 37035, Street No : 10, M3
New Honda Showroom Building, 1st floor
Mussafah Industrial City
Tel: (02)5538494, Fax: (02) 5538513

Report of the Directors

The Board of Directors has the pleasure to present the 30th Annual report of Orient Group together with the Audited Financial Statement for the year ended 31st December 2011.

BUSINESS REVIEW

The improvement in the economic situation is clearly evident now. There is a good increase in the business of the retail sector with a noticeable increase in the number of visitors to Dubai. The hotel occupancy rate is at its highest in 3 years, there is an increase in car sales and in general there is a positive economic climate.

The lending cycle has started moving again pumping money in both personal loans and auto loans. However the investment opportunities are still very slim. The stock market continues to remain volatile with total uncertainty of the future directions. The real estate market is still under pressure with more units coming into the market although there are signs for marginal increase in prices in prime locations. It is expected that about 16,000 units will enter the market in 2012 putting pressure on the current low prices. The interest rates are at historical level low with little appetite from the banking sector to attract deposits due to the lack of safe lending.

All these factors have put substantial pressure on the investment income of the insurance industry.

LOCAL INSURANCE MARKET

The UAE insurance market still remains highly competitive with a cutthroat competition. The motor rates have reached levels that are much more than uneconomical. Rates being charged currently are about 35% of the rates charged 4 years ago with much wider extensions of terms and conditions. It is expected that this will result in substantial technical losses to the insurance industry in the UAE. The insurance authority has issued several warnings to the market on the continuity of such irresponsible practices. The medical insurance is the other battlefield for the industry. The providers have continued their annual price increase creating an unbalanced situation between the exposure and the charged rates. Many Insurance companies have not been able to renew their quota share treaties and the majority are working on an excess of loss basis which will expose the financial statements of these companies.

It is noticeable that some leading reinsurers are exiting our market. This is a result of unrealistic rates, terms and conditions being offered. The market is no more attractive to those reinsurers. The lack of interest shown by these reinsurers might make it difficult for the market to be able to attract good securities.

The other lines of business are all under pressure. The drop in the rates is in the region of 30-40% during the year 2011. With pressure coming from both technical and investment it is likely that there will be significant drop in the market profit in the year 2011.

We hope that some wisdom will prevail. The continuity of such irresponsible practices will end up in many companies in need for recapitalization.

One of the main reasons for the problems of our market is the high number of companies chasing a rather limited market. Possibly a considerable increase in the capital by the regulator can encourage mergers and acquisitions which will lead to a lesser number of companies and a better market climate.

ORIENT GROUP PERFORMANCE

The group has continued the excellent performance record. In the UAE we have shown a good increase in premiums and net profit. This is against the direction of the market which is witnessing declining results. Our shareholders equity has crossed 1 billion Dirhams for the 1st time showing clearly the financial strength of the company. Our operation in Syria has done remarkably well despite the political problems in the country. Our operation in Egypt has exceeded our expectation by showing good profit in our 2nd financial year going against the projection that the profitability will only be achieved after the 3rd year of operation. Our company in Sri Lanka has started its activities in December 2011. We have on board highly qualified management team and we are optimistic that the operation will be a good addition to the existing overseas expansion.

Our overseas expansion plans are continuing. We are looking into markets like Libya, Qatar, Bahrain and Saudi Arabia. We hope that we will be able to conclude at least 2 of these new territories in 2012.

We are also delighted having moved to our new state of the art building. This will further add to the prestigious image of the company and create a comfortable environment for the staff and help to improve productivity.

ORIENT RATING

We continue to have the highest rating in the market from Standard and Poor's and A M Best. We are proud being the only company in the Middle East with 2 combined "A" Ratings from these two prestigious rating agencies.

This high rating is backed by an excellent successful performance record and will for sure help the company in satisfying the need of our clients and brokers for an excellent security.

REINSURANCE TREATIES

We have successfully concluded renewal of our reinsurance treaties for the year 2012. The company continues to enjoy the best available security in the market. This will not only give peace of mind to our policy holders but also to the rating agencies and our shareholders on the impeccable security that we enjoy.

THE FUTURE

With the continuity of developing new products, entering new markets and adopting suitable marketing strategies we are confident that the company will continue to grow in a prudent and balanced manner taking into consideration the need for growth and profitability.

FINANCIAL HIGHLIGHTS

The highlights of the Group's financial performance for the years ended December 2009, 2010 and 2011 are set below

	2009 AED'000	2010 AED'000	**2011 AED'000**	%Increase over 2010
Gross Premium Written	1,001,920	1,128,165	**1,265,214**	12%
Net Premium Written	270,874	298,021	**335,490**	13%
Net Claims Incurred	131,506	122,463	**150,810**	23%
Net Profit	186,029	191,717	**204,234**	7%
Dividend To Shareholders	60,000	60,000	**75,000**	25%
Provision for Unearned Premiums	112,818	125,226	**142,471**	14%
Share Capital	300,000	300,000	**375,000**	25%
Reserves	375,478	506,488	**556,453**	10%

We would like to thank our valuable customers for their support during the previous year and to all the employees of the company for their great efforts which have resulted in achieving our goals. We would also like to thank our partners from the international reinsurance market for fulfilling their obligations.

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Arab Orient Insurance Company (PSC) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated 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. The management is responsible for such internal control as it determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011 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 consolidated 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 consolidated 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:
Joseph A. Murphy
Partner
Registration No. 492

29 January 2012
Dubai, United Arab Emirates

Consolidated statement of financial position at 31 December 2011

	Notes	2011 AED'000	2010 AED'000
ASSETS			
Property and equipment	3	124,560	5,516
Investment property	4	-	127,802
Investment in associated company	5	37,881	34,523
Investment securities	6	111,687	49,796
Reinsurance assets	13	709,168	580,592
Insurance receivables	7	204,674	233,598
Prepayments and other receivables		12,650	15,042
		1,200,620	1,046,869
Deposits with banks	8	1,124,196	999,838
Cash and cash equivalents	9	58,185	43,006
		1,182,381	1,042,844
TOTAL ASSETS		2,383,001	2,089,713
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	10	375,000	300,000
Statutory reserve	11	93,750	75,000
Legal reserve	11	131,325	111,115
Exceptional loss reserve	11	92,635	80,055
General reserve	11	243,592	242,132
Retained earnings	11	752	514
Available-for-sale reserve	11	(1,952)	(1,136)
Foreign currency translation reserve	11	(3,649)	(1,192)
Proposed dividends	12	75,000	60,000
		1,006,453	866,488
Non-controlling interests		12,876	11,880
Total equity		1,019,329	878,368
LIABILITIES			
Insurance contract liabilities	13	972,000	821,749
Reinsurance payables		198,265	187,112
Amounts held under reinsurance treaties		105,400	118,762
Other payables and accruals	14	88,007	83,722
Total liabilities		1,363,672	1,211,345
TOTAL EQUITY AND LIABILITIES		2,383,001	2,089,713

These consolidated financial statements were approved by the Board of Directors on 29 January 2012 and signed on its behalf by:

ABDULLA HAMAD AL FUTTAIM
Chairman

OMAR ABDULLA AL FUTTAIM
Vice Chairman

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

Consolidated statement of income year ended 31 December 2011

	Notes	2011 AED'000	2010 AED'000
UNDERWRITING INCOME			
Gross premiums			
Insurance contracts premium	13	**1,265,214**	1,128,165
Movement in provision for unearned premiums	13	**(64,454)**	(49,510)
Insurance premium revenue	13	**1,200,760**	1,078,655
Less: Reinsurers' share of premium			
Insurance contracts premium	13	**929,724**	830,144
Movement in provision for unearned premiums	13	**(46,653)**	(37,101)
		883,071	793,043
Net insurance premium revenue		**317,689**	285,612
Commission income		**116,377**	114,322
Total underwriting income		**434,066**	399,934
UNDERWRITING EXPENSES			
Claims paid	13	**510,818**	542,986
Less: re-insurance share	13	**(364,572)**	(429,524)
Net claims	13	**146,246**	113,462
Increase in outstanding claims		**4,564**	9,001
Claims incurred		**150,810**	122,463
Commission expenses		**80,787**	71,657
General and administration expenses		**87,402**	82,252
Total underwriting expenses		**318,999**	276,372
NET UNDERWRITING INCOME		**115,067**	123,562
INVESTMENT INCOME			
Interest income		**42,197**	40,683
Gain on sale of investment property		**22,198**	-
Rental and other income		**21,863**	21,535
Gain on sale of investments carried at fair value through profit or loss		-	1,600
Fair value loss on investments carried at fair value through profit or loss		**(449)**	(198)
		85,809	63,620
Share of associate's profit	5	**3,358**	4,535
PROFIT FOR THE YEAR		**204,234**	191,717
Attributable to:			
Equity holders of the parent		**203,238**	192,695
Non-controlling interests		**996**	(978)
		204,234	191,717
Basic and diluted earnings per share (AED) attributable to equity holders of the parent	17	**54.19**	51.38

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

Consolidated statement of comprehensive income year ended 31 December 2011

	2011 AED'000	2010 AED'000
Profit for the year	**204,234**	191,717
Other comprehensive income		
Exchange differences on translation of foreign operations	**(2,457)**	(1,526)
Net unrealised losses on available -for- sale investments	**(816)**	(159)
Total comprehensive income for the year	**200,961**	190,032
Attributable to:		
Equity holders of parent	**199,965**	191,010
Non-controlling interests	**996**	(978)
	200,961	190,032

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

Consolidated statement of cash flows year ended 31 December 2011

	Notes	2011 AED'000	2010 AED'000
OPERATING ACTIVITIES			
Profit for the year		**204,234**	191,717
Adjustments for:			
Depreciation	3	**1,613**	1,752
Gain on sale of property and equipment		**67**	(107)
Gain on sale of investment property	4	**(22,198)**	-
Interest income		**(42,197)**	(40,683)
Rental income		**(19,250)**	(21,000)
Share of associate's profit	5	**(3,358)**	(4,535)
Gain on sale of investments carried at fair value through profit or loss		**-**	(1,600)
Unrealised loss on investments at fair value through profit or loss		**449**	198
Operating profit before changes in operating assets and liabilities		**119,360**	125,742
Insurance receivables		**28,924**	(36,819)
Reinsurance assets		**(128,576)**	12,602
Prepayments and other receivables		**2,392**	(1,140)
Insurance contract liabilities		**150,251**	8,808
Reinsurance payables		**(2,209)**	66,050
Other payables and accruals		**4,285**	10,943
Net cash from operating activities		**174,427**	186,186
INVESTING ACTIVITIES			
Purchase of property and equipment	3	**(121,473)**	(1,664)
Proceeds from sale of investment property	4	**150,000**	-
Proceeds from sale of property and equipment		**749**	766
Interest income		**42,197**	40,683
Rental income		**19,250**	21,000
Bank deposits		**(124,358)**	(191,247)
Purchase of held to maturity investments		**(41,473)**	(3,188)
Purchase of available-for-sale investments		**(21,683)**	(1,488)
Sale of investments at fair value through profit or loss		**-**	18,493
Purchase of investments at fair value through profit or loss		**-**	(477)
Net cash used in investing activities		**(96,791)**	(117,122)
FINANCING ACTIVITIES			
Dividends paid	12	**(60,000)**	(60,000)
Net cash used in financing activities		**(60,000)**	(60,000)
INCREASE IN CASH AND CASH EQUIVALENTS		**17,636**	9,064
Cash and cash equivalents at 1 January	9	**43,006**	35,468
Movement in foreign currency translation reserve		**(2,457)**	(1,526)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**58,185**	43,006

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

Consolidated statement of changes in equity year ended 31 December 2011

	Attributable to shareholders of the parent											
	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	*Available for-sale reserve* AED'000	*Foreign currency translation reserve* AED'000	*Proposed dividend* AED'000	*Total* AED'000	*Non-controlling interests* AED'000	*Total* AED'000
At 1 January 2011	300,000	75,000	111,115	80,055	242,132	514	(1,136)	(1,192)	60,000	866,488	11,880	878,368
Profit for the year	-	-	-	-	-	203,238	-	-	-	203,238	996	204,234
Other comprehensive income for the year	-	-	-	-	-	-	(816)	(2,457)	-	(3,273)	-	(3,273)
Total comprehensive income	-	-	-	-	-	203,238	(816)	(2,457)	-	199,965	996	200,961
Capitalisation of reserves	75,000	-	-	-	(75,000)	-	-	-	-	-	-	-
Transfers	-	18,750	20,210	12,580	76,460	(128,000)	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	(60,000)	(60,000)	-	(60,000)
Dividend proposed	-	-	-	-	-	(75,000)	-	-	75,000	-	-	-
At 31 December 2011	**375,000**	**93,750**	**131,325**	**92,635**	**243,592**	**752**	**(1,952)**	**(3,649)**	**75,000**	**1,006,453**	**12,876**	**1,019,329**
At 1 January 2010	300,000	75,000	91,682	67,157	142,132	150	(977)	334	60,000	735,478	12,858	748,336
Profit for the year	-	-	-	-	-	192,695	-	-	-	192,695	(978)	191,717
Other comprehensive income for the year	-	-	-	-	-	-	(159)	(1,526)	-	(1,685)	-	(1,685)
Total comprehensive income	-	-	-	-	-	192,695	(159)	(1,526)	-	191,010	(978)	190,032
Transfers	-	-	19,433	12,898	100,000	(132,331)	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	(60,000)	(60,000)	-	(60,000)
Dividend proposed	-	-	-	-	-	(60,000)	-	-	60,000	-	-	-
At 31 December 2010	**300,000**	**75,000**	**111,115**	**80,055**	**242,132**	**514**	**(1,136)**	**(1,192)**	**60,000**	**866,488**	**11,880**	**878,368**

The attached notes 1 to 22 form part of these consolidated 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 387 employees as of 31 December 2011 (2010: 356).

The Company primarily issues short term insurance contracts in connection with property, engineering, motor, marine, miscellaneous accidents and medical (collectively referred as general insurance) and group life and individual life classes (collectively referred as life insurance). The Company's insurance portfolio includes relatively significant number of life assurance contracts. The Company also invests its funds in investment securities and properties.

In April 2009, the Company established a subsidiary company in Egypt. During August 2011, the Company established a subsidiary company in Sri Lanka.

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's share of the results.

2.1 BASIS OF PREPARATION

Accounting convention
The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of Available-for-sale investments and investments carried at fair value through profit or loss. The consolidated financial statements have been presented in UAE Dirhams and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

The Group presents its consolidated statement of financial position broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current), presented in the notes.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation.

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

2.2 BASIS OF CONSOLIDATION

The Group comprises of the Company and the under-mentioned subsidiary companies.

Subsidiary	Principal activity	Country of incorporation	Ownership
Arab Orient Takaful Insurance Company	General Insurance	Egypt	60%
Orient Insurance Limited	General Insurance	Sri Lanka	100%

Non-controlling interests represents the portion of the profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity, separately from shareholder's equity.

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December.

The subsidiaries are fully consolidated from the date of formation, being the date on which the Group obtained control and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profit and losses resulting from intra-group transactions, are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

New and amended standards and interpretations
The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the above standards is described below:

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES - continued

New and amended standards and interpretations (continued)

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies and disclosures, but had no impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011.

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES - continued

New and amended standards and interpretations (continued)
The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IASB Standards and Interpretations issued at 31 December 2011 but not effective
Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Amendment)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES - continued

IASB Standards and Interpretations issued at 31 December 2011 but not effective (continued)

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation —Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2.4 SIGNIFICANT MANAGEMENT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Group'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 statement of comprehensive income 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 Group has the intention and ability to hold these to maturity.

The Group 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 statement of comprehensive income 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 statement of comprehensive income.

All other investments are classified as available-for-sale.

Investment properties

The Group has elected to adopt the cost model for investment properties. Accordingly, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses.

2.4 SIGNIFICANT MANAGEMENT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS - continued

Operating lease commitments-group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group, as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases.

Impairment of investments
The Group 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 Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and discount factors for unquoted equities.

Going concern
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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.

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

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the statement of financial position 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property and equipment (continued)

Building	25 years
Furniture and fixtures	4 to 7 years
Office equipment	3 to 5 years
Motor vehicles	5 years

No depreciation is charged on freehold land.

The carrying values of property and equipment 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.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year the asset is derecognised.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of comprehensive income as the expense is incurred.

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 consolidated statement of comprehensive income 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.

Investments in associate

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

Financial assets

The Group classifies its investments into held for trading, 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 Group's strategy is to manage financial investments acquired to cover its insurance and investments contract liabilities (including shareholders' funds), on the same basis, being fair value. The available-for-sale and held to maturity categories are used when the relevant liability (including shareholders' funds) are passively managed.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)
All regular way purchases and sales of financial assets are recognised on the trade date ie the date the Group 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 include equity and debt securities. These are non-derivative financial assets that are designated as available-for-sale or which are not classified in any of the above categories. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. 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 statement of income.

Impairment of financial assets
An assessment is made at each statement of financial position 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 statement of income. 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 statement of income;
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.

Impairment of non-financial assets (excluding goodwill)
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial instruments
The derecognition of a financial instrument takes place when the Group 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.

Insurance balance receivable
Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated statement of income.

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 statement of financial position.

Insurance contract 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 Insurance Laws of the respective region. 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 and Insurance Laws of respective region where subsidiaries are registered.

Outstanding claims
Insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the statement of financial position date. The liability is not discounted for the time value of money. The liability is derecognised when the contract expires, is discharged or is cancelled.

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 Group 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 Group provides end of service benefits to its employees employed in UAE in accordance with the UAE Labour Law and for employees employed in the Oman branch of the Group and subsidiary Companies in accordance with respective region's 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 Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Insurance premium revenue

Gross premiums

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance premiums

Reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

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.

Claims and expenses recognition

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 Group and those not reported at the statement of financial position date.

The Group 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 Group's prior experience is maintained for the cost of settling claims incurred but not reported at the statement of financial position date. Any difference between the provisions at the statement of financial position 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 statement of comprehensive income when incurred.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Liability adequacy test
At each statement of financial position date the Group 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 Group does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

Reinsurance contracts held
The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. These amounts are shown as "reinsurance assets" in the statement of financial position until the claim is paid by the Group. Once the claim is paid the amount due from the reinsurer in connection with the paid claim is transferred to "insurance receivables".

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

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 Group assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Group 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
Group as a lessee
The Group 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 statement of income on a straight-line basis over the lease term.

Group as a lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Offsetting
Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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 statement of income 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies
Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at middle market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the consolidated statement of income.

Segment reporting
The Group's segmental reporting is based on the following operating segments: General insurance, Life segment and Investment segment.

Product classification
Insurance contracts are those contracts when the Group (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 Group 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 provided in the case of a non-financial variable that the variable is not specific to a party to the contract, 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. Investment contracts can however be reclassified as insurance contracts after inception, if insurance risk becomes significant.

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

3 PROPERTY AND EQUIPMENT

	Land AED'000	*Building* AED'000	*Office equipment, furniture & fixtures* AED'000	*Motor vehicles* AED'000	*Total* AED'000
Cost:					
At 1 January 2011	-	-	9,794	2,663	12,457
Additions	20,000	96,456	4,939	78	121,473
Disposals	-	-	(1,939)	(727)	(2,666)
At 31 December 2011	**20,000**	**96,456**	**12,794**	**2,014**	**131,264**
Depreciation:					
At 1 January 2011	-	-	6,008	933	6,941
Depreciation charge for the year	-	74	1,061	478	1,613
Relating to disposals	-	-	(1,472)	(378)	(1,850)
At 31 December 2011	**-**	**74**	**5,597**	**1,033**	**6,704**
Net carrying amount:					
At 31 December 2011	**20,000**	**96,382**	**7,197**	**981**	**124,560**

3 PROPERTY AND EQUIPMENT (continued)

	Office equipment, furniture and fixtures AED'000	*Motor vehicles AED'000*	*Total AED'000*
Cost:			
At 1 January 2010	9,394	2,631	12,025
Additions	557	1,107	1,664
Disposals	(157)	(1,075)	(1,232)
At 31 December 2010	9,794	2,663	12,457
Depreciation:			
At 1 January 2010	4,998	764	5,762
Depreciation charge for the year	1,147	605	1,752
Relating to disposals	(137)	(436)	(573)
At 31 December 2010	6,008	933	6,941
Net carrying amount:			
At 31 December 2010	3,786	1,730	5,516

The depreciation charge for the year of AED 1,613 thousand (2010: AED 1,752 thousand) has been included in general and administrative expenses.

4 INVESTMENT PROPERTY

	2011 AED'000	*2010 AED'000*
At cost (within UAE)		
At 1 January	**127,802**	127,802
Disposals	**(127,802)**	-
Balance at year end	-	127,802

5 INVESTMENT IN ASSOCIATE COMPANY

	2011 AED'000	*2010 AED'000*
Shares at cost	**24,351**	24,351
The Group's share of post acquisition reserves:		
At 1 January	**10,172**	5,637
Share of results for the year	**3,358**	4,535
Balance at year end	**13,530**	10,172
Investment in net equity at year end	**37,881**	34,523

The investment in associate company represents a 40% interest in Arab Orient Insurance Company, Syria, a public shareholding company registered and incorporated in Syria.

5 INVESTMENT IN ASSOCIATED COMPANY (continued)

The following table illustrates summarised information of the Group's investment in associate company:

	2011 AED'000	2010 AED'000
Share of associate's statement of financial position:		
Current assets	66,993	56,815
Non-current assets	1,675	1,887
Current liabilities	(30,787)	(24,179)
Net assets	37,881	34,523
Share of associate's revenues and results:		
Revenues	22,414	27,412
Results	3,358	4,535

6 INVESTMENT SECURITIES

	Carrying value		Fair Value	
	2011 AED'000	2010 AED'000	2011 AED'000	2010 AED'000
Investments carried at fair value through profit or loss				
Managed portfolios				
- outside UAE	1,932	2,279	1,932	2,279
	1,932	2,279	1,932	2,279
Held for trading-quoted shares (within UAE)	6,500	6,602	6,500	6,602
	8,432	8,881	8,432	8,881
Held to maturity				
Debt				
Unquoted - outside UAE	44,661	3,188	44,661	3,188
	44,661	3,188	44,661	3,188
Available-for-sale investments				
Debt				
Quoted (within UAE)	8,450	8,225	8,450	8,225
Unquoted - outside UAE	16,937	-	16,937	-
	25,387	8,225	25,387	8,225
Equity				
Quoted (within UAE)	2,596	3,637	2,596	3,637
Unquoted (within UAE)	30,611	25,865	30,611	25,865
	58,594	37,727	58,594	37,727
	111,687	49,796	111,687	49,796

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 reliable fair values.

Unquoted Held to Maturity investment is held under lien to comply with Insurance regulatory requirements in Egypt.

7 INSURANCE RECEIVABLES

	2011 AED'000	2010 AED'000
Premiums and insurance companies' balances receivable	150,787	146,119
Due from reinsurance companies in respect of claims settled	31,915	51,281
Due from related parties (note 18)	21,972	36,198
	204,674	233,598

All the above amounts are due within twelve months of the statement of financial position date. The reinsurers' share of claims not paid by the Group at the statement of financial position date are disclosed in note 13. The amounts due from treaty reinsurers are normally settled on a quarterly basis.

As at 31 December 2011, premiums and insurance companies' balances receivable at nominal value of AED 11,475 thousand (2010: AED 8,493 thousand) were impaired.

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

	2011 AED'000	2010 AED'000
At 1 January	8,493	6,093
Charge for the year	2,982	2,400
At 31 December	11,475	8,493

8 DEPOSITS WITH BANKS

Deposits with banks include the following:

	2011 AED'000	2010 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	10,000
b) Amounts under lien with Capital Market Authority, Sultanate of Oman towards license of Muscat branch	11,708	11,708
c) Amounts under lien with Omani Unified Bureau for the Orange Card (SAOC)	478	478
d) Fixed term deposits maturing after three months	550,506	975,687
e) Fixed term deposits maturing within three months (note 9)	551,504	1,965
	1,124,196	999,838

9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following statement of financial position amounts:

	2011 AED'000	2010 AED'000
Bank balances and cash	58,185	43,006
Deposits with banks maturing within three months	551,504	1,965
	609,689	44,971
Less: disclosed under fixed term deposits (note 8)	(551,504)	(1,965)
	58,185	43,006

Notes to the consolidated financial statements at 31 December 2011 (continued)

10 SHARE CAPITAL

	2011 AED'000	2010 AED'000
Issued and fully paid 3,750,000 shares of AED 100 each (2010: 3,000,000 shares of AED 100 each)	375,000	300,000

The shareholders approved an increase in the share capital by AED 75 million by the capitalisation of general reserve in the annual general meeting held in 27 February 2011. The legal formalities in respect of the increase in the share capital were completed during the year.

11 RESERVES

NATURE AND PURPOSE OF RESERVES

- 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 the amount required to raise the reserve to 25% of the 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.

- 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.

- 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.

- 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.

- AVAILABLE-FOR-SALE RESERVE

This reserve records fair value changes on available-for-sale financial assets.

- FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of foreign subsidiaries.

12 PROPOSED DIVIDENDS

Dividends of AED 20 per share (totalling AED 60 million) relating to the year 2010 were declared and paid during the year. During 2010, dividends of AED 20 per share (totalling AED 60 million) relating to the year 2009 were declared and paid.

The Board of Directors has proposed a cash dividend amounting to AED 75 million at AED 20 per share for the year 2011. This is subject to the approval of the shareholders at the Annual General Meeting to be held during March 2012.

13 INSURANCE CONTRACT ASSETS AND LIABILITIES

	Gross		Reinsurers' share		Net	
	2011 AED'000	2010 AED'000	**2011 AED'000**	2010 AED'000	**2011 AED'000**	2010 AED'000
Unearned premium reserve (note 13A)	**544,274**	480,620	**(401,803)**	(355,394)	**142,471**	125,226
Deferred acquisition cost	**83**	-	**(5)**	-	**78**	-
Outstanding claims (note 13B)	**427,643**	341,129	**(307,360)**	(225,198)	**120,283**	115,931
	972,000	821,749	**(709,168)**	(580,592)	**262,832**	241,157

13 (A) NET INSURANCE PREMIUM REVENUE

Year 2011

	General Insurance			Life Assurance			Total		
	Gross AED'000	Reinsurers' share AED'000	Net AED'000	Gross AED'000	Reinsurers' share AED'000	Net AED'000	Gross AED'000	Reinsurers' share AED'000	Net AED'000
Gross premiums	1,162,574	(854,187)	308,387	102,640	(75,537)	27,103	1,265,214	(929,724)	335,490
Movement in provision for unearned premiums	(64,328)	46,406	(17,922)	(126)	247	121	(64,454)	46,653	(17,801)
Insurance premium revenue	1,098,246	(807,781)	290,465	102,514	(75,290)	27,224	1,200,760	(883,071)	317,689
Unearned premium as of 31 December	512,041	(378,081)	133,960	32,233	(23,722)	8,511	544,274	(401,803)	142,471

Year 2010

	General Insurance			Life Assurance			Total		
	Gross AED'000	Reinsurers' share AED'000	Net AED'000	Gross AED'000	Reinsurers' share AED'000	Net AED'000	Gross AED'000	Reinsurers' share AED'000	Net AED'000
Gross premiums	1,026,247	(755,626)	270,621	101,918	(74,518)	27,400	1,128,165	(830,144)	298,021
Movement in provision for unearned premiums	(53,223)	40,106	(13,117)	3,713	(3,005)	708	(49,510)	37,101	(12,409)
Insurance premium revenue	973,024	(715,520)	257,504	105,631	(77,523)	28,108	1,078,655	(793,043)	285,612
Unearned premium as of 31 December	448,513	(331,919)	116,594	32,107	(23,475)	8,632	480,620	(355,394)	125,226

13 (B) OUTSTANDING CLAIMS

	General Insurance AED'000	*Life Assurance AED'000*	*Total AED'000*
At 1 January 2010:			
Outstanding claims	350,589	31,242	381,831
Due from reinsurers	(249,668)	(25,233)	(274,901)
	100,921	6,009	106,930
Net increase	9,349	(348)	9,001
At 31 December 2010:			
Outstanding claims	319,263	21,866	341,129
Due from reinsurers	(208,993)	(16,205)	(225,198)
	110,270	5,661	115,931
Exchange differences	(279)	67	(212)
Net increase	3,780	784	4,564
At 31 December 2011:			
Outstanding claims	403,355	24,288	427,643
Due from reinsurers	(289,584)	(17,776)	(307,360)
	113,771	**6,512**	**120,283**

Outstanding claims

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

	2011			*2010*		
	Gross AED'000	*Reinsurer's share AED'000*	*Net AED'000*	*Gross AED'000*	*Reinsurer's share AED'000*	*Net AED'000*
At 1 January						
Claims incurred	**322,097**	**(225,198)**	**96,899**	370,681	(274,901)	95,780
Claims incurred but not reported	**19,032**	**-**	**19,032**	11,150	-	11,150
	341,129	**(225,198)**	**115,931**	381,831	(274,901)	106,930
Insurance claims paid in the year	**(510,818)**	**364,572**	**(146,246)**	(542,986)	429,524	(113,462)
Claims incurred	**597,611**	**(446,801)**	**150,810**	502,284	(379,821)	122,463
Exchange differences	**(279)**	**67**	**(212)**	-	-	-
At 31 December	**427,643**	**(307,360)**	**120,283**	341,129	(225,198)	115,931
Analysis of outstanding claims At 31 December						
Claims incurred	**401,409**	**(307,360)**	**94,049**	322,097	(225,198)	96,899
Claims incurred but not reported	**26,234**	**-**	**26,234**	19,032	-	19,032
	427,643	**(307,360)**	**120,283**	341,129	(225,198)	115,931

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 statement of financial position date.

13 (B) OUTSTANDING CLAIMS (continued)

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 statement of financial position date, together with cumulative payments to date:

Accident year	*Before 2008 AED'000*	*2008 AED'000*	*2009 AED'000*	*2010 AED'000*	*2011 AED'000*	*Total AED'000*
At the end of accident year	-	531,892	510,192	549,726	627,545	
One year later	-	542,738	516,091	574,834	-	
Two years later	-	531,423	502,125	-	-	
Three years later	-	494,900	-	-	-	
Four years later	1,093,529	-	-	-	-	
Current estimate of cumulative claims	**1,093,529**	**494,900**	**502,125**	**574,834**	**627,545**	
At the end of accident year	-	(237,631)	(336,959)	(383,957)	(356,273)	
One year later	-	(399,812)	(415,885)	(512,734)	-	
Two years later	-	(472,356)	(431,739)	-	-	
Three years later	-	(481,205)	-	-	-	
Four years later	(1,083,339)	-	-	-	-	
Cumulative payments to date	**(1,083,339)**	**(481,205)**	**(431,739)**	**(512,734)**	**(356,273)**	
Total gross outstanding claims	**10,190**	**13,695**	**70,386**	**62,100**	**271,272**	**427,643**

(note 13)

14 OTHER PAYABLES AND ACCRUALS

	2011 AED'000	*2010 AED'000*
Provision for staff costs	**11,552**	10,513
Other creditors and accruals	**52,224**	53,676
Employees' end of service benefits (Note 15)	**10,459**	8,976
Amounts due to related parties (Note 18)	**13,772**	10,557
	88,007	83,722

15 EMPLOYEES' END OF SERVICE BENEFITS

Movement in the provision recognised in the statement of financial position is as follows:

	2011 AED'000	*2010 AED'000*
Provision as at 1 January	**8,976**	8,682
Provided during the year	**2,056**	1,256
End of service benefits paid	**(573)**	(962)
Provision as at 31 December	**10,459**	8,976

Notes to the consolidated financial statements at 31 December 2011 (continued)

16 PROFIT FOR THE YEAR

Profit for the year is stated after charging:	2011 AED'000	2010 AED'000
Staff costs	**61,260**	56,612
Rental costs – Operating leases	**5,590**	5,082

17 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 3,750,000 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 Group has not issued any instruments which would have an impact on earnings per share when exercised.

18 RELATED PARTY TRANSACTIONS

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

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

	Al-Futtaim Group companies	*Other related parties*	**2011 AED'000**	2010 AED'000
Gain on sale of investment property	22,198	-	**22,198**	-
Administrative expenses	15,446	-	**15,446**	16,582
Gross premium written	126,931	843	**127,774**	120,585
Motor vehicle repair charges paid relating to claims	62,243	-	**62,243**	63,017
Rental income	19,250	-	**19,250**	21,000

Transactions with related parties included in the consolidated statement of financial position are as follows:

Purchase of property and equipment	108,750	-	**108,750**	-

Balance with related parties included in the consolidated statement of financial position date are as follows:

	2011		*2010*	
	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	**21,972**	**13,772**	36,198	10,557

Amounts due from and due to related parties are disclosed in notes 7 and 14 respectively.

Compensation of key management personnel

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

	2011 AED'000	2010 AED'000
Short-term benefits	**11,739**	10,443
Employees' end of service benefits	**787**	307
	12,526	10,750

19 OPERATING SEGMENT INFORMATION

Identification of reportable segments
For management purposes the Group is organised into business units based on its products and services and has three reportable operating segments as follows:

- The general insurance segment comprises motor, marine, fire, engineering, general accident and medical
- The life segment includes individual and group life insurance.
- Investment comprises investment and cash management for the Group's own account.

Transactions between operating segments are conducted at estimated market rates on an arm's length basis. Operating segment information is presented below:

	General Insurance		*Life Assurance*		*Total*	
	2011 ***AED'000***	*2010* *AED'000*	***2011*** ***AED'000***	*2010* *AED'000*	***2011*** ***AED'000***	*2010* *AED'000*
UNDERWRITING INCOME						
Insurance premium revenue	**1,098,246**	973,024	**102,514**	105,631	**1,200,760**	1,078,655
Reinsurers' share of premium	**(807,781)**	(715,520)	**(75,290)**	(77,523)	**(883,071)**	(793,043)
Net insurance premiums revenue	**290,465**	257,504	**27,224**	28,108	**317,689**	285,612
Commission income	**110,992**	108,661	**5,385**	5,661	**116,377**	114,322
TOTAL INCOME	**401,457**	366,165	**32,609**	33,769	**434,066**	399,934
UNDERWRITING EXPENSES						
Claims incurred	**531,555**	447,333	**66,056**	54,951	**597,611**	502,284
Reinsurers' share of claims	**(389,233)**	(332,667)	**(57,568)**	(47,154)	**(446,801)**	(379,821)
Net claims incurred	**142,322**	114,666	**8,488**	7,797	**150,810**	122,463
Commission paid	**75,104**	65,925	**5,683**	5,732	**80,787**	71,657
General and administration expenses relating to underwriting activities	**79,017**	74,237	**8,385**	8,015	**87,402**	82,252
TOTAL EXPENSES	**296,443**	254,828	**22,556**	21,544	**318,999**	276,372
NET UNDERWRITING INCOME	**105,014**	111,337	**10,053**	12,225	**115,067**	123,562

OTHER INFORMATION

	Life Assurance		*General Insurance*		*Investment*		*Total*	
	2011 ***AED'000***	*2010* *AED'000*	***2011*** ***AED'000***	*2010* *AED'000*	***2011*** ***AED'000***	*2010* *AED'000*	***2011*** ***AED'000***	*2010* *AED'000*
Segment assets	**69,022**	74,930	**1,040,215**	804,789	**1,273,764**	**1,209,994**	**2,383,001**	2,089,713
Segment liabilities	**64,022**	69,930	**1,299,650**	1,141,415	**-**	-	**1,363,672**	1,211,345
Capital expenditure	**490**	-	**120,983**	1,664	**-**	-	**121,473**	1,664
Depreciation	**132**	156	**1,481**	1,596	**-**	-	**1,613**	1,752

Significant portion of Group's operation is conducted in United Arab Emirates.

Notes to the consolidated financial statements at 31 December 2011 (continued)

20 RISK MANAGEMENT

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

(A) GOVERNANCE FRAMEWORK

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of 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 Group'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 Group'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 Group'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 Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group 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 2011 and 31 December 2010.

(C) REGULATORY FRAMEWORK

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

The operations of the Group are also subject to regulatory requirements within the 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 Group manages these positions to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the Group'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 Group's other financial assets and liabilities not directly associated with insurance liabilities.

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

20 RISK MANAGEMENT (continued)

20 A Insurance risk

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

Frequency and Severity of Claims

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

Property

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

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

Engineering

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

Motor

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

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

Miscellaneous Accident

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

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

Marine

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

Medical, Group Life and Personal Accident

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

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

20 RISK MANAGEMENT (continued)

20 A Insurance risk (continued)

Geographical concentration of risks
The insurance risk arising from insurance contracts is primarily 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 Group, 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 Group from its obligations to policyholders and as a result the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

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

The five largest reinsurers account for 25% of the maximum credit exposure at 31 December 2011 (2010: 26%). The maximum theoretical credit risk exposure in this connection is mainly in Europe.

20 B Financial risk
The Group's principal financial instruments are financial investments, receivables arising from insurance and reinsurance contracts, deposits and bank balances and cash.

The Group does not enter into derivative transactions.

The main risks arising from the Group'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.

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 Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

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

20 RISK MANAGEMENT (CONTINUED)

20 B FINANCIAL RISK (continued)

Interest rate risk (continued)

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

31 December 2011	*Less than 1 year AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Non interest bearing items AED'000*	*Total AED'000*	*Effective interest rate*
Investment securities	16,937	53,111	-	41,639	111,687	(1.7%-11.4%)
Insurance receivables	-	-	-	204,674	204,674	-
Other receivables	-	-	-	12,650	12,650	-
Deposits with banks	1,124,196	-	-	-	1,124,196	(2.5%-10.8%)
Bank balances and cash	-	-	-	58,185	58,185	-
	1,141,133	53,111	-	317,148	1,511,392	

31 December 2010	*Less than 1 year AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Non interest bearing items AED'000*	*Total AED'000*	*Effective interest rate*
Investment securities	-	11,413	-	38,383	49,796	(2.1%-11.6%)
Insurance receivables	-	-	-	233,598	233,598	-
Other receivables	-	-	-	15,042	15,042	-
Deposits with banks	997,873	-	-	-	997,873	(2.8%-8.3%)
Bank balances and cash	1,965	-	-	43,006	44,971	-
	999,838	11,413	-	330,029	1,341,280	

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

The sensitivity of Group's consolidated statement of income 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 Group does not hedge its foreign currency exposure. Other than balances in United States Dollars to which the UAE Dirham is effectively pegged, the Group has minimal exposure arising from assets and liabilities denominated in Egyptian Pounds and Sri Lankan Rupees.

Equity price risk

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

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

The Group's equity investments comprise securities quoted on the Stock Exchanges in United Arab Emirates, Egypt and Sri Lanka.

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

20 RISK MANAGEMENT (continued)

20 B FINANCIAL RISK (continued)

Credit risk

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

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

- The Group only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. It is the Group'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 Group's exposure to bad debts.

- The Group 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 Group'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 Group.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	Notes	*2011* *AED'000*	*2010* *AED'000*
Investment securities	6	**111,687**	49,796
Insurance receivables	7	**204,674**	233,598
Reinsurance assets	13	**709,168**	580,592
Cash and deposits with banks	8 & 9	**1,182,381**	1,042,844
TOTAL CREDIT RISK EXPOSURE		**2,207,910**	1,906,830

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes.

20 RISK MANAGEMENT (continued)

20 B Financial risk (continued)

Credit risk (continued)

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

31 December 2011	*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	111,687	-	-	-	111,687
Insurance receivables	-	204,674	-	11,475	216,149
Reinsurance assets	-	709,168	-	-	709,168
Cash and deposits with banks	572,692	609,689	-	-	1,182,381
	684,379	1,523,531	-	11,475	2,219,385
Less: impairment provision					(11,475)
					2,207,910

31 December 2010	*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	49,796	-	-	-	49,796
Insurance receivables	-	233,598	-	8,493	242,091
Reinsurance assets	-	580,592	-	-	580,592
Cash and deposits with banks	997,873	44,971	-	-	1,042,844
	1,047,669	859,161	-	8,493	1,915,323
Less: impairment provision					(8,493)
					1,906,830

20 RISK MANAGEMENT (continued)

20 B Financial risk (continued)

Credit risk (continued)

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

		Past due but not impaired					
	Neither past due nor impaired AED'000	*<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 2011	**24,619**	**107,577**	**13,137**	**16,929**	**162,262**	**(11,475)**	**150,787**
31 December 2010	35,486	85,296	15,244	18,586	154,612	(8,493)	146,119

The Group 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 consolidated 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 Group 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 Group based on remaining undiscounted contractual obligations. As the Group does not have any interest bearing liabilities, the totals in the table match the statement of financial position.

20 RISK MANAGEMENT (continued)

20 B Financial risk (continued)

Liquidity risk (continued)

	31 December 2011				31 December 2010			
	Less than one year	More than one year	No term	Total	Less than one year	More than one year	No term	Total
ASSETS								
Property and equipment	-	-	124,560	124,560	-	-	5,516	5,516
Investment property	-	-	-	-	-	-	127,802	127,802
Investment in associated company	-	-	37,881	37,881	-	-	34,523	34,523
Investment in securities	-	70,048	41,639	111,687	-	11,413	38,383	49,796
Reinsurance assets	709,168	-	-	709,168	580,592	-	-	580,592
Insurance receivables	204,674	-	-	204,674	233,598	-	-	233,598
Prepayments and other receivables	12,650	-	-	12,650	15,042	-	-	15,042
Cash and short term deposits	1,182,381	-	-	1,182,381	1,042,844	-	-	1,042,844
TOTAL ASSETS	2,108,873	70,048	204,080	2,383,001	1,872,076	11,413	206,224	2,089,713
EQUITY AND LIABILITIES								
Equity								
Share capital	-	-	375,000	375,000	-	-	300,000	300,000
Statutory reserve	-	-	93,750	93,750	-	-	75,000	75,000
Legal reserve	-	-	131,325	131,325	-	-	111,115	111,115
Exceptional loss reserve	-	-	92,635	92,635	-	-	80,055	80,055
General reserve	-	-	243,592	243,592	-	-	242,132	242,132
Retained earnings	-	-	752	752	-	-	514	514
Available-for-sale reserve	-	-	(1,952)	(1,952)	-	-	(1,136)	(1,136)
Foreign currency translation reserve	-	-	(3,649)	(3,649)	-	-	(1,192)	(1,192)
Proposed dividends	75,000	-	-	75,000	60,000	-	-	60,000
Non-controlling interest	-	-	12,876	12,876	-	-	11,880	11,880
Total equity	75,000	-	944,329	1,019,329	60,000	-	818,368	878,368
Liabilities								
Insurance contracts liabilities	972,000	-	-	972,000	821,749	-	-	821,749
Insurance payables	198,265	-	-	198,265	187,112	-	-	187,112
Amounts held under reinsurance treaties	105,400	-	-	105,400	118,762	-	-	118,762
Other payables and accruals	77,548	-	10,459	88,007	74,746	-	8,976	83,722
Total liabilities	1,353,213	-	10,459	1,363,672	1,202,369	-	8,976	1,211,345
TOTAL EQUITY AND LIABILITIES	1,428,213	-	954,788	2,383,001	1,262,369	-	827,344	2,089,713

Notes to the consolidated financial statements at 31 December 2011 (continued)

20 RISK MANAGEMENT (continued)

20 B Financial risk (continued)

Capital management

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

The Group 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 Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to shareholders or issue capital securities.

The Group 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 Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

21 CONTINGENCIES AND COMMITMENTS

a. Legal claims

The Group, 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 Group's income or financial condition.

b. Contingent liabilities

At 31 December 2011, guarantees, other than those relating to claims for which provisions are held, amounting to AED 3,188,785 (2010: AED 4,042,760) had been issued on behalf of the Group by its banker in the ordinary course of business.

c. Capital commitments

The Group has the following capital commitments at the statement of financial position date:

	2011 AED'000	*2010 AED'000*
Commitment for investments	**29,867**	33,503
Uncalled capital of subsidiary company	**18,201**	19,710
	48,068	53,213

d. Operating leases

During the year, the Group has terminated the commercial property lease agreement on its investment property, relating to land. The tenure of the lease agreement was for 11 years with an annual rent of AED 21,000,000.

22 FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Notes	*Level 1* AED'000	*Level 2* AED'000	*Level 3* AED'000	*Total fair value* AED'000
31 December 2011					
Financial assets held for trading:					
Equity securities		6,500	-	-	6,500
Financial assets designated at fair value through profit or loss					
Equity securities		-	-	1,932	1,932
Available-for-sale financial assets:					
Equity securities		2,596	-	-	2,596
Debt securities		8,450	-	-	8,450
		17,546	**-**	**1,932**	**19,478**

	Notes	*Level 1* AED'000	*Level 2* AED'000	*Level 3* AED'000	*Total fair value* AED'000
31 December 2010					
Financial assets held for trading:					
Equity securities		6,602	-	-	6,602
Financial assets designated at fair value through profit or loss					
Equity securities		-	-	2,279	2,279
Available-for-sale financial assets:					
Equity securities		3,637	-	-	3,637
Debt securities		8,225	-	-	8,225
		18,464	-	2,279	20,743

22 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial instruments recorded at fair value

Included in the Level 1 category are financial assets that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

Non market observable inputs means that fair values are determined in whole or part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments limited partnerships. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group's own data.

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

31 December 2011

	At 1 January 2011 AED'000	*Total gain or loss recorded in profit and loss AED'000*	*Purchase AED'000*	*Sales AED'000*	*Total gain or loss recorded in equity AED'000*	*Transfer from level 1 AED'000*	*At 31 December 2011 AED'000*
Financial assets designated at fair value through profit or loss							
Equity securities	2,279	(347)	-	-	-	-	1,932
Total	2,279	(347)	-	-	-	-	1,932

22 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Movements in Level 3 financial instruments measured at fair value (continued)

31 December 2010

	At 1 January 2010 AED'000	*Total gain or loss recorded in profit and loss* AED'000	*Purchase* AED'000	*Sales* AED'000	*Total gain or loss recorded in equity* AED'000	*Transfer from level 1* AED'000	*At 31 December 2010* AED'000
Financial assets designated at fair value through profit or loss							
Equity securities	-	-	-	-	-	2,279	2,279
Total	-	-	-	-	-	2,279	2,279

Gains or losses on level 3 financial instruments included in the profit or loss for the year:
No gains or losses on level 3 financial instruments were included in the profit or loss for the year.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions
For equity securities, the Group does not have a material exposure as at 31 December 2011 and accordingly no sensitivity analysis has been done.

Fair value of financial assets and liabilities not carried at fair value
The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

Asset for which fair value approximate carrying value
For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

Fixed rate financial instruments
The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit and maturity. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.