Arab Orient Insurance Company (PSC) and its subsidiary

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

ERNST & YOUNG

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

Report on the Financial Statements

We have audited the accompanying financial statements of Arab Orient Insurance Company (PSC) and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statements of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 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 for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the 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 of 31 December 2009 and its financial performance and its consolidated 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:
Edward B. Quinlan
Partner
Registration No. 93

4 February 2010

Dubai, United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 AED'000	2008 AED'000
ASSETS			
Office equipment and vehicles	3	**6,263**	3,956
Investment property	4	**127,802**	127,802
Investment in associated company	5	**29,988**	27,141
Investment securities	6	**61,893**	51,132
Reinsurance share of outstanding claims	13	**274,901**	329,975
Reinsurance share of unearned premium reserve		**318,293**	308,138
Insurance receivables	7	**196,779**	225,122
Prepayment and other receivables		**13,902**	8,676
Deposits with banks	8	**808,591**	634,943
Cash and cash equivalents	9	**35,468**	61,045
		844,059	695,988
TOTAL ASSETS		**1,873,880**	1,777,930
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	10	**300,000**	250,000
Statutory reserve	11	**75,000**	62,500
Legal reserve	11	**91,682**	73,051
Exceptional loss reserve	11	**67,157**	55,880
General reserve	11	**142,132**	108,240
Retained earnings		**150**	139
Available-for-sale (AFS) reserve	11	**(977)**	-
Foreign currency translation reserve	11	**334**	-
Proposed dividends	12	**60,000**	50,000
		735,478	599,810
Non-controlling interests		**12,858**	-
Total equity		**748,336**	599,810
Liabilities			
Insurance contracts liabilities			
Unearned premium		**431,111**	421,302
Outstanding claims	13	**381,831**	433,063
		812,942	854,365
Reinsurance payables		**138,650**	187,006
Amounts held under reinsurance treaties		**101,175**	93,783
Other payables and accruals	14	**72,777**	42,966
Total liabilities		**1,125,544**	1,178,120
TOTAL EQUITY AND LIABILITIES		**1,873,880**	1,777,930

These consolidated financial statements were approved by the Board of Directors on 4 February 2010 and signed on its behalf by:

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Chairman Vice Chairman

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

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2009

	Notes	2009 AED'000	2008 AED'000
UNDERWRITING INCOME			
Gross premiums			
Insurance contracts premium receivable		**1,001,920**	1,000,322
Movement in provision for unearned premiums		**(9,809)**	(100,389)
Insurance premium revenue		**992,111**	899,933
Less: **Reinsurers' share of premium**			
Insurance contracts premium receivable		**731,046**	725,580
Movement in provision for unearned premiums		**(10,155)**	(75,176)
		720,891	650,404
Net insurance premium revenue		**271,220**	249,529
Commission income		**100,830**	127,454
Total underwriting income		**372,050**	376,983
UNDERWRITING EXPENSES			
Claims paid	13	**536,795**	383,228
Less: re-insurance share	13	**(409,131)**	(280,666)
Net claims	13	**127,664**	102,562
Increase in outstanding claims		**3,842**	9,254
Claims incurred		**131,506**	111,816
Commission expenses		**62,899**	74,779
General and administration expenses		**67,085**	54,834
Total underwriting expenses		**261,490**	241,429
NET UNDERWRITING INCOME		**110,560**	135,554
INVESTMENT INCOME			
Interest income		**44,347**	32,703
Rental and other income		**24,325**	12,470
Gain on sale of trading securities		**-**	76
Fair value gain (loss) on trading securities		**2,783**	(17,696)
Impairment of available for sale securities		**-**	(15,072)
Gain on sale of available for sale securities		**1,167**	300
		72,622	12,781
Share of associate's profit	5	**2,847**	1,758
PROFIT FOR THE YEAR		**186,029**	150,093
Attributable to:			
Equity holders of the parent		**186,311**	150,093
Non-controlling interests		**(282)**	-
		186,029	150,093
Basic and diluted earnings per share (AED) attributable to equity holders of the parent	17	**62.01**	50.03

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	2009 AED'000	*2008 AED'000*
Profit for the year	**186,029**	150,093
Other comprehensive income		
Exchange differences on translation of foreign operations	**334**	-
Net unrealised losses on available for sale investments	**(977)**	(1,944)
Total comprehensive income for the year	**185,386**	148,149
Attributable to:		
Equity holders of parent	**185,668**	148,149
Non-controlling interests	**(282)**	-
	185,386	148,149

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

CONSOLIDATED STATEMENT OF CASH FLOW
Year ended 31 December 2009

	Note	2009 AED'000	2008 AED'000
OPERATING ACTIVITIES			
Profit for the year		186,029	150,093
Adjustments for:			
Depreciation	3	1,470	1,144
Gain on sale of office equipment and vehicles		(133)	(59)
Interest income		(44,347)	(32,703)
Rental income		(24,353)	(12,470)
Share of associate's profit	5	(2,847)	(1,758)
Gain on sale of trading investments		-	(76)
Gain on sale of available for sale investments		(1,167)	(300)
Unrealised gain (loss) on investments at fair value through profit or loss		(2,783)	17,696
Impairment of available for sale investments		-	15,072
Reinsurers' share of unearned premiums		(10,155)	(75,176)
Movement in unearned premiums		9,809	100,389
Operating profit before changes in operating assets and liabilities		111,523	161,852
Receivables arising from insurance and reinsurance contracts		28,343	(30,082)
Re-insurers' share of outstanding claims		55,074	(98,531)
Prepayments and other receivables		(5,226)	(3,727)
Outstanding claims		(51,232)	107,785
Reinsurance balances payable		(40,964)	119,179
Other payables and accruals		29,811	9,986
Net cash from operating activities		127,329	266,462
INVESTING ACTIVITIES			
Purchase of investment property		-	(127,802)
Purchase of office equipment and vehicles	3	(4,335)	(2,509)
Proceeds from sale of office equipment and vehicles		691	490
Interest income		44,347	32,703
Rental income		24,353	12,470
Bank deposits		(173,648)	(81,943)
Purchase of available for sale investments		(11,180)	(31,256)
Sale of available for sale investments		3,392	2,002
Purchase of investments at fair value through profit or loss		-	(25,286)
Sale of investments at fair value through profit or loss		-	613
Net cash used in investing activities		(116,380)	(220,518)
FINANCING ACTIVITY			
Dividends paid		(50,000)	(40,000)
Share capital paid by non-controlling interests		13,140	-
Net cash used in financing activity		(36,860)	(40,000)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(25,911)	5,944
Cash and cash equivalents at 1 January	9	61,045	55,101
Movement in foreign currency translation reserve		334	-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	35,468	61,045

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	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*	*Proposed dividend AED'000*	*Available-for-sale (AFS) reserve AED'000*	*Foreign currency translation reserve AED'000*	*Total AED'000*	*Non-controlling interests AED'000*	*Total*
Balance at 1 January 2009	250,000	62,500	73,051	55,880	108,240	139	50,000	-	-	599,810	-	599,810
Profit for the year	-	-	-	-	-	186,311	-	-	-	186,311	(282)	186,029
Other comprehensive income (expense) for the year	-	-	-	-	-	-	-	(977)	334	(643)	-	(643)
Total comprehensive income (expense)	-	-	-	-	-	186,311	-	(977)	334	185,668	(282)	185,386
Issue of shares	-	-	-	-	-	-	-	-	-	-	13,140	13,140
Capitalisation of reserves	50,000	-	-	-	(50,000)	-	-	-	-	-	-	-
Transfers	-	12,500	18,631	11,277	83,892	(126,300)	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	(50,000)	-	-	(50,000)	-	(50,000)
Dividend proposed	-	-	-	-	-	(60,000)	60,000	-	-	-	-	-
At 31 December 2009	**300,000**	**75,000**	**91,682**	**67,157**	**142,132**	**150**	**60,000**	**(977)**	**334**	**735,478**	**12,858**	**748,336**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	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*	*Proposed dividend AED'000*	*Available-for-sale (AFS) reserve AED'000*	*Foreign currency translation reserve AED'000*	*Total AED'000*	*Non-controlling interests AED'000*	*Total*
Balance at 1 January 2008	200,000	47,917	58,042	42,324	101,388	46	40,000	1,944	-	491,661	-	491,661
Profit for the year	-	-	-	-	-	150,093	-	-	-	150,093	-	150,093
Other comprehensive income (expense) for the year	-	-	-	-	-	-	-	(1,944)	-	(1,944)	-	(1,944)
Total comprehensive income (expense)	-	-	-	-	-	150,093	-	(1,944)	-	148,149	-	148,149
Capitalisation of reserves	50,000	-	-	-	(50,000)	-	-	-	-	-	-	-
Transfers	-	14,583	15,009	13,556	56,852	(100,000)	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	(40,000)	-	-	(40,000)	-	(40,000)
Dividend proposed	-	-	-	-	-	(50,000)	50,000	-	-	-	-	-
At 31 December 2008	250,000	62,500	73,051	55,880	108,240	139	50,000	-	-	599,810	-	599,810

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2009

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 331 employees as of 31 December 2009 (2008: 303).

The Company primarily issues short term insurance contracts in connection with property, engineering, motor, marine, miscellaneous accidents, medical, group life and personal accident classes (collectively referred as general 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.

During 2008, the Company obtained a license to open a branch in Muscat, Oman to undertake insurance business in Sultanate of Oman. During April 2009, the Company established a subsidiary company in Egypt.

2 BASIS OF PREPARATION

Accounting convention
The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of investments.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 Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates Laws.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group as at 31 December each year. The financial statement of the subsidiary are prepared for the same reporting year as the parent company, using consistent accounting policies.

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

The subsidiary is 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.

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

2 BASIS OF PREPARATION (continued)

2.1 CHANGES IN ACCOUNTING POLICIES

Basis of consolidation (continued)
The Group comprises of the Company and the under-mentioned subsidiary company.

Subsidiary	*Principal activity*	*Country of incorporation*	*Ownership*
Arab Orient Takaful Insurance Company	General insurance	Egypt	60%

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 accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

- IFRS 2 Share-based Payment: Vesting Conditions and Cancellations effective 1 January 2009
- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010 (early adopted)
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009 (early adopted) including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IFRS 7 Financial Instruments: Disclosures effective 1 January 2009
- IFRS 8 Operating Segments effective 1 January 2009
- IAS 1 Presentation of Financial Statements effective 1 January 2009
- IAS 23 Borrowing Costs (Revised) effective 1 January 2009
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
- IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items effective 1 July 2009 (early adopted)
- IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009
- IFRIC 13 Customer Loyalty Programmes effective 1 July 2008
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008
- IFRIC 18 Transfers of Assets from Customers effective 1 July 2009 (early adopted) improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009, early adopted)

Where the adoption of the standard or interpretation is expected to have an impact on the consolidated financial statements or performance of the Group, its impact is described below:

IFRS 2 Share-based Payment (Revised)
The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

2 BASIS OF PREPARATION (continued)

2.1 Changes in accounting policy and disclosures (continued)

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended).
The Group adopted the revised standard from 1 January 2009. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) did not have an impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures
The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 22. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 20.

IFRS 8 Operating Segments
IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 19, including the related comparative information.

IAS 1 Presentation of Financial Statements
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IAS 23 Borrowing Costs
A revised IAS 23 *Borrowing Costs* was issued in March 2007 and became effective for financial years beginning on or after 1 January 2009. The Standard has been revised to require capitalisation of borrowing costs when such costs relate to qualifying assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

2 BASIS OF PREPARATION (continued)

2.1 Changes in accounting policy and disclosures (continued)

Improvements to IFRSs
In May 2008 and April 2009 the IASB issued an 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 but did not have any impact on the financial position or performance of the Group.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. This did not have any impact on the financial position or performance of the Group.

IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 19.

IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with *IAS 39 Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position. The Group analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the statement of financial position.

IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment did not have any impact in the statement of cash flows.

IAS 16 Property, Plant and Equipment: Replaces the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Group as no government assistance has been received by the Group.

IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

IAS 36 Impairment of Assets: When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using 'value in use'.

The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as it does not have goodwill.

IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment had no impact on the financial position of the Group because it does not enter into such promotional activities.

2 BASIS OF PREPARATION (continued)

2.1 Changes in accounting policy and disclosures (continued)

Improvements to IFRSs (continued)

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 2 Share-based Payment
- IFRS 7 Financial Instruments: Disclosures
- IAS 8 Accounting Policies, Change in Accounting Estimates and Error
- IAS 10 Events after the Reporting Period
- IAS 19 Employee Benefits
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates
- IAS 31 Interest in Joint Ventures
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 40 Investment Properties
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

2.2 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 income statement or available for sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, that the 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 income statement depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through income statement.

All other investments are classified as available for sale.

Impairment of investments

The 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.

2 BASIS OF PREPARATION (continued)

2.2 Significant management judgements, estimates and assumptions (continued)

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 uncertainly and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

No depreciation is charged on freehold land.

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

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

Investments in associates
The Group's investments in associates 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 associates 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 income statement 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 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 bases, being fair value. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) are passively managed.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Impairment of non-financial assets
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.

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.

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

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

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

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in accordance with the UAE Labour Law and for employees employed in the Oman branch of the Group in accordance with Oman Labour Law. The entitlement of these benefits is based upon employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the 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.

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

Claims
Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries made are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Group and those not reported at the balance sheet 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 balance sheet date. Any difference between the provisions at the balance sheet date and settlements and provisions for the following year is included in the underwriting account for that year.

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

Liability adequacy test
At each balance sheet date the 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 balance sheet date.

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases
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 income statement on a straight-line basis over the lease term.

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

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

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

Offsetting
Financial assets and liabilities are offset and the net amount reported in the 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 income statement unless required or permitted by an accounting standard or interpretation.

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

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

Foreign currencies
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 statement of financial position. Any resultant gains and losses are taken to the consolidated statement of income.

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

Product classification
Insurance contracts are those contracts when the 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 OFFICE EQUIPMENT AND VEHICLES

	Office equipment and furniture and fixtures AED'000	*Motor vehicles AED'000*	*Total AED'000*
Cost:			
At 1 January 2009	7,241	2,200	9,441
Additions	3,355	980	4,335
Disposals	(1,202)	(549)	(1,751)
At 31 December 2009	**9,394**	**2,631**	**12,025**
Depreciation:			
At 1 January 2009	4,758	727	5,485
Depreciation charge for the year	982	488	1,470
Relating to disposals	(742)	(451)	(1,193)
At 31 December 2009	**4,998**	**764**	**5,762**
Net carrying amount:			
At 31 December 2009	**4,396**	**1,867**	**6,263**

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

The depreciation charge for the year of AED 1,470 thousand (2008: AED 1,144 thousand) has been included in general and administrative expenses.

4 INVESTMENT PROPERTY

	2009 AED'000	*2008 AED'000*
At cost (within UAE)	**127,802**	127,802

The fair value of the investment property amounted to AED 221 million based on a valuation done by an independent qualified valuer on 8 September 2008. The fair value of the investment property as of 31 December 2009 is not materially different from the value determined above.

5 INVESTMENT IN ASSOCIATED COMPANY

	2009 AED'000	*2008 AED'000*
Cost	**27,141**	25,383
Add: share of associated company's retained earnings	**2,847**	1,758
	29,988	27,141

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

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

	2009 AED'000	*2008 AED'000*
Share of associate's balance sheet:		
Current assets	**52,523**	41,180
Non-current assets	**3,110**	855
Current liabilities	**(25,645)**	(14,894)
Net assets	**29,988**	27,141
Share of associate's revenues and results:		
Revenues	**20,230**	14,034
Results	**2,847**	1,758

6 INVESTMENT SECURITIES

	Carrying value		*Fair Value*	
	2009	*2008*	***2009***	*2008*
	AED'000	*AED'000*	***AED'000***	*AED'000*
Investments carried at fair value through profit or loss				
Managed portfolios				
- within UAE	**1,820**	4,672	**1,820**	4,672
- outside UAE	**17,664**	13,596	**17,664**	13,596
-				
-	**19,484**	18,268	**19,484**	18,268
Held for trading-quoted shares (within UAE)	**6,011**	4,444	**6,011**	4,444
-				
-	**25,495**	22,712	**25,495**	22,712
-				
Available-for-sale investments				
Debt				
Quoted (within UAE)	**8,030**	10,000	**8,030**	10,000
-				
Equity				
Quoted (within UAE)	**3,991**	5,223	**3,991**	5,223
Unquoted (within UAE)	**24,377**	13,197	**24,377**	13,197
-				
-	**36,398**	28,420	**36,398**	28,420
-				
-	**61,893**	51,132	**61,893**	51,132
-				

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

7 INSURANCE RECEIVABLES

	2009	*2008*
	AED'000	*AED'000*
Premiums and insurance companies' balances receivable	**140,707**	158,133
Due from reinsurance companies in respect of claims settled	**30,850**	37,796
Due from related parties (note 18)	**25,222**	29,193
	196,779	225,122

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

As at 31 December 2009, premiums and insurance companies balance receivables at nominal value of AED 6,093 thousand (2008: AED 5,193 thousand) were impaired.

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

	2009	*2008*
	AED'000	*AED'000*
At 1 January	**5,193**	4,943
Charge for the year	**900**	250
	6,093	5,193

8 DEPOSITS WITH BANKS

Deposits with banks include the following:

		2009 AED'000	*2008 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	**14,100**	14,100
c)	Amounts under lien with Omani Unified Bureau for the Orange Card (SAOC)	**478**	478
d)	Fixed term deposits	**784,013**	610,365
		808,591	634,943

9 CASH AND CASH EQUIVALENTS

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

	2009 AED'000	*2008 AED'000*
Deposits with banks maturing within three months	**-**	57,500
Bank balances and cash	**35,468**	3,545
	35,468	61,045

10 SHARE CAPITAL

	2009 AED'000	*2008 AED'000*
Issued and fully paid 3,000,000 shares of AED 100 each (2008: 2,500,000 shares of AED 100 each)	**300,000**	250,000

The shareholders approved an increase in the share capital by AED 50 million by the capitalisation of general reserve in the extraordinary meeting held on 25 February 2009. 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 that amount required to raise the reserve to 25% of its paid up capital. The reserve can be used for any purpose to be decided by the shareholders upon the recommendation of the Board of Directors.

11 RESERVES (continued)

- **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 (AFS) 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 20.00 per share (totalling AED 50 million) relating to the year 2008 were declared and paid during the year. During 2008, dividends of AED 20 per share (totalling AED 40 million) relating to the year 2007 were declared and paid.

The Board of Directors has proposed a cash dividend amounting to AED 60 million at AED 20 per share for the year 2009. This is subject to the approval of the shareholders at the Annual General Meeting to be held during February 2010.

13 INSURANCE CONTRACT LIABILITIES

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

	2009			*2008*		
	Gross	*Reinsurer's share*	*Net*	*Gross*	*Reinsurer's share*	*Net*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*
At 1 January						
Claims incurred	**426,013**	**(329,975)**	**96,038**	318,228	(231,444)	86,784
Claims incurred but not reported	**7,050**	**-**	**7,050**	7,050	-	7,050
	433,063	**(329,975)**	**103,088**	325,278	(231,444)	93,834
Insurance claims paid in the year	**(536,795)**	**409,131**	**(127,664)**	(383,228)	280,666	(102,562)
Claims incurred	**485,563**	**(354,057)**	**131,506**	491,013	(379,197)	111,816
At 31 December	**381,831**	**(274,901)**	**106,930**	433,063	(329,975)	103,088
Analysis of outstanding claims						
At 31 December						
Claims incurred	**370,681**	**(274,901)**	**95,780**	426,013	(329,975)	96,038
Claims incurred but not reported	**11,150**	**-**	**11,150**	7,050	-	7,050
	381,831	**(274,901)**	**106,930**	433,063	(329,975)	103,088

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.

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 2006* *AED' 000*	*2006* *AED' 000*	*2007* *AED' 000*	*2008* *AED' 000*	*2009* *AED' 000*	*Total* *AED' 000*
At the end of accident year	-	289,159	420,157	531,892	510,192	
One year later	-	323,934	407,526	542,738	-	
Two years later	-	329,749	410,891	-	-	
Three years later	-	303,853	-	-	-	
Four years later	425,644	-	-	-	-	
Current estimate of cumulative claims	**425,644**	**303,853**	**410,891**	**542,738**	**510,192**	
At the end of accident year	-	(139,907)	(238,439)	(237,631)	(336,959)	
One year later	-	(239,842)	(355,898)	(399,812)	-	
Two years later	-	(272,482)	(367,897)	-	-	
Three years later	-	(290,230)	-	-	-	
Four years later	(416,589)	-	-	-	-	
Cumulative payments to date	**(416,589)**	(290,230)	(367,897)	(399,812)	(336,959)	
Total gross outstanding claims	**9,055**	**13,623**	**42,994**	**142,926**	**173,233**	**381,831**

(note 13)

14 OTHER PAYABLES AND ACCRUALS

	2009 AED'000	*2008 AED'000*
Provision for staff costs	**7,712**	5,971
Other creditors and accruals	**26,904**	22,619
Employees' end of service benefits (Note 15)	**8,682**	7,767
Amounts due to related parties (Note 18)	**29,479**	6,609
	72,777	42,966

15 EMPLOYEES' END OF SERVICE BENEFITS

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

	2009 AED'000	*2008 AED'000*
Provision as at 1 January	**7,767**	6,718
Provided during the year	**1,479**	2,278
End of service benefits paid	**(564)**	(1,229)
Provision as at 31 December	**8,682**	7,767

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

16 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2009 AED'000	*2008 AED'000*
Staff costs	**46,551**	39,813
Rental costs – Operating leases	**4,468**	3,338

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 3,000,000 shares. The number of shares outstanding has been adjusted for all periods since the capitalisation of general reserves did not increase the total available resources.

No figure for diluted earnings per share has been presented because the 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 income statement are as follows:

	Al Futtaim Group companies	*Directors and Key Management*	***2009 AED'000***	*2008 AED'000*
Commission expenses	4,880	-	**4,880**	17,166
Gross premium written	67,348	-	**67,348**	95,568
Motor vehicle repair charges paid relating to claims	80,693	-	**80,693**	56,625
Rental income	24,150	-	**24,150**	10,500

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

	2009		*2008*	
	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	**25,222**	**29,479**	29,193	6,609

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:

	2009 AED'000	*2008 AED'000*
Short-term benefits	**8,173**	6,185
Employees' end of service benefits	**430**	716
	8,603	6,901

19 SEGMENTAL INFORMATION

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

	2009 *AED'000*	*2008* *AED'000*
General Insurance		
Underwriting income	**372,050**	376,983
Underwriting expenses	**(261,490)**	(241,429)
Net underwriting income	**110,560**	135,554
Investment		
Investment income	**72,650**	12,781
Share of associate's profit	**2,847**	1,758
	75,497	14,539
Profit for the year	**186,057**	150,093

OTHER INFORMATION

	General Insurance		*Investment*		*Total*	
	2009 *AED'000*	*2008* *AED'000*	*2009* *AED'000*	*2008* *AED'000*	*2009* *AED'000*	*2008* *AED'000*
Segment assets	**845,606**	897,412	**1,028,274**	898,518	**1,873,880**	1,795,930
Segment liabilities	**1,125,544**	1,178,120	-	-	**1,125,544**	1,178,120
Capital expenditure	**4,335**	2,509	-	-	**4,335**	2,509
Depreciation	**1,470**	1,144	-	-	**1,470**	1,144

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

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.

20 RISK MANAGEMENT (continued)

(a) Governance framework (continued)

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 2009 and 31 December 2008.

(c) Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders 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 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.

20 RISK MANAGEMENT (continued)

20 A Insurance risk (continued)

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.

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

Reinsurance risk
In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the 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. The maximum theoretical credit risk exposure in this connection is mainly in Europe.

20 RISK MANAGEMENT (continued)

20 A Insurance risk (continued)

Reinsurance risk (continued)

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 19% of the maximum credit exposure at 31 December 2009 (2008: 31%).

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.

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

31 December 2009	***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	-	8,030	-	53,863	61,893	(2.8%-4.6%)
Insurance receivables				196,779	196,779	-
Other receivables				13,902	13,902	-
Deposits with banks	808,591	-	-	-	808,591	(4.5%-6. 5%)
Bank balances and cash	-	-	-	35,468	35,468	-
	808,591	8,030	-	300,012	1,116,633	

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

20 B Financial risk (continued)

Interest rate risk (continued)
There is no significant difference between contractual repricing or maturity dates.

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

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge its foreign currency exposure. Other than balances in United States Dollars and Omani Riyals, to which the UAE Dirham is effectively pegged, the Group has minimal exposure arising from assets and liabilities denominated in Egyptian Pounds.

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.

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

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the 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.

20 RISK MANAGEMENT (continued)

20 B Financial risk (continued)
Credit risk (continued)

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

	Notes	*2009 AED'000*	*2008 AED'000*
Investment securities	6	**61,893**	51,132
Insurance receivables	7	**196,779**	225,122
Reinsurance share of unexpired risks		**318,293**	308,138
Reinsurance share of outstanding claims	13	**274,901**	329,975
Cash and deposits with banks		**844,059**	695,988
TOTAL CREDIT RISK EXPOSURE		**1,695,925**	1,610,355

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.

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 2009	*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	**61,893**	-	-	-	**61,893**
Insurance receivables	-	**196,779**	-	**6,093**	**202,872**
Reinsurance share of unexpired risks	-	**318,293**	-	-	**318,293**
Reinsurance share of outstanding claims	-	**274,901**	-	-	**274,901**
Cash and deposits with banks	**808,591**	**35,468**	-	-	**844,059**
	870,484	**825,441**	-	**6,093**	**1,702,018**
Less: impairment provision					**(6,093)**
					1,695,925

20 RISK MANAGEMENT (continued)

20 B Financial risk (continued)
Credit risk (continued)

31 December 2008	*Neither past due nor impaired*				
	Investment grade AED'000	*Non Investment grade (satisfactory) AED'000*	*Non investment grade (unsatisfactory) AED'000*	*Past due or impaired AED'000*	*Total AED'000*
Investment securities	51,132	-	-	-	51,132
Insurance receivables	-	225,122	-	5,193	230,315
Reinsurance share of unexpired risks	-	308,138	-	-	308,138
Reinsurance share of outstanding claims	-	329,975	-	-	329,975
Cash and deposits with banks	634,943	61,045	-	-	695,988
	686,075	924,280	-	5,193	1,615,548
Less: impairment provision					(5,193)
					1,610,355

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

	Neither past due nor impaired AED'000	***Past due but not impaired***					
		<120 days AED'000	*120-180 days AED'000*	*>180 days AED'000*	*Total AED'000*	*Past due and impaired AED'000*	*Total AED'000*
31 December 2009	**24,202**	**88,924**	**12,902**	**20,772**	**146,800**	**(6,093)**	**140,707**
31 December 2008	11,134	121,459	16,219	14,514	163,326	(5,193)	158,133

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 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.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2009

20 RISK MANAGEMENT (continued)

20 B Financial risk (continued)

***Liquidity risk* (continued)**

	31 December 2009				*31 December 2008*			
	Less than one year	*More than one year*	*No term*	*Total*	*Less than one year*	*More than one year*	*No term*	*Total*
ASSETS								
Office equipment and vehicles	-	-	6,263	6,263	-	-	3,956	3,956
Investment property	-	-	127,802	127,802	-	-	127,802	127,802
Investment in securities	-	8,030	53,863	61,893	-	10,000	41,132	51,132
Investment in associated company	-	-	29,988	29,988	-	-	27,141	27,141
Insurance receivables	196,779	-	-	196,779	225,122	-	-	225,122
Prepayments and other receivables	13,902	-	-	13,902	8,676	-	-	8,676
Reinsurers' share of unearned premium reserve	318,293	-	-	318,293	308,138	-	-	308,138
Reinsurers' share of outstanding claims	274,901	-	-	274,901	329,975	-	-	329,975
Cash and short term deposits	844,059	-	-	844,059	695,988	-	-	695,988
TOTAL ASSETS	1,647,934	8,030	217,916	1,873,880	1,567,899	10,000	200,031	1,777,930
EQUITY AND LIABILITIES								
Equity								
Share capital	-	-	300,000	300,000	-	-	250,000	250,000
Statutory reserve	-	-	75,000	75,000	-	-	62,500	62,500
Legal reserve	-	-	91,682	91,682	-	-	73,051	73,051
Exceptional loss reserve	-	-	67,157	67,157	-	-	55,880	55,880
General reserve	-	-	142,132	142,132	-	-	108,240	108,240
Retained earnings	-	-	150	150	-	-	139	139
Proposed dividends	60,000	-	-	60,000	50,000	-	-	50,000
Foreign currency translation reserve	-	-	334	334	-	-	-	-
Available for sale reserve	-	-	(977)	(977)	-	-	-	-
Non-Controlling intereset	-	-	12,858	12,858	-	-	-	-
Total equity	60,000	-	688,336	748,336	50,000	-	549,810	599,810
Liabilities								
Insurance contract liabilities								
Unearned premiums	431,111	-	-	431,111	421,302	-	-	421,302
Outstanding claims	381,831	-	-	381,831	433,063	-	-	433,063
Insurance payables	138,650	-	-	138,650	187,006	-	-	187,006
Amounts held under reinsurance treaties	101,175	-	-	101,175	93,783	-	-	93,783
Other payables and accruals	64,095	-	8,682	72,777	35,199	-	7,767	42,966
Total liabilities	1,116,862	-	8,682	1,125,544	1,170,353	-	7,767	1,178,120
TOTAL EQUITY AND LIABILITIES	1,176,862	-	697,018	1,873,880	1,220,353	-	557,577	1,777,930

20 RISK MANAGEMENT (continued)

20 B Financial risk (continued)

Capital management
Capital requirements are set and regulated by the regulatory requirements in the UAE. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the 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 2009, guarantees, other than those relating to claims for which provisions are held, amounting to AED 5,793,123 (2008: AED 3,207,837) 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:

	2009 *AED'000*	*2008* *AED'000*
Commitment for investments	**33,343**	43,972
Uncalled capital of subsidiary company	**19,710**	-
	53,053	43,972

d) **Operating leases**
The Group has entered into commercial property lease agreement on its investment property, consisting of the Group's land. The tenure of the lease agreement is for 12 years with an annual rent of AED 21,000. The lease agreement includes a clause in respect of the revision of the annual rental after every three years.

22 FAIR VALUE OF FINANCIAL INSTRUMENTS

A. 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*	*Level 2*	*Level 3*	*Total fair value*
		AED'000	*AED'000*	*AED'000*	*AED'000*
Financial assets held-for-trading:					
Equity securities		6,011	-	-	6,011
Financial assets designated at fair value through profit or loss					
Equity securities		19,484	-	-	19,484
Available-for-sale financial assets:					
Equity securities		3,991	-	24,377	28,368
Debt securities		8,030	-	-	8,030
		37,516	**-**	**24,377**	**61,893**

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 part or in 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 2009

	At 1 January 2009 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 AED'000*	*At 31 December 2009 AED'000*
Financial assets							
Financial investments available for-sale:							
Unquoted investments	**13,197**	**-**	**11,180**	**-**	**-**	**-**	**24,377**
Total level 3 financial assets	**13,197**	**-**	**11,180**	**-**	**-**	**-**	**24,377**

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.

22 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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 2009 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 approximates 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.